

TDRI Quarterly Review

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Of Thailand, Indonesia, Malaysia and the Philippines, dimensions and depths of the impacts of economic contraction have been mostly severe in Indonesia and least serious in the Philippines (see related article on page 3).

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Comparative Social Impacts of the Asian Economic Crisis in Thailand, Indonesia, Malaysia and the Philippines: A Preliminary Report*

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MACROECONOMIC BACKGROUND

While there are many common features, the "macro-economic history" of the crisis differs considerably across the four countries. It is generally agreed that rapid financial liberalization, with inadequate attention to problems of corporate governance and of prudential regulation, together with poor macroeconomic management, and other policy and institutional failures, are common factors underlying the problems of these four Asian economies. In retrospect, it appears that their previous growth had been built, at least in part, on shaky and unsustainable foundations. Differences in the extent of these structural weaknesses have resulted in differences in the depth and breadth of the impacts of the crisis in the four countries. At the broadest level, the severity of the social impact of the crisis depends primarily on the magnitude and length of the shock to aggregate demand and incomes. In other words, it is the magnitude of the macroeconomic shock in the four countries which is the first and most important factor in explaining differences in the extent of the "social impacts" of the crisis among them.

There is general agreement that the macroeconomic collapse started as a crisis of confidence, with the most immediate and devastating "cause" being a massive flight of capital, first from Thailand, and then from Indonesia, Malaysia and, to a lesser extent, the Philippines. In the hardest hit countries, the loss of confidence arose from a large and rapidly increased dependence on

short-term private capital flows and corresponding current account deficits. The domestic financial sectors in all countries were suffering from a variety of regulatory and prudential weaknesses that had been hidden or made to appear irrelevant in the face of rapid growth and the seemingly endless appreciation of real estate and stock market assets.

As a result of defending against several speculative attacks on the Thai baht in the early part of 1997, Thailand exhausted her foreign exchange reserves by mid-year, and was forced to abandon the baht's peg to a basket of currencies on July 2, 1997. Capital flight, which had been accelerating through the year based on self-reinforcing negative expectations about the baht, caused corresponding collapses of the stock and property markets. This in turn exposed weaknesses in the financial sector, leading to the eventual closure of many finance companies and a corresponding liquidity crunch throughout the economy.

There was a rapid and generally unpredicted contraction of domestic demand, putting Thailand into a major recession, the likes of which had not been experienced for many years.

Indonesia followed a month or two later. In the first instance, Indonesia seemed to be handling its situation much better than Thailand. It did not go through a long period of denial or a vain and costly attempt to defend the currency; it appeared to act much more quickly and decisively in attacking financial sector weaknesses. Unfortunately, a few key policy

* TDRI, under sponsorship of the Ford Foundation, is undertaking a four-country comparative study of the social impacts of the regional economic crisis. This paper is a synthesis from preliminary reports prepared by researchers in each of the four countries. The purpose of the papers is to provide background information and ideas for a common conceptual framework for country studies to be completed over the following eight months. They were presented and discussed at a seminar in Bangkok on November 23-24, 1998.

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misjudgments, together with growing political and social uncertainties associated with the health and political plans of President Suharto, combined to make the currency collapse and cause an economic recession much more severe than that in Thailand.

While Thailand's currency at one point fell by 55 percent of its pre-crisis value, Indonesia's dropped by as much as 85 percent. Indonesia's economic growth in 1998 was about -15 percent; Thailand's was -8 percent. Thailand's annual inflation for 1998 was less than 10 percent; Indonesia's more than 60 percent.

Neither Malaysia nor the Philippines had the levels of accumulated short-term debt liabilities of Indonesia and Thailand. And neither of them suffered as much as these countries, especially in the early days of the crisis. While the Philippines suffered from some of the general contagion effects of the spreading crisis, it has weathered the crisis remarkably well. In fact, alone among the countries covered here, the Philippines has suffered much less from the current crisis than from the one which afflicted the region in the mid 1980s.

While Malaysia did not have nearly as serious short-term debt problems as its immediate ASEAN neighbors, it did suffer from financial sector weaknesses arising from questionable and often politically motivated lending policies. This, combined with growing and increasingly open divisions within the government about the desirability of Malaysia's exposure to global financial forces, diminished market confidence and led to increasing capital outflows. Directly flaunting "IMF orthodoxy," Malaysia chose to insulate itself from global financial markets through the imposition of direct capital controls. It will be difficult to isolate the effects of these controls from other political and economic factors in Malaysia; but for the moment at least, the jury is still out on the question of their effectiveness.

DOMESTIC POLICIES AND POLITICS

Domestic economic policies have certainly played an important role in determining the size of the aggregate macroeconomic shocks arising from the crisis. While it is too early to give anything other than very preliminary "grades" to the four countries, some conclusions are apparent. The Philippines has certainly suffered the least in aggregate terms from the crisis, while Indonesia has suffered the most, in terms of depth of economic contraction and the likely time required for recovery.

To what extent are these inter-country differences due to macroeconomic policies? A question raised in several of the papers is whether the macroeconomic crisis has been aggravated by the "harsh IMF package." After the onslaught of the crisis, Indonesia and Thailand both started out as good "pupils" of the IMF, and yet the outcomes have turned out to be vastly different. The Indonesian paper documents how the country's economic program went "off the rails" when the government lost

both monetary control and the commitment to systematic structural reforms. Malaysia, by contrast, has tried some less orthodox strategies, especially relative to the "standard IMF prescriptions."

To go much further than this, however, requires some observations about politics. Thailand suffered initially, in the build-up to the crisis, from indecisive and incoherent macroeconomic policies. However, a smooth, legitimate and peaceful change of government, under the rules of a new constitution, brought in a strong macroeconomic leadership. Thailand was fortunate to have recently gone through a constitutional exercise, the strength and legitimacy of which was amply demonstrated in the heat of a severe crisis.

By contrast, Indonesia experienced a widely questioned presidential election at a comparable time in its crisis. The regime's political legitimacy was put under severe stress and did not survive. Unfortunately, the existing rules for succession were also questionable, and Indonesia suffered from a year of political and policy uncertainty, which resulted in enormous and devastating social conflicts and upheavals.

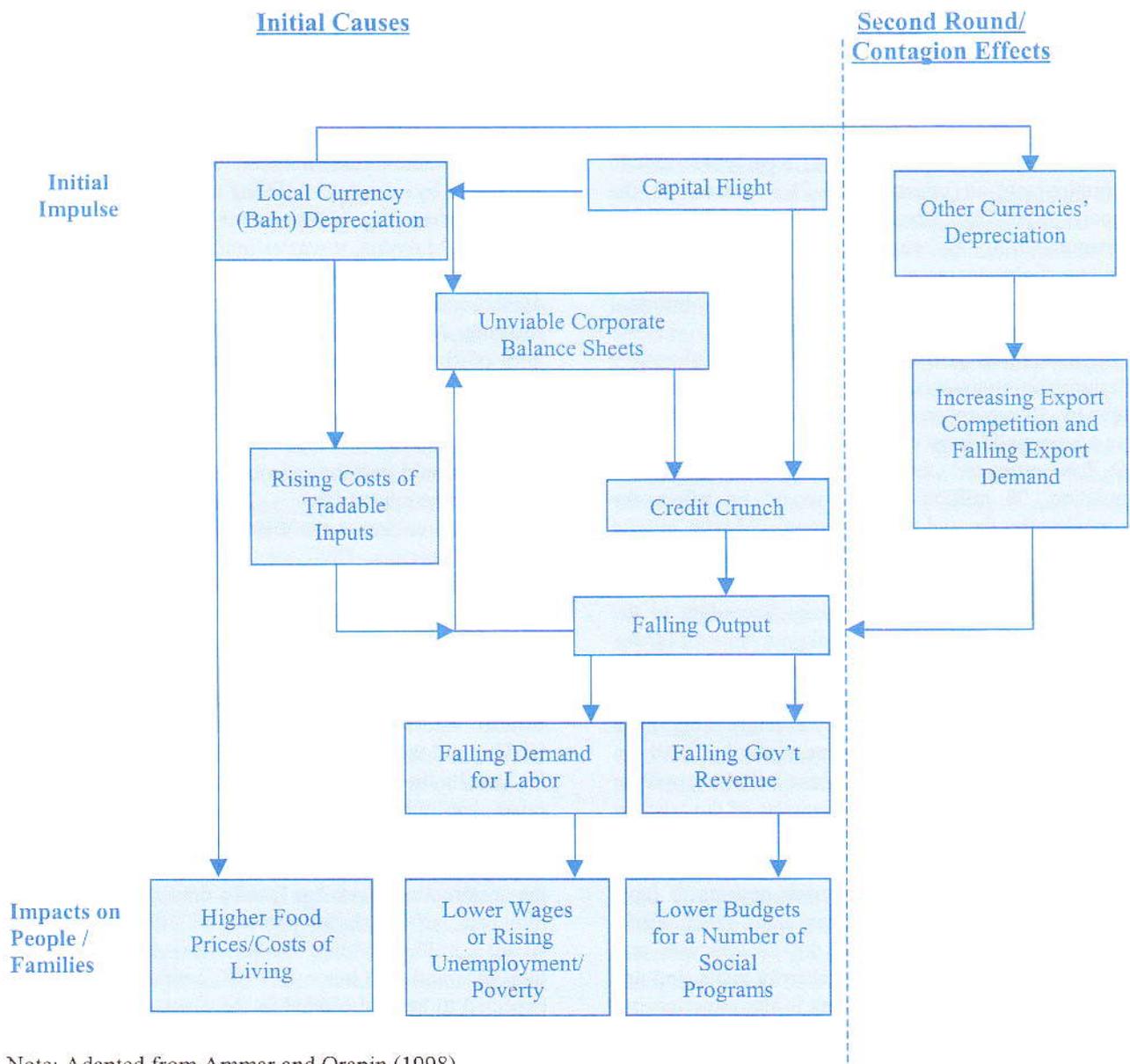
In the face of the crisis, Malaysia has managed to transform itself from a stable, well-managed technocratic government with smooth political succession mechanisms to one characterized by a divisive, politicized policy process and uncertain transition. Well-publicized political actions, provocative policy pronouncements and a number of unorthodox policy actions are argued to have increased uncertainty and reduced confidence in Malaysia's economic recovery.

After considerable turmoil at the end of the Marcos era, the Philippines is now benefiting politically and economically from democratic reforms instituted at that time.

Avenues of Transmission of Social Impacts

The principal avenues of transmission of the social impacts of the crisis can be illustrated with a simple diagram (Figure 1).

Figure 1 shows that the initial capital flight triggered currency depreciation, domestic credit shortages, widespread corporate financial difficulties, and ultimately severe contractions in demand. This decreased both the demand for labor, with consequent effects on employment and/or wages, and government revenues, with predictable consequences for social expenditures. The currency depreciation also put upward pressure on domestic prices of tradable commodities, including food and other basic commodities. Second round, or contagion effects, were felt through falling export demand and foreign currency prices, which put a further drag on incomes and output. The poor are almost inevitably among the chief groups to suffer from falling incomes and employment, rising prices of basic goods, and deteriorating social services provided through the government budget.



Note: Adapted from Ammar and Orapin (1998).

Figure 1 Pathways of the Asian Financial and Economic Crisis to Social Impacts

While the contagion effects of economic contraction spread to other Asian economies, the dimensions and depths of the impacts have been different, ranging from the most serious case of Indonesia to the least serious one of the Philippines. Generally, these countries have underestimated the magnitude of the contraction, as a financial crisis has been transformed into a serious economic and social crisis. As a result, these countries have experienced significant increases in unemployment, poverty, and social problems.

Impacts on Unemployment and Income

While effects have differed in magnitude and composition in the four countries, there have been some broad similarities. In the first instance, the labor market impacts have been much more severe in urban than in

rural areas. Decreases in employment, hours and wages appear to have been concentrated much more in the formal than in the informal sectors. And within the formal sector, construction and financial services have been especially hard hit.

With the greatest overall economic contraction among the countries examined, it is not surprising that Indonesia has also suffered the sharpest increases in unemployment and poverty. Based on the limited data available, the Indonesian paper estimates unemployment of 9.6 million persons or 10.3 percent of the labor force, assuming 13 percent economic contraction in 1998. These estimates are close to those of the International Labour Organisation (ILO)¹ (9.3 million people unemployed or a 10 percent unemployment rate), and are lower than official estimates which range from 12 million to 15 million persons unemployed.

The crisis has had much more severe effects in urban than in rural areas. There is also evidence of movements of workers from formal and modern sectors into informal and traditional sectors. About 4 million workers have been displaced from the formal sectors. The Indonesian study estimates a 41.5 percent reduction in employment in construction, 21.8 percent in the financial sector, 25.1 percent in trade, and 14.1 percent in manufacturing. By contrast, there appears to have been a slight increase in employment (0.4%) in agriculture. It is expected that the share of the informal sector will increase up to 66.6 percent.

In addition, primarily due to the very high rate of inflation, the crisis is estimated to have reduced real wages by 30 percent to 50 percent in 1998. This could have a potentially large effect on poverty incidence. The ILO has estimated that about 48 percent of the population, 98 million people, would be below the poverty line by the end of 1998, compared with official government figures of 39 percent, or 79 million. This compares with a poverty incidence of about 10 percent of the population prior to the crisis. According to the ILO and official estimates, the rural poor account for the major part of the increase in poverty due to the crisis. Recent estimates prepared for the World Bank, however, suggest that the poverty incidence might only have increased to 14 percent over the past year.² Clearly, a great deal of work remains to be done before we will be able to fully determine the social impacts of the crisis in Indonesia.

Thailand's experience seems to have differed from Indonesia's. Although the crisis appears to have had greater social impacts in urban areas—particularly rapid employment reduction in the construction and manufacturing sectors, as well as sharply increasing underemployment—the rural economy is also experiencing growing unemployment, particularly in agriculture. On the other hand, services and commerce have gained more employment, but at the same time have experienced growing underemployment due to reduced numbers of hours worked. Of the 1.48 million unemployed persons (4.6% of the labor force) in February 1998, about 33.8 percent used to work in construction and manufacturing, and 27 percent were from agriculture.

It is not only the urban areas, particularly Bangkok, that have been seriously affected by the crisis. Traditionally poor rural areas, such as in the Northeast, have also been affected. Unemployment and declining incomes in Bangkok are largely due to the collapse of the financial, manufacturing and construction sectors, leading to large lay-offs of white-collar as well as unskilled workers. Return migration from Bangkok as a result of the crisis has contributed to rising unemployment in the rural Northeast (8.2%). In addition, rural household incomes have also been affected by reduced remittances from the urban sectors, as well as by higher food prices. These factors have offset the benefits to

rural areas of rising agricultural prices. Overall, the National Economic Social Development Board (NESDB) has found the number of poor people to have increased and the income distribution to have worsened during the period from 1996 to mid-1998. According to these estimates, the number of poor persons has increased by about 1 million, with the incidence of poverty rising from 11.3 percent to 13 percent.

In Malaysia, it was estimated that the unemployment rate would rise to 4.5-5.5 percent at the end of 1998, leading to a substantial decline in real household incomes. According to official estimates from the Ministry of Human Resources, 43,838 jobs were lost from July 1997 to May 1998, and the number of job losses was expected to rise to about 80,000 by the end of 1998. It is also estimated that some 206,000 new labor force entrants would join the existing pool of 200,000 unemployed in the job market.

Income losses are being spread across occupations and sectors. Civil servants are taking pay cuts ranging from 5 percent to 10 percent, and a freeze has been imposed on salary increments for higher categories of civil servants. The non-government sector is likely to face greater income reductions as a result of cuts in salary, overtime pay and other benefits. Not captured in official statistics are small and medium enterprises (SMEs) and the self-employed, which are expected to be hit hard by the crisis and to lose substantial income. The crisis has particularly affected certain sectors and groups. As in Indonesia, urban areas are likely to be more seriously hit than rural areas. And as in Thailand, the construction sector has faced a drastic decline in employment, of which 80 percent are migrant workers. About 1 million migrant workers were expected to lose their jobs and sent home in 1998; another 90,000 were expected to be re-deployed in the plantation and manufacturing sectors, leaving the rest competing in the informal sector with the urban poor. While there are no specific policies for urban poverty, the government does have some programs to assist the poor in rural areas. In addition to migrant workers, who constitute the country's underclass, the country paper noted that the main victims of the crisis appear to have been the new middle class created by the past decade's development.

For the Philippines, the upper and the middle classes, especially those living in urban areas, are likely to be most affected by the crisis. Massive business closures are likely to impose the greatest income losses on middle to upper income groups, with high levels of participation in the formal sector. Thus, income distribution would be expected to be made more equal as a result of the crisis. Moreover, middle to upper income families depend to a large extent on remittances from Filipino workers abroad, who are facing falling employment and incomes (mostly from other Asian countries). In contrast, rural families, which depend more on their own entrepreneurial and agricultural activities, seem to be less affected by the crisis.

Drops in Fiscal Revenue and Expenditure

Sharp contractions in income and employment have had a major impact on government budgets, primarily through declining tax revenues. This, together with decisions to observe strict fiscal discipline, has affected government budget plans and has resulted in cuts in a number of crucial programs. Thailand's social services spending in 1998 was reduced by 35 percent compared with the previous year.

While budgets for many development programs are being cut, governments, recognizing the necessity of a "social safety net," have begun to develop programs, financed largely by loans from international agencies, to alleviate the adverse impacts of the crisis on vulnerable groups. In Malaysia, 18 percent of the total social sector budget in 1998 was targeted at assisting vulnerable groups via funds for small farmers, micro-credit for small businesses, community and rural health facilities, skill training, and higher education. For Indonesia and Thailand, 1999 will see greater budget allocations to line Ministries and agencies for social programs and public works in order to create more employment and provide necessary public services.

However, as a result of high levels of foreign debts, Malaysia and Thailand are also expected to sharply increase their budgets for debt servicing in 1999. The estimated increases from 1998 are 72 percent for Thailand and 66 percent for Indonesia.

Insufficient Safety Nets

Generally, these Asian countries have not developed formal "Western-style" social safety nets. Mostly, there is limited mandatory compensation in the form of severance pay or other benefits for those who are laid off; there is no unemployment insurance; and other social security benefits for the unemployed are also very limited. Thus, the vulnerable groups in these Asian countries tend to rely primarily on informal and traditional safety nets provided through the family and/or community. The question then is how well these traditional safety nets have been performing and how vulnerable they will be to a steadily worsening economic and social situation and declining family resources.

While additional resources are being allocated for social safety net programs, there remain some fundamental problems, such as inefficient bureaucracies and high levels of corruption. Thus the effectiveness of these allocations and of many public work programs financed by large loans from international aid agencies (i.e., the World Bank, the Asian Development Bank—ADB, the Overseas Economic Cooperation Fund—OECF) remains in question. This involves issues of "good governance" in both the public and private sectors.

There are also discussions of new approaches to social development, which revolve around the idea of constructing new "immune systems" from the ground

up. This would involve enhancing social capital and initiatives to support human and natural resource management at the community level. The goal would be to strengthen communities (which have acted as a temporary shock absorber in the crisis), and to improve the social welfare system.

Human Capital Deterioration

There is considerable concern about possibly significant numbers of school dropouts resulting from the crisis, although estimated dropout rates vary. One Indonesian government estimate claims that as many as 1.65 million children would drop out from primary school and 1.11 million from junior secondary in 1998/99, while some Thai estimates for 1997/98 suggest about 100,000 dropouts from primary school and 90,000 at the junior secondary level. There are claims from the Philippines of crisis-induced school dropouts (although the number has not been documented), and reduced female labor force participation. Malaysia is facing a different kind of problem. As the country has a large number of students studying abroad, falling family incomes and reduced government sponsorships have led to a large increase in demand for tertiary education at home. As a result, in 1998 there were 112,000 applications for only 40,222 places available. In other words, 64 percent of students seeking admission into local tertiary institutions cannot be accommodated.

Health problems, both mental and physical, are reported to be increasing as a result of the crisis. Increased stress levels are producing psychological problems, and suicide rates appear to have increased. At the same time as public health care budgets are being cut, lower incomes are forcing many people to shift from the private to the public health care system. Public health systems and the poor are being affected by rising import prices of drugs, vaccines and other medical supplies. There are concerns about the detrimental long-term effects of these problems on the physical and mental development of children.

SOCIAL POLICIES

The country papers and the discussion at the initial project workshop brought to light a number of interesting and important social policy issues. The following are a few of the issues prompted by the discussion so far.

Formal Social Safety Nets

As mentioned earlier, the formal social safety net systems in the Southeast Asian countries most severely affected by the crisis are almost non-existent. As a result, the social impacts of the crisis have had to be absorbed by traditional family- and community-based systems. Much of the policy discussion that has taken place has concerned the need to develop more formal

systems to supplement and deal with inadequacies of the traditional systems that have been placed under enormous strain.

This does not necessarily mean, however, that these countries should attempt to replicate some "model" or some combination of models from more advanced countries. Indeed, it is important to recall that the formal social safety net systems in many countries have been the subject of considerable debate in recent years. In particular, many of the features of these systems are alleged to have resulted in dysfunctional and harmful rigidities and distortions in labor markets, and have often impeded social mobility and increased unemployment. As a result, many Western countries are undergoing serious re-examination of their social safety net programs in order to strike a better balance between the genuine equity concerns they were meant to address, longer-term growth, productivity, and social mobility goals.

Furthermore, as was also observed above, bureaucratic and political systems in emerging economies such as those studied here often suffer from weaknesses that make it very difficult to implement formal, Western-style social safety net systems effectively. The challenge, therefore, is not to simply copy the West, but rather to learn lessons from their experiences, and design systems which both take advantage of and complement as much as possible traditional local systems, and also take account of political and bureaucratic constraints.

Private Responsibility for Social Programs

In the absence of formal publicly provided social safety net programs, the private sector, especially in formal, urban labor markets, has been assigned or has taken over some of the responsibility for their provision. Health care and retirement savings programs, for instance, are often provided or paid for by firms as part of the benefits of employment. In periods of rapid growth, this can be an effective solution to the absence of public programs. However, when recession strikes, massive layoffs occur, and new jobs are difficult to find, displaced workers are left without vital services just at the time when they might be needed most.

Once again there is the issue of whether responsibility for such programs should be taken over by the public sector, or whether mechanisms can be found to remedy deficiencies in privately-provided programs. Establishing or clarifying conditions under which benefits would be vested in employees, even when they are dismissed or voluntarily leave employment would be one such mechanism for improving the effectiveness of privately-provided programs. Experience is showing that an essential element of reform in this area is improvement in rules and procedures to establish the priority and speedy disposition of the rights of employees in the case of illiquidity or insolvency of firms. Early in the crisis,

Thailand increased the minimum number of months of severance pay to which employees are entitled in the case of layoff. This provision seems to have had an important effect in inducing firms to retain workers on reduced hours and/or wages rather than to engage in layoffs. This has provided a kind of safety net in which diminished work and wages are shared among all workers, thus achieving a kind of income sharing that could not have been achieved under any public sector programs.

Price Controls and Subsidies to Protect the Poor

A major source of vulnerability for the poor has been increased in the prices of basic commodities. In Indonesia, where cumulative annual inflation reached as high as 60 percent to 100 percent in late 1998, the cost of essential goods, such as cooking oil, rice, kerosene, basic medicines and public transport, has been a major issue. Since these goods are tradable or have tradable goods as major components of their costs, and many of them are exportable, any attempts to control their prices must also include measures to restrict or control trade in them. For importables, an obvious form of trade measure has been to grant foreign exchange on preferential terms to designated importers. In the case of exportables, export taxes, quotas and bans have been the preferred instruments.

Experience has demonstrated many difficulties in implementing measures such as these. First of all, the subsidy measures have been extremely costly. Subsidizing fuel prices in general as a means of keeping public transport costs low is very expensive. In many cases, and despite the best efforts of external agencies such as the World Bank and the IMF to "budgetize" all subsidies, these costs do not appear in any government budget, but rather arise through price distortions, which penalize domestic producers and/or consumers of the goods in question.

Second, it turns out, in practice, to be very difficult to restrict trade and control prices in an effective and transparent manner. Export taxes, especially when they are 40 or 50 percent, beg to be evaded. In the face of export restrictions and domestic price controls on cooking oil, for instance, domestic supplies simply dried up and disappeared. Preferential access to foreign exchange for particular buyers breeds monopolies and corruption.

In the case of Indonesia, where the economic crisis was accompanied by major social disruptions, often targeted against the Chinese merchant class, high prices and scarcities of basic commodities became a political issue. Chinese traders became scapegoats in attempts to explain away basic economic facts arising from the massive depreciation of the rupiah and massive monetary expansion. Control over many trading activities has become highly politicized, with various special interests fighting for government-sanctioned

control of special subsidies to manage the "broken" distribution system. Whatever else might be said for many of these actions and the underlying political processes, they have not done much to help the poor.

Experiences in Thailand and Indonesia illustrate some of the fundamental difficulties in using price regulation to assist the poor. This is especially true of regulation of tradable goods.

Market Deregulation and Broad Structural Reform

A major part of the "IMF program" in Indonesia and Thailand was a major set of structural reforms aimed not only at the banking and financial systems, but also deregulation of domestic markets. In Indonesia the non-financial sector structural reform program was quite extensive. These policies have been criticized on the grounds that they distracted attention from more important macroeconomic and financial policies to deal with the direct causes of the crisis, and from social measures to alleviate the harmful effects of the crisis on vulnerable groups.

The evidence from Indonesia, however, indicates that some of the market deregulation measures successfully redistributed income to groups who traditionally had been among the poorest and most vulnerable in the country, and who had not shared equally in the rapid growth of the past two decades. Among these measures were those that dissolved monopolistic marketing arrangements and eliminated local taxes and levies on inter-provincial trade in primary commodities, which come primarily from the traditionally poor outer islands. Freeing of trade in basic commodities from these regions, particularly at a time when depreciation of the rupiah was raising their domestic price significantly, has brought unprecedented prosperity to some of Indonesia's poorest people and regions. This is certainly an example of how structural reforms can free markets to achieve high priority social objectives without the need for any further government intervention.

ENDNOTES

- 1 "Employment Challenges of the Indonesian Economic Crisis," ILO report. 1998.
- 2 *Asian Wall Street Journal*, February 25, 1999.

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Summary of Discussion and Recommendations

THE 1998 TDRI YEAR-END CONFERENCE

From Crisis to Sustainable Development

Jointly organized by

The Chai Pattana Foundation and the Thailand Development Research Institute

December 12-13, 1998

Ambassador City Jomtien, Chon Buri

*Ryratana Suwanraks**

THE CONFERENCE

Since its inception in 1984, the Thailand Development Research Institute (TDRI) has organized an annual Year-end Conference to present research results on subjects that are topical and significant to the medium to long-term development of the country.¹ The Chai Pattana Foundation has kindly co-organized the event since 1990. On many occasions, Her Royal Highness Princess Maha Chakri Sirindhorn graciously presided over the opening ceremony and attended the Conference.

The theme in 1998, "From Crisis to Sustainable Development," focused on the medium to long-term development of the country, as in previous years. Since mid-1997, Thailand has been trapped in her worst economic crisis since World War II. The economic crisis is a manifestation of deeper problems long suppressed in the Thai society, and people across the social spectrum have been affected. The scope and gravity of the crisis hence require intensive discussion, not only to seek ways out of the difficulties, but, more importantly, to lay the groundwork for future sustainable development. This will help prevent future crises, or at least minimize possible negative effects of future crises.

The goal of the 1998 Conference was not primarily to present research results as in previous years, but to organize a forum where representatives of various fields could have the opportunity to brainstorm. Apart from the plenary sessions, the Conference was divided into four group discussions, focusing on different aspects of the economic crisis: macroeconomic management; economic restructuring; social issues; and good governance. The Conference attracted approximately 400 participants, with representatives from the public and private sectors, academia, non-governmental organizations, international organizations, the media and the general public.

BACKGROUND OF THE CONFERENCE

The theme "From Crisis to Sustainable Development" developed from the work of the Working Group on the Economic Crisis, chaired by H.E. Mr. Anand Panyarachun, chairman of the TDRI Council of Trustees and the Board of Directors. The Working Group was set up in response to the Government's request to the TDRI in December 1997 to provide recommendations on how to cope with the economic crisis. The Group comprises approximately 30 people from different fields, both within and outside the TDRI.

The Working Group set up four sub-working groups:

1. *The Working Group on Macroeconomics*, headed by Mr. Kosit Panpiemras, Executive Chairman of the Bangkok Bank Public Company Limited;
2. *The Working Group on Economic Restructuring*, headed by Dr. Phaichitr Uathavikul, Chairman of the Board of Directors of the Thailand Environment Institute and former TDRI President;
3. *The Working Group on Social Issues*, headed by Mr. Mechai Viravaidya, Chairman of the Population and Community Development Association and TDRI Trustee;
4. *The Working Group on Good Governance*, headed by M.R. Chatu Mongkol Sonakul, Governor of the Bank of Thailand.

By the time of the Year-end Conference, the first three working groups had submitted recommendations to the Prime Minister, while the draft report of the Good Governance working group was discussed at the Conference. In addition, each working group prepared

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additional material related to necessary reforms for future sustainable development for discussion at the Conference.

Points of discussion and the recommendations of the four group discussions are summarized as follows:

GROUP 1: MACROECONOMIC MANAGEMENT

The current crisis has clearly shown that appropriate macroeconomic management is crucial for sustainable economic development. Currency and banking crises have pushed Thailand into the most severe economic depression since World War II. Painful measures to tackle the crisis have been implemented, and while it is still debatable whether clear signs of recovery have emerged, it is expected that the country will eventually overcome the crisis in the not too distant future. As part of the necessary reforms, a more resilient macroeconomic management framework needs to be established in order for the country to better weather future economic volatility and prevent a similar crisis from happening again.²

Approximately 80 participants attended the group discussion. Discussions and recommendations are as follows:³

1. A major change in the macroeconomic policy framework, such as financial liberalization, must be systematically planned. Implementation of such a change must be all-rounded, and all aspects must be taken into account, including:

- Appropriate sequencing;
- Understanding of all parties concerned about the implications of the change, and the opportunities and risks inherent in the change;
- Adapting management systems appropriate to the change, in the public sector, private sector and the people sector.

2. The country should establish a reliable database containing up-to-date information and an effective early warning system.

- The database must be well organized, up-to-date and reliable. At the same time, it must contain sufficient information for decision-making.
- Policy makers must understand and make appropriate and effective use of the database and the warning system.
- Significant information must be revealed to the public to encourage analyses from different points of view. Disclosure of public information is common in democratic societies and is necessary as it creates checks and balances for policy decisions.

3. The country needs unity in macroeconomic management.

- Fragmented macroeconomic management by different government agencies has led to inconsistency in policy directions. In some cases, information held by different agencies varies, leading to public and policy confusion.
- To create coordination in the country's macroeconomic policy making, the existing network in policy making must be improved.

4. The country needs to develop capability to protect against external instability.

- The government should mobilize domestic savings to the level close to investment. Too much dependence on foreign investment is not sustainable.
- Methods to manage short-term debt, such as, for example, the Chilean model, should be considered and studied. In any case, the timing of implementation is important. The government should exercise appropriate instruments only when the country is ready.
- Thailand should support movements demanding more transparency from hedge funds.
- Domestic monetary and capital markets should be strengthened so that a variety of risk management instruments are available.

5. Capital mobilization from within the region via regional cooperation should be encouraged.

- Saving in the East Asian region exceeds investment.
- Mobilization of funds within the region from surplus countries to deficit countries should lead to better protection of the region from external volatility.

6. Thailand must minimize the social costs incurred from the process to resolve conflicting points of view.

- Varying viewpoints and options are common in democratic societies.
- For efficient problem solving, different viewpoints must be effectively and constructively harmonized.
- Constant dialogue among parties with different ideas should be established so as to create a sense of participation and ownership in the resulting policies.
- The final outcome should be a creative harmonization of different opinions acceptable to all.

GROUP 2: ECONOMIC RESTRUCTURING: A MEANS TO ACHIEVE COMPETITIVENESS AND SUSTAINABLE DEVELOPMENT⁴

To solve the present economic crisis and to pave ways for future sustainable development and competitiveness, Thailand needs to tackle the root problems of the real and industrial sectors while appropriately restructuring its economy. Attended by 110 participants from the public sector and entrepreneurs, the group devoted much time to the discussion of medium-term and long-term restructuring, while other two major topics of discussion were debt restructuring and overcapacity, and restructuring of the agricultural sector.

Debt Restructuring and Overcapacity

Debt Restructuring

Most companies in the Thai industrial sector face severe financial problems, and many are on the verge of bankruptcy. One prominent reason for this critical situation lies in the over-borrowing in the form of short-term foreign debt during the economic bubble. During 1993-1996, for instance, most public companies significantly expanded their investment in terms of asset expansion and business diversification. Assets in the following industries were doubled: real estate, telecommunications, petrochemicals and chemicals, energy, retail and wholesale businesses, electronics, and healthcare. While financial institutions freely encouraged credit lending, borrowers mismanaged the allotted funds or invested in non-core businesses. As a result of over-investment, many public companies had begun to experience financial instability even before the financial crisis broke in mid-1997.

In a capitalist society, it is normal for failing businesses to close down so that resources can be allocated to other productive activities. In Thailand, however, a large number of solvent and viable companies have become trapped with liquidity problems and high debt burdens. Without proper measures, these companies may go bankrupt, and such corporate failures will lead to social burdens, manifested most visibly in the form of unemployment. Therefore, it is important that voluntary debt restructuring be effectively applied to prevent the closure of viable companies.

At the time of the 1998 Year-end Conference, debt restructuring measures had made satisfactory progress. The operational framework, referred to as the Bangkok Approach, was clearly defined. Appropriate amendments of taxation laws were on the move. Moreover, in the last quarter of 1998, the Bank of Thailand successfully accumulated pieces of information vital to the debt restructuring process, especially the number of creditors of each debtor and the level of non-performing loans.

Despite these positive signs, it will take some time for voluntary debt restructuring to materialize. It is

a complicated matter and is very new to Thai entrepreneurs. As many as 3,000 companies will need to restructure their debts. Many of them have more than one creditor, and the stake of each creditor and debt varies. The situation is even more complex in the case of big companies with massive debts, as the "hair-cut" measures will have a negative impact on their creditor banks.

On the policy aspect, the government's measures on debt restructuring are found to have the following limitations. First, information on at least three areas is lacking: information for short and medium-term macroeconomic forecasts, information on both domestic and international industries, and information on troubled companies. Without these three levels of data, debt restructuring officials cannot accurately estimate a company's loss and future cash flow to determine the feasibility of the company's debt restructuring plan. Secondly, as in most cases, a company has more than one creditor, there are occasions where creditors disagree on terms and conditions. Thirdly, without a foreclosure law, many debtors do not cooperate in negotiating the debt-restructuring package, and creditors are in no position to force them to do so. Fourthly, the Bangkok Approach does not clearly specify the allocation of loss. Moreover, debt-to-equity swaps in the case of companies operating under the government concession are prohibited by law. Last but not least, the Asian economic recession has dramatically eroded corporate competitiveness and cash flow, making it difficult for businesses to recover.

The group's recommendations on the above situation are as follows:

- The objective of voluntary debt restructuring should aim at the survival of viable companies, which will in turn prevent further massive lay-offs of workers.
- The public sector should take a lead in gathering information vital to the debt restructuring process. Such data will also serve as a crucial base for further research on problems and the effectiveness of the current restructuring process.
- The government should design and implement effective and fair measures on voluntary debt restructuring. These measures should aim at reducing the transaction costs of debt-restructuring negotiations, avoiding burdens on taxpayers, and defining clear rules of loss allocation.
- The government should amend relevant laws to increase incentives of all parties involving in the debt restructuring process, while reducing incentives of those who prolong the process.
- The government should lead in the debt restructuring process of companies operating under government concessions.

Overcapacity

Overcapacity is a worldwide problem, and especially so in Asia. In Thailand, overcapacity is found in many industries, notably petrochemicals, steel, construction materials and automobile. Triggered by overinvestment, the problem has been aggravated by the present Asian recession. Total volumes of sales in many industries are now only 30 percent to 50 percent of production capacity. Now facing the situation of overcapacity and a drastic drop in sales, many industries have been forced to rationalize. Since financial losses will occur in corporations undergoing structural adjustment, this industrial rationalization will also affect the financial sector. It is thus important that the government hasten the process of industrial rationalization through drastic and appropriate measures to enhance the competitiveness of Thai industries.

Medium-term Restructuring of the Production Sector

A lot of time and discussion was devoted to this topic. The group agrees that in the medium term, the government should focus on the creation of a conducive environment for industrial survival, and trigger the dynamics needed for competitiveness and sustainable development. The following are recommended as significant policies in this regard:

- *Government measures to reduce costs of doing business, e.g., tax rebates, infrastructure and utilities costs.*
- *Appropriate value of the baht.* At the time of the Conference, some participants felt that the baht was overvalued since the current account surplus resulted from a decrease in imports rather than an increase in exports. Hence, the Bank of Thailand should find an appropriate currency regime to ensure the proper value of the baht.
- *Toward a more uniform tariff.* The current tariff structure is relatively biased against some industries, and still has a relatively moderate level of protection. To eliminate the bias against exports and some upstream industries, there is a need to reform the tariff system.

Long-term Restructuring of the Production Sector

Thailand has been rapidly losing her comparative advantage in labor-intensive and agricultural exports. Her technological capability is as yet too shallow for industrial upgrading. A TDRI study finds that the total factor productivity of the manufacturing sector has been negative. Thus, there is an urgent need for Thailand to restructure production. The topic attracted much attention and discussion. The group agrees that the core strategy for long-term production restructuring lies in the

building of technological capability, as well as the creation of a conducive environment.

Recommended strategies for the two long-term objectives are:

- *Upgrading of educational standards.* The government should strengthen qualifications for teachers and teaching methods, and create an education control system whereby credible associations are authorized to certify educational standards. In addition, the government should expand the education base in the secondary level.
- *Promotion of supporting/conversion industries.* The government should promote the supporting/conversion industries as they enhance the value-added strategy as well as create new markets and intra-industrial linkages, such as in the petrochemical industry.
- *Creation of technological competence.* The comparative advantages of Thailand, such as cheap labor and raw materials in particular, are quickly eroding. Hence, to survive in the competitive world market, Thailand must seek a new and dynamic comparative advantage that should focus on building technological capability. Key strategies for technological capability development include the promotion of creative imitation and the cooperation between the private sector and public research institutes in product development, such as through soft loans and the promotion for technology-importing companies to adapt and to develop new technological competence. Moreover, the government should upgrade industrial and environmental standards.

However, the group is concerned that an unbiased environment alone may not be effective enough to promote sustainable growth in certain industries key to the country's technological capability development. Some members of the group recommended that the promotion of targeted industries and the creation of a conducive environment be balanced. Strategic industries include supporting/conversion industries which directly affect the competitiveness of Thai industries. The government should set out critical conditions to support key strategic industries, provided that these conditions are implemented under a determined time frame.

Restructuring of the Agricultural Sector

The group agrees that the agricultural sector can partially absorb some of the shock of the economic crisis. The weaker baht, for instance, increases agricultural income as a consequence of higher export earnings. Commercial agriculture (under the mainstream

agriculture), however, does not yield as much cash income as other economic sectors. At present, even though revenue from agriculture accounts for only 12 percent of the gross national product, agricultural employment is as high as 47 percent, resulting in the lowest income per head compared to other economic sectors. In addition, attempts to increase agricultural income face various restraints, e.g., scarcity of resources, especially water, lack of land rights documents, long-term shortage of agricultural labor, and environmental degradation from overuse of pesticides.

The group agrees with a study conducted by the TDRI that agricultural policies must aim at increasing productivity and reducing risks. The government should redirect agricultural policy toward more investment in research and technology, which is found to yield the highest return. Other important policies include hastening the issue of land rights documents which farmers can use as collateral to obtain long-term credit for investment in agricultural or non-agricultural activities; effective management of water usage; control of pesticide usage through the revision of import taxes and pest control measures, such as free pesticide handouts; and the promotion of the futures market. Moreover, to increase agricultural productivity and income, farmers need a creative mixture of many disciplines. Apart from agricultural knowledge, they need managerial and marketing skills, as well as business linkages between the agricultural and the industrial sectors.

In addition to the above policies, the government should promote rural development so that farmers have more choices, be it a choice in non-agricultural sectors through the provision of non-agricultural credit, or a choice of alternative agriculture. Concerning alternative agriculture, the group agrees on the following:

- Alternative agriculture or a mixed farming system can be sustainable and beneficial to farmers' families, society and the environment. The best way to support alternative agriculture is to educate farmers so that they can make their own choices, learn to solve their own problems, and adopt alternative agriculture that suits their ability and environment.
- Alternative agriculture and commercial agriculture, characterized by large-scale farms with commercial and marketing potential, should be concurrently developed on the basis of local wisdom. This will provide alternatives for farmers with different capacity levels.

GROUP 3: SOCIAL AND ECONOMIC RECOVERY OF THAILAND

The gravity and magnitude of the present economic and social crisis is the most severe since Thailand became a constitutional monarchy in 1932. As many as 1.84 million people were unemployed in 1998. The contracted economy has also provided limited employment

opportunities for approximately 500,000 new graduates (primary school level and upwards) who entered the job market. Impacts are also felt among the poor, especially those receiving state welfare (e.g., pre-school children, students fed by supplementary meals, the elderly, and neglected HIV-positive patients etc.) and other less advantaged groups under the care of charitable foundations (e.g., orphans, street children and the handicapped). Moreover, as the economy has been, and will continue to be weak for some time yet, the social and economic impacts will also spread throughout society in the form of income reduction and a rise in living expenses, which will in turn cause an increase in crime, drug abuse, unsustainable exploitation of natural resources, and overuse of public facilities (TDRI 1998).

Traditional economic management strategies will be insufficient to tackle such severe social problems. As of May 1998, severe budget cuts, amounting to 47,956 million baht as a result of the International Monetary Fund (IMF) conditions to reduce government expenditures, were imposed on the Ministries responsible for rural management and welfare, i.e., the Ministry of Education, the Ministry of Public Health, the Ministry of Agriculture and Cooperatives and the Ministry of Labor and Social Welfare. Moreover, the crisis has highlighted how the country's development approach has neglected to construct an "immune system" for society, i.e., the strengthening of family institutions and communities, which are the roots of Thai society. For Thailand to survive the present crisis and to construct an appropriate shield for future crises, a new approach of development, both at the conceptual and strategic levels, is needed. People's participation and strong civil societies must be enhanced. Families and communities should be strengthened to enable them to support members of society affected by the crisis. At the same time, it is important that families and communities have choices and the ability to determine the appropriate use of resources suitable to their economic situation, social standing and environment (TDRI 1998).

Approximately 95 participants attended the group discussion, most of whom were representatives from the public sector and non-governmental organizations. Points of discussion and recommendations are:⁵

Impact of Economic Crisis

- The impact from unemployment is found to be the most severe, now that inflation has decreased.
- The impact is uneven in different communities.
- The impact of the crisis on the environment is both positive and negative, thus requiring monitoring and assessment.
- Non-Performing Loans (NPLs) have increased and have been witnessed among the poor.

- The crisis has reinforced the drug trade, which has become an easy way of earning income.
- Child and prostitution problems have increased.
- Tension, violence and crimes have risen, while family structures are weakening.

Government Constraints

- The government's capacity to effectively target assistance is weak.
- The government has shifted assistance policy/levels without adequately considering the impact of such changes.
- Unacceptable use of authority and discretion in program implementation are being witnessed.
- National budgets are viewed by government agencies as theirs, rather than public budgets.
- Capacity, accountability and transparency of local governments are debatable.
- The government's approach to problem solving is too fragmented.
- Planners lack information and vision.
- Gaps exist in the rendering of a social safety net. The informal sector, for instance, does not have access to the social safety net.
- Government officials lack appropriate attitudes and skills to generate productive cooperation with communities.

Recommendations

1. The development and promotion of innovations in approach, behavior, policy, and program implementation are needed.

Innovations in Approach and Behavior

- Communities should participate in overseeing institutions that have important roles in developing community capacity, e.g., schools, temples and the police.
- Tax measures, such as green taxes, should be used to encourage socially desirable behavior.
- The capacity of communities in developing and expanding the social safety net should be recognized.
- Communities should have access to government resources for local benefits, e.g., the use of government facilities for community meetings.

- Thai consumers should be encouraged to consume community-produced merchandise, e.g., those marketed at Lemon Green outlets.

Structural Innovations

- Transparency and justice should form the basis of government budget allocation, including allowing organizations that are not part of the state to access public budgets, all under clear accountability provisions.
- The potential of local governments in collecting and managing local revenues should be enhanced.
- Local savings groups should be upgraded and promoted.
- Policies and institutions to allow people's participation in the allocation of natural resources and protection of the environment should be reviewed and improved.

Innovations at the Project Level

- An agency to protect the rights of low-income consumers should be established. This organization should educate the public on the quality and price of merchandise.
- The state-owned mass media can be used in the creation of community linkages and the exchange of knowledge and information among communities.
- The management capacity of community leaders and managers of local governments should be enhanced.

2. The government should involve the people's sector in the evaluation processes of projects to mitigate the negative impacts of the crisis.

3. Reorientation of inappropriate attitudes of government officials toward communities and vice versa can be done through mutual learning processes, such as visits to community projects, as well as joint design and implementation of community development projects by governmental officials and local people.

4. Another option to mitigate the negative impacts of unemployment is the use of the national budget to hire the laid-off to work as social volunteers.

5. The expansion of the human rights network should extend to village level.

6. Exemplary practices of communities that are successful in multilateral development activities should be collated; their processes reviewed; and exchange visits encouraged.

GROUP 4: GOOD GOVERNANCE FOR SUSTAINABLE DEVELOPMENT

Good governance refers to “systems, structures, and procedures that set out relations among the economic, political and social sectors of a country” (อรพินท์ 1998: 6). It involves mechanisms to instill good administration and management systems in all aspects and at all levels of society, ranging from the Cabinet, the public sector, governmental organizations not under the public sector, local administration organizations, independent organizations, private organizations, associations and groups, private businesses, and the civil society.

“Good governance” has caught attention in Thai society following the enactment of the 1997 Constitution and the onset of the economic crisis. In the first Letter of Intent between the Thai Government and the IMF, one of the conditions stated is for the Thai government to establish “good governance” in the public sector administration. It is believed that the lack of good governance in Thai society is an underlying cause of the present economic crisis, and the establishment of good governance in all social sectors will accelerate the recovery process, as well as lay a solid foundation for future sustainable development (บวรศักดิ์ 1998; อรพินท์ 1998).

The establishment of good governance is a long-term task that requires strong will and cooperation from all social sectors at all levels. Approximately 110 participants attended the group discussion. The following recommendations were made.⁶

Promotion of Good Governance in Thai Society

- Thai people from all groups at all levels must collectively select, screen and determine the desirable structure and components of “good governance.” This process will yield “Thai good governance” best suited to the Thai society, and it will create an efficient and transparent system of administration in different sectors under which a just and transparent Thai society can be formed and nurtured.
- The 1997 Constitution, in which the people sector for the first time had a significant input, triggered the momentum for good governance. However, to instill good governance in the Thai administrative system is a long term process, and the severity of the social and economic situation does not allow the evolution of good governance through political reform alone. A separate ongoing process to push for good governance is thus needed, and all social sectors need to participate in the establishment and promotion of good governance (See chart 1).
- Active roles in the establishment of good governance should belong to independent yet linked task forces not under the public sector structure. Their roles are three-fold:

1. Systematic organization of the participatory process of people at all levels to exchange ideas, create social awareness, and trigger momentum;
 2. Conduct of good governance-related studies in order to form a continual body of knowledge; dissemination of the accumulated knowledge through the media and educational system; creation of a new generation through the involvement of the educational system;
 3. Organization of networks to ignite change through existing mechanisms of related agencies.
- “Sunset laws” to promote good governance are needed, with a determined time frame and specified procedures of monitoring and evaluation.

Public Sector Reform to Support Good Governance

Importance of Good Governance in the Public Sector to the Survival and Sustainable Development of Thailand

- The public sector supports the private and people sectors by setting rules, maintaining justice, upholding democracy, and protecting society against potential harm. It initiates and maintains effectiveness and efficiency in administrative systems for sustainable development.
- The establishment of good governance in the public sector is key to the public sector reform which is much needed in the era of globalization. Appropriate public sector reform will lead to sustainable development.
- Good governance in the public sector guarantees fairness and effectiveness in the allocation and use of resources, as well as the distribution of public services.
- Good governance in the public sector prevents rent-seeking behavior resulting from collusion between politicians and government officials.

Major Problems in the Promotion of Good Governance in the Public Sector

Structural Problems

- Centralized administration;
- Centralized budgetary system;
- Lack of an effective system to monitor achievements of public agencies;
- Lack of performance indicators;
- Lack of serious enforcement of rules;
- Monopoly and lack of social participation in decision-making and service provision;
- Lack of competition in public service provision.

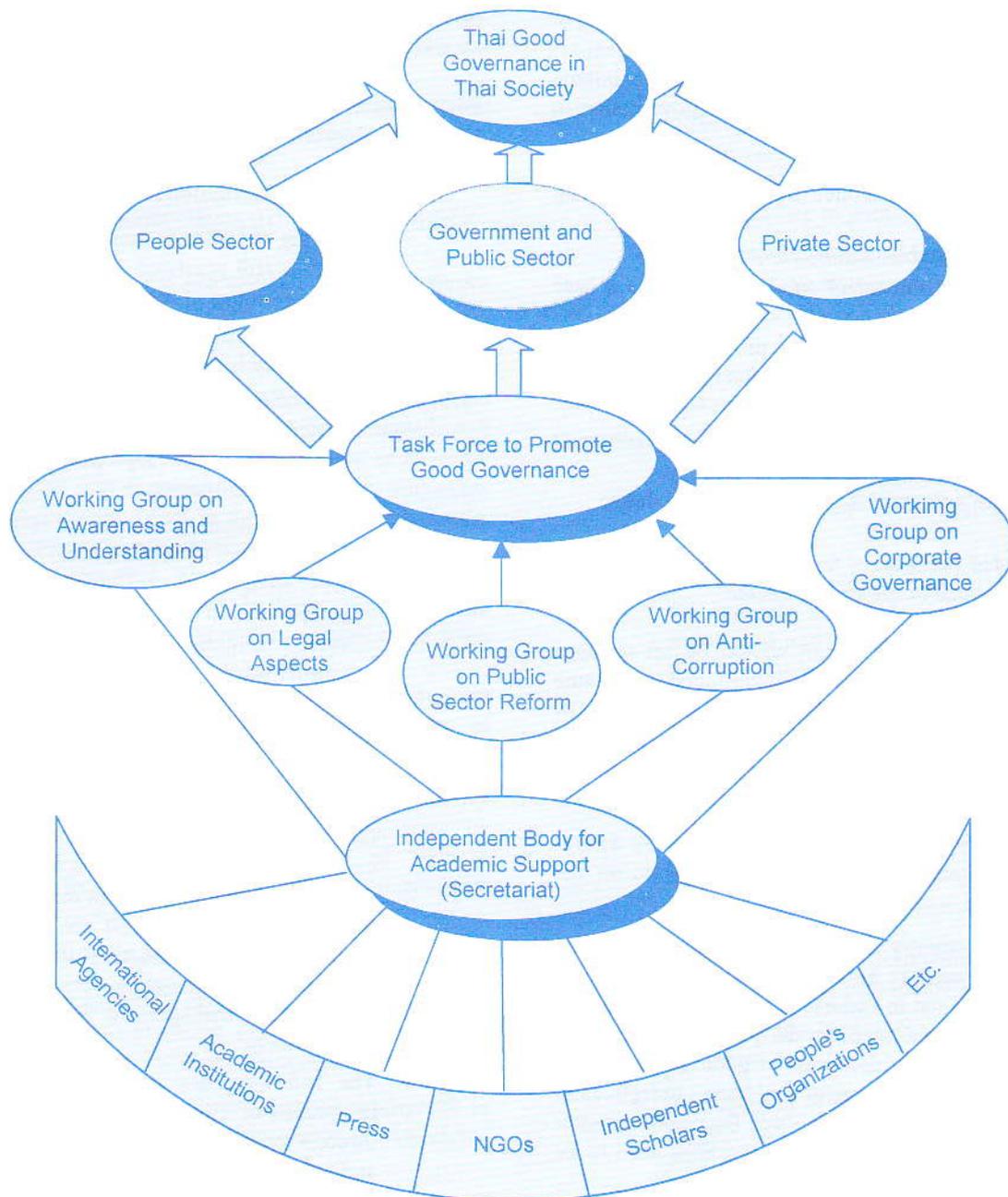


Chart 1 Learning Network

Source: สถาบันวิจัยเพื่อการพัฒนาประเทศไทย 2541ง.

Behavior of Government Officials

- Ranking individual and organizational benefits over public benefits;
- Unaware of own appropriate roles;
- Lack of discipline and lack of rule enforcement;
- Lack of vision or having a vision incompatible with appropriate values and desirable cultures (in the case of executives);
- The patronage system in Thai society and the public sector;
- The perception that government officials are protectors/benefactors.

Obstacles to the Promotion of Good Governance in the Public Sector

- Lack of strong leadership; lack of interest and will from executives;
- Lack of political will to back up concrete and continual change;
- Lack of incentives and a reward system;
- Lack of knowledge and understanding of the concept, resistance to the concept;
- Lack of movements and pressure from outside the public sector due to a weak civil society and social networks;

- Clashes of ideas and benefits among different groups;
- Lack of budget and human resources to initiate and support promotion of good governance in the public sector.

To overcome the above obstacles, the following are needed:

- A Bill on public sector reform;
- The establishment of social networks as a base of social forces;
- Standards in public service provision;
- Legal enforcement through the strict enactment of rules;
- A code of conduct and ethics for government officials;
- People's awareness of their rights and duties.

Recommended Procedures for the Promotion of Good Governance in the Public Sector

- Public sector reform should be set up as a national agenda with a determined time frame and concrete operational plans, e.g., the drafting of laws within six months; the operation of short-term plans within five years, and of long-term plans within 10 years.
- There should be a movement to create awareness and educate the general public on the issue.
- The country needs "sunset laws" to promote and support good governance in the public sector and to endorse agencies which promote good governance in the public sector. In the laws, a clear definition of good governance, a specific enforcement timeframe, objectives of the laws, and mechanisms for constant monitoring and evaluation of the laws need to be incorporated.
- The government should provide sufficient financial and human resources.
- Public sector reform aims to improve the following: role; structure, authority and duty; administrative structure; organizational structure; mode of operation; system and procedures of government officials; culture and values; and technology.

Who is responsible?

The establishment and promotion of good governance in the public sector should be a joint task between agencies inside and outside the public sector. The task force should comprise representatives of scholars, the general public and the private sector. The secretariat of the task force should be in a form of an advisory body, possibly the National Economic and

Social Development Board (NESDB). The government should provide financial support.

Directions to Establish Honesty and Transparency in the Public Sector

- Causes of corruption in the public sector.
 - Giving out gifts or money in return for favors is still practiced although it no longer fits the values of modern Thai society.
 - The lack of strict control opens door to greed and leads to corruption.
 - Authoritarianism is still practiced in the system, encouraging government officials to compete for top positions through materialistic means.
 - Misinterpretation and misuse of some Thai sayings, such as "Turn a blind eye" (เอาหูไปนา เอาตาไปไร่) and "Make hay while the sun shines" (นำเงินให้รีบตัก), has led to misconceived sentiments that corruption is a normal way of Thai life.
- Corruption is likely to increase if managerial and administrative systems are not improved.
- Enforcement of law alone cannot instill transparency and honesty in the public sector. Other supportive measures, monitoring agencies and pressure from outside the public sector need to be established. In the newly-established system, one should see transparency, monitoring and control, as well as higher participation from the people sector, particularly in personnel management and the procurement process.
- The following are some strategic options: promotion of counter-corruption movements through public dissemination of knowledge and information; promotion of both social and legal indictments against the corrupt; demotion of cultures prone to supporting corrupt practices; and the promotion of cultures in favor of transparency and honesty, such as praise for transparent, efficient and accountable styles of work. Government officials at the executive level must not be corrupt and must take it as their duty to guide and monitor subordinates not to practice corruption.
- The people, as recipients of public services, must not encourage corrupt practices in any way. Bribery in all forms must be withdrawn. The people and other stakeholders should be encouraged to monitor practices of government officials, while those who reveal information on corruption should be rewarded and protected by the government. The family, as a social institution, has a direct role in forming an anti-corruption mentality.

- The press should constantly monitor and reveal corrupt practices and should receive state protection when revealing information on corruption. It is important that the press adhere to transparency and objectivity at all times.
- Groups and associations established for the purpose of anti-corruption movements, by educating the public against corruption and revealing the behavior of the corrupt, for instance, should be recognized by law.
- Government officials must realize that their role is to provide public services and that a basic right of taxpayers is to receive effective services from them. A system of reward to government officials who provide effective public services will diminish the mentality that government officials are superior to the people and will establish a new social concept of "service government officials." The system of "business government officials" will eventually be replaced. In addition, the public sector must comply with the Information Law and the Public Sector's Practices Law. In all cases, support from the government is crucial.

Good Corporate Governance in the Private Sector

The establishment of good corporate governance must take place concurrently with that in the public sector and the people sector. This is a long-term process. However, in the short run, the following components of business practices can be adjusted as a constructive start for sustainable development.

Structure of Shareholders

Approximately 60 percent of the shareholders of most Thai public companies are controlling shareholders. It is necessary that the roles of banks (as creditors), institutional shareholders, and minor shareholders be encouraged in business administration.

Roles of the Board of Directors

The board of directors links shareholders and the company's management and is accountable to the shareholders. An increase in the component of independent board members is thus important. Moreover, the audit committee, nomination committee and compensation committee should be organized. Programs to improve the quality of the management should also be encouraged so that management is aware of its roles and responsibilities. An example of such programs is the establishment of the institute of directors.

Legal Aspects

The structure of shareholders in most Thai public companies leads to a tendency of controlling sharehold-

ers dominating the decision-making process, and a sign of bad corporate governance in Thai society is minor shareholders being taken advantage of. To create equality among shareholders, a law to protect non-controlling shareholders is needed. Non-controlling shareholders should have sufficient authority in such areas as calling for shareholders' meetings, nomination of members of the board of directors, and voting rights in crucial matters. It is also important that the law guard against controlling shareholders seeking individual benefits from the company through insider trading or other business activities that potentially lead to conflicts of interests.

Lack of efficiency in the enforcement of the law, for instance, delays in the juridical process or the fact that a plaintiff must prove the defendant guilty, has hindered good corporate governance as it leaves room for those who break the law not to be indicted.

Transparency

Release of information on public companies that is true, accurate and sufficient for investors' decision is a basis for good corporate governance. Accordingly, accounting standards, accounting systems, and auditing are very important.

Voluntary Practices

Good corporate governance will be established only with the voluntary cooperation of the private sector. Good governance of a company will increase the credibility of the company in the view of investors. Pressure from market competition and the establishment of business codes of ethics are strong motives for voluntary practices in the private sector.

Strategies to Instill Good Corporate Governance in the Private Sector

To the Thai society, good corporate governance is still an abstract idea. To develop good corporate governance, it is important that businesses and the general public understand its concept, structure and process. Incentives for all parties involved to welcome and practice good corporate governance should be enhanced. The public sector and the people sector should also join forces to push for the development of good corporate governance. If these strategies prove insufficient, measures to pressure private businesses to adopt and adhere to good corporate governance are necessary.

ENDNOTES

- ¹ TDRI did not organize the Year-end Conference in 1994 and 1997.
- ² Excerpt from the Schedule of the 1998 TDRI Year-end Conference.

- 3 Compiled and translated from “Summary of Discussion and Recommendations of Group 1: Macroeconomic Management” by the Secretariat of the Working Group on Macroeconomics.
- 4 Compiled and translated from “Summary of Discussion and Recommendations of Group 2: Economic Restructuring: A Means to Achieve Competitiveness and Sustainable Development” by the Secretariat of the Working Group on Economic Structure. Translation was done by Ryratana Suwanraks and Panjamaporn Santanaprasit, Researcher at the Sectoral Economics program, TDRI.
- 5 Compiled and edited from “Summary of Discussion and Recommendations of Group 3: Social and Economic Recovery of Thailand” by the Secretariat of the Working Group on Social Issues.
- 6 Compiled and translated from “Group Discussion on Good Governance for Sustainable Development” by the Secretariat of the Working Group on Good Governance.

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Environmental Conservation in Asian Industry

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INTRODUCTION

The past 20 years have seen a growing awareness of the constraints and costs that the environment can impose on a country's economic and social development. In response to increasing competition for natural resources and pressure on the environment, a variety of instruments and incentives have been developed to reduce the negative environmental impacts of industrial development. These instruments can take on a variety of forms from regulatory (e.g., laws and regulations) to market-based incentives (e.g., charges, fines and tradable permits) to social (e.g., community pressuring a company to cease inappropriate industrial practices).

The selection of environmental instruments frequently depends on the effectiveness of existing policies, the degree of enforcement and available resources, the amount of information made available to the general public and the nature of industrial development in a country. For the most part, attempts at utilizing legislation to reduce industrial pollution and environmental degradation have been inadequate in many Asian nations for a variety of reasons, including societies who are unaccustomed to litigation. Moreover, it is becoming widely accepted that regulatory instruments are ineffective in the absence of enforcement and developed legal systems, areas in which many newly developing Asian countries are seriously lacking. Consequently, providing incentives for private sector initiatives and voluntary environmental protection measures are emerging as more feasible options for governments facing serious budget constraints. The following paper examines existing instruments in Asia and current monitoring and reporting systems, as well as voluntary measures that several businesses have adopted in response to increasing environmental damage and social pressure.

ENVIRONMENTAL INSTRUMENTS IN ASIA

Considering the broad scope of economic, political and social levels of development in Asia, it is not surprising that environmental conservation practices in the region vary widely. Countries such as Singapore and Hong Kong have progressed rapidly and their legal and regulatory institutions have expanded with them. Alternatively, Lao PDR and Myanmar have industrialized at a

slower pace and environmental legislation and regulations are relatively rudimentary. Clearly, the amount of environmental degradation depends in large part on the nature of development in a country. Transforming a country from agrarian to industrial, export promotion-based is often the most popular path to economic development adopted by Asian governments. Unfortunately in many cases this path also has the greatest impact on the environment.

In Asia, the government approach for mitigating industry's negative impacts on the environment falls mainly under Command and Control (CAC) regimes. The CAC regime is a regulatory approach mainly consisting of stream and ambient standards established by a government agency as national goals. Industrial firms are expected to comply with emission and effluent standards, which in theory are consistent with the stated stream and ambient standards. Failure to comply can result in fines, imprisonment or closure. In practice, end-of-pipe standards must be established given these goals and the carrying capacities of the airshed and watershed of specific localities.

This CAC approach for minimizing industry's environmental impacts was initially utilized in Western countries and was adopted by many Asian nations during their industrialization phases. But, as is the case with many development strategies, replicating a Western regime in a developing country does not guarantee success and, as a consequence, Asian countries have supplemented their CAC regimes with additional environmental instruments. Regardless, a comprehensive regulatory framework remains necessary for establishing the "rules of the game," as it were, for controlling industrial pollution and environmental degradation. The following section highlights legislation that presently exists in several Asian countries.

REGULATORY FRAMEWORK SUPPORTING ENVIRONMENTAL CONSERVATION

The environment's importance is recognized in a number of Asian Constitutions and has been since the mid-1980s. The Chinese 1982 Constitution states that "the State protects the environment and its natural resources and prevents and eliminates pollution and other hazards to the public." (UNESCAP 1992). Other

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examples include the Constitutions of India, Indonesia, the Republic of Korea and Thailand, all of which contain provisions supporting environmental protection. Although these provisions do not necessarily translate directly into legislation protecting the environment, they do indicate citizens' fundamental right to a clean environment and illustrate recognition on the part of governing authorities to the environment's importance to a nation's social well-being and sustainable development.

Constitutional considerations aside, fundamental legislation such as air and water quality acts supporting environmental protection exists in many Asian nations and are fairly comprehensive. Reflecting the CAC structures which most Asian countries have adopted with respect to reducing or eliminating industry's environmental impacts, the majority of legislation in place relates to curative or end-of-pipe approaches to pollution control, e.g., fines, charges and setting standards. Almost all Asian countries have basic laws pertaining to environmental protection, such as Malaysia's Environmental Quality Act 1974 and Singapore's Clean Air Act 1971. The degree to which a country has developed its regulatory framework is correlated with the level of development in the nation. Singapore and Taiwan have far more developed environmental frameworks compared to lesser developed countries such as Myanmar and Cambodia. The nature of a country's development is also significant. The Brunei economy is based on oil resources as opposed to industry, therefore legislation and regulations have been mainly focused on human activities, as they pose a greater environmental threat at present. There are exceptions to the relationship between the level of development and effectiveness of regulatory frameworks. China, for instance, has developed extensive legislation relating to water pollution legislation (due in large part to its large industrial sector).

In other cases, nations have extensively developed their regulatory structures to include sector specific laws relating to industrial pollution and environmental quality. In Taiwan, legislation and regulations vary depending on the nature of the pollution: water pollution standards are based on the type of industry, while toxic pollution standards are the same for all industries. Requiring environmental impact assessments (EIAs) are also used to integrate environmental considerations into industrial decision-making and supplement existing frameworks.

Creating a legislative structure supporting environmental conservation is only one step in the process of minimizing the potential for industry to negatively impact its surroundings. The ability of Asian nations to implement their regulations is the next stage. In response, many Asian countries have created environmental institutions such as environment ministries, departments or agencies, for policy formation, implementation and enforcement. China, Hong Kong, Japan, Pakistan, Thailand and Vietnam have all formed separate environmental agencies, whereas China, Bangladesh, Indonesia, the Republic of Korea, Malaysia, the Philippines and Singapore have environmental ministries

(the countries mentioned twice have both an agency and ministry devoted to environmental issues). In other countries, a division is formed under a separate ministry or in cooperation with another sector to address environmental concerns. For example, in Myanmar, the Ministries of Mines, Industries and Agriculture have environment divisions, and, in Lao PDR, STENO (the Science, Technology and Environment Organization) has been created under the Prime Minister's office.

It is debatable whether a separate environment ministry or agency is more effective than incorporating environmental divisions into relevant ministries. The number of staff, budgets and political influence in a separate ministry of environment greatly impacts its effectiveness at controlling pollution. Many governments assign greater priority and resources to industry ministries, leaving environmental agencies/ministries to fend for themselves. This being said, including environmental divisions within industry ministries may be more effective at integrating environmental issues into agendas and the decision-making process.

Although for several years the majority of Asian countries have recognized the need to formulate environmental legislation, there are still a number of reasons why the CAC approach has been inadequate at reducing pollution levels and environmental damage caused by the industrial sector. Examples include:

- Lack of resources (financial and human);
- Monitoring and enforcement difficulties (discussed later);
- Lack of authority and overlapping jurisdictions that prevent legislation implementation;
- Fines and charges being too low for polluters to modify behavior;
- Lack of coordination among government agencies;
- Lack of technology.

Two examples will serve to highlight how the above factors can impede the effectiveness of CAC regimes for controlling industrial pollution. In India, the central government establishes emissions standards for industry but state authorities are responsible for enforcement. The result has been regional variance in reporting emissions by plants. In Indonesia, decentralizing standard setting and monitoring has eliminated variance within the provinces, but standards are not uniform across provinces (Hettige et al. 1996).

The main cause for the above issues is often government's failure to prioritize. For instance, formulating extensive legislation supporting clean production processes can be seriously undermined by a coal subsidy. Singapore represents a positive example of the benefits of prioritizing. It has experienced great success reducing industry's environmental impacts by thoroughly integrating environmental policy with industrial policy from the beginning of its industrialization process (and backing the policies with strong enforcement). In addition, the government's commitment and environmental

goals are clearly outlined in its Green Plan which was presented at the Rio Summit. Land constraints facing Singaporeans are cited as the main reason why the government decided that national priorities had to be clearly established. Conversely, the Philippine and Thai governments have often been criticized for failing to prioritize policies and goals, leading to confusion and conflicting measures at increasing industry's environmental performance.

Clearly, although formulating environmental legislation has been undertaken in several Asian nations, the enforcement costs associated with its application have exceeded the budgetary capacities of many developing nations. Therefore, even though regulatory frameworks exist throughout Asia, they remain largely unsuccessful. Hindered by an inability to implement legislation and reduce industrial pollution, many countries have begun searching for alternatives that will address the limitations. One alternative that is being applied to control industrial pollution is market-based instruments (MBIs). This fiscal incentive is discussed in the following section.

ECONOMIC INSTRUMENTS

Limited success with CAC regimes in several Asian countries has led to the development of a second approach for controlling industrial pollution: the application of economic or MBIs. MBIs are designed to either endorse positive environmental behavior or to punish harmful activities by providing incentives or disincentives. The ADB (1997b) defines MBIs as "all instruments of environmental policy that—directly or indirectly—use prices to alter incentives and, through them, the environmental outcomes" (ADB 1997b: 12). MBI categories include: property rights, market creation, fiscal instruments, charge systems, financial instruments, liability systems, deposit-refund systems, and guarantee bonds.

A main cause for industrial pollution is that businesses often consider the environmental damage resulting from their activities as an external cost. In response to this view, MBIs attempt to assign a price to natural resources and environmental functions. In some cases, MBIs can create a market for environmental goods, such as a tradable pollution permit. Economic or MBIs are often used to support CAC measures and are attractive to governments as they can be financially self-sufficient (and in some cases generate additional revenue). MBI proponents state that this approach can provide a strong incentive for firms to internalize environmental costs (i.e., polluter pays principle). Also, it enables firms to locate their own methods for achieving environment targets, while freeing resource-strapped governments from the costs of extensive monitoring and enforcement.

In Asia, MBIs are being utilized predominantly on an experimental and small-scale basis. They are primarily applied as end-of-pipe solutions and are designed to support existing regulations. They emerged as a po-

tential option in the region when it became apparent that CAC measures were failing to reduce pollution levels in many countries.

Commonly applied MBIs in Asia include fiscal incentives, such as tax and custom exemptions as well as duties promoting clean technology and discouraging the importation of harmful equipment, substances and/or machinery, e.g., India and Bangladesh (Kumar et al. 1996; Marandya 1996). Several countries, such as Thailand and the Philippines, have targeted MBIs on addressing industrial waste issues. The Thai government provides mandatory wastewater treatment facilities and charges industries for their use. India also supports a similar collective treatment approach and the Philippines experimented with a waste exchange program, albeit an unsuccessful one (ADB 1997c). Providing financial assistance, such as environmental funds, for industrial firms attempting to "green" their activities and products is also in use in several countries (e.g., Thailand's Industrial Environment Fund 1991 and Indonesia's Pollution Abatement Equipment Loan Project).

Some nations have formally stated that they are interested in the use of MBIs to control environmental damage. In 1992, the Indian Ministry of Environment and Forests (MOEF) issued a statement supporting an increase in the use of fiscal instruments for environmental conservation, stating that MBIs represented a preventative as opposed to curative approach for controlling environmental damage. The MOEF established a task force to consider the feasibility of the MBI approach to pollution control in India. For the most part, India has focused on providing industries with conservation incentives (i.e., government pays the polluter to clean up) rather than a polluter pays approach whereby industries would be subject to environmental taxes and charges (Kumar et al. 1996). Alternatively, the Chinese government has selected environmental taxes and fines, pollution levies and discharge permits as appropriate to China's situation. More important fines for exceeding pollution standards are tiered in China based on the amount discharged, unlike flat rates in India.

Formal environmental conservation instruments in Asia differ greatly across the region. Most are quantity based with standards varying from country to country: policies supporting clean technology are a priority in one country, and damage control a priority in another. The effectiveness of formal regulations in the Asian region suffers from a number of shortcomings. First, efficient enforcement is lacking in several countries. Budget constraints, a lack of qualified staff and resources have all reduced authorities' ability to locate and punish industrial polluters. Enforcement problems have led to increased reliance on the judiciary in India for punishing polluters. Unfortunately, litigation is not socially acceptable (or affordable) in several countries, including Korea. Second, the regulatory frameworks in several nations are outdated or not comprehensible; fines are too small in Thailand. Third, standards are often set based on the concentration of pollutant discharge levels, leading many firms to simply dilute their discharge (e.g.,

India and China). Fourth, MBIs are focused on generating revenue for authorities instead of encouraging companies to invest in conservation (e.g., India, China and Malaysia). Fifth, governments' failure to prioritize can result in conflicting legislation and regulations (e.g., subsidies for polluting firms or tax exemptions). The Philippines has been an unfortunate victim of this in the past. Lastly, the technological abilities of the country may be inadequate at measuring emissions levels or designed cleaner production and treatment processes.

The final instrument for reducing industry's negative impact on the environment, social instruments, has been steadily emerging in past years. The next section considers the influence communities can exert on polluting industrial firms to convince them to modify their harmful behavior.

SOCIAL INSTRUMENTS

The last instrument that can be utilized to influence industries to improve their environmental performance is social instruments. This refers to the pressure the public can exert on firms whose activities are adversely impacting their lives. Depending on the level of public participation, local communities can provide strong incentives for industrial firms to abide by the law and meet (and occasionally surpass) the standards established by the State.

Faced with budget and personnel constraints, many governments recognize the benefits associated with supporting communities in the role of environmental watchdog. The Malaysian government has stated that it wishes to support action programs that are devoted to building environmental consciousness at all levels and that increase the general public's environmental awareness. To achieve this end, the government supports programs aimed at integrating environmental education into the public school curriculum. Indonesia's National Pollution Control Agency (BAPEDAL) has gone one step further and is actively promoting community involvement. BAPEDAL implemented an innovative program in 1995 called the Program for Pollution Control, Evaluation and Rating (PROPER). The program is designed to collect survey data from factories on a voluntary basis, rate their environmental performance on a five-level scale and release the information to the media and local communities in a simple, comprehensive format. It is believed that poor environmental performances will result in a higher risk rating for financing and that public pressure would provide low rating factories with an incentive to clean up their act. The program was successful in that the majority of firms with ratings in the lowest two levels were inspired to modify their activities and improve their standing. PROPER's results encouraged the Philippines to create its own version of the program, EcoWatch, which was implemented in April 1997. The Philippines program expanded its rating system further to include municipal water and wastewater services (Afsah et al. 1997).

In countries where government-sponsored programs are non-existent, EIAs provide an avenue for increasing community involvement in environmental conservation. Public hearings and consultations can serve to inform and educate local communities regarding the environmental impacts a nearby firm can have on their environment. A number of Asian countries have implemented measures that require EIAs for industrial activities. The Philippines system has been in place since 1978 and requires EIAs for heavy industry projects, resource extraction and large-scale infrastructure works. Public hearings can be held depending on the size of the project and the natural resources involved (Smith, Van der Wansem 1995). The public release of EIA findings is also beneficial for providing valuable information regarding an industry's impacts, as is the timing for releasing findings. The EIA process in Thailand ensures that information is made available to the public prior to final decisions, which gives them an opportunity to take action.

A final social instrument that can be used to encourage environmentally conscious behavior on the part of firms is recognition awards. In Malaysia, the Langkawi Award is available to organizations (and individuals) who excel in their environmental efforts. This recognition can translate into financial gains for a firm by lowering its risk rating in the marketplace and increasing consumer support (Tan and Tan 1995).

Communities' level of involvement and ability to influence polluting firms depends on a number of factors. A study by Hettige et al. (1996) found a community's ability to pressure firms into modifying unsound environmental behavior depends in large part on the communities' education levels, literacy rates, resources, influence over government officials and the number of local members employed by the polluting firm. Communities in Bangladesh, India and Indonesia were found to exert considerable pressure on local pulp and paper plants. Firms who were targeted either installed pollution abatement equipment or supplied the communities with goods in kind, such as blankets, food or community buildings.

NGO presence can also influence the level of involvement and effectiveness of community pressure. The Philippines and Indonesia have a strong network of NGOs, whose activities are backed with policy support, who are able to increase the likelihood of firms complying with national standards. NGOs are able to educate, organize and inform communities of industry's activities.

The public's right to information also plays a critical role in the effectiveness of social instruments. There are no freedom of information acts in Malaysia and the government often cites the Official Secrets Act as a reason why it fails to fully disclose information. Although the Department of the Environment (DOE) has publicly disclosed some of its monitoring reports on air, noise and water quality and opened its library to the public, full disclosure of information is not persuasive in all government departments. The Nuclear Energy Unit

has been accused of withholding information pertaining to a plant suspected of disposing hazardous waste in rivers in Merah (Singh 1995). One reason why government information may not be publicly disclosed is a hostile relationship (perceived or otherwise) between highly centralized government agencies and local communities. In other cases, the information which is released is not done so in a timely manner and/or is not presented in a comprehensive format which communities can understand.

If and when information becomes available, in countries such as the Philippines and India, it is providing communities with an additional avenue for addressing industrial damage: the judiciary. As stated previously, faced with limited resources many government agencies are often unaware and/or unable to enforce violations of environmental standards. In some cases, it is the local communities who enforce compliance with the use of legal instruments. After discovering that the activities of nearby industrial developers were reducing fish catches and quality of life, a Filipino fishing community decided to enforce the laws itself through legal action. The community applied for a Cease and Desist order from a Filipino court which stated that the developers must comply with national effluent and emissions standards or face immediate fines or closure. The judiciary in India has also been effective at enforcing environmental regulations and shutting down firms who fail to comply with environmental standards. The latter case is the ultimate CAC solution to firms who fail to meet environmental requirements.

CURRENT MONITORING AND REPORTING SYSTEM

Monitoring activities and systems in Asia reflect the variance among legislation, skilled personnel, budgets and environmental institutions in the region. Backed by ample resources and expertise, several countries have highly developed and efficient monitoring systems in place to evaluate firms' activities. For instance, Singapore's monitoring system is fairly sophisticated and comprises 12 air monitoring stations (five in industrial locations). The main environmental protection agency, the Pollution Control Department (PCD), regularly inspects larger polluting firms. In addition, companies are required to continuously self-monitor their pollution levels and maintain records of the results (Tyabji 1993). Similarly, Taiwan's Environmental Protection Administration (TEPA) has an extensive air and water monitoring system comprised of 66 automated air quality stations. TEPA has also created a database for 11 industrial groups and three state-owned enterprises that is capable of forecasting future discharges.

India, although less developed economically compared to Singapore and Taiwan, has a fairly extensive monitoring system included in its National Ambient Air Quality Monitoring Program (NAAQ). Established in 1984, it covered 290 stations in 99 cities by 1996 and monitors firms 24 hours a day on alternate days. In Indonesia, pollution monitoring systems are more de-

centralized, and provincial planning agencies known as BAPEDAL have been formed at the provincial level to assist with pollution control and monitoring. Under the PROPER program, plants are required to self-monitor their emissions and on-site inspections are employed. Both India and Indonesia have been successful at reducing pollution emissions and some plants are operating at world environmental standards. A main reason for their performance has been successful community pressure and concern over their reputations (Hettige et al. 1996).

In Thailand, major factories are required to monitor their emissions and discharges and report them to the government. Pollution control and monitoring in the country's 23 industrial estates (which includes 1,200 factories in 12 provinces) are the responsibility of the Industrial Estate Authority of Thailand (IEAT). On-site laboratories are located in the estates which take water samples twice per month to determine if they meet standards set by the Ministry of Science, Technology and Environment (Roht-Arriaza 1997; Kasemsri 1996).

Expensive monitoring costs has led to many governments targeting their pollution reduction efforts. The Malaysian Department of Environment has decided to direct its attention on larger firms in the most polluting industries (i.e., 42 percent of firms in the palm oil and 33 percent in the rubber industries are covered). This approach has been successful at controlling effluent discharge in these industries and 80 percent of firms are in compliance. The remaining industries are self-monitored with a system in place for local communities to lodge complaints regarding polluting firms (Markandya 1996).

Similar to Malaysia, the Filipino government selected a more decentralized approach to pollution control and focuses its monitoring efforts on the higher polluting industries. The DENR (Department of Environment and Natural Resources) has created Regional Community Advisory and Monitoring Committees and the Dirty Dozen Scheme targets higher polluting industries in each region. The latter initiative partners regional offices with local communities in monitoring firms' environmental performance. Communities, with assistance from the regional offices, serve polluting firms with Cease and Desist orders. Threatened with closure many firms opt to install less polluting equipment (Smith et al. 1995; Markandya 1996).

The previous paragraphs have highlighted several approaches to overcoming constraints to efficient and effective monitoring of industrial pollution. The following section examines a number of private initiatives that currently exist in Asia. The section illustrates that, in a number of cases, the private sector has recognized that the environment can no longer be considered an externality and has voluntarily improved its environmental performance.

VOLUNTARY ACTIVITIES IN THE PRIVATE SECTOR

In discussion thus far it would appear that the industrial private sector prefers to ignore all environmental

constraints and avoid meeting pollution standards. In this scenario, the government assumes the role of an enforcer and industrial firms as environmental outlaws. A lack of resources has often meant that the government is fighting a losing battle. This is not always the case. In some countries, the industrial private sector has decided to meet national standards voluntarily without government influence, and on occasion surpasses national standards to meet world levels. In several Asian countries, the private sector has begun to realize that there are benefits to be gained from environmentally conscious behavior. As a result of the growing awareness of environmental constraints (and other factors), a number of businesses have begun undertaking voluntary efforts to improve their environmental performance. Firms believe their initiatives will be rewarded by increased competitiveness, lower litigation costs and good public relations. This reflects both a growing awareness of environmental issues on the global level as well as within the Asian region. A survey of English-language newspapers and magazines recently found that media coverage of air and water pollution problems in the region had increased from a factor of 2 to 2.5 in the past 10 years (i.e., 140 articles in 1986 to 350 by 1996). Reflecting the increasing public awareness of harmful effects, many firms are undertaking voluntary measures to improve their image. These measures are essentially business initiatives, environmental certification and eco-labeling.

BUSINESS INITIATIVES

Businesses are motivated to voluntarily modify behavior for a number of reasons: to lower litigation costs, improve risk ratings for loans, address increasing community pressure and improve/maintain international competitiveness. Industrial firms in India began voluntary initiatives for yet another reason: the recognition that environmental conditions were constraining business. A scarcity of water and other input materials forced Harihar Polyfibres in Karnataka and Madras Refineries in Tamilnadu to change production processes and increase conservation efforts (Kumar 1996). In addition, several Indian firms have formulated environmental policies, installed environmental systems and conducted environmental audits.

Firms undertake voluntary environmental activities individually, as a group or in cooperation with a government agency. For example, several firms operating in Malaysia formed the Business Council for Sustainable Development Malaysia (BCSDM) following the Rio Summit. The Council supports a number of its members' initiatives, such as private provision of treatment facilities, formulation of company environmental strategies, awareness building in local schools through camps and essay contests (a Shell and BP initiative) and sharing information freely regarding clean technology processes. Companies such as Motorola Semiconductors in Malaysia have discovered that environmental efforts can make good business sense. Recycling water instead

of storing it until it is treated was found to be more cost-effective (Kiat and Tamin 1995). The Agricultural Bank of China is working in cooperation with the Chinese National Environmental Protection Agency to assess firms' environmental risks. This followed a loss of US\$19 million in loans due to plant closures resulting from a failure to comply with environmental standards.

Environmental reporting and auditing is another method that firms are employing voluntarily. Many companies have begun publishing annual reports on their environmental performance, for example, the Philippine food, beverage and agribusiness company, San Miguel Corporation and Tokyo Electric Power of Japan. The reports vary widely from company to company but do provide information on areas such as the amount of water consumed, recycling materials utilized, community programs undertaken, etc. Although a standard procedure for environmental reporting does not exist (leading to difficulty comparing one company's performance to another), the reports do indicate a growing realization on the part of the private sector of the environment's importance. Firms produce the reports and audits for several reasons: due to demand from shareholders, to reduce the firm's risk rating, or to generate good public relations. A recent survey of Japanese shareholders found that 85 percent wanted greater comparable data, refined and consistent environmental disclosure.

INTERNATIONAL STANDARDS ORGANIZATION: ISO 14000

ISO 14000 is defined as a "voluntary action by industry to establish environmental management systems (EMS) and to commit to ongoing improvements in environmental performance" (Roht-Arriaza 1997: 292). This system builds on the earlier ISO 9000 to include environmental management approach. To receive certification, companies must formulate an environmental policy and state their environmental goals (i.e., meet national standards, international standards, etc.). Environmental reporting and audits are part of ISO 14000 certification.

The advantages associated with ISO 14000 is that it will facilitate "green" trade and provide an additional incentive for companies to meet environmental standards, thereby freeing government resources from the responsibility. That being said, ISO 14000 has also come under criticism as being a barrier to free trade and inadequate at fully addressing environmental protection. The latter criticism refers to the lack of public disclosure under the new system; although companies must release their environmental strategy, they are not required to fully disclose their effectiveness at reaching their goals (i.e., by publishing environmental audits, reports and EIAs). Furthermore, the standards that firms must meet for certification are not uniform, rather they depend on how high the companies' goals are: meet national or international standards. This could seriously jeopardize the credibility of the program (Roht-Arriaza 1997).

Disadvantages aside, the Korean government has stated that it will require its leading companies to participate in the certification process and several other Asian countries are establishing the necessary institutions for certifying companies. China has introduced the standards in a pilot phase focusing on the export sector, the Standards and Industrial Research Institute in Malaysia has developed draft standards and offers training programs to the private sector, and the Indonesian Standardization Council has formed working groups to design a certification program for the country. Clearly, the success of the new program will depend on the certification's credibility, a comprehensive and developed regulatory framework and cost incentives. In absence of these components, ISO 14000 may be minimally effective at reducing pollution levels and motivating a change in behavior.

ECO-LABELING

Eco-labeling is based on the belief that consumers have the right to purchase products that are comprised of environmentally friendly inputs and produced with the minimal impact on the environment. For the most part, eco-labeling is undertaken primarily on a voluntary basis and is not required by international standards. From an industrial perspective, it can serve as a useful marketing tool to distinguish one product from another and increase the competitiveness of a product in the world market.

Products can be labeled by the producers themselves, an industry association or by an independent party. The latter is usually the most reliable. The label can be positive or negative. For example, a positive label may describe clean production techniques used and a negative label would indicate the product's destructive impact on the ozone layer (e.g., poisonous materials). General criteria for eco-labeling products depends on the performance or end use of the product, processing and production techniques.

For eco-labeling to be successful, it should be promoted to ensure consumers are aware of the program and what the label actually represents. Several Asian countries are using eco-labels. Examples of voluntary government programs include India's Ecomark (1991), Singapore's Green Label (1992), and Taiwan's Green Mark (1993) programs. For a licensing fee, labels are assigned to products meeting environmental criteria, national standards and regulations. In some cases, initiatives come from outside the country, such as Indonesia's membership in a United States forestry program called Smart Wood. The program is an NGO initiative which sends in outside experts to evaluate a company's forestry and logging practices (NWF 1996). Eco-labeling can be a useful marketing tool and serve to differentiate one firm's product from another. Although national regulations promoting the eco-labeling programs are beneficial, it is consumers' preference for environmentally less-damaging products that is the main driving force behind the success or failure of such initiatives.

Product differentiation, consumer choice and marketing opportunities are cited as reasons why eco-labeling is gaining acceptance throughout the world. This is not to say that there has been no opposition to this environmental strategy. The World Trade Organization (WTO) has been called upon to regulate eco-labeling worldwide. Critics of the program state that such labeling represents a barrier to international trade and regulation is required. Many NGOs feel this will water down the effectiveness (i.e., criteria and credibility) of eco-labeling and that powerful business interests in the WTO oppose it on the basis that it restricts the free flow of trade.

Regardless of the WTO's eventual decision regarding the matter, eco-labeling has begun in Asia. Faced with mounting environmental degradation, proper education and information dissemination may serve to increase consumers' demands for improved industrial accountability and transparency in the marketplace with respect to the environmental impact that products have. Domestic considerations aside, many countries have begun to recognize that to remain competitive overseas requires improving practices in response to client's demands.

CONCLUSION

The past decade has witnessed the reaction of many nations and governments to increased environmental awareness and pressure to conserve nature and its many functions and assets. International events such as the Rio Conference and the Montreal Protocol represent global measures designed to modify public and private environmental behavior in support of greater conservation. The environment, previously considered a public good, has now entered the domain of the industrial sector. Environmental damage and degradation can no longer be considered by firms as an external cost. In response, many nations have implemented instruments created to incorporate environmental considerations into industry's decision-making process.

This paper has outlined the various instruments available to policy-makers, businesses and the public supporting industrial conservation practices. An overview of the regulatory techniques utilized in Asia was presented and their overall effectiveness was highlighted. Countries such as Singapore and Korea have had considerable success developing their frameworks and several environmental institutions and enforceable regulations are in place. This is not the case throughout Asia. Given the considerable budgetary and human resource constraints that many countries in the region face, replicating the traditional Western CAC approach has been largely unsuccessful. As a result of these limitations and a growing awareness of the need to adopt preventative solutions as opposed to curative ones to environmental problems, economic instruments are emerging as an alternative. Primarily applied on an experimental basis in Asia, it is believed that they will address the problem of the environment as an external cost. Barriers to the

effective use of economic instruments in Asia are similar to those elsewhere in the world: inadequate pricing, conflicting policies hamper effectiveness, etc. These instruments are attractive to many Asian governments as they lighten the burden for resource-strapped departments.

The final instruments discussed were social instruments. In several Asian countries, an active civil society has assisted with monitoring, evaluation and applying pressure on both the private and public sectors. Informal instruments are emerging as a powerful tool in several Asian nations, particularly those facing severe resource limitations. As environmental awareness continues to grow and public disclosure increases, it is highly likely that local communities will increase their demands for industrial environmental compliance. Whether firms decide to improve environmental performance voluntarily or not, many companies and multinationals in Asia have begun to realize that there are economic gains to be made from environmentally friendly practices. Clearly, the effectiveness of strategies such as eco-labeling and community pressure depend in great part on the amount of information available to interested parties.

The level of industrial conservation behavior in Asia varies greatly. Considering the different economic, political and social characteristics in the region, it is not surprising to note there are differences. Several governments are moving away from the traditional CAC approach and have begun to realize that policies and approaches must be tailored to their unique situation. National commitment to environmental conservation, combined with increasing social awareness and pressure, will further ensure the integration of industrial development with environmental protection. This can either be a voluntary realization or government imposed. As stated, several firms in India have already realized the potential constraints the environment can impose on business practices and have adopted new operation methods in response. As community awareness and global pressures increase, the Asian industrial sector and national governments may have little choice but to include environmental considerations into decision-making processes in order to fully support sustainable development goals.

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