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**BOI ZONE 3 INVESTMENT PROMOTION POLICY :
AN ANALYSIS OF POLICY OUTPUTS AND IMPACTS**

by

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Abstract

This study focused on two major issues : 1) evaluation of the outputs of BOI ZONE 3 Investment Promotion Policy (BOI ZONE 3 IPP) (i.e., whether there was an increase in the total number of BOI-promoted plants in Zone 3 and also whether BOI measures and existing investment conditions were significant factors in attracting entrepreneurial investment in Zone 3); and 2) evaluation of policy impact (i.e. whether this policy increased employment in Zone 3, whether it increased in-migration and decreased out-migration, whether the value of Gross Provincial Product increased at the aggregate level, and at the micro level, whether increased employee incomes after they commenced working at promoted plants would actually mean that overall employees' children would have a greater chance of receiving better education).

The basic policy time-frame decided upon was the period 1989-1996, with 1989-1992 defined as the pre-policy period and 1993-1996 as the post-policy period. The eastern region of Thailand was chosen for the case study focus because of the large number and wide variety of BOI-promoted projects in the area. This study is divided into two levels ; aggregate level and micro level.

The three hypotheses proposed in this study are :

1. At the ^②micro level : BOI promotion measures and pre-existing favourable investment conditions would basically determine the number of promoted-plants in Zone 3 ;
2. At the aggregate level : change in net migration, change in the number of promoted plants, and change in employment number would basically determine the change in income for Zone 3 as a whole ; and
3. At the micro level : individual employee incomes, number of family dependents, family consumption expenditure, and savings level would basically determine change in intention to provide better education to employee's children.

In order to test these three hypotheses, policy output studies, time-series analysis, regression analysis, and path-analysis were conducted. Primary data obtained from questionnaire interviews with entrepreneurs of BOI-promoted plants, employees of BOI-promoted plants, and provincial key persons or experts were used, as well as secondary data from other sources such the Office of the Board of Investment (BOI), the National Economic and Social Development Board (NESDB), and etc. Investigation of policy impacts required analysis of the primary data generated by such questionnaire interviews as well as analysis of secondary data also obtained from the same sources. Multi-stage sampling was also used, with 61 percent of entrepreneurs providing questionnaire and interview data used in this study having operated a BOI-promoted plant for more than a year, 9 percent of the workers providing questionnaire and interview data being employees of the above plants, and 79 percent of the persons providing questionnaire and interview data being key provincial persons.

The main finding of this study at the ^amicro-level was that the first hypothesis was rejected because not enough evidence could be obtained to support it.

Another important ^amicro-level finding was that BOI measures were the single most important factor in determining change in investment, followed by infrastructure (particularly electricity supply), resource endowments (particularly land availability), and prevailing economic conditions.

As for micro-level policy impact, the main finding was that BOI ZONE 3 IPP helped to increase both the incomes of individual employees and total employee income which thus played a major role in creating educational opportunities for employees children. Indeed this finding was strongly supported by employee survey analysis which clearly showed a strong correlation (which had previously been very weak) between the desire to provide education to the bachelor degree level at a government university and the actual ability to afford it.

Accordingly, the third hypothesis was rejected as it was clearly evident that employee incomes, their number of dependents, and family consumption expenditure were the only significant determinants of change in employees' intention to provide such improved educational opportunities.

At the aggregate level, the findings of this study were firstly, while BOI ZONE 3 IPP was indeed responsible for a significant part of the increase in the number of promoted plants in Zone 3 as a whole and that it also had a significant positive impact on both local incomes and employment, it did not have a significant impact on net migration.

Secondly, it was found that while the increase in indirect benefits which improved forward and backward linkages brought to local communities and people (with more than 60 percent of entrepreneurs using

either non-local or imported inputs, materials, and machinery and with more than 80 percent of entrepreneurs surveyed indicating that they were highly dependent on export market) could in part be attributed to BOI ZONE 3 IPP, this increase was not significant. Consequently, the second hypothesis was rejected.

Following the above hypotheses testing, this study makes three major recommendations. Firstly, there should be a single organization within the Ministry of Industry placed in charge of 'Macro-investment Incentive Policy' (MIP).

Secondly, an effective MIP would require amongst other things, a fundamental restructuring of the current tax and tariff system as well as, effective coordination of various other public policies of the Thai government to form what would in effect constitute a significant new policy direction for it.

Thirdly, this new policy direction would need to fully incorporate the concepts of self-sufficiency, sustainable development, and the dynamics of the full investment cycle.

Finally, this study also recommends some profitable directions for further research.

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