Thailand: Class Matters

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If life was merchandize that men could buy/The Rich could always live and the poor must die.


The division of society into classes or strata, which are ranged in a hierarchy of wealth, prestige and power is a prominent and universal feature of social structure which has always attracted the attention of social theorists and philosophers.


1.

Writing of theoretical debates within Marxist social science in 1986, Ellen Meiksins Wood provided a scathing attack on those who had retreated from class analysis. It would be difficult to author such a critique of social science research on Thailand. The reason is that class analysis was never established as a central element of academic discourse in Thai studies. There can be no retreat from class analysis.

I am exaggerating of course. Some writers have identified a radical tradition, and there was, for a time, a Marxist-influenced analysis, strongly influenced by the Communist Party of Thailand. But these approaches, while radical, were rarely wedded to an academic or theoretically sound class analysis. Since the decline of the Maoist Communist Party, there has been almost no sustained effort to establish a class analysis of Thai society. Nor has Weberian class analysis taken root. Many of those who were once identified with the Left are now more likely to be influenced by

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anarchism; have moved to the analysis of social movements and non-governmental organisations (NGOs); engage in Buddhist-influenced studies or environmental studies; or have found post-modernist and post-structuralist approaches attractive. These approaches range from the conservative to the radical, but none place class at the centre of their analysis.

Of course, class analysis is not simply a creation of Marxist social science. Dos Santos points out that class has been used as a concept for understanding inequality and social structure for a very long time. By the nineteenth century, inequality was no longer conceived as a 'natural' or divinely ordained phenomenon. Rather, the view that inequality was an outcome of human action was established, at least in the West, and, with it, the recognition that constructed inequality was alterable.

This chapter attempts three things. First, I wish to outline a number of influential approaches to Thailand's society, showing how they have generally eschewed serious discussion of class. Second, it will suggest how class analysis might be useful for understanding Thailand's development. And third, the chapter will show that class does matter in Thailand. It will do this through an analysis of World Bank information and data on the financial and economic crisis that began in July 1997. The latter is not meant to be a thorough class analysis. Rather, it suggests that for all of the ignorance and rejection of class analysis, class continues to be a factor that explains much about Thailand's political economy and the outcomes of the economic crisis.

2.

Thailand is a capitalist society. Ten or fifteen years ago this might still have been a controversial statement; it no longer is. In those days, there was a reluctance to use the term 'capitalism' to describe the forces dragging Thai society from its agricultural past and plunging it into its industrial present and future. Now that the spectre of an alternative in state socialism has evaporated, 'capitalism' is freely used to designate the triumph of the market.

Of course, as has always been the case, 'capitalism' carries multiple

meanings in popular and academic discussions. In the context of this chapter, I am concerned to identify the forces that have been involved in transforming Thailand's largely subsistence economy and society of two centuries ago into one where production involves the application of capital in enterprises that produce primarily for profit. That is, a capitalist economy. But to look simply at economic relationships is far too narrow, for capitalism is also a system of social organisation. Transforming a class of smallholder farmers to wage-labourers, and separating them from their product has involved a radical restructuring of society. The movement of wealth to the class of owners and managers of enterprises requires economic, social and political mechanisms and structures. And, of course, national borders do not necessarily bind these mechanisms and structures. What we now call globalisation was once designated as imperialism. The rise of capitalism has not only transformed Thailand's economy and society, but also has incorporated these within a world system of production and exchange. This incorporation necessarily subjects Thailand's economy and society to the many vagaries associated with such a world system.

Class should be an essential element of any analysis of the development of capitalism. Capitalist society is one that is crosscut by divisions based on each person's location in the system of production and exchange. While many now feel comfortable referring to Thailand as a capitalist society, the analysis of class remains somehow unacceptable and apparently old-fashioned. In a theoretical world dominated by rational choice, neoliberalism, institutionalism and various 'post-isms', class is a missing element. There have been few calls for class to be brought back to the theoretical agenda.

Even within Marxist analysis, the need to understand class structure and who rules in society seem anachronistic concerns. Class struggle has been replaced by a mixture of terms that are meant to invoke a more flexible Marxism, with 'alternative' sites of struggle readily identified in terms of social movements interested in issues such as development, environment, identity, culture and gender. This has been a part of a less than systematic attempt to rid Marxism of reductionist, essentialist and deterministic elements. It is common to see declarations that societies are now far more diverse and that social reality is far more 'contingent'. There is also a view that the changing nature of capitalism demands that class politics (and analysis) be consigned to the theoretical dustbin. Of course the link once seen between class and state is considered extinct.

It seems remarkable that class analysis has met such a fate. It is easy to see that Marxists might feel that their theoretical system was seriously threatened in the post-Cold War academic world. However, class is not a category only found in Marxist social science. As Giddens pointed out,

Weber admits, with Marx, that ownership versus non-ownership of property is the most important basis of class division in a competitive market. He also fol-

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lows Marx in distinguishing among those who possess property, rentier classes and entrepreneurial classes.\(^\text{10}\)

That Weberian social and political analysis should have also eschewed class is more difficult to explain. In the contemporary period, however, it reflects the dominance of North American approaches heavily influenced by a methodological individualism growing out of the dominance of economic analysis.

As noted above, in studying Thailand, class has not declined or disappeared; quite simply, it was never established as a category thought particularly useful for analysis. While there is talk of inequality, there has been little attention to the division of society into social classes. There is little explicit recognition that class inequality can be a source of other inequalities, and that the economic domination of one class can provide a basis for political rule. These past few sentences have paraphrased Bottomore.\(^\text{11}\) He concludes by observing that, ‘Class ... is deeply involved in many of the most vital questions of modern politics and social policy.’

So why don’t analysts of Thailand want to talk about class and what do they talk about? To understand this, we may examine approaches to the 1997 economic crisis, examining modernisation, dependency and neo-dependency, neo-classical economic and historical institutionalist perspectives.\(^\text{12}\) We will return to the analysis of the crisis in a later section.

3.

3.1. Modernisation Approaches – Society but no Classes

The academic discussion of Thai society has been dominated by modernisation theory. This approach characterises Thai society as ‘loosely-structured’, where the mass of the population is apolitical, and politics revolves around the politicised elite. Hierarchy and status were important in binding the masses to the elite through a vast patronage network. Writing in the mid-1960s, Fred Riggs\(^\text{13}\) described Thailand as a ‘bureaucratic polity’, a conception of the relation between business and government that remains strong in the literature. Riggs saw business as having little political influence. The political elite of civil and military bureaucrats adopted a predatory attitude, making business people their clients. Through its control of politics, the elite was able to dictate policy, and establish corrupt patron-client relations that fed on economic development. Bureaucrats, espe-

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\(^{12}\) Various post-isim approaches are not discussed here. Class is not identified as a major analytical variable in these approaches.

cially those in the military, maintained a degree of control over business that ensured the benefits of development served the interests of the military and bureaucracy. The emphasis in this kind of analysis has been on elites and patron-client relations, not class.

By the 1980s, however, analysts came to regard ‘bureaucratic polity’ as an inaccurate description of a society experiencing rapid growth and massive social change. The rise of a powerful and increasingly independent business class and the decline of the military apparently contradicted the model.\(^\text{14}\) Analysts saw the bureaucratic polity as having been replaced by a system where business had far more autonomy. This led to the development of historical institutionalist approaches (discussed below), where business-government relations were conceptualised as a partnership.\(^\text{15}\) Modernisation perspectives, especially those utilising structural-functional conceptions, appeared to have had their day. Remarkably, however, the economic crisis saw a limited resurgence.

Danny Unger\(^\text{16}\) has taken a broadly modernisation perspective in his application of the notion of social capital to Thailand. He identifies a paradox involving the achievement of rapid growth despite a weak bureaucracy and poor policy implementation. Unger explains this as resulting from a lack of social capital amongst Thais. His analysis draws extensively on observations from modernisation theory, reviving ‘bureaucratic polity’ in explaining cultural differences between ethnic Chinese and ethnic Thais. The former are seen as more sociable than the Thai, thus providing drive in the economy, albeit with limited inputs into the political system. Unger\(^\text{17}\) suggests that limited sociability amongst Thais has diminished the capacity of state officials to foster social change and the adoption of market strategies, and led to factionalism and poor coordination among state agencies. In this approach, the 1997 crisis can be seen to have resulted from shortcomings in the economic and political structures that have deep cultural roots. Here the emphasis is on culture and ethnicity. Unger operates with a model of society, politics and ethnicity that ignores much of Thailand’s diversity, political competition, repression and struggle.

3.2. Dependency and Neo-dependency – Classes but...

In the 1970s, dependency theorists argued that modernisation approaches were inadequate as they placed too much emphasis on elite behaviour and ignored predatory international capitalism. Dependency analysts regarded Thailand’s business and state elites as tools of international


\(^{17}\) Ibid., p. 18.
corporations, assisting the exploitation of their own country.\textsuperscript{18} Class was a concept that entered the analytical vocabulary, but in a specific way. Workers and peasants were seen to be exploited by having their surplus product and labour drained away to metropolitan countries. Where local or domestic capitalists were identified, they were usually seen as a comprador class, assisting the real class of exploiters in New York, London or Tokyo.

A major problem emerged for this approach when a significant local capitalist class developed in Thailand. Dependency approaches were unable to explain this, except as an artefact of foreign investment. For example, Hart-Landsberg and Burkett\textsuperscript{19} characterise such developments as tenuous and subject to the vagaries of business decisions made outside Thailand, meaning that it is ‘false development’. But this explained little about the dynamics of Thailand’s capitalist revolution.

Since the crisis hit there has been a resurgence of interest in dependency approaches; this revised approach can be identified as neo-dependency. The attraction lay in neo-dependency’s criticisms of the negative impacts of development and its recommendation of nationalist economic programmes. Neo-dependency analysts argued that high-speed growth, fuelled by foreign capital, had promoted the interests of international investors and ‘technocratic and economic elites’ in the region, rather than the majority. Thailand’s development was therefore considered unsustainable and dependent on decisions made overseas. For these analysts the crisis demonstrated the power of the West and Thailand’s corresponding weakness. They condemned the International Monetary Fund (IMF) and the US for taking advantage of the crisis to assert their influence through programmes that demanded further liberalisation, reproducing structures and approaches inspired by the US model.\textsuperscript{20} The IMF was seen as promoting policies that had caused the crisis in the first place. They argued for a nationalist approach to development, including re-orienting production to domestic markets, and controls on international capital flows.\textsuperscript{21} This was the way to avoid domination by rich countries. Such approaches perhaps owe more to List than Marx. Class is used rather loosely, but neo-dependency theorists do appear to think that class matters. The problem is that they continue to see class in terms of circulation rather than production, a criticism made of dependency theory decades ago.\textsuperscript{22}

3.3. Neo-classical Economic Approaches – Markets but no Classes

Economic growth has been the central pillar of Thailand’s public policy for four decades. The view that growth is best achieved through the operation of the free market has been strong, especially in an era when this was linked to anti-communism. This approach saw international financial institutions praising Thailand for its conservative economic policy and resultant growth and the reduction of poverty. While Thailand did not neatly fit the neo-classical assertion regarding the benefits of the primacy of market over government, it was perhaps a better fit than some of the East Asian economies. Even so, the success of the East Asian ‘model’ caused growth theorists to flirt with the notion that government and its policies might be significant. This generally translated into notions about government ‘getting the fundamentals right’. The advent of the crisis, however, caused a rethinking.

The crisis prompted neo-classical analysts to identify ‘market distortions’ as the main contributing factors, and led to a reassertion of the preferred theoretical and ideological position that such distortions resulted from state intervention. These analysts identified poor policy, weak state and corporate governance, inadequate institutions, cronyism, corruption and resource misallocation as factors in the crisis. The theoretical outcome is to link the individualism of the neo-classical approach to a belief that ‘good’ public policy is that developed by governments relatively insulated from political influences. That is, technocrats are best able to develop market-friendly and rules-based policy when they are insulated from political debate and influence.

In this theoretical position there is no place for class. The market is little more than a collection of individuals. Economic (and social) management is not about political or social conflict, but the application of universally applicable and technologically correct policies. That the market and policy are socially and politically constructed is inadequately considered.

3.4. Historical Institutionalism – Institutions and Collective Interest, but no Classes

There was increased interest in historical institutionalist approaches as Thailand’s economic performance during the boom was compared with that of East Asian economies. Before the crisis, some analysts tried to lump Thailand in with East Asian developmental states. However, this view was overshadowed by one that argued the focus on states and/or markets drew too much attention away from an ensemble of non-state and non-market institutions that had determined Thailand’s economic success. These institutions included those of the private sector such as banks, commercial networks and business associations.


Specifically rejecting the bureaucratic polity model, and differentiating Thailand from Northeast Asian developmentalist states, Doner and Hawes argue that development success was not due to a strong state, but came through a dynamic private sector. These authors see a ‘relative strength’ in private institutions and a relatively weak state. Thus, in the face of market failures, indifferent or predatory state policies, it has been the private sector driving development.

The crisis has caused institutionalists to reassess their positions. The more state-focused historical institutionalists argued that the impact of the crisis in Thailand demonstrated the state’s incapacity to drive the changes required to improve the ‘production regime’ and to establish the resources required for this. Such analysts also identified ‘external factors’ as responsible for deepening the crisis. Weiss adds that there was relatively limited insulation of state agencies from ‘particularistic interest politics’.

More society-focused institutionalists gave attention to this latter aspect. Hutchcroft argues that Thailand has exhibited the characteristics of ‘bureaucratic capitalism’, where the state was relatively stronger than business, and the state ‘relatively more patrimonial’. However, the boom saw business establish its collective interest over those of the state. Market liberalisation, with little attention to building appropriate institutions, occurred together with an increasing tendency for rural politicians to enhance their patronage through access to state coffers. This set the framework for the economic meltdown. These politicians besieged the bureaucracy and expanded patrimonialism beyond the state, making Thailand’s system much more like the Philippines model of a patrimonial oligarchic state. This reflects a weakening of the state vis-à-vis business interests.

This approach has been attractive in explaining differences between Thailand and the developmental states of East Asia, and for including historical arguments about the development of power. However, they tend to emphasise trust, co-operation, and order amongst private sector actors, while downplaying competition and conflicts. Reform is often seen to be about establishing order, stability and accountability. Where conflict is discussed, it is in a context of the state and its officials versus the private sector rather than any attention to class conflict. That historical institutionalists tend to favour technocratic solutions to economic and political

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28 Ibid., p. 329.
30 Hutchcroft’s definition is close to Riggs’s bureaucratic polity (Hutchcroft, ‘After the Fall’, pp. 474-6).
31 Ibid., pp. 474, 495-7.
32 Ibid., pp. 486-8.
problems is clear. Hutchcroft\textsuperscript{33} argues that reform and good policy in Thailand require that conservative urban elites capture the state and parliament from unsophisticated 'country bumpkins' (in fact, elected politicians) who engage in money politics.

But this appears somewhat unreal. Historical institutionalists identify conflict and collective interests, but they are reluctant to consider the class aspects of these. The crisis showed that there were problems with Thailand's institutions, but the crisis also laid bare the contradictory relationships between the various fractions of capital and between capital, labour and farmers. It also showed that the state, while responsible for the interests of capital in general, was also cognisant of the shifting power relationships between domestic and international capital, and within domestic capital.

4.

It is clear that none of the approaches discussed here allocate much theoretical or analytical significance to class and class-based action. Interestingly, however, while class analysis has been on the margins in the theoretical literature in recent years, it is beginning to make something of a comeback.\textsuperscript{34} Even analysts influenced by rational choice approaches have become interested in understanding broad issues of social change through a class prism.\textsuperscript{35} One important reason for this renewed interest is that, despite significant economic growth, many advanced capitalist societies are indicating greater inequality than ever before.\textsuperscript{36} In world terms, it is a paradox that the declining interest in class analysis has coincided with an 'unprecedented formation and restructuring of class, focused especially on Asia'.\textsuperscript{37} Analysts are again realising that class, defined by relationships to production or regimes of exploitation, can offer insights that are not possible within narrower perspectives.\textsuperscript{38}

This chapter is not the place to engage in a detailed discussion of what might constitute sound class analysis. Rather, it outlines an account of how class may be illuminating in understanding the development of capitalism in Thailand.

One of the problems with the approaches to Thailand outlined above is that they provide little attention to conflict and attach too much signifi-

\textsuperscript{33} Ibid., p. 488.

\textsuperscript{34} Smith, 'What Happened to Class?'

\textsuperscript{35} See A.B. Sørensen, Toward a Sounder Basis for Class Analysis', \textit{American Journal of Sociology}, 10, 6 (2000) 1523-58.


\textsuperscript{37} Smith, 'What Happened to Class?', p. 1014.

cance to so-called ‘good’ policy. Class analysis places conflict far closer to
the centre of analysis.\textsuperscript{39} Class analysts see markets, states and institutions
as products of interests and conflicts emanating from class relations which
are themselves generated by inequalities within societies and by the forces
of global capitalism. In this perspective, the use of terms such as ‘capital-
ism’ and ‘capitalist state’ includes an identification of the nature of domi-
nation. Class analysts will thus argue that markets and institutions are socially
and politically constructed.

Acknowledging that class involves conflict means that class goes be-
yond the analysis associated with concepts of stratification. It considers a
population to form collectivities that are prompted to engage in action by
the interests, delineated by class positions, that are structurally op-
posed.\textsuperscript{40} Marxists have placed exploitation at the centre of conflicts over
resources and unequal access to resources. However, as exploitation has
usually been linked to the labour theory of value, this has often meant
highly technical arguments over this theory rather than the discussion of
inequality. The widespread rejection of the labour theory of value by
Marxists and post-Marxists has been one of the reasons for a move away
from class analysis. But, as Wright has argued,\textsuperscript{41} an exploitation concept
of class is possible without resorting to the lexicon of the labour theory of
value.

Wright’s conception involves the notion that ‘exploitation generates an-
tagonistic interests in which the material welfare of exploiters is causally
dependent upon harms to the material interests of the exploited.\textsuperscript{42} The de-
pendence involves the ways in which productive assets are organised –
owned and controlled. This definition does not simply emphasise material
conditions, but looks at how material inequality is linked to social conflict.
Wright argues\textsuperscript{43} that exploitation exists if three criteria are met. In setting
these out, I have modified the first:

\begin{enumerate}
\item The material welfare of the exploiters causally depends on relative reductions
of material welfare of the exploited.\textsuperscript{44}
\item The exploited are excluded from access to certain productive resources.
\item Exclusion means that the exploiters gain ‘material advantage ... because it en-
ables them to appropriate the labor effort of the exploited’.
\end{enumerate}

\textsuperscript{39} Class structure is pivotal in social conflict and social change, but is not the only basis
for these (E.O. Wright, ‘Varieties of Marxist Conceptions of Class Structure’, \textit{Politics & So-
ciety}, 9, 3 (1980) 323-70, 323). This point is reinforced by Smith (‘What Happened to Class?’),
who argues that class analysis does not need to exclude issues related to identity, culture, en-
vironment, and the like.

\textsuperscript{40} See Goldthorpe, ‘Rent, Class Conflict, and Class Structure’, pp. 1572-3.

\textsuperscript{41} Ibid., ‘Class, Exploitation and Economic Rents’.

\textsuperscript{42} \textit{Ibid.}, p. 1562.

\textsuperscript{43} \textit{Ibid.}, p. 1563.

\textsuperscript{44} Wright’s account of this condition appears as a zero-sum argument. I have modified
this to an assessment of relative material welfare. This in line with Graham’s view that Marx
adopted a relative notion of impoverishment. For example, he argued that whether a work-
er’s pay is high or low, satisfaction may fal: K. Graham, ‘Class – A Simple View’, \textit{Inquiry}; 32
For Wright\textsuperscript{45} this means that exploitation is a process by which income and wealth disparities are generated by inequalities in 'rights and powers over productive resources: the inequalities occur, in part at least, through the ways in which exploiters, by virtue of their exclusionary rights and powers over resources, are able to appropriate labor effort of the exploited'.

In this context, Wright refers to the exploiting class, but not the 'ruling class'. There are obviously good reasons for this, many of them discussed in the well-known debate between Nicos Poulantzas and Ralph Miliband. We can, however, write of a class that rules.\textsuperscript{46} That is, analysts can identify an exploiting class that has its interests served by the particular construction of the constellation of power in society. But not all elements of the exploiting class will have equal power. It is therefore important to understand which section or fraction of the capitalist class dominates in any society.

In capitalist society, the emergence of wage-labour is a significant aspect of class formation. Wage-labour is not just 'there', but is created in a historically significant process of proletarianisation. Peasants and agriculturists do not generally receive wages; workers do.\textsuperscript{47} Therefore, wages and earnings are important in class analysis. This is not just related to wage levels, but encompasses the proportioning of wealth, the way wealth is allocated, and trends in these processes. Such aspects are reflective of classes defined by their relationship to production.

This brief commentary suggests that any class analysis of Thailand would need to emphasise the exploitation of workers and smallholder farmers by the capitalist class. These have been the critical classes in Thailand's development during the past century. This development process has been a part of a transformation that has irreversibly altered the patterns of social, economic and political relations. This process was especially rapid during the long boom from the late 1950s to 1996. This period saw an inexorable advance of capitalist relations throughout society.

With this background, it is now appropriate to turn, in the following section, to outline an analysis of the development of Thailand's capitalism.

5.

While significant socio-economic change was already underway, and Thailand was deeply enmeshed in the trading patterns of the Asian region, the development of capitalism was boosted with the signing of the 1855 Bowring Treaty. From this time Thailand became enmeshed in trading pat-

\textsuperscript{45} Wright, 'Class, Exploitation and Economic Rents', p. 1563.


terns that were on Western terms and involved notions of 'free trade', marking the emergence of modern Thailand.\textsuperscript{48}

At the time, the relatively small population was overwhelmingly a peasantry engaged in subsistence production. This production took place within family and community units.\textsuperscript{49} There were no great landowners. State control was manifested in obligations on the population, to be met through slavery, corvée labour, military service or in the delivery of valuable, often tradable, commodities. The links between the peasantry and the royal state weakened as distance from administrative centres increased. External trade was controlled by royalty and nobles who were also state officials, and included important non-Thai minorities like the Chinese.\textsuperscript{50} They also dominated the class and political structures, drawing their wealth and power from their control of labour, land and trade. The monarchy, while often in competition with leading noble families, maintained tight control of government, and developed a highly personalised state, focused on the monarch.

This picture began to change under a range of pressures. First, international trade patterns altered, driven by the industrial production of Western countries and the sustenance of their colonies. Second, colonial expansion in the region and the need to facilitate trade forced Thailand to reform its traditional patterns of administration. Territorial boundaries were more carefully defined and national and provincial administration was reformed.\textsuperscript{51} Third, these changes created opportunities for a rapid expansion of exports, initially of rice, and later in timber, rubber and tin; these commodities remained Thailand's main exports until the 1960s. By 1900 the monarchy had become particularly strong, supported by an increasingly modern civil and military bureaucracy. Opposition to the regime was vigorously suppressed, and political decision-making monopolised by the court.

Economic and political change was associated with a transformation of class relations. Slavery and the corvée were eventually discarded, resulting in the emergence of a peasantry that was gradually freed of its obligations to the ruling class of king, nobility and aristocrats. The ruling class increasingly came to rely on land, taxation and the control of business for their wealth and that of the state.\textsuperscript{52} The development of business, focused on the export trade, saw the ruling class and state – there was little distinction between state assets and those of the monarch – entering into alliances with foreign and Chinese business.\textsuperscript{53} The Chinese played an

\textsuperscript{49} See Chatchip, The Thai Village Economy in the Past.
\textsuperscript{50} See A. Reid, 'Documenting the Rise and Fall of Ayudhya as a Regional Trade Centre', in Kajit Jittasevi, ed., Ayudhya and Asia, Core University Program between Thammasat University and Kyoto University, 18-20 December 1995, pp. 5-14.
\textsuperscript{52} Hong, Thailand in the Nineteenth Century.
important part in the reforms, as tax farmers and business leaders in the new economic system.\textsuperscript{54} Tax farming allowed the state to convert its revenue system to one based on money rather than commodities and labour services. In business, Chinese merchants, royals, aristocrats and Western interests developed a supportive, yet still competitive, business structure. Additionally, a myriad of Chinese merchants and traders spread throughout the country, establishing businesses and small shops and dominating urban Thailand. This expansion of business enhanced commodity trade and increasingly linked peasant production to domestic and international circulation.

The country's specialisation in the export of primary commodities saw the development of related industry, for example the setting up of rice and timber mills. The development of the export trade led to attempts to establish local banks, mainly by ethnic Chinese with royal principals, to compete with European banks and to support Chinese business. These Chinese business people were a very small elite within a rapidly growing Chinese population, most of whom were wage-labourers. Interestingly, the fact that the Chinese were not involved in agriculture meant that they were not bound by links to family and farm in rural areas. Unlike the majority of Thais, the Chinese were embedded in the emerging, modern, urban economy, which meant that they could more easily venture into areas of the economy that promised good returns. In contrast with ethnic Thais, the Chinese were far 'freer' to engage in wage-labour and commerce. The Chinese began to dominate urban areas, and was thus well placed to take advantage of the opportunities that emerged as capitalism developed in towns.

As Suehiro explains,\textsuperscript{55} to successfully venture into business a person required 'access to local political power and European capital'. This led the Chinese elite to move into tax farming and rice milling as well as acting as compradors for European banks. Apart from developing business links and encouraging marriage ties with royals and nobles, the small Chinese business elite married amongst themselves. Between 1912 and 1933, about half of the investors involved in the establishment of Chinese-dominated firms were non-Chinese.\textsuperscript{56} Patterns of investment by ethnic Chinese that went beyond clans and speech groups and included Western and royal Thai investors were necessary in an economy where the capital-owning class was small and 'access' was important.

As mentioned, the Chinese made up the working class. Labour was in short supply in Bangkok and in the southern tin mines. This was partly due to the small population, but also because Thais, freed from labour obligations, took advantage of the opportunities that arose in the agricultural sector. The result was that, from the late 1880s some one and a half


\textsuperscript{56} \textit{Ibid.}, p. 101.
million Chinese settled in Thailand. They dominated the working class until the 1960s.

Domestic and international events in the 1920s and 1930s brought dramatic change to this picture. Within Thailand, rising pressures for political reform were thwarted by King Vajiravudh, his successor Prajadhipok, and their advisers. Economic reform was also stifled, even as the government faced considerable fiscal problems through royal profligacy under Vajiravudh.\textsuperscript{57} When combined with the world economic depression and international political instability, the stage was set for change. In June 1932, a small group of commoners, organised as the People’s Party, seized the state, overthrowing the monarchy, and establishing constitutional rule.

This event established a new economic and political regime. The business alliances developed between royals and, on the one hand, foreign firms and, on the other, Chinese business, were struck down. The overthrow of the monarchy’s control of state and business was an important step toward a modern economic system, and new era for business was heralded. While the peasantry and its smallholder production still dominated and a full-fledged capitalist system was yet to be established, commercialisation, monetisation and commodification had expanded substantially by the 1930s.

Following the 1932 move against unrepresentative politics, little held the People’s Party together except for a broad and shallow economic nationalism and opposition to the monarchy and its state.\textsuperscript{58} The nationalist approach to development revolved around the need for state intervention in the economy to stimulate industry and to improve the lot of the farming majority. The policies introduced by the state were, however, poorly conceived and did little to promote non-agricultural employment and investment by ethnic Thais. These policies led to investments by the state, but these did not prevent the further development of the Chinese business elite. They did, however, lead to the end of the dominance of the old Chinese tax farmer group, for their political patrons had been overthrown. When combined with the impact of the Depression, the capitalist class was reorganised, and it was the Chinese rice millers who became the dominant local capitalists.

These millers were relatively new business groups, dominated by Teochiu families whose origins were in China’s southern Guangdong province.\textsuperscript{59} Even so, there were business investments and marriages between Teochiu and other Chinese families, and with elite Thai families. While each of the big families took leading positions in their dialect associations, they also shared positions in the Chinese Chamber of Commerce.


\textsuperscript{59} The Teochius were the majority Chinese dialect group in Thailand. In the early 1950s, Skinner (\textit{Leadership and Power in the Chinese Community of Thailand}, p. 20) estimated that 60 per cent of Chinese in Bangkok were Teochius, 16 per cent Hakka, 11 per cent Hainanese, 7 per cent Cantonese and 4 per cent Hokkien.
the Rice Miller’s Association and other Chinese community associations. In other words, under the new political regime, the Chinese capitalists began to establish all of the trappings of a dominant class, except, significantly, they had only limited access to the state.

The Second World War saw much destruction of infrastructure and the temporary eclipse of the political influence of the military. However, after the 1947 coup, economic policy and practice again became more closely associated with senior political figures. But even when the military returned to power, there was no widespread opposition to private enterprise. Rather, a haphazard state-led approach to industrialisation continued to be adopted. State investments were promoted to reduce foreign imports and as an example for the private sector. Riggs identified this period as the clearest expression of the bureaucratic polity, with powerful military and bureaucratic figures tapping into state enterprises and the resources of Chinese business for personal gain and to finance political activity. At the same time, there were benefits for businesses linked to powerful political leaders, giving them competitive advantages.

The combined impact of the Depression, World War II, and the state’s expansion of investment, especially in the rice trade, saw a noticeable reorganisation amongst Chinese capitalists. Most significant in this was the consolidation of Chinese and Sino-Thai control of the burgeoning domestic banking sector. As Suehiro notes, each of the new banks was established by a group of investors from a wide range of business sectors, with the families involved usually from the same dialect group. The banks were established with a group of associated companies, usually linked by marriage, interlocking directorates and joint investment. There were, however, some exceptions to this, with some groups having community-wide links.

In the countryside, peasants continued to expand into the frontier as population grew. Some ventured into urban employment, but this movement remained limited until the 1960s. Indeed, the small urban working class continued to be dominated by Chinese. As most of these Chinese workers had arrived in Thailand by the 1930s, if industry was to develop, there was an emerging need to bring rural people into the working class.

When the Korean War boom waned in the mid-1950s, business became concerned that this accumulation regime was no longer appropriate. For the capitalist class as a whole – as opposed to favoured individuals and firms linked to the most powerful leaders – the personalised arrangements this required meant an uncertain investment climate. Calls for the state’s investment role to be limited to infrastructure received the support of foreign businesses. US companies, the largest foreign investors, took the lead

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60 See Suehiro, Capital Accumulation in Thailand, p. 121.
62 The government’s anti-Chinese legislation and support for state enterprises disadvantaged some Chinese and foreign businesses. At the same time, however, many private enterprises benefited, including commercial banks linked to powerful officials: see Hewison, Bankers and Bureaucrats, pp. 192-5.
in pressuring the government to be more receptive to foreign capital, and were supported by the use of official aid to encourage positive attitudes. When General Sarit Thanarat came to power in 1958, via a military coup, a new approach to development soon emerged. His government was authoritarian and determined to establish order and promote private investment. This coincided with studies by the World Bank and other international organisations recommending increased support for the private sector, import-substituting industrialisation (ISI), and a role for the state in infrastructure development.

An ISI strategy provided local enterprises with more room to invest, free of state competition. Industrialists gained the tariff protection they needed for domestic manufacturing. Foreign investors were keen to establish manufacturing behind protective barriers, while the government sought foreign investment to promote access to capital, technology and entrepreneurial skills. The taxation and export of agricultural production and the extraction of savings from households into the commercial banking sector assisted economic growth by providing a pool of funds for industry. Under ISI, manufacturing’s contribution to gross domestic product (GDP) rose significantly. This took place in the context of substantial US investment and assistance meant to support Thailand as a bastion against communism in mainland Southeast Asia.

High rates of protection encouraged domestic investment, enabling a more diverse capitalist class to emerge. Thailand-born Chinese, some of whom had been educated locally, headed many of the new groups. These groups, concentrated in banking, finance and, increasingly, in manufacturing, retained their dominant presence in the economy until the 1980s. Cooperation tended to be contained within the conglomerates rather than between them.

Manufacturing’s contribution to GDP rose significantly, from 12.5 per cent in 1960 to 20.7 per cent in 1980. Not only did high rates of protection encourage domestic investment, but also they further strengthened local finance and banking. This sector was also protected – no foreign banks could enter branch banking, and could offer only limited services – and policies to encourage saving also increased financial sector profitability. These were the big ISI winners. Large conglomerates resulted, many of them with commercial banks at their apex. Business control was consolidated within the 15-20 families dominating commercial banks. As well as investing in the developing industrial sector (for example cement, textiles and garments), these Sino-Thai families established profitable operations in the finance and export of primary commodities. It was their control of finance, when the stock market was in its infancy and raising capital overseas was tightly controlled, that permitted the building of oligopolies in a range of economic sectors. These families also maintained excellent relations with powerful political figures.

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65 Ibid., pp. 280-1.
66 Hewison, Bankers and Bureaucrats, ch. 8.
ISI also saw the development of a larger and more diverse working class, coinciding with the class' ethnic and gender transformation. Following the cessation of large-scale Chinese immigration, more ethnic Thais had moved into industrial employment, some temporarily, but increasingly on a permanent basis. While agricultural activities remained predominant, the industrial labour force expanded substantially. Between 1960 and 1979 the total workforce expanded by more than 20 per cent or almost three million persons. The manufacturing workforce expanded by 45 per cent over this same period. Women also began to move into manufacturing employment in large numbers, mostly migrating from rural areas.

ISI policies promoted manufacturing and protected the developing conglomerates. Funds deposited in the banks grew rapidly, allowing the banking families to expand their economic control. The protection of manufacturing and the banks ensured profitability. Support for ISI also came from some influential foreign investors, especially the Japanese, with investments in textiles and auto assembly and parts manufacture. Technocrats also supported ISI, so there was little policy commitment to a more export-oriented strategy. This was despite international experience suggesting that export manufacturing was a strategy that could intensify industrialisation. In fact, under pressure from domestic capitalist groups, protection for import-substituting manufacturing actually increased through the 1970s and into the early 1980s.

A change to an export-oriented industrialisation (EOI) strategy required an external ‘shock’ that threatened profits. For EOI – meant to be based on a nation's advantage in producing commodities for a world market, utilising cheap labour – to be supported, major business groups needed to re-orient their investment patterns. State officials and political leaders also needed to see advantages in moving to EOI. The required shock was an economic downturn in the mid-1980s.

This downturn resulted from six factors. First, from the late 1970s, the baht, being tied to the dollar, began a steady climb, making Thailand's exports (still mainly primary commodities) less attractive on the world market. Second, agricultural commodity prices began a steady descent. Third, the nature of international investment was changing, with a major relocation of East Asian manufacturing to cheaper labour sites in Southeast Asia. Fourth, the second oil crisis saw the government seeking increased loan funds, significantly raising public sector debt. Fifth, assistance to the armed forces had declined from the mid-1970s. Finally, as counter-insurgency became less of a concern, the military embarked on a spending spree, buying new kinds of arms and expanding public debt, arguing that the potential for regional conflict required different military technologies.

67 Ibid., p. 215.
69 Ibid., pp. 144-5.
The downturn had a substantial impact on business. Growth continued, but was the lowest for a number of years. Bankruptcies mushroomed, investment dropped precipitously, unemployment increased, and even the biggest and strongest companies reported flat profits or their first losses for many years. Even before commodity prices began their decline, the agricultural sector was doing poorly. Reflecting the policy emphasis on industry, government and business were little interested in smallholder agriculture, except to promote agro-industry and to continue the exploitation of its output and labour. The downturn meant that farmers faced low prices and workers' wages were eroded by inflation and increased government charges.

As Pasuk and Baker point out, technocrats were split on the appropriate response to the downturn, and even entreaties from the powerful banking and textile sectors and the World Bank brought few decisions. It was the belated recognition that agricultural prices were not about to save economic growth that brought a devaluation and a move to embrace EOI. The devaluation did much to make Thailand's manufactures more attractive on the world market.

In terms of both policy emphasis and production, EOI was to remain the dominant strategy until the 1997 crisis. The economic results of this emphasis were spectacular. There was a rapid expansion of exports, almost entirely made up of manufactures. As the economic significance of agriculture declined further, from 15.8 per cent of GDP in 1985 to 11 per cent in 1996, manufacturing's contribution rose from 21.9 per cent to 28.4 per cent over the same period. This does not mean that agriculture has shrunk. It too has grown, but far less rapidly than manufacturing.

Growth in this period was driven by the private sector. Measured as a percentage of GDP, private investment in 1975 was about three times greater than public investment. The boom in private sector investment following the policy changes of the mid-1980s saw private investment levels mushroom to almost five times the level of state investments. Real gross fixed capital formation grew by an average 20 per cent annually during the boom of 1986-91, and by 10-15 per cent from 1992-96. The value of new business registrations and capital expansions also grew rapidly during these periods, averaging more than 50 per cent in the 1986-91 period. These levels were reduced after 1991, but remained high by international standards until 1996.

Behind these figures was the reality of a powerful domestic capitalist class that expanded and diversified rapidly during the 1980s and early 1990s. In this expansion, there was considerable stimulus from foreign investors. Domestic investors remained positive towards foreign invest-

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71 Ibid., pp. 65-6.
72 Thailand Development Research Institute, Thailand Economic Information Kit, (Bangkok: TDRI, 1995); ibid., 1998.
Thailand: Class Matters

tment, often preferring joint ventures when entering new business sectors. Foreign investment was seen as a barometer of business confidence, giving it considerable political significance. Inflows of foreign capital increased substantially in the late 1980s and remained high until just prior to the 1997 crash. Most of this increased flow was in the form of loans and portfolio investment.

While foreign investment was strategically important, local business investments were far greater. For most of the period between 1960 and 1994, while foreign investment increased steadily, its contribution to gross capital formation usually remained in the range 1-8 per cent.\(^{75}\) Even amongst BOI-promoted firms, between 1960 and 1993, approximately two-thirds of registered capital was identified as domestic.\(^{76}\) These levels of foreign direct investment (FDI) were relatively low when compared with similar economies such as Malaysia.\(^{77}\) Pasuk and Baker\(^{78}\) correctly observe that, while foreign investment has been significant in fuelling the boom, it was a significant and powerful domestic capitalist class that drove the boom to record growth levels.

The period of rapid growth in the 1986-96 saw a challenge emerge to the financial dominance of the big bankers whose commercial banks controlled the supply of funds to the domestic investment market. While the big banks and their Sino-Thai owners benefited from the boom, and were aggressive in financing exports, a range of factors challenged their dominance. First, the post-1985 FDI boom saw increased numbers of foreign investors seeking local partners. The level of demand for domestic partners and joint ventures went beyond the boundaries of the bank-dominated cliques. Second, policy changes affecting the financial sector led to an easing of capital controls, meaning that domestic enterprises were able to go beyond the domestic banks to secure loans, including borrowing from abroad. A relatively large number of foreign banks established operations in Thailand and were particularly aggressive in their corporate and business lending. In addition, merchant banking significantly expanded, and a number of finance companies, freed from reliance on commercial banks, expanded their activities. Third, the expansion of the Stock Exchange of Thailand (SET) gave businesses an alternative source of funds. Following the Wall Street crash of October 1987, the SET took off, with market capitalisation growing markedly and equity trading increasing phenomenally. While volatile, the SET was attractive to local and international investors, and mobilised large amounts of capital. This further diminished the control the banks had over the expanding corporate sector.

For many new capitalists the expansion of the SET was 'liberating', allowing a range of companies and business groups to emerge and challenge those who had developed enterprises through the protected ISI period.

\(^{75}\) See Hewison, *Bankers and Bureaucrats*, p. 112; Pasuk Pongpaichit and Baker, *Thailand's Boom!*, p. 35.

\(^{76}\) Board of Investment, *A Guide to the Board of Investment*, p. 11.


\(^{78}\) Pasuk Pongpaichit and Baker, *Thailand's Boom!*, p. 35.
Many business people saw the SET as an unlimited source of funds. Manipulation of stock prices was not unusual and regulation of the SET was not stringent.\(^79\) No longer were the dominant capitalist groups concentrated in the banking and industry sectors. Within the widened financial sector, as well as in telecommunications, real estate, media, entertainment and a range of services, a number of relatively new but remarkably wealthy capitalist groups emerged. Huge profits were made, and while much was reinvested, consumption spending and unproductive investment also increased markedly, further expanding the domestic market, but setting the scene for the 1997 collapse.

Almost all of the expanded capitalist class was composed of Sino-Thais. Many of these families (for example Shinawatra and Lamsam) are led by its fourth generation of Thai-born Chinese. As Hewison and Maniemai\(^80\) have indicated, the new generation of business people have been educated in Thailand, use Thai and English more readily than Chinese, and identify with Thailand rather than China. The dominance of Sino-Thais amongst the 'new rich' reflects both the continued prominence of the Sino-Thai capitalist class and the rise of a significant Sino-Thai middle class made up of families that have moved out of the working class of earlier generations.

The EOI period and its related economic boom created remarkable opportunities for entrepreneurs and business people. Yet it is remarkable that co-operation between business groups remained limited. Joint investments tended to remain on the margins of business activities. For example, tycoons often co-operated in areas such as entertainment, real estate or golf and sporting facilities, but much less so in their core businesses. There were exceptions, but generally Sino-Thais tended to look for overseas partners from the main investing countries rather than seeking local partners. At the same time, links to state and political leaders remained important.\(^81\) For example, Thaksin Shinawatra's remarkable wealth has been built on state concessions.\(^82\)

The expansion of the economy and the diversification of Thailand's capitalism also saw significant growth in the middle class. Capitalist enterprise requires managers and supervisors. Indeed, there is a need for a constantly expanding range of professionals and semi-professionals in capitalist society. Historically, there had been a relatively limited need for such people in Thailand, but as capitalism has developed, so has the proportion of the working population in these middle class categories. By the early 1990s, about a quarter of all workers were in these categories, numbering well in excess of five million. In 1991, for the first


\(^81\) Handley, 'More of the Same?'.

time, it was more likely that a highly educated worker would be in the private rather than state sector. This expansion has also seen a significant movement of women into these occupational categories.\textsuperscript{83}

As the capitalist and middle classes expanded during the boom, so too did the working class. The class that has declined is the smallholder farmer. Such changes were reflected in the transformation of the labour force. In 1960, 82 per cent of the economically active population were in agriculture. By 1996 this had declined to just 48 per cent.\textsuperscript{84} These figures understate the magnitude of change as many agricultural families now rely on income from off-farm sources. At the same time, employment in non-agricultural activities has grown significantly. EOI saw the further development of the working class. Between 1979 and 1998, the total workforce expanded by more than 50 per cent or almost 11 million persons. The manufacturing workforce almost tripled over the same period\textsuperscript{85} and women made up half of the manufacturing workforce by 1992.\textsuperscript{86}

6.

Thailand’s consistent economic growth from the late 1950s to 1997 brought significant benefits for the majority of the population. Most notable was the reduction in poverty. The World Bank\textsuperscript{87} argued that one of the results of East Asian growth was increased equity. For Thailand, however, this was not the experience. As can be seen in Figure 1, rapid increases in per capita incomes brought significant reductions in absolute poverty. While these figures are based on unrealistically low poverty lines,\textsuperscript{88} even at US$ 1 (about 25 baht) a day, just 9.1 million were below that level in 1996 compared to 33.6 million in 1988.\textsuperscript{89} People outside the agricultural sector did best. Significantly, however, income and wealth distribution became increasingly skewed (see Figure 2). In urban areas, where workers have made significant contributions to economic


\textsuperscript{88} The poverty line used to calculate these figures in 1996 produces an annual per capita figure of 5369 baht (US$ 0.59 per day) for rural areas and 8589 baht (US$ 0.94 per day) for urban areas.

\textsuperscript{89} Thailand Development Research Institute, \textit{Thailand Economic Information Kit}, (1998) p. 23.
growth, few have gained adequate rewards for their labours. Indeed, worker's lives have been characterised by relatively low wages and poor conditions. Such conditions were necessary to establishing comparative advantage in both ISI and EOI strategies. Related, the widespread exploitation of women and children in small factories and sweatshops is also well known.\textsuperscript{90} While conditions improved for many workers during the boom, it is clear that the rewards of this growth were poorly distributed.

Many analysts and policy-makers had expected and repeatedly restated a belief that the benefits of growth would trickle-down to all levels of society; few had predicted increased inequality. In the words of one influential Thai economist, putting a brave face on the failure of growth to be more equitable, ‘... much has been accomplished ... Measured against what is possible to achieve with ... five decades of growth, much is wanting.’

The unequal distribution of wealth reflected class differentiation. Distribution was most inequitable between rural and urban incomes. The principal reason for this is that smallholder agriculture has become a marginal way of making a living. This is illustrated by comparing population and productivity of the various regions. Bangkok is dominant, with most industry clustered around the capital, making it highly productive. Generally, as distance from the centre increases and agricultural activities become more significant, productivity decreases. This is most noticeable for the northeast, the most populous region and heavily reliant on agriculture. The result is that its productivity is low, poverty high, migrant labour common, and incomes are the lowest of all regions. Interestingly, despite efforts to decentralise development, the urban-rural equity gap has widened.

While there was a generalised uneasiness regarding these distributional problems, there was no consensus in business or government on how to address issues of wealth distribution. The existing accumulation regime produced the boom, and profits seemed to flow easily from both productive and speculative investment. In short, there was no imperative to look beyond existing patterns of investment and exploitation. Continued opposition to any expansion of the limited social welfare system reinforced this, at least until the 1997 crisis hit.

7.

While it could be suggested that declining equity might have signaled that the economy was facing some significant problems, the widely accepted view was that sustained growth would eventually overcome all problems. But there were other signs the economy was faltering. For example, from 1993 the SET began a steady decline. Speculative attacks on the baht began in 1995, and there was a decline in property values, rising vacancy rates for office and condominium space and deteriorating investor confidence prior to 1997. The 1996 failure of the Bangkok Bank of Commerce (BBC) and an export collapse confirmed that the economy was in trouble. But booms build confidence, and many simply did not want to believe that the boom was ending. But the boom did end, and with considerable impact.

From the flood of publications seeking to explain the Asian economic crisis, several significant issues have been raised about Thailand. Of particular significance was an earlier downturn in the stock market (from 1993) and the decline of exports growth (from 1996). These declines have been seen to be due, in part, to the high value of the baht. There was also over-capacity in a wide range of sectors, including electronics, autos, textiles and garments, footwear, electricity generation, electrical appliances, real estate, cement, petrochemicals and steel. Despite this, 'hot money' continued to pour into sectors facing over-capacity and into unproductive areas. For example, about two-thirds of private sector overseas loans were short term. This was, however, not highly unusual in a global context, where 55 per cent of foreign bank loans worldwide were short term at the end of 1997.93 This combination of factors eventually led to a 'price collapse', an erosion of 'the rates of return on new capital invested', and 'unprofitable industry capacity'.94 The July 1997 baht devaluation marked the beginning of a downward spiral. When the government implemented the original reforms demanded by the IMF, the economic downturn worsened.

The crisis resulted in a massive restructuring of ownership and control patterns in the economy. Devaluation meant the end of many businesses, with hundreds closing in all sectors. There was also a transfer of business ownership to Japanese, American and European investors through debt-for-equity swaps, investment in devalued local companies, and buy-outs of Thai partners. The crisis, however, provided an opportunity to promote a raft of reforms, sweeping aside national laws and regulations considered restrictive to the 'free' operation of the market. Greater transparency, better regulated financial systems, further liberalisation, and an end to 'cronyism' and business transactions identified as corrupt or 'unethical' were also on the reform agenda.

This agenda challenged the hitherto successful relationships that had been developed between capital and state, and between capitalists, during the economic boom. The results of the decline of these relationships and understandings, together with the impact of liberalising reforms, were devastating for many local capitalists. Foreign currency debts and the liquidity squeeze crippled many industrial firms, already reeling from weak exports. Firms involved in the finance, real estate and construction sectors were initially most affected by the crisis, with many having to be dissolved, mainly due to the huge debts they carried. With over-capacity in many sectors, manufacturers struggled in 1997-98.95 Survival became the aim as bankruptcy increased, with some 7000 companies closing between 1997 and mid-2000.96 Despite an export boom from 1998, even by early 2000, more than a quarter of non-performing loans were in the manufacturing sector, while manufacturing capital utilisation averaged

95 Bangkok Post [BP], (25 September 1998).
96 Nation, (21 July 1998) and (14 September 2000).
just 55 per cent for 2000. Land developers fared particularly badly, and few managed to make it through 1998. The finance sector was in tatters, with only about half of finance and securities companies surviving. The result was that a high proportion of the 1990s high-flyers were wiped out, crushed by the weight of foreign currency loans and loans held by domestic banks.

But the cuts went deeper than merely bringing an end to boom-time capitalists. The commercial banks were also in dire straits. The collapse of the property and manufacturing sectors contributed to the rise of non-performing loans, with more than half of all loans classified as ‘non-performing’ at one time. More significantly, the impact of the crisis challenged the way that the Sino-Thai bankers had operated. During the ISI period they had built business empires on their control of finance. Borrowers had few choices but to deal with the Sino-Thai bankers. For bankers, ‘relationship lending’ justified poor accounting and reporting requirements of Thailand’s companies, meaning that relationships took on an important business role. This meant that bankers lent to friends and associated companies. In the process, this led to the development of bank-led conglomerates, as banks and their controlling families took strategic shares in new companies and industries. For example, the Bangkok Bank funded much of the expansion of the textiles industry from the 1960s, and built a large stake in the sector.

During the boom, as opportunities for funding expanded, the Sino-Thai banking families were subject to increased competition. They responded by expanding their loan portfolios to include growing consumer markets in, for example, retail and housing lending, and loans to ‘new entrepreneurs’, while continuing to lend to related companies. Many of these new loan portfolios were inherently riskier than the previous areas of lending, and left the banks more exposed and vulnerable when the crisis occurred. For example, lending to the property sector left the banks badly exposed. Property prices had peaked in the early 1990s, and declined thereafter. In addition to large commercial projects, much of this lending was for middle-class housing in and around Bangkok and other major towns. The emphasis that local banks and finance companies placed on real estate reflected the fact that they had an advantage in this sector, especially as foreign companies were reluctant to become too involved with small property and housing lending. But when the crisis came the domestic financial institutions were left exposed.

The result of this over-exposure to the consumer, property and manufacturing sectors has been that the banking families have seen the size of their business empires greatly reduced. This marked a defining moment in the competitive reorganisation of banking capital. Reorganisation had, in fact, begun during the boom, when a number of the families controlling banks were involved in internal conflicts. The combined impact of internal squabbling and the competitive pressures of the 1983-6 downturn saw a number of banks stumble. They included the Siam City

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97 Nation, (21 March 2000); BP, (1 February 2001).
98 See Doner and Ramsey, 'Competitive Clientelism and Economic Governance'.
Bank, First Bangkok City Bank, and the Union Bank of Bangkok. The BBC collapsed in 1996, despite support from political figures. Further, small family banks, often acting as little more than family treasuries and investment brokers were under significant pressure during the boom. For example, the Laemthong Bank, Nakornthon (formerly the Wanglee Bank), and the Bank of Asia all experienced periods of weakness prior to the 1997 crisis. The crisis exacerbated these problems. As the government took over four struggling banks and closed many finance companies, one-third of the financial sector was gone by October 1998. So too were some of Thailand’s tycoons. For the first time since World War II, the banking families faced significant competition from foreign investors.

8.

Marxist political economists have seen the crisis as a significant moment in Thailand’s capitalist development process. In explaining the crisis they have pointed to issues sometimes downplayed in other approaches – over-expansion, over-production, declining earnings and the cyclical and crisis-prone nature of capitalism.\textsuperscript{99} Crises are seen as unavoidable elements in the logic and contradictions of capitalist production. They also recognise that a crisis will be associated with a recomposition of capital that will re-establish and reorganise the relationship between exploiter and exploited. For example, there is a tendency for competition between capitalists to become more intense and for capitalists to turn on each other in times of crisis. This invariably results in bankruptcies, mergers and acquisitions.

The intent of these processes is to revalue and reprice Thailand’s industrial base and potentially make industries more internationally competitive, again securing capital’s accumulation base.\textsuperscript{100} More directly, these processes are a way to reduce the wages bill. Indeed, as Glassman shows,\textsuperscript{101} the profitability of Thailand’s manufacturing was in decline despite the boom. There were numerous reasons for this. Exchange rates, market competition, the factors of over-production and over-capacity noted above, flows of investment to unproductive sectors (for example real estate) and a tight labour market all contributed. Thus, despite limited growth in real wages, the share of wages was increasing as profitability declined.\textsuperscript{102}


\textsuperscript{102} \textit{Ibid.}
In looking at the crisis in Thailand it is best seen as a part of global processes of capital accumulation and cycles of crisis. The boom emerged from the aftermath of an earlier crisis in the mid-1980s, and the country was again consumed by crisis in the late 1990s. As the capitalist class re-arranges itself and its accumulation regime, it does this in ways that further its capacity to exploit.

While the Thai government and international agencies implicitly recognise and support the process of capitalist reorganisation, they are aware that this process can lead to considerable class conflict. They are therefore cognisant of the need to smooth this process and provide a degree of ideological underpinning during the process of reorganisation, supporting 'reforms' that permit the continuation of exploitation. As noted above, a central task in this is revaluing and repricing Thailand's industrial base, primarily through processes that reduce the total wage bill.

The discussion that follows cannot provide a complete analysis of these processes. Instead, the remainder of this chapter will concentrate on a simple demonstration of how exploitation has taken place during the crisis through an analysis of the World Bank's assessments and interventions since 1997. In other words, it will be shown how, as stressed in the title of this chapter, one of the principal agents of capital has provided ample evidence that in analysing the crisis, class matters.

9.

This discussion can begin by recalling that Thailand was, in the early 1990s, one of the World Bank's success stories. The *East Asian Miracles* report made this point. When the crisis struck, Bank analysts were surprised. As noted above, like neo-classical analysts generally, the Bank pinned the blame for the crisis on a number of factors that inhibited the free operation of the market. It placed considerable emphasis on financial restructuring, including pressuring Thailand's government to follow policies that had considerable negative social consequences. The Bank, like the IMF and a number of foreign donors, considered such outcomes the inevitable consequences of restructuring. It saw its task as assisting the government in the amelioration of these negative outcomes.

This section of the chapter will now examine the World Bank's approach to the social consequences of the crisis. It does this by analysing the Bank's reports. It will be clear that, while the Bank's language eschews virtually all discussion of class and conflict, it is clear from the Bank's reports that there have been substantial class impacts.

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103 World Bank, *The East Asian Miracle*.
9.1. What Did the World Bank Study when Looking at the Social Impact of the Crisis?

One major response to the crisis was for the World Bank in Thailand to commission research on 'social capital'. Social capital was defined as:

... those horizontal and hierarchical associations and macro-level institutions, the interpersonal relationships and networks they form, and the norms and values upon which they develop that can affect — either positively or negatively — the economic productivity of families, communities and civil society.\textsuperscript{105}

The Bank embarked on this study in the context of 'anecdotal' evidence of a 'social breakdown' that had its roots in 'dramatic decline[s] in average incomes and high unemployment'.\textsuperscript{106} The research team noted that 'class harmony/tensions' was just one aspect of the \textit{community-level} manifestations of social capital. It is noteworthy that the Bank emphasises that class is seen to operate at the community rather than the societal level. When attention is directed to the \textit{societal level}, there are some class-like indicators noted. Specifically, inequality, unemployment and poverty were included as items in 71 indicators of social capital. The research team did not, however, examine all of these indicators. These included: crime, prostitution, child labour, mental health, drug abuse, household size, community production (apparently meaning co-operative-like activities), the work of NGOs, family cohesion and family 'safety nets'.\textsuperscript{107} Of the chosen items, only child labour reflected directly on class and class conflict.

The study concluded that there was 'little or no class based conflict' resulting from the crisis.\textsuperscript{108} In drawing this conclusion, the team observed that there had been no strikes or similar street battles.\textsuperscript{109} The research team also concluded that the crisis had produced mixed results for 'social capital'. Despite this, another World Bank report,\textsuperscript{110} produced some six months later, argued that the impact of the crisis was significantly reduced because of 'flexible labor markets and high levels of social capital...'.

World Bank analysts desperately wanted to see social capital as a factor that ameliorated the impact of the crisis, despite the results of their own studies. This response is produced by a desire to make class and class conflict invisible. It consciously ignores a range of indicators showing that crisis outcomes were manifested in class terms, and resulted in considerable conflict.\textsuperscript{111} It also ignores Bank data showing a transfer of wealth from the poor to the rich both before and during the crisis. Inter-

\textsuperscript{105} Ibid., p. 8.
\textsuperscript{106} Ibid., p. 4.
\textsuperscript{107} Ibid., p. 11.
\textsuperscript{108} Ibid., p. 19.
\textsuperscript{109} This ignores a range of demonstrations by poor farmers, strikes at particular factories, and a range of protests by the poor and dispossessed, all extensively reported in the media.
\textsuperscript{110} World Bank, \textit{Thailand Economic Monitor}, (June 2000) 9.
\textsuperscript{111} Of course, one of the reasons for the Bank's focus is to extract policy implications that support community and family responsibility for social protection (see Jayasankar Shivakumar \textit{et al.}, 'Social Capital and the Crisis', p. 29).
estingly, even World Bank President James Wolfensohn has acknowledged this when he stated that, 'The true impact of the crisis comes less on the people in the financial sector, but rather on the millions ... just near the poverty line.'

As was noted above, while poverty had been reduced during the boom years, inequality had expanded. It was in this context that the crisis struck.

9.2. In a Context of Poverty Reduction but Increased Inequality during the Boom, What Were the Outcomes of the Crisis?

According to the World Bank,\textsuperscript{113} absolute poverty increased, with more than one million people falling below the artificially low poverty line as a direct result of the crisis. Poverty in the already disadvantaged Northeast rose from 19 to 23 per cent in the year to August 1998.\textsuperscript{114} By 2000, more than seven million people were below the World Bank's (now higher) poverty line of US$ 1.50 a day (that is about 60 baht per day or 1825 baht per month), and it was expected that this number would hold steady through 2001.\textsuperscript{115} Real annual consumption \textit{per capita} fell from 7500 baht in early 1997 to 6300 baht in late 1998. Seasonally adjusted per capita income fell 13.6 per cent in the year to August 1998.\textsuperscript{116} Not surprisingly, the Bank concluded that 'Social welfare has declined'.\textsuperscript{117}

It should be noted that despite an emphasis on social capital, much World Bank analysis actually concentrated on employment and wages. These may be considered useful indicators of class outcomes.

9.3. What Happened to Employment during the Crisis?

Unemployment increased. Unemployment and under-employment increased from 3.1 per cent in mid-1996 to about ten per cent or almost 3.5 million people in May 1998.\textsuperscript{118} In addition, a further half a million, 'mostly women', were said to have 'opted' out of the workforce during the downturn.\textsuperscript{119} But such gross data do not tell us much about the differential impacts of the crisis.

The Bank identifies 'two distinct groups' affected by the crisis. The first were higher skilled, relatively well educated new entrants to the labour force. The second, and much larger group, included lower-skilled and semi-skilled urban workers. Most of the latter group who lost their jobs was in

\textsuperscript{112} Cited in World Bank, \textit{Thailand Economic Monitor}, (October 1999) 8.
\textsuperscript{113} \textit{Ibid.}, p. 32.
\textsuperscript{115} World Bank, \textit{Thailand Economic Monitor}, (June 2000) 8.
\textsuperscript{116} World Bank, 'Thailand Macroeconomic Update', p. 7.
\textsuperscript{117} World Bank, \textit{Thailand Economic Monitor}, (October 1999) 31.
the construction, service and manufacturing sectors.\textsuperscript{120} As will be indicated below, however, managers and professionals in these sectors did not lose their jobs as readily as workers did.

Unemployment was not limited to urban areas. Many of the unemployed were to be found in rural areas, and especially in the Northeast, which accounted for almost 40 per cent of the unemployed, and where the rate of unemployment more than doubled to 8.2 per cent. In fact, rural unemployment doubled in the year between early 1997 and early 1998, to over one million.\textsuperscript{121} When combined with reports that land ownership in some areas is becoming a more significant issue than it has been in the past, this suggests increased exploitation of the rural poor.\textsuperscript{122}

The unemployment rate began to fall in late 1999, but the Bank explains that this was a result of a ‘falling participation rate’ rather than new jobs being created.\textsuperscript{123} This was seen to be due to children staying in school longer and the fact that many people simply decided not to seek employment in a difficult labour market. In addition, the percentage of workers receiving overtime payments (a common way for low-paid workers to increase their take-home pay) had declined from 19 per cent in 1997 to 10 per cent in 1999.\textsuperscript{124}

9.4. What Happened to Wages?

Real wages declined.\textsuperscript{125} It is useful to remember that Warr,\textsuperscript{126} an orthodox economist, initially attributed the crisis to rising real wages. He argued that rising wages made Thailand’s labour-intensive exports uncompetitive. Warr’s assessment was representative of an early and broad consensus on the crisis. While rejecting Warr’s conclusions, it is true that wages did increase during the boom. Indeed, the boom saw labour shortages in many sectors, and employers were prepared to pay higher wages in order to secure their labour supplies.\textsuperscript{127}

The Bank concludes that, ‘Declining wages ... have had a more substantial impact on welfare than pure unemployment’.\textsuperscript{128} For those in em-

\textsuperscript{122} A recent survey in Pathumthani province suggests that, in some classes of landholding, between 44 and 73 per cent of land is owned by wealthy landowners. Much of this land was purchased during the economic boom, and is now unutilised or under-utilised (BP, 12 February 2000).
\textsuperscript{123} The Bank notes that even if Thailand’s peak unemployment rates might appear ‘modest by European standards, [but, in contrast,] its welfare impact can be severe, given that Thailand does not have unemployment insurance’.
\textsuperscript{124} World Bank, Thailand Economic Monitor, (June 2000) 17.
\textsuperscript{125} World Bank, Thailand Economic Monitor, (October 1999) 32-3.
\textsuperscript{126} P.G. Warr, ‘The End of the Thai Miracle?’, Thailand Information Papers No. 5, (Canberra: National Thai Studies Centre, Australian National University, 1997).
\textsuperscript{127} There is some evidence that there may have been a wages slump just prior to the crisis (see M. Falkus and K. Hewison, ‘Thailand’s Crisis: Economic Explanations and Political Responses’, paper presented to the 7th International Conference on Thai Studies, Amsterdam, 4-8 July 1999).
\textsuperscript{128} World Bank, Thailand Social Monitor: Challenge for Social Reform, p. 10.
ployment, average real monthly wages declined by 7.9 per cent between early 1997 and early 2000. The decline from the trend rate was more than 12 per cent.\textsuperscript{129}

While monthly wages declined for all occupational categories, the impact was not evenly distributed. World Bank data\textsuperscript{130} show that the largest declines were in the Northeast and Central regions (the source of most wage-labour). Those most severely affected were workers with primary school or lower education (that is, the 60 per cent of the population that had not been educated beyond primary school), working in the agricultural sector, manufacturing (the real wage decline in this sector was 14 per cent), sales, transport and clerical areas. According to the World Bank,\textsuperscript{131} those who were already poor experienced the most severe reductions in income.

The largest percentage wage declines were in the professional, technical, administrative, clerical and managerial sectors. However, employment in these areas declined far less substantially than for craftsmen, production workers' and related workers.\textsuperscript{132} That is, wages declined less for manual workers than for white-collar workers, but fewer of the latter lost their jobs. Not all wages declined during the crisis. The Bank identified those who increased their wages as being wage earners in Bangkok, aged 45 years and above, with secondary education or better, and professional and managerial employees, particularly in the state sector, where employment was increased during the crisis.

There were also gendered outcomes. The impact of the crisis was greater for men than women. This was for both wages and unemployment, although men's wages before the crisis had been higher than those for women.\textsuperscript{133}

The Bank summarised its findings in the following manner:

With the exception of gender, the distribution of aggregate wage earnings generally worsened during the crisis on all counts. Thus, there was a shift in the distribution of aggregate wage earnings from the rural to the urban areas, from the poor (i.e., Northeast) to the rich regions (Bangkok), from the young to the old workers, from the low-wage occupations (e.g., production workers and craftsmen) to the high-wage occupations (i.e., technical and professional workers), from private-sector employees to government and state-enterprise employees, and from employees of small establishments to those of large establishments. In each case, there was a shift in the distribution of aggregate wage earnings from groups with low pay to those with high pay.\textsuperscript{134}

This movement has seen increased inequality. The richest twenty per cent of the population saw its share of wealth rise between 1996 and 1998, while that of all other quintiles declined.\textsuperscript{135}

\textsuperscript{129} World Bank, \textit{Thailand Social Monitor: Thai Workers and the Crisis}, (Bangkok: World Bank Thailand, 2000) p. 11.
\textsuperscript{130} Ibid., p. 3.
\textsuperscript{131} Ibid., p. 11.
\textsuperscript{132} World Bank, \textit{Thailand Social Monitor: Challenge for Social Reform}, p. 11.
\textsuperscript{133} Ibid., pp. 23-4.
\textsuperscript{134} Ibid., p. 32.
\textsuperscript{135} World Bank, \textit{Thailand Social Monitor: Challenge for Social Reform}, p. 15.
Despite significant constraints on organising and a long history of repression by the state and employers, workers responded vigorously to these declining wages and conditions. Labour disputation increased significantly during the crisis. In the Central Labour Court alone, the number of cases rose from a low of less than 2000 in the first quarter of 1996 to more than 6000 in the first quarter of 1998, representing an increase of about 260 per cent.  

9.5. How Did the Government Respond to the Social Impact of the Crisis?

Government assistance to employment generation in 1999 – the peak year for this support – amounted to an average of 18 days work for just over 3.5 million people. This contributed substantially to a short-term reduction in unemployment. This was in a context where overall government expenditure in the social and welfare sectors initially fell when the crisis struck, only rising when the government recognised the need to 'pump-prime' the economy.

The Japanese government’s Miyazawa Fund provided most of the budget for employment projects. As for the World Bank, while it trumpeted social safety nets, by October 1999, it had only made US$ 43 million available through 'social sector' programmes. The centrality of liberalisation and regulatory reform is indicated in the World Bank’s programme, where the total allocation was more than US$ 2 billion. The Bank (and its supporting governments) were thus effectively transferring funds to the capitalist class, while limiting investments that might have assisted the poor, workers and the unemployed.

The Bank further strengthened its ‘class analysis’ in 2000, when it argued that the minimum wage (130-162 baht per day) was ‘too high’. This was in a context where its own data showed that the proportion of workers receiving wages lower than the official minimum wage was greater in 1999 than it had been in 1997. This is in a context where Labour Force Surveys indicate that more than a third of workers did not receive even the small minimum wage. For those with lower levels of schooling, the rate was far greater, with more than 70 per cent for those with just primary school education did not earn the minimum wage. The Bank has thus concluded that the 'market' wage was lower than the established 'minimum wage', and that the latter should be reduced.

Noting a limited 'safety net' for workers, the Bank argued that severance pay was of great significance for workers laid off in the crisis. Unfortunately, however, the Bank's own data show that only 11-13 per cent of laid-off workers received such payments, and most of these were in large firms (where still almost a half of laid-off workers got nothing). Workers in

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139 World Bank, *Thailand Social Monitor: Thai Workers and the Crisis*, p. 4.
140 Jayasankar Shivakumar et al., 'Social Capital and the Crisis', p. 20.
141 World Bank, *Thailand Social Monitor: Thai Workers and the Crisis*, p. 5.
small firms of less than ten employees had just a three per cent chance of receiving a severance payment.\textsuperscript{142}

9.6. So What Does the World Bank Conclude from All of This?

First, based on its work on the social impact of the crisis, it decided that ‘labor markets had worked well to cushion the effects of the crisis’.\textsuperscript{143} Despite arguing that the ‘burden of crisis has fallen disproportionately on poorer wage earners’, the Bank concluded that markets worked in ‘spreading out the impact more evenly among workers...’.

In other words, the Bank’s view is that all workers suffered, but that the lowest paid suffered more. Part of the reason for this is that people were easily able to be laid-off. Because there was only a minimal social security system, laid-off workers then went in search of other jobs. While they did this, family savings supported them. Family savings were depleted in this process. This impacted most heavily on the already poor.

Second, the Bank recommended that ‘safety net expenditures ... be adjusted’ as recovery occurred, both in absolute and per capita terms.\textsuperscript{144} It estimated that expenditure per poor person should reduce from about US$ 200 in 1999-2000 to about US$ 110 in 2000-2001. This represented a decline in government ‘safety net’ expenditures of more than 16 per cent.\textsuperscript{145} Part of the Bank’s reason for recommending reduced expenditures was the view that, based on 1994 data, it argued that only about six per cent of government expenditure benefited the poor, while 25 per cent concentrated on the rich.\textsuperscript{146} In other words, the relatively ‘well-off’ benefit more than the poor do from welfare expenditure. To rectify this, the poor are to be punished further. They had suffered most during the crisis, and in the recovery, the Bank decided that it would be prudent policy for fewer resources to be available for them.

Third, the Bank makes much of the position that health and education ‘outcomes’ saw no discernible declines during the crisis.\textsuperscript{147} However, as the Bank itself admits, these outcomes were based entirely on the poor reducing their ‘discretionary’ expenditures and using their savings. In contrast, the savings of the ‘non-poor’ have actually increased during the period of crisis and recovery.\textsuperscript{148} When combined with the second conclusion, this means that the already poor were required to use their limited resources to meet basic educational and health expenses. This reduced their ‘wealth’ substantially. As the already wealthy’s ‘discretionary’ expenditures were more substantial, the impact on their wealth was relatively more limited.

Fourth, and somewhat at variance with its other conclusions, the Bank

\textsuperscript{142} Ibid., pp. 5, 39.
\textsuperscript{143} Ibid., p. 6.
\textsuperscript{144} World Bank, \textit{Thailand Economic Monitor}, (June 2000) 9.
\textsuperscript{145} Ibid., p. 10.
\textsuperscript{146} Ibid.
\textsuperscript{148} Ibid., p. 2.
called for an increase in unionisation.\footnote{World Bank, \textit{Thailand Social Monitor: Thai Workers and the Crisis}, p. 6.} Obviously this had much to do with internal Bank politics, but it also acknowledges that ‘traditional mechanisms’ of community-based support have broken down. As a consequence of ‘rapid industrialization, urbanization and modernization’, the World Bank\footnote{Ibid., p. 47.} argued that demands for ‘formal safety nets like unemployment insurance’ would increase. It seems that this conclusion represents recognition that rapid social change, liberalisation and globalisation can indeed lead to conflict, perhaps along class lines.

Finally, and related to its analysis of social capital, the Bank was surprised that agriculture did not provide ‘the expected safety net, as employment levels in that sector have continued to fall [during the crisis]’,\footnote{World Bank, \textit{Thailand Economic Monitor}, (June 2000) 11.} In other words, the Bank (and many others) felt that much of the working class was made up of recent rural migrants. When the crisis struck, these analysts thought that wage-labourers would simply go back to their villages and return to the life of the farmer. The agricultural sector was expected to soak up labour and support families through the crisis. In fact, even during the crisis, the poor conditions associated with declining commodity prices, lack of access to services and suchlike in the agricultural sector meant that people continued to leave farms, as they had done in droves during the boom.

The evidence presented in this section is mainly about wages and employment. These indicators cannot simply be converted into class categories and analysis. Despite this, it is clear from the account supplied in World Bank reports that the crisis has been about reducing wages, reducing the costs of production, and moving resources from the already poor to the already wealthy. This is a part of the process of revaluing production.

Wages and employment are not the only ways in which this has been done. If, for example, we examine the bailout of commercial banks, it is clear that the same process has been at work.\footnote{See K. Hewison, ‘Pathways to Recovery: Bankers, Business and Nationalism in Thailand’, paper for the conference on Chinese Business and Culture in Global and Local Contexts, Program for Southeast Asian Area Studies and Economic & Social Research Council, Taipei, 15-17 February 2001.} There has been a large impact on taxpayers, and there will be a continuing ‘levy’ on them for the next generation. There has also been a double burden on depositors (most of them very small depositors), who have had their deposits protected, but have seen returns on their savings markedly reduced.\footnote{See World Bank, \textit{Thailand Economic Monitor}, (June 2000) 30.}

10.

This chapter has ranged over a large amount of material and issues. It has suggested that, in studying Thailand, class really does matter. This conclusion can be gained through a study of the historical development of Thailand’s capitalism, as well as by an examination of the social impacts of the economic crisis.
US Federal Reserve Chairman Alan Greenspan\textsuperscript{154} knows that capitalism is about class and exploitation. In the worst days of the crisis, as policymakers and demonstrators called for a more ‘human face’ for capitalism, he pointedly warned that ‘nostalgia’ for the embedded liberalism of the 1950s and 1960s was ‘increasingly problematic’. He is clear that such policies are anachronisms, and that the ‘market’ – which in this case may be read the ideology of the capitalist class – should rule.

Greenspan’s defence of class exploitation is hardly surprising. That World Bank analysts would mask the class impacts of the economic crisis in Thailand is to be expected. However, it would seem that academics working in disciplines where class was once a central concept should be less susceptible to such ideological blinkering. Unfortunately, however, class analysis has seldom been other than marginal in the academic discourses that have dominated the study of Thailand’s society and economy. Indeed, the responses of academics and intellectuals to the crisis have seen theoretical interests associated with nationalism, populism, localism and dependency take centre stage.\textsuperscript{155} Such responses do little to direct attention to issues of exploitation. Indeed, it could well be that by neglecting exploitation they actually provide ideological support for exploitation.

While academics working on Thailand have spent much effort in avoiding class, it actually seems that class change and restructuring has been a major force in Thailand and, indeed, globally. The crisis and recovery would seem an ideal opportunity to acknowledge that class does matter.