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Neo-liberalism and Domestic Capital: the Political Outcomes of the Economic Crisis in Thailand

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The 1997 economic crisis in Thailand provided an opportunity for a reinvigoration of neo-liberal economic policies. International financial institutions, together with Thailand's Democrat-led government, emphasised further market reforms, liberalisation, deregulation, decentralisation, privatisation and a reduced role for the state. The deep economic downturn saw a popular rejection of such policies, meaning that the neo-liberal interregnum was short-lived. The 2001 landslide electoral victory of the Thai Rak Thai Party symbolised the intensity of opposition to neo-liberalism. It also showed that national governments remain critical in shaping markets and that domestic economic actors continue to have significant political roles. In Thailand, far from neutering domestic capital's political capacity, the crisis and opposition to neo-liberalism saw this enhanced. One reason for this was that neo-liberal restructuring was not simply about the efficient operation of the market. Rather, it demanded a fundamental transformation of the operations of government and of the ways that business was organised and conducted. This threatened domestic capital. Its economic survival required that it seize the state so that it could control economic policy-making. This was achieved through the Thai Rak Thai electoral victory and its subsequent rule, where the protection of domestic capital's interests was achieved through a re-negotiation of its social contract with other classes.

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I. INTRODUCTION

From being one of the world's most successful economies and hailed as a 'model' for other developing countries, the 1997 Asian Economic Crisis saw Thailand's economic reputation tarnished. It was chastised by international financial institutions and investors as being amongst a coterie of economies that had succumbed to 'crony capitalism'. This term encompassed a range of meanings – weak corporate and state governance, inadequate institutions, moral hazard, corruption/rent-seeking/patronage and resource misallocation. These 'market distorting' factors were seen to have generated the crisis, and to have been the result of misguided state interventions. There was a conspicuous collective sigh of relief from many of these analysts who considered, at last, that 'Asian Capitalism' had failed.[1] As the then US Treasury Secretary Robert Rubin [*1998: 1*] explained,

> weak financial sectors, noncommercial relationships amongst banks, governments, and industrial companies, and a lack of transparency in financial transactions and government decision-making, to name a few – and all of this eventually led to severe financial instability. These problems are not … self-correcting; they require the help of the international community and a reorientation of the role of government and the political will to implement that reorientation.

The solution to the crisis, and to the problems alleged to derive from 'Asian Capitalism' was a rules-based market system. This was to be accompanied by further liberalisation, market enhancing reform, and attention to the institutions that supported the market. 'Good' public policy was seen to be that developed by technocrats and institutions insulated from political and particularistic influences. The bottom-line was that Thailand's crisis-damaged capitalism was to be made more like Western capitalism. This amounted to a call for a neo-liberal economic and institutional revolution. As this article will indicate, while the tenure of this neo-liberal approach was relatively brief, its impact was significant, although not in the ways its proponents had hoped and expected.

In addressing the political impacts of the neo-liberal policy offensive in Thailand, I will argue that an understanding of the political outcomes of the economic crisis and subsequent recovery requires attention to the conflicts that accompanied the implementation of neo-liberal policies. It is suggested that the responses of *domestic* economic and political forces were critical in opposing and rolling back a range of these policies. This

approach offers support to the observations of Higgott and Nesadurai [*2002: 29*] who assert that markets are 'politically constructed by governments through a set of rules that enable rights and obligations to be allocated to different actors via markets'. Governments, they argue, are critical in shaping markets and institutions. While this may seem obvious, it has often been neglected in discussions about globalisation and the power of international capital. As others have observed, globalisation has not rendered the national state obsolete [for example *Weiss, 1998*]. More than this, however, this study indicates that politics matters, for far from neutering the economic and political capacity of domestic capital, in Thailand the economic crisis and strident opposition to neo-liberal policies resulted in processes of reorganisation that galvanised and eventually enhanced its power. Thailand's domestic capitalists had long recognised the importance of the state. In the post-crisis setting, domestic capital's economic survival and growth required a political vehicle that allowed it to seize the state. In Thailand's political environment, with a new and reformist constitution, this could only be achieved through the electoral process.[2] This article will detail the processes and conflicts involved in this process of contesting neo-liberal reform.

Before turning to an account of the course of the neo-liberal policy offensive that followed the flotation of the Thai baht on 2 July 1997, a short discussion of neo-liberalism is necessary.

II. NEO-LIBERALISM

While the parameters of neo-liberalism have been outlined by Beeson and Islam [*2004, this volume*], the use of this term in this essay can be explained briefly. As Campbell and Pedersen [*2001: 3–5*] note, at the empirical level, neo-liberalism is a less coherent concept than some analysts assume. Even so, the core of the neo-liberal project has been identified in a range of economic, social and related political policies that emphasise the market, liberalisation, deregulation, decentralisation, privatisation and a reduced role for the state. As neo-liberalism has evolved, these core elements have remained constant, and can be seen as policy guides and its ideological core. In practice, a range of policies have been added, emphasised or modified in particular circumstances. These have included: a minimalist welfare state, decentralised labour relations and a weakening of unions, fiscal discipline taking precedence over social policies, and a reduction of barriers to trade, especially tariff protection, and investment [see *Portes, 1997: 238*]. As Sandbrook [*2000: 1071, 1073*] observes, neo-liberal variation in practice has seen the emergence of a 'pragmatic neo-liberalism'. The World Bank was a leading practitioner of this pragmatic approach, emphasising the significance

of appropriate regulatory institutions for economic growth. Even so, 'pragmatic neo-liberalism' continued to be challenged by hard-line neo-liberal ideologues who extend their economic doctrine to social and political analysis.[3]

As will be indicated, the post-crisis neo-liberal approach promoted in Thailand by the IMF, World Bank, Asian Development Bank and a range of bilateral partners placed considerable emphasis on liberalisation, privatisation, fiscal austerity, deregulation and decentralisation. Implicit was a view that the economic role for the state needed to be reduced. It is this approach that is identified as 'neo-liberal' in this essay.

It was somewhat odd that the IMF and its allies diagnosed Thailand's problems as deriving from too much government intervention, as if it was an exemplar of 'Asian Capitalism'. This is surprising because Thailand, as a star pupil of the international financial and development agencies for many years, was *not* a model of *dirigiste* developmentalism.[4] Many analysts understood this. Orthodox analysts described a state that lacked effective policymaking rather than an interventionist state [see*, for example, Christensen et. al., 1993: 1–8*]. From a different perspective, Doner and Hawes [*1995: 168–9*] explained that Thailand's success was not driven by powerful technocrats and developmentalist elites, but by a dynamic private sector; the state was relatively weak.

While not fitting the 'Asian Capitalism' model, following the crisis, some neo-liberal economists and commentators saw an opportunity to roll back 'pragmatic neo-liberalism' and push Thailand further down the free market path. As the then IMF managing director Michel Camdessus [*1998*] explained, the 'centerpiece' of IMF programmes addressing the crisis was:

> ... a set of forceful, far-reaching structural reforms to strengthen financial systems, increase transparency, open markets and ... restore market confidence. ... [N]on-viable financial institutions are being closed down, and other institutions are being required to come up with restructuring plans and to comply ... with internationally accepted best practices.... Other ... changes [will] strengthen financial sector regulation and supervision, increase transparency in the corporate and government sectors, create a more level playing field for private sector activity, and increase competition. Taken together, these reforms will require a vast change in domestic business practices, corporate culture, and government behavior....

In other words, a fundamental transformation of the ways of doing business and politics was proposed, driven by a neo-liberal agenda.

III. THE NEO-LIBERAL OFFENSIVE IN THAILAND

Following the floating of the baht, its rapid devaluation and the flight of capital, the IMF brokered a 'rescue package' with the short-lived government led by Chavalit Yongchaiyudh. The devaluation followed concerted speculative attacks that saw the Bank of Thailand defending its US dollar peg and, in the process, depleting official reserves. The devaluation saw many companies, already suffering considerable over-capacity, pushed into insolvency. Those that weren't insolvent, together with many small businesses, suddenly found that they were unable to access a banking system that all but collapsed [see *Hewison, 2000a; Regnier, 2001*]. Thailand had little choice but to accept the IMF's US$17 billion stand-by facility and the Fund's demands for austerity and market-enhancing reform [see *IMF, 1st Letter of Intent* [LoI], *14 August 1997*].

The first LoI demonstrated the concerns international institutions had for financial restructuring and 'stabilisation'. In addition, the IMF required a severe tightening of monetary and fiscal policy and proposed a massive reform programme that demanded: keeping wages low; privatisation of state enterprises (especially targeting communications, transport and energy); civil service reform; improvements to corporate governance, regulatory reform; eased restrictions on foreign investment; and increased private sector participation in infrastructure projects. All of this was to be supervised by the IMF [*1st LoI, 14 August 1997*]. When the Chuan Leekpai-led coalition government came to power in late 1997, the second LoI was issued and reaffirmed the thrust of the recovery strategy. In addition, measures were announced for the *accelerated* privatisation of major state enterprises. This LoI also noted progress in 'bringing the legal and regulatory framework in line with international standards…', with revised laws and regulations to facilitate financial restructuring being promised [*IMF, 2nd LoI, 25 November 1997*]. Being careful to keep the IMF and international investors on side, the Chuan Government implemented what it called a 'bold' reform programme. The problem was that this reform strategy, and the resulting recession, had negative political consequences.

Initially there had been some political successes for the neo-liberal reformers. Following the inept Chavalit coalition, the incoming government had the support of both international and domestic business [see *Nation, 22 July 1998*]. Locally, this included the powerful commercial banks and other significant elements of big business. For example, both telecommunications tycoon and former government minister Thaksin Shinawatra and former prime minister and business leader Anand Punyarachun supported the Chuan government and the IMF economic medicine [*Bangkok Post, 26 and 27 July 1998*]. Indeed, the Chuan government made a point of seeking the advice of

the largest businesses [see reports in *Bangkok Post, April–July 1998*]. The government gave its initial attention to the collapsed finance and banking sector [*Endo et al., 2000*]. In addition, the government attempted to consult broadly with business, especially in manufacturing, to seek ways to promote restructuring [*Doner and Ritchie, 2003: 222–4*]. The crisis-induced shock suffered by business and the public delivered a short political honeymoon period for the Chuan government.

The honeymoon ended as the economy continued to decline, and a widespread and popular opposition to the IMF's strictures developed [see *Hewison, 2000b*]. More significant for this article, however, was the way that powerful interests were able to overcome historical and personal animosities, political rivalries and business competition to organise a political revival that aimed to save *domestic* capital. As the reaction to the neo-liberal offensive developed, some international observers began to worry. In hindsight, however, the US Embassy's [*1998: 1*] assessment that 'resistance from indigenous business and political interests' would be overcome, was well wide of the mark.

As indicated above, by mid-1998, local business was deeply distressed. In struggling to survive, domestic business complained about high interest rates, a lack of liquidity and about the 'fire sale' of local assets to foreign interests. More broadly, business groups and some economists argued for more domestic initiatives to save an economy that was spiralling into negative territory. The government began to take notice, and the third and fourth LoIs set out to strengthen banks, increase liquidity, loosen fiscal and monetary policy, and address the social impacts of the crisis [*IMF, 3rd LoI, 24 February 1998; 4th LoI, 26 May 1998*]. Despite these measures, the real economy remained distressed. Amid growing agitation and opposition, the government maintained its strategy and continued to emphasise privatisation, liberalisation and increased foreign investment.

While domestic business might have been pleased that the government had begun to respond to its immediate concerns, it was apparent that Chuan's government remained committed to neo-liberal reform. This steadfastness increased concerns over crisis impacts as expressed by a range of economic and political actors including academics, public intellectuals, the monarch, non-governmental organisations and domestic business. Importantly, the local business class concluded that the IMF-sponsored reforms would so weaken their control and reduce their wealth that they threatened the demise of the class.

An example of this perceived threat was evident amongst the once dominant group of Sino-Thai banking capitalists. Their largely family-controlled financial and industrial conglomerates had been especially

powerful in the protected environment of the 1960s and 1970s. When export-oriented strategies were adopted, and the 1987–96 economic boom began, the capitalist class became larger and more diverse, but the banking families remained significant. Before the 1997 crisis, these banking families controlled the partially liberalised finance sector, including 13 of the 16 commercial banks,[5] and ranked amongst the wealthiest groups in the country. By the end of 1998, with foreign ownership laws having been changed, only five commercial banks remained in majority Thai ownership, with just three of these controlled by the previously dominant families. Each of these had had to accept increased foreign shareholdings of 40–49 per cent [see *Hewison, 2001a*]. This pattern of foreign penetration was seen in other sectors, from manufacturing to retailing.[6] While some saw this process as the end of dynastic control over Thai business [*Straits Times, 16 March 2002*], as will be indicated, domestic capital fought back.

What was it about the Chuan Government's neo-liberal reform agenda that motivated such intense opposition from local business? Various elements of the reform package were potentially attractive for some businesses. For example, the new bankruptcy law was meant to assist creditors, and local banks stood to benefit. But the problems with the thrust of the total package outweighed such potential gains. Privatisation is a useful guide. The IMF had insisted that the government bring state enterprises into fiscal balance and that it prepare and implement a rapid privatisation plan. The government repeatedly stated its intention to privatise. Its consultant, Anderson Consulting, drafted a master plan that proposed 'mass privatisation' for the bulk of these enterprises, with significant foreign participation [*Dempsey, 2000: 382–88*]. Selling state enterprises did not threaten domestic business. Indeed, some had long argued that the state should divest itself of some of its enterprises.[7] However, doing this in the depths of a crisis was a cause for deep concern. Local business considered itself at a significant disadvantage as it was cash strapped and banks were not lending. This led business to join the opposition to privatisation, led by state enterprise employees and management, senators, and non-governmental organisations (NGOs). A number of highly respected political leaders also joined the protests, and there was a wave of public opposition to a process seen as selling national assets to foreigners on the cheap.

Complicating the politics of privatisation was the continued liberalisation of foreign investment. The Chuan government was doing little to indicate to Thais that it had not become a lackey of foreign interests. In these circumstances, domestic business came to feel that the government had deserted them in favour of foreign interests. Business leaders pleaded with the government not to ignore their plight, but to no avail [*Bangkok Post, 10 April 1998*]. It seems that the Chuan government and the IMF, through their

neo-liberal agenda, was seeking to buttress capitalism. However, this was a support for a generalised capital rather than for domestic capital in particular. This contrasted with previous economic crises. In these downturns foreign capital had usually retreated and domestic business had been able to expand. This time, the reverse was true, and liberalisation was seen to be making matters worse. Capitalist crises rearrange the architecture of capital, but in the Thai case, domestic capital was being out-competed by foreign businesses, seemingly with the connivance of the government.

The Democrats repeatedly conveyed their neo-liberal reform message in a manner that suggested they were 'forgetting' domestic business. Seeming to accept notions of 'crony capitalism', the government appeared determined to restructure Thailand's capitalism in a manner that appeared to give foreign investors an enhanced position. In its LoIs, the government expressed its commitment to market reform, and especially in those sectors previously protected from foreign competition [*IMF, LoI, 25 August 1998*]. It argued that further liberalisation was essential for recovery, and moved to increase foreign investment in real estate, a protected sector for decades [*IMF, LoI, 23 March 1999*]. The bills required for these reforms were opposed, amended and held up in parliament, and especially by the Senate, but many were eventually passed into law. Further emphasising the apparent disdain for domestic business interests, the government cut a range of tariffs at the first sign of a weak economic recovery [*IMF, LoI, 21 September 1999*].

Portes [*1997: 244*], writing of Mexico in the 1980s, notes that neo-liberal reform policies established a contradiction between the 'prior social pacts on which the legitimacy of the regime rested'. The Chuan government, supported by international organisations and investors, attributed the blame for the economic crisis to domestic business. Here was a major contradiction. Over more than three decades international agencies and various Thai governments had consistently supported the development of local business; now they seemed to be supporting its destruction. The protected development of local business had been based on a social contract that allowed a trickle down of benefits to the population. Domestic capital perceived that the Chuan Government was implementing a neo-liberal agenda that was, by late 1999, of little benefit to them and promised long-term negative impacts, while foreign capital benefited. These threats to the interests of local business forced the domestic capitalist class to take direct control of parliament, ministries and the state. They were supported by a broader population that had seen the 'developmental social contract' – to be discussed further below – shattered by the increases in poverty, employment and incomes that resulted from the economic crisis and neo-liberal reform.

IV. THAKSIN, DOMESTIC CAPITAL, AND CONTROL OF THE LOCAL STATE

In 1997, Chuan and the Democrats had seemed the only viable alternative to Chavalit's failed government. They were perceived as being less obligated to the needs of provincial-based politicians who scrambled to recoup election expenses once elected. In other words, the Democrats offered a 'least corrupt' alternative to other parties. However, by 1998, businessman Thaksin Shinawatra had established a feasible choice for voters in his Thai Rak Thai Party (Thai love Thai Party or TRT). TRT promised to think and work in new ways for a new Thailand.

More than any previous Thai party, TRT was a party of the big domestic capital. As Baker [*2004*] points out, in the past, the biggest metropolitan business families had remained aloof from electoral politics; they had not needed to be directly involved, for government had long supported big domestic business. Potential extinction, blamed on neo-liberal policies, caused the remaining tycoons to conclude that *domestic* capital needed policies that better protected its interests. This could only be achieved by taking direct control of the state. Thaksin and TRT thus became the vehicles for domestic capital to oppose neo-liberalism, slow liberalisation, and give a competitive 'edge' back to local business. TRT's runaway election victory in January 2001 was a victory for domestic capital. We may now dissect the ways in which these interests were able to capture the state.

Thaksin is one of the most successful new magnates created by the economic boom. From a small computer company in the early 1980s, Thaksin's businesses had developed to the stage where he was, by 1996, listed as having wealth of $2.1 billion making him Thailand's fifth wealthiest person [*Forbes magazine reported in Bangkok Post, 22 June 1998*]. In terms of shareholdings, in 2000, Thaksin and his family held shares worth about 37 billion baht, mostly in the telecommunications sector [*Kan ngeon thanakhan* [Money and Banking], *December 2000: 148*]. A significant part of Thaksin's business success was his ability to gain state concessions in telecoms and related areas [see *Ukrist, 2002*]. As well as excellent links to government, Thaksin had close connections with the military and police [*Baker, 2004: 3–5*].

While he had dabbled in national politics from 1994 to 1997, Thaksin had been neither particularly popular nor successful as a minister. After 1997, while his businesses were not unscathed by the crisis, he was one of the first local capitalists to expand his interests after 1997. It was evident that Thaksin had cash.[8] This, and powerful alliances, was a distinct advantage when it came to inventing TRT and constructing its election victory. As Baker [*2004: 5*] shows, Thaksin was able to come to arrangements with former business

rivals and built powerful business and political alliances that allowed him to continue to prosper in business and to develop his political ambitions. TRT was also assisted by changes to the structures of power in the political system. Previously the business people who dominated parliamentary elections were provincial godfather-like figures. Many were badly affected by the crisis, and were unable to provide large funding to local candidates in the 2000 elections. This gave TRT an advantage. In addition, the 1997 constitution impacted on political practice. The constitution made it more palatable for the business elite to become politicians. This was due to the party list system that meant that candidates did not need to subject themselves to the grubby aspects of campaigning.[9]

The story of the TRT's 2001 election success has been reported elsewhere [for example, *Baker, 2004*], so there is no need for details here. It should be noted, however, that TRT, using techniques drawn from US campaign experience and marketing, built an electoral platform that addressed the aspirations of many voters. Its slogan emphasised inclusivity: 'new thinking, new ways, for all Thais'. When coupled with a party platform tinged with populist and nationalist rhetoric TRT was especially appealing to poor rural voters.[10] Thaksin promised help for the poor and those suffering from the Crisis, and appeared to address the political desires of the downtrodden. As an ex-policeman, he talked tough, warning, 'I can still carry a gun and pull the trigger. Before I die I want to kill our enemies first, and these are poverty, drugs and corruption' [cited in *Symonds, 2001*].

Thaksin was promoted and marketed as a 'new politician'. Decisive and a successful tycoon who 'had a heart', he was concerned about the aspirations of the poor. He would bring back good economic times and make all Thais better off. This was why he was seen as both a populist and nationalist. Behind this was a firm commitment to local business, both small businesses (promising to make credit available for them and to promote small- and medium-scale enterprise) and the big businesses of the remaining tycoons, like his own. This agenda was also appealing to a range of intellectuals and leaders of civil society groups who had abandoned Chuan and attacked his neo-liberal policies [see *Connors, 2001*]. Thaksin and TRT sent a clear message: we oppose neo-liberalism and the IMF, and will emphasise local benefits. The TRT thus created a political platform that did not distinguish between the suffering of the poor and the post-crisis trials of domestic capitalists.

TRT had caught the mood of an electorate that had seen significant welfare declines during the crisis [see *Hewison, 2002*]. More than political rhetoric, TRT developed a concrete platform based on specific commitments to policies. Most popular were proposals for a farmer debt moratorium, soft loans for every village, and a 30 baht universal health care programme. This

platform delivered TRT a handsome victory that marked a rejection of the IMF-brokered policies of the Democrat-led government. As Thaksin extolled the virtues of the Malaysian and Singaporean managed development, it seemed that Thailand, once the World Bank's model pupil, was looking elsewhere for its economic models, and perhaps for its political models as well [*Thaksin, 2001a*]. Not only did TRT make promises, but following the election, it moved to implement its commitments to the poor. This was essential to maintain political momentum.

Despite the commitment to the poor, the coalition that TRT dominated was a government by and for the rich. Thaksin's first cabinet included a range of big business leaders of the post-crisis era. These included Thaksin himself (Shin Corporation), the Bodharamik family of the Jasmine group, the Chearavanont family (Charoen Phokphand group), the Maleenont family of the Bangkok Entertainment group, the Jungrungreangkit family with extensive auto industry investments, and a range of others [see *Baker, 2004: 5*]. His second cabinet further entrenched this pattern [*Nation, 25 August 2002*]. The TRT government soon set about helping domestic businesses, including those of its leaders. It did this in two ways. First, by strengthening the government itself, and second, by measures to protect and restructure domestic business.

The strengthening of the government became an important task. Even before the election, the National Counter Corruption Commission had threatened to scupper Thaksin's political ambitions. He was alleged to have concealed assets of more than 2.3 billion baht by transferring these to maids, gardeners and other staff in 1997 [*Bangkok Post, 9 April 2001*]. In controversial circumstances Thaksin won his case. Immediately after this, he threatened the independent agencies that had been created under the 1997 constitution. His party also moved to establish control over the media that was outside the state's already strong control, and to manage its coverage, both domestic and international. Thaksin, in fact, had purchased the only independent television broadcaster prior to the election, and the government used its advertising budget in ways that limited criticism of the government.

Within parliament, Thaksin moved to make TRT a larger party, arranging mergers with smaller parties so that TRT eventually controlled about two-thirds of Lower House seats. This limited scrutiny of the government and meant that there was little to worry about in managing parliament and the passage of the government's bills. Thaksin also revealed an authoritarian streak when he argued that the parliamentary opposition and government should be united in working for the 'best interests of the people'. Indeed, he considered that adversarial politics was a betrayal of the people [*Thaksin, 2002: 4*]. This was one-sided, however, for whenever Thaksin was

criticised, the government vigorously attacked the critics, their ideas and organisations. The targets have included, amongst others, the foreign press, the United Nations, independent local media, NGOs, organisations conducting opinion surveys, academics, and independent agencies created by the constitution. The government has attempted to limit the funding to organisations that dare to criticise it. In 2003 it was revealed that the government had attempted to force the Ministry of Foreign Affairs to pressure foreign donors to cease funding Thai NGOs [*Bangkok Post, 10 May 2003*]. The government also moved to limit demonstrations [*Nation, 23 April 2002*]. Related, the government's bloody campaign against drugs that saw thousands of people killed advertised that the days of the excessive use of state violence had not passed [*Pasuk and Baker, 2004*]. In expanding this campaign to include 'dark influences', political activists were among those targeted and the military reinstituted its surveillance of political movements [*Bangkok Post, 20 and 21 May 2003*].[11] Of course, such authoritarian policies, while opposed by many civil society groups, are attractive to those Regnier [*2001: 22*] identifies as a petty bourgeoisie that emerges in SMEs and services, who are politically right-wing and attracted by populist and nationalist shibboleths.

By minimising and managing opposition, TRT has been making the government of business 'safe'. For Thaksin, the hope was that his tycoon's government would stay in power for two or more four-year terms [*Nation, 29 April 2003*]. Further, Thaksin has also been able to consolidate his control of the military and police by promoting relatives and close associates to positions where they will be at the top of these organisations for some time [*Bangkok Post, 20 March 2003*]. Staying in power and continuing to control the state is considered critical to the recovery and development of domestic capital.

On coming to power, the TRT government moved quickly to protect local business by rolling back its predecessor's neo-liberal agenda. Privatisation and liberalisation were slowed, and some aspects of liberal reform were reversed. Slowing the pace of privatisation was meant to allow time for domestic investors to ready themselves for involvement. However, it was clear that privatisation had been politically complicated by anti-IMF agitation. Indeed, in Thaksin's first policy speech to the National Assembly, he indicated that state enterprise privatisation would be a 'vehicle to mobilise domestic resources…', and added that stock market listing was not the preferred model [*Thaksin, 2001b: 1*]. It was not until 2003 that Thaksin's government began to move ahead on privatisation. Even then Thaksin declared that foreigners would not be permitted to gain control of state enterprises. Rather, it was proposed that shares would be offered to state enterprise employees and local shareholders, and where foreign investors

participated, their shares would not carry voting rights [*Bangkok Post, 12 May 2003*].[12] In both the telecoms and media sectors, the government moved glacially on the establishment of independent regulatory agencies, which prevented the stock exchange listing of enterprises like the Telephone Organisation of Thailand [*AustCham, 2003: 1, 3*]. In telecoms, the government sought to maintain domestic control by proposing limits on foreign ownership, potentially benefiting the Prime Minister's own companies. While this proposal was later modified, the message to foreign investors was clear. In other ways, the government reduced the pace of reform or did little. The timetables set in the LoIs were forgotten and, by 2003, no longer mattered.

Further underlining the support for local business, some investigations into the financial shenanigans that led to the 1997 crash were put on the back-burner [*Baker, 2004: 18–19*]. Also, state banks managed to come to quick deals with Thaksin supporters and advisers who had been bankrupted by the crisis [*Nation, 9–11 April 2002*]. The Thai Asset Management Corporation, established in 2001, began to handle some of the bad loans of nationalised and state banks, but was seen by some observers as simply a vehicle for 'helping debtors stay in the game' [cited in *Ziegler, 2003: 7*].

It is important to emphasise that the TRT approach is not that of simplistic 'anti-globalists' who promote protection and nationalism. Thaksin is not a populist vehemently opposed to all aspects of liberalisation. On the contrary, some of his government's policies coincide with strategies supported by international institutions and international capital. For example, both the World Bank and the TRT government favoured decentralisation, enhancing civil society participation in governance, bureaucratic reform and support for small- and medium-scale enterprises. In addition, there were micro-reforms in corporate governance and bureaucratic operations that were generally supported by business.

Thaksin made it clear that, in principle, the government's economic role should be reduced, in favour of the private sector [*Asia Inc, June 2002: 18*]. He has also emphasised that he is committed to free trade [*Thaksin, 2003: 4*]. But these perspectives are substantially modified by the concern for the survival and revitalisation of local capital. The central element of TRT policies was the need for domestic capital to be rescued. As noted above, crises rearrange the architecture of capital, and the TRT represents one outcome of this process. The remaining tycoons recognised that if they were to compete, then considerable restructuring was unavoidable.[13] The challenge was to manage this in a way where the tycoons and other local businesses could restructure without being crushed by foreign investors. As Thaksin explained, his government will 'give them [domestic business] a chance' [*Asia Inc., June 2002: 17*].

V. ESTABLISHING A NEW SOCIAL CONTRACT

While the TRT-dominated government was Thailand's first government by tycoons, this was not a simple seizing of the state by domestic capital. Rather, Thaksin, TRT and domestic capital, operating within a representative parliamentary system, were engaged in a political process that attempted to establish a new social contract for Thai society.[14] Only a policy agenda that emphasised inclusivity would allow TRT to successfully protect and support domestic business. Much time was spent assuring the public that this was a government that cared for all Thais, as implied by the TRT name. This again marked TRT as different from the previous government.

Thaksin [*2002: 2*] himself has cited Rousseau on the social contract, when he argued that political parties

> are bound together by a Social Contract towards our peoples. This Social Contract confers upon us the duty to dedicate ourselves to solving the people's problems, improve their livelihood, and create greater opportunities for them to enrich their lives.

To understand this process, it is necessary to briefly outline the social contract that underpinned Thailand's development from the 1960s.

The Developmental Social Contract

In 1958, the military, led by General Sarit Thanarat, seized power. His regime's authoritarianism involved promises, later echoed by Thaksin, to advance the economy, improve administration, and deliver a higher standard of living [*Bangkok Post*, 22 October 1958; *Journal of the Thai Chamber of Commerce* [*nangsuphim ho kankha thai*], *Vol.13, No.3, 1959: 130*]. Sarit explained that authoritarianism was needed for the stability required to expand the middle class and make it strong. He saw his task as building a 'new society …, a society that is happy' [*Journal of the Thai Chamber of Commerce, Vol.14, No.11, 1960: 99–100*]. In justifying military authoritarianism with a promise of prosperity, Sarit indicated that his regime's economic approach was significantly different from that of previous governments. Further, the government would promote private initiative and limit state investment to infrastructure development [*Abonyi and Bunyaraks, n.d.: 21–4*]. The government also provided incentives for foreign investors [*Hewison, 1985: 278–9*]. This approach heralded a period of growth that was to underpin Thailand's developmental 'social contract', albeit one that workers and peasants had no role in establishing. In short, the military was to establish political order, the government would support private capital, and

domestic capital would deliver the growth that would eventually trickle down to the working and peasant classes.

While the economic benefits of this implicit agreement can be debated, it was not until 1973 that this developmental social contract was challenged. That challenge was to the authoritarian political element of the contract. However, the military generally managed to retain control of the political process until the late 1980s. Thus the developmental social contract was maintained, albeit shakily, throughout the period until 1992 by, first, military domination of the political process, and then through the economic boom, which delivered significant, if unequal, benefits to all social sectors [see *Hewison, 1996; 2001b: 89–91*]. The generally rising living standards maintained until 1997 meant that the contract was essentially fulfilled. It was the economic crisis that shattered the developmental social contract.

Thaksin's New Social Contract

All elements of the developmental social contract disintegrated: workers were unemployed, the rural poor were deeply distressed by the crisis, local business was being crushed, and widespread, Indonesian-like social conflict was feared [see *Hewison, 2002*]. In abandoning support for domestic capital in favour of a more generalised support for business that advantaged foreign investors, the IMF, World Bank and Chuan government announced that the old consensus could not be re-established. Thaksin and TRT had to craft a new, more inclusive social contract that could ensure social and political stability while salvaging domestic capitalism. Like the developmental social pact, the new arrangement needed to deliver benefits beyond the domestic capitalist class in order to deliver legitimacy for the government of the rich while local business was restructured.

While the new social contract is yet to be fully embedded, its constituent elements may be identified in the electoral platform of TRT that has been implemented by the Thaksin government. The basic promise was to deliver a revitalised and sustainable economy. Local business would drive the economy, and in the process would 'prosper and earn their due rewards'. At the same time, what Thaksin called 'the grassroots', would also contribute through government-supported activities that provide opportunities for 'wealth to be created at the grassroots' [*Thaksin, 2003: 1–2*]. As part of the implicit bargain, the government would deliver increased social protection to the poor. The main inclusionary elements of this social contract were the million baht village fund and the 30 baht health scheme. Other elements included proposals for and extension of property rights [*Nation, 25 February 2003*], expanded housing schemes for the lower classes [*Bangkok Post, 7 January 2003*], support to village handicrafts production and unemployment insurance for workers [*Nation, 2 May 2003*]. The government

would deliver benefits directly to the popular classes, beyond neo-liberal trickle-down.

Of course, that the TRT's targeting of the poor brought considerable political support from all sectors of society is not coincidental. At the time TRT was created, the 1997 constitution was a part of a reform movement that was intended to liberalise the political system, expand participation and reduce the role of the military and other unelected powers [see *Connors, 2001; 2003*]. TRT, as the representative of the surviving tycoons needed to 'fit' this new approach to politics. By promising to deliver benefits to the poor and be inclusionary, TRT was also pledging to reduce the gap between the theory and practice of representative politics.[15] To be saved, domestic capital had to move in this direction.

Under the developmental contract, the position of rural areas and their populations changed over time. Initially, in the 1960s and 1970s, the rural peasantry was to be controlled to prevent communism while also being exploited to shift resources from agriculture to industry. As the communist insurgency declined, rural areas were seen as a source of workers for the expanding manufacturing sector. The 1997 crisis resulted in rural stagnation, inequality and poverty, suggesting the possibility of destabilisation and social unrest; TRT's policies were one reaction to this threat. The million baht village fund, for example, was symbolic of domestic capital's acknowledgement of these issues. In supplying a cheap loan for every village, TRT was demonstrating a level of concern for rural problems not evidenced by previous administrations. In contrast with previous governments, TRT's loans were not meant to simply support agriculture. Rather, the party's aim has been to develop the rural poor as entrepreneurs [see *Baker, 2004*]. This focus made welfare less controversial for domestic capital. Business was also keen to receive the consumption stimulus the scheme provided by injecting funds into the rural community [*Connors, 2001*].

The progress of the 30 baht health scheme has been more controversial. Even though Thailand's health system had been judged relatively successful in meeting the needs of the majority, health costs remained a significant expense for the poor.[16] Where there was prolonged or serious ill health, the result was usually a slide into deeper poverty. The private health sector was strong, and prior to the crisis was expanding [*Subbarao and Rudra, 1996*]. The crisis and its negative welfare impacts saw the poor having to invest more on their health. This made the TRT's election promise of a cheap and universal health scheme popular. It remained so even as a funding crisis emerged in 2002.

The TRT government realised that the 30 baht scheme and other welfare policies were significant elements of its popularity, and an essential component of the new social contract. TRT has generally been dismissive

of any private sector apprehensions regarding increased welfare provisions. The government is aware that, in order to maintain political support for the government of the rich, the majority of electors need to be convinced that its welfare is a central political concern for government.

VI. CONCLUSION

When the Asian economic crisis plunged a number of Asian economies into the deepest recession they had experienced for decades, it seemed that claims about the superiority of 'Asian Capitalism' had been negated. A range of neo-liberal economists and ideologues, many of them in the World Bank and the IMF, announced the death of 'Asian Capitalism', arguing it was dysfunctional in the age of globalisation. Even before the crisis, Sachs [*1997: 19*] had argued that in a globalised world, 'policies are likely to be more similar'. With the crisis, the argument for convergence became stronger. The crisis was, in the words of Krugman [*1998*], '... punishment for Asian sins' where 'Asian Capitalism' distorted markets. The solutions involved eliminating such distortions, and in making Asian economies look more like those of the West.

The crisis should have strengthened the political leverage of neo-liberal reformers. Indeed, for a time in Thailand this was the case. The political problem was that neo-liberal restructuring was not simply about clearing 'space' for the efficient operation of the market. Rather, it demanded a fundamental transformation of the operations of government and in the ways that business was organised and conducted. Neo-liberal reforms such as privatisation and deregulation aimed to neuter the state's ability for particularistic economic interventions, while political reforms were meant to establish 'good governance' and to insulate officials and technocrats from vested interests and cronyism.[17]

As Portes [*1997: 239*] notes, however, neo-liberal interventions often neglected the historical and political contexts and ignored the 'embeddedness of economic action in social structures...'. In Thailand this has also been the case. Neo-liberal reforms amounted to an agenda for the dominance of international capital. Domestic capital, deeply wounded by the economic crisis, was prescribed medicine that became poisonous. This led to a political backlash that saw a coalition of domestic capitalists seize state power through the electoral process. This outcome shows that the critical element in understanding the political outcomes of the economic crisis and recovery are not to be found in neo-liberal policies, but in the responses of domestic economic and political forces. Higgott and Nesadurai [*2002*] have observed that national governments are critical in shaping markets and institutions and their operations. It seems that a clear understanding of this fact has led

Thailand's domestic capitalist class to seize the state. The importance of shaping the way the 'market' will operate in Thailand has seen an attempt to reshape Thailand's social contract in a way that is quite different from what might have been expected when the economic crisis hit Thailand and a neo-liberal revolution seemed possible. That significant elements of social welfare have been a policy outcome of a tycoon's government indicates the significance of politics in the process of economic reform.

NOTES

1. There is no need to detail the presumed elements of 'Asian Capitalism', other than to note that there had emerged a view that the state had played a significant role for late industrialisers in Asia, and this suggested that neo-liberal market orthodoxy needed to be rethought. It was erroneously assumed that this development approach represented a generically Asian model.
2. In the past, the military would often mount a coup to achieve control of the state. Following democratic development from the late 1970s, and the mass opposition to the 1991 military coup, it was clear that such action would be highly divisive and was likely to be actively opposed.
3. Sandbrook [*2000*] makes his comments in the context of a critical review of the thoughtful liberalism of Amartya Sen [*1999*]. For the more ideologically narrow and politically naïve version of neo-liberalism applied to economic, social and political issues, see Barro [*2002*].
4. See the analysis of various approaches to the Thai state outlined by Lauridsen [*n.d.: 11–12*] who notes that few analysts saw the Thai state as interventionist. He does note a 'neo-statist' interpretation of industrial policy, associated with the work of Michael Rock. The addition of 'neo' is telling, for this position suggests little more than an 'enabling state'.
5. In domestic commercial banking, foreign shareholdings were then limited to 25 per cent.
6. The manufacturing sector saw a massive takeover by foreign interests after the crisis. The retail sector saw a huge expansion of foreign controlled hypermarkets throughout the country (including by the British-controlled Tesco Lotus and the French firm Carrefour). These developments in retailing became emblematic of the fight between struggling local business and cashed-up foreigners.
7. Over the past two decades, the number of state enterprises had in fact been reduced from 67 (with 266,000 employees in 1988 to 59 (with 314,000 employees) in 1998 [*Kraiyudht, 1993: 271, 277; Dempsey, 2000*].
8. There were allegations that when Deputy Prime Minister under Chavalit, he had benefited from inside advice on the coming devaluation, thus positioning his businesses to gain substantially. Such allegations were denied [*Thitinan, 2001: 327*].
9. 'Money politics' was not dead. There remained pockets where local godfathers were influential. At the same time, TRT's platform promised a flow of funds to rural areas, emphasising money politics of the pork barrel variety.
10. Thaksin's and TRT's populist response to the crisis and reform, and to the need to gain electoral support was also seen in Indonesia [see *Robison and Hadiz, this volume*].
11. 'Dark influences' is a term that has usually been considered to include gangsters and their cronies in the military, police and politics who have unusual wealth and who benefit in a variety of ways from these connections. An example is the gangster-cum-local politician Somchai Khunpleum (known as Kamnan Poh), a wealthy businessman whose son, Sontaya is Tourism and Sports Minister in Thaksin's cabinet. At the time of writing, Poh was being investigated for a range of alleged crimes, including a gangland-style murder [*Nation, 22 May 2003*]. The Thaksin government's widening of the term to include political activists a clear threat to political opposition.

12. For details on privatisation and the negative response of unions in 2003 and 2004, see Brown and Hewison [*2004*]. Contrary to the policy speech, shares were to be offered through the stock market.
13. For details regarding the kinds of business restructuring required, especially in industry, see Doner and Ritchie [*2003*] and Regnier [*2001*]. It is worth noting that TRT's support for domestic capital is biased towards the service sector, recognising that big manufacturing is now foreign-dominated [*Chris Baker, personal communication, June 2003*].
14. There are issues associated with using the term 'social contract'. Others prefer terms like 'social compact' or 'social pact'. The pedigree of 'social contract' is usually seen to reflect the work of Rousseau, Hobbes, Locke and, more recently, Rawls. It most usually denotes a belief that political structures and the legitimacy of the state derive from an explicit or implicit agreement by citizens to surrender some or all of their personal rights in order to secure stability and the protection of and organisation such as government [see *D'Agostino, 1998*]. In this essay, I am using the term to identify an arrangement where government or the state make an implicit or explicit promise to deliver benefits to citizens in exchange for political support. This does not imply any freedom to choose on the part of citizens. Michael Connors [*personal communication, April 2003*] suggests that 'the idea of a social contract was … an initiative of the various NGO/democracy networks who from the mid-1990s had been calling for elections to be policy-based, and this was couched in terms of parties offering social contracts to the electorate'.
15. Andrew Brown makes this insight, based on his studies of the politics of the Thai working class [*personal communication*].
16. The World Bank has reported that up to 40 per cent of the population, mainly in rural areas, did not have access to adequate health care in the late 1990s, especially in rural areas [*World Bank, 1998: 15*], while other reports were of 26 per cent lacking adequate access [*World Bank, 2000: 12*].
17. It is often remarked that Thailand's reformist 1997 constitution was passed in the midst of the economic crisis, as if this was a major achievement in the face of considerable adversity. In fact, the constitution also included provisions in line with a neo-liberal economic agenda [*Connors, 2003: Ch. 7*].

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