The Political Economy of South-East Asia

Conflicts, Crises, and Change

SECOND EDITION

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Contents

List of Figures vii
List of Tables viii
Contributors ix
Preface xi
Acknowledgments xv
Abbreviations xvi

1 Theorising South-East Asia's Boom, Bust, and Recovery
Garry Rodan, Kevin Hewison, and Richard Robison 1

2 Crisis and Change in the Philippines
Jane Hutchison 42

3 Thailand's Capitalism: Development through Boom and Bust
Kevin Hewison 71

4 Indonesia: Crisis, Oligarchy, and Reform
Richard Robison 104

5 Singapore: Globalisation and the Politics of Economic Restructuring
Garry Rodan 138

6 The State and the Market in Malaysian Political Economy
Khoo Boo Teik 178

7 Vietnam: The Transition from Central Planning
Melanie Beresford 206

8 Economic Crisis and the Political Economy of Economic Liberalisation in South East Asia
Kamisaka Jayasuriya and Andrew Rosset 233
To suggest that Thailand is undergoing a capitalist revolution is not the debatable proposition it once was. There was once a reluctance to use the term 'capitalism' to describe the forces that dragged the society from its agricultural past and plunged it into its industrial present. This is no longer so, especially as the spectre of state socialism as an alternative has evaporated. Capitalism's ascendancy has incorporated Thailand as a part of a world system, subjecting the economy and society to its many vagaries.

Most writers have tended to use 'capitalism' as a shorthand designation for the process of economic change that has taken place within a relatively free enterprise system. Industrialisation has been an important part of this process. It has transformed a subsistence economy to one where production involves the application of capital in enterprises that produce primarily for profit. Trade and commerce take on an increasingly significant role, while the industrial system sees producers separated from their products as they become waged workers, employed by the owners and managers of enterprises who control those products. Capitalist industry occurs within an environment where individuals or groups of investors own businesses, and competition among businesses is considered the norm.

Conceptualising these elements as a system is important. Capitalism, as well as being a way of organising economic production, also structures society. Capitalist enterprise demands a social system where a working class has at least some of its labour for sale, purchased by a smaller class of business owners and managers. National borders do not necessarily bind this structuration, for globalisation is clearly a phenomenon of capitalist development and domination, as seen during the colonial period.

Thailand's economic performance from 1957 to 1996 was unique. Economists observe that this period saw uninterrupted, often very rapid, growth (Warr and Bhanupong 1996). The decade to 1997 witnessed an unprecedented economic boom. The Asian economic crisis has dramatically
demonstrated both capitalism's global nature and Thailand's integration in this system.²

It is sometimes argued that Thailand's capitalist transition has not matched the history of Anglo-American development (Pasuk and Baker 1998:ch. 4). This is correct, for Thailand's progress has not followed the same trajectory as the United Kingdom, Japan, or the United States. However, some common basic processes have been at work, and the nature of the transformation has much that is recognisable in capitalist transitions.³ The force of these processes has dominated the past century or so. This chapter presents a discussion of Thailand's capitalism, preceded by a brief outline of the theoretical debates regarding this development.

A sketch of theoretical approaches

Because chapter 1 to this volume has detailed the general approaches that analysts have taken to boom and bust, this section will elaborate upon these only for Thailand.⁴

Modernisation approaches

The dominant perspective on Thailand's society and politics is influenced by modernisation theory. This 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 described Thailand as a 'bureaucratic polity', a conception of the relations between business and government that remains strong in the literature. Riggs (1966) 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, especially those in the military, were able to maintain a degree of control over business that ensured the benefits of development served the interests of the military and bureaucracy first and the masses second.

By the 1980s, however, political economists came to regard 'bureaucratic polity' as an inappropriate description of a Thailand experiencing rapid growth and massive social change. The rise of a powerful and increasingly independent business class and the concomitant decline of the military contradicted the model (for example McVey 1992:20–2). They saw the
bureaucratic polity replaced by a system where business has far more autonomy than under the bureaucratic polity. This led to the historical institutionalist approaches discussed below, where business–government relations were more of a partnership (Anek 1992:13–15).

These revised approaches did not address Riggs’s *theory*. Implicit in their use of Riggs’s term as a *description* of state–society relations for a particular era was a rejection of his complex modernisation model for *contemporary Thailand*. Modernisation perspectives, especially those utilising structural-functional conceptions, appeared to have had their day. Remarkably, however, the 1997 economic crash saw a limited resurgence.

Danny Unger (1998) has taken a broadly modernisation perspective in his application of the notion of social capital to Thailand. He identifies the paradox of rapid growth being achieved where the bureaucracy is weak and policy implementation poor. Unger explains this as resulting from a lack of social capital among Thais. His analysis draws extensively on observations from modernisation theory, reviving ‘bureaucratic polity’ in explaining cultural differences between ethnic Chinese and 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 (1998:18) suggests that limited sociability among Thais has diminished the capacity of state officials to foster social change and the adoption of market strategies, and has led to factionalism and poor coordination among state agencies. In this approach, the 1997 crisis can be seen to have resulted from shortcomings with deep cultural roots.

Like his modernisation predecessors, Unger operates with models of society, politics, and ethnicity that ignore much of Thailand’s diversity, political competition, repression, and struggle. He also gives too little attention to the international dimensions of development. The failure to account for these factors means that revised modernisation approaches are unable to capture the full ramifications of either boom or crisis.

**Dependency and neo-dependency approaches**

As explained in chapter 1, dependency theorists argued that modernisation approaches were inadequate for placing too much emphasis on elite behaviour and ignoring predatory international capitalism. Dependency analysts regarded Thailand’s business and state elites as tools of internationalised corporations, assisting the exploitation of their own country (Suthy 1980).

A major problem emerged for this approach when a significant local capitalist class developed. Dependency approaches were unable to explain this, except as an artefact of foreign investment. For example, Hart-Landsberg
and Burkett (1998) 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 Thailand’s capitalist revolution.

The crisis, however, saw a resurgence of interest in dependency approaches. The attraction lay in its criticisms of the negative impacts of development and the recommendation of national(ist) economic programs. 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 considered unsustainable and dependent on decisions made overseas. For these analysts, the crisis demonstrated the power of the West and Thailand’s weakness. They condemned the IMF and the USA for taking advantage of the crisis to assert their influence through increased liberalisation that reproduced structures and approaches inspired by the US model (Bello 1998; Bullard, Bello and Malhotra 1998:124). The IMF program was seen as enhancing policies that had caused the crisis in the first place. They argued for a nationalist approach to development, including reorientating production to domestic markets, and controls on international capital flows (Bello, Cunningham and Li 1998:249). This was the way to avoid domination by rich countries.

While this approach directs attention to national responses to the negative impacts of liberalisation and globalisation, it does not indicate an approach that overcomes the theoretical problems noted by earlier critics and discussed in chapter 1. Importantly, the alternatives proffered appear unrealistic (Hewison 2000b; Ungpakorn 2000).

**Neo-classical economic approaches**

Despite fads and fashions, economic growth has been the central pillar of Thailand’s public policy for four decades. This emphasis has been based on the view that growth is best achieved through the operation of the free market. As outlined in chapter 1, although the neo-classical approach has asserted the primacy of market over government, this was modified following the success of the East Asian ‘model’. Where government has been considered, interest has revolved around notions of ‘getting the basics right’. Indeed, this approach saw international financial institutions praising Thailand for its conservative economic policy and resultant growth (Warr and Bhanupong 1996). The advent of the crisis, however, caused a rethink.
As noted in chapter 1, the crisis prompted neo-classical analysts to identify ‘market distortions’ as contributing factors, reasserting their preferred theoretical and ideological position that distortions resulted from state intervention. These analysts and their institutionalist allies identified poor policies, weak governance (state and corporate), inadequate institutions, cronyism (resulting in moral hazard), corruption, and the resource misallocation as factors in the crisis. They argued that patronage and rent-seeking meant that state intervention prevented effective policy-making. It was argued that development would have been more rapid if industrial policy had promoted Thailand’s comparative advantage through increased labour intensity and agriculture-related processing (Christensen et al. 1993:1–8).\footnote{7}

The crisis also saw neo-classical analysts give more recognition to institutions, and they have strongly supported IMF and World Bank liberalising, market-enhancing restructuring, and reform. The problem is that these reforms suggest only a limited appreciation of the social or political nature of institutions. The theoretical outcome is that ‘good’ public policy is that developed by governments relatively insulated from political influences. For Thailand this sees suggestions that representative politics might be an impediment to good policy development (see Christensen et al. 1993:19–20).

In reforming the state and its institutions neo-classical analysts are most comfortable with technocratic approaches. When technocrats are insulated from political debate they make better policy. Better policy means privatisation, liberalisation, and the development of institutions that can better handle a rules-based market system. Although an abstract model of the market prevails, and it is assumed that universally applicable and technically correct policies are available, their achievement requires that technocrats be able to select these options, free of ‘political’ demands. That the market and policies are socially and politically constructed is inadequately considered.

**Historical institutionalist approaches**

There was increased interest in historical institutionalist approaches as Thailand’s economic performance during the boom was compared with that of East Asian economies. Analysts argued that the focus on the roles of only state and market drew too much attention away from an ensemble of non-state and non-market institutions that had determined Thailand’s economic success. These included private-sector institutions such as banks, commercial networks, and business associations (Doner and Ramsey 1997).
Specifically rejecting the bureaucratic polity, and differentiating Thailand and other South-East Asian economies from North-East Asian developmentalist states, Doner and Hawes (1995: 168–9) argue that these countries have been successful due to their dynamic private sectors. They see a 'relative strength' in private institutions and relatively weak states. For Thailand it is argued that some state elements, especially in fiscal and economic offices, were insulated from patronage, but that the private sector has also played a significant directing role (Doner and Ramsey 1997: 273). Thus, in the face of market failures and indifferent or predatory state policies, it has been the private sector driving development.

The crisis brought a re-evaluation. The more state-focused historical institutionalists argued that the extent of 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 (Weiss 1999: 319–22). As noted in chapter 1, these analysts also identified 'external factors' as responsible for deepening the crisis. Weiss (1999: 329) adds that there was relatively limited insulation of state agencies from 'particularistic interest politics'. More society-focused institutionalists give attention to this latter aspect. Hutchcroft (1999: 474) argues that Thailand has exhibited the characteristics of 'bureaucratic capitalism', where the state was relatively stronger than business interests were, and where the state was 'relatively more patrimonial'. However, the boom saw business establish its collective interest over those of the state. Market liberalisation occurred, with little attention to the building of appropriate institutions. This, together with an increasing tendency for rural politicians to enhance their patronage through access to state coffers and policy, set the framework for economic crisis. These politicians besieged the bureaucracy and expanded patrimonialism beyond the bureaucracy, making Thailand's system much more like the Philippines model of the patrimonial oligarchic state. This reflects a weakening of the state vis-à-vis business interests (Hutchcroft 1999: 474, 495–7).

Such approaches were attractive for explaining differences between Thailand and developmental states, and for including historical arguments about the development of power. However, they have tended to emphasise trust, cooperation, and order among private-sector actors, while downplaying competition and conflict among them (Doner and Hawes 1995: 169). Reform is often seen to be about establishing order, stability, and accountability (Hutchcroft 1999: 486–8). Where conflict is discussed, it is in the context of the state (and its officials) versus the private sector. Among other things, the crisis laid bare the contradictory relationships among the various fractions of capital, and indicated that the state,
although responsible for the interests of capital in general, was also cognisant of the shifting power relationships between domestic and international capital.

As noted above, institutionalists and historical institutionalists both favour technocratic solutions to economic and political problems. Hutchcroft (1999:488) argues that Thailand's reforms and appropriate policy require that conservative urban elites capture the state and parliament from unsophisticated 'country bumpkins' (elected rural constituency politicians) who engage in money politics and patrimonialism.

**Social conflict approaches**

If other approaches lack attention to conflict and attach too much significance to 'good' policy, this is not the case for the conflict perspective. As explained in chapter 1, conflict theorists see markets, states, and institutions as products of interests and conflicts emanating from class relations and inequalities generated within societies and by the forces of global capitalism. In this perspective, the use of terms such as 'capitalism' and 'capitalist state' includes an identification of the nature of domination.

From this perspective, Thailand's growth and development during the past century is a part of a capitalist transformation that has irreversibly altered the patterns of social, economic, and political relations. The period of growth from the late 1950s, culminating in the boom of the 1986-96 period, saw a rapid advance of capitalist relations throughout the country, and the rise and diversification of competing capitalist groups, together with increased attention from internationalised capital.

Marxist political economists, then, see the crisis as a moment in this development process. In explaining the crisis they pointed to issues sometimes down played in other approaches—over-expansion, over-production, declining earnings, and the cyclical and crisis-prone nature of capitalism (see Hewison 2000a). Crises are thus unavoidable elements of the logic and contradictions of capitalist production. They also recognise that a crisis will be associated with a recomposition of capital. The tendency for competition among capitalists to become more intense, and for capitalists to turn on each other in times of crisis, means that they invariably result in bankruptcies, mergers, and acquisitions. The crisis is thus 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. Although domestic capitalists did exceptionally well during the boom, they are now restructuring locally, but also face competitive pressure from international capital.
In the remainder of this chapter an interpretation of the development of Thailand's capitalism will be outlined. It relies on the characterisation of an accumulation regime in each of the epochs examined. The analytical task is not so much to identify 'good' and 'bad' policy in each epoch, but to outline the ensemble of class forces and the conflicts that led to the emergence of particular policy responses. This means that emphasis will be on delineating the class relations involved in capitalist development, the changing international context of development, the role of the state, and the way in which policy reflects patterns of domination.

The political economy of capitalist development

Early periods of development

While significant socioeconomic change was already under way, Thailand's nascent capitalism was boosted with the signing of the 1855 Bowring Treaty. From this time Thailand became enmeshed in trading patterns that were on Western terms and involved notions of 'free trade', marking the emergence of modern Thailand (Hong 1984; Nidhi 1982).

At the time the relatively small population was overwhelmingly a peasantry engaged in subsistence production. This production took place within family and community units (Chatthip 1999). The links between these and the royal state weakened as distance from administrative centres increased, with state control manifested in obligations on the population, to be met through slavery, corvée labour, military service, or in the delivery of valuable, often tradeable, commodities. External trade was controlled by royalty and nobles who were also state officials, and included important foreign minorities (Reid 1995). They also dominated the class and political structures, drawing their wealth and power from their control of labour, land, and trade. The monarchy, although often in competition with leading noble families, kept close control of government, and developed a highly personalised state, focused on the person of 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 administration. Territorial boundaries were more carefully defined and national and provincial administration was reformed (Tej 1977; Thongchai 1994). Third, these changes created opportunities for a rapid expansion of exports, initially of rice, and later in timber, rubber, and
these commodities remained Thailand's main exports until the 1960s. By 1900 the monarchy had become particularly strong, supported by an increasingly modern military and bureaucracy. Opposition to the regime was vigorously suppressed, and political decision-making tightly controlled 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 free peasantry. The ruling class of lords and nobility increasingly came to rely on land, taxation, and the control of business for their wealth and that of the state (Hong 1984). The development of business, focused on the export trade, saw the ruling class and state—there being little distinction between state assets and those of the monarch—entering into alliances with foreign and Chinese business. This foreign and Chinese business became an important part of the reforms, as tax farmers and business leaders in the new economic system. Tax-farming allowed the state to convert its revenue system to one based on money rather than on commodities and labour services. In business, Chinese merchants, royals, aristocrats, and Western interests developed a supportive, yet still competitive, business structure (Suehiro 1989). Additionally, myriad Chinese merchants and traders spread throughout Thailand, establishing businesses and shops and enhancing commodity trade.

The Chinese also became wage labourers. Labour was in short supply in Bangkok and the southern mines. This was partly due to the small population, but also because Thais, freed from labour obligations, took advantage of agricultural opportunities. The result was that, from the late 1880s to the 1930s, there was an addition of one million Chinese to the population, and they dominated the working class until the 1960s.

Domestic and international events in the 1920s and 1930s brought dramatic change. 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 (Batson 1984; Copeland 1994). 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 in a well-planned coup, establishing constitutional rule.

Among other things, the overthrow of the monarchy established new economic and political ways. Although still not a fully fledged capitalist system, the commercialisation, monetisation, and commodification of the economy were well established by the 1930s. The overthrow of the monarchy's accumulation regime was an important step towards a modern
economic system. Although unable to entrench the alternative constitutional form, 1932 was a move against unrepresentative politics (Nakarin 1992). Initially brought together by economic nationalism and their opposition to the monarchy and its state, the People's Party government split over economic policy and political representation. Even though no agreement could be reached on these fundamental issues, the regime was held together through its opposition to royalist anti-government plots.

The period from 1932 to 1957 saw continuing conflict between royalists and the People's Party, while debate over economic policy was dominated by nationalism and concerns over state intervention (to stimulate industry and improve the lot of farmers). Initially bitter, with accusations of 'Bolshevism', the dispute eventually centred on the degree of intervention. The result was poorly developed policies promoting ethnic Thai non-agricultural employment and investment. Where necessary or politically expedient, this meant investments by the state and its enterprises.

World War II saw much destruction of infrastructure and the temporary eclipse of the military. However, after the military seized power in 1947, economic policy and practice became more closely associated with senior political figures. Despite military control, there was no widespread opposition to private enterprise. Rather, a haphazard state-led approach to industrialisation developed. State investments were promoted to reduce foreign imports and as an example for the private sector. Riggs (1966) 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.12

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 powerful leaders—the increasingly personalised arrangements required by the existing accumulation regime meant an uncertain investment climate. Demands that the state's investment role be limited to infrastructure received the support of foreign businesses. US companies, the largest foreign investors, took the lead in pressuring the government to be more receptive to foreign capital, and were supported by the use of official aid to encourage positive attitudes (Hewison 1985:276–7).

The coups of 1957–58 that brought General Sarit Thanarat to power ushered in an era of political, social, and economic change. The new government evidenced a determination to promote private rather than
state investment. This enthusiasm developed from the realisation that a number of shaky state enterprises could not be saved, and coincided with a range of reports by international organisations recommending increased support for the private sector, import-substituting industrialisation (ISI), and a state restricted largely to infrastructure development (World Bank 1959). These reports echoed a sentiment regarding development strategy that had emerged among a rising group of young civilian officials who took important positions in Sarit’s economic agencies. In politics, Sarit established a system of ‘despotic paternalism’, where a highly authoritarian government was determined to establish order and stability, and make Thailand progressive and ‘civilised’ (Thak 1979).

The era of import-substitution industrialisation

A seminal World Bank (1959:94–106) report urged an ISI strategy with generous promotional privileges. Sarit and his advisers accepted these recommendations and moved quickly to expand manufacturing through increased incentives to private investment. The first national development plan (1961–66) reinforced these policies and the government accepted US and World Bank assistance in implementing the plan, revising the Promotion of Investment Act (1960) and other pro-business policies, and directing state investment to infrastructure.

The focus on industry did not mean that agriculture was neglected. Indeed, in addition to ISI, the first plan emphasised agricultural development. The government was keen for agricultural exports to grow as this allowed capital to be drained from rural areas and directed to industry. Sarit’s policies targeting industry and foreign investment, saw substantial investment in manufacturing. For local business the government’s approach meant more room to invest, free of state competition. For budding industrialists, the government granted the tariff protection required to develop domestic manufacturing further. Foreign manufacturers were also keen to establish behind protective barriers. The government’s emphasis on foreign investment was explained as an effort to overcome shortages of capital, technology, and entrepreneurial skills (Hewison 1985:280–1).

The government created a number of agencies to support ISI, including the Board of Investment (BOI)—a national planning office, later named the National Economic and Social Development Board (NESDB)—and a revamped Ministry of Industry. ISI was reflected in the first and second development plans (1967–71), with the bulk of capital invested with government promotional privileges going to import-substituting industries.
Agricultural taxation and the extraction of household savings into the commercial banking sector assisted by providing capital for industry (Silcock 1967b; Jansen 1990).

Manufacturing's contribution to GDP rose significantly (see table 3.1, below). 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 (Hewison 1989:ch. 8) 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. The families also maintained excellent relations with powerful political figures.

Table 3.1 GDP by industrial origin, selected years, 1960, 1971, 1980 (%)

<table>
<thead>
<tr>
<th>Sector</th>
<th>1960</th>
<th>1971</th>
<th>1980</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>39.8</td>
<td>29.8</td>
<td>24.9</td>
</tr>
<tr>
<td>Mining and quarrying</td>
<td>1.1</td>
<td>1.5</td>
<td>1.6</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>12.5</td>
<td>17.5</td>
<td>20.7</td>
</tr>
<tr>
<td>Construction</td>
<td>4.6</td>
<td>5.5</td>
<td>5.7</td>
</tr>
<tr>
<td>Electricity and water supply</td>
<td>0.4</td>
<td>1.8</td>
<td>1.9</td>
</tr>
<tr>
<td>Transport and communications</td>
<td>7.5</td>
<td>6.7</td>
<td>6.4</td>
</tr>
<tr>
<td>Wholesale and retail trade</td>
<td>15.2</td>
<td>17.1</td>
<td>16.5</td>
</tr>
<tr>
<td>Banking, insurance, and real estate</td>
<td>1.9</td>
<td>4.2</td>
<td>6.0</td>
</tr>
<tr>
<td>Ownership of dwellings</td>
<td>2.8</td>
<td>1.9</td>
<td>1.5</td>
</tr>
<tr>
<td>Public administration and defence</td>
<td>4.6</td>
<td>4.3</td>
<td>4.2</td>
</tr>
<tr>
<td>Services</td>
<td>9.6</td>
<td>9.7</td>
<td>10.6</td>
</tr>
</tbody>
</table>

Source: Bank of Thailand, National Income of Thailand, various issues

ISI saw the development of a larger and more diverse working class, coinciding with the class's ethnic and gender transformation. Following the cessation of large-scale Chinese immigration before World War II, ethnic Thais moved into industrial employment, some temporarily, but increasingly on a permanent basis. Although 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 period (Hewison 1989:215). Increasingly, too, women began to move into manufacturing employment.
ISI policies protected the big 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 (Pasuk and Baker 1995:130-8). State officials also supported the ISI accumulation regime, and there was little policy commitment to a more export-oriented strategy.

**Export-oriented industrialisation: the boom**

Change required an external 'shock', threatening profits, if EOI—meant to be based on a nation's advantage in producing commodities for a world market, utilising cheap labour—was to be supported by major business and political interests.

Critics of ISI argued that it was too limited by the relatively small domestic market and created disincentives to export (Hewison 1989:118-21). Calls for the promotion of export manufacturing were made in the late 1960s, but these were mainly from technocrats, and there was no great business pressure for change while growth continued and profits were maintained. In fact, under pressure from domestic capitalist groups, protection for import-substituting manufacturing actually increased through the 1970s and into the early 1980s (Pasuk and Baker 1995:144-5). It was not until the mid 1980s that EOI policy was established. The required shock was an economic downturn in the mid 1980s.

This downturn resulted from of a confluence of events. 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 from the late 1970s. Third, the nature of international investment was changing, with a major relocation of East Asian firms to cheaper labour sites in South-East Asia. Fourth, the second oil crisis saw the government seeking loan funds, significantly raising public-sector debt. Fifth, military assistance 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 (Hewison 1987:61-76; Pasuk and Baker 1996:ch. 4).

The downturn had a substantial impact on business. Growth continued, but was the lowest for years. Bankruptcies mushroomed, investment dropped precipitously, unemployment increased, and even the biggest and
strongest companies reported flat profits or their first losses for years. The downturn also indicated significant problems for state policy. Budget deficits ballooned, official debt reached unprecedented levels, and trade and current account balances were negative and increasing. Even before commodity prices began their steady decline, agriculture was doing poorly. Reflecting the policy emphasis on industry, government and business were little interested in the agricultural sector, 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 (1996:65–6) point out, technocrats were split on the appropriate response to the downturn, and even entreaties from the powerful banking and textile sectors, and from the World Bank, brought few decisions. It was the belated recognition that agricultural prices were not about to save economic growth that brought a major devaluation and a concerted move to embrace EOI. The devaluation did much to make Thailand's cheap labour 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, from average annual growth rates of 6 per cent in the 1960s to 11 per cent in the 1970s, and rising to over 16 per cent per year in the 1980s. Annual rates in excess of 10 per cent were maintained in the first half of the 1990s. But 1996 saw no increase, a warning of things to come. The wider economic significance of the move to EOI can be seen in the data presented in table 3.2.

### Table 3.2 GDP by industrial origin, 1985–98 (%)

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</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>15.8</td>
<td>12.7</td>
<td>11.1</td>
<td>11.0</td>
<td>12.9</td>
<td>14.8</td>
</tr>
<tr>
<td>Mining and quarrying</td>
<td>2.5</td>
<td>1.6</td>
<td>1.2</td>
<td>1.4</td>
<td>1.8</td>
<td>1.7</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>21.9</td>
<td>27.2</td>
<td>28.2</td>
<td>28.4</td>
<td>26.6</td>
<td>27.4</td>
</tr>
<tr>
<td>Construction</td>
<td>5.1</td>
<td>6.2</td>
<td>7.3</td>
<td>7.4</td>
<td>6.0</td>
<td>3.8</td>
</tr>
<tr>
<td>Electricity and water supply</td>
<td>2.4</td>
<td>2.2</td>
<td>2.4</td>
<td>2.3</td>
<td>2.6</td>
<td>2.8</td>
</tr>
<tr>
<td>Transport and communications</td>
<td>7.4</td>
<td>7.1</td>
<td>7.3</td>
<td>7.3</td>
<td>8.7</td>
<td>8.6</td>
</tr>
<tr>
<td>Wholesale and retail trade</td>
<td>18.3</td>
<td>17.6</td>
<td>16.2</td>
<td>15.5</td>
<td>14.0</td>
<td>13.9</td>
</tr>
<tr>
<td>Banking, insurance, real estate</td>
<td>3.3</td>
<td>5.5</td>
<td>7.5</td>
<td>7.6</td>
<td>6.6</td>
<td>5.4</td>
</tr>
<tr>
<td>Ownership of dwellings</td>
<td>4.2</td>
<td>3.0</td>
<td>2.4</td>
<td>2.4</td>
<td>2.5</td>
<td>2.7</td>
</tr>
<tr>
<td>Public administration and defence</td>
<td>4.6</td>
<td>3.5</td>
<td>3.7</td>
<td>3.7</td>
<td>4.2</td>
<td>4.5</td>
</tr>
<tr>
<td>Services</td>
<td>14.5</td>
<td>13.3</td>
<td>12.8</td>
<td>13.1</td>
<td>14.1</td>
<td>14.3</td>
</tr>
</tbody>
</table>


The change in the relative shares of the manufacturing and agricultural sectors in the economy is remarkable (see figure 3.1, page 85). In 1960 agriculture was the most important economic sector. It accounted for 40 per
cent of GDP, and most exports, and employed the bulk of the population. Manufacturing made a relatively small contribution to production and employment. The transition took place in the early 1980s. By the mid 1990s, agriculture produced just 11 per cent of GDP, ranking lower than manufacturing, trade, and services. Rapid industrial growth saw manufactured exports expand from just 1 per cent of total exports in 1960 to a whopping 75 per cent by the early 1990s (TDRI 1992:6). This does not mean that agriculture has shrunk. It too has grown, but far less rapidly than manufacturing.

In 1960, 82 per cent of the economically active population was in agriculture. By 1996 this had declined to just 48 per cent (Economic Section 1998:9). 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 (TDRI 1999:14). Women made up half of the manufacturing workforce by 1992 (Yada 1998:126).

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 almost

---

**Figure 3.1 GDP in agriculture and manufacturing, 1960–98**

![GDP in agriculture and manufacturing, 1960–98](image)

*Sources: Bank of Thailand, National Income of Thailand, various issues; TDRI (1995; 1998); Bank of Thailand (2000)*
five times that of the state. 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 in 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 (Board of Investment 1995; 2000).

Behind these figures was the reality of a powerful domestic capitalist class that expanded rapidly during the 1980s. This expansion saw the class become increasingly diverse. There was also considerable stimulus from foreign investors (Jansen 1997). Domestic investors remained positive towards foreign investment, often preferring joint-ventures when entering new business sectors. Foreign investment was seen as a barometer of business confidence, giving it considerable political significance. As seen in table 3.3 (below), the inflows of foreign capital increased substantially in the late 1980s and remained high until just before the 1997 crash. It is of interest, however, that direct foreign investment (DFI) increased during the early crisis period (discussed below).

Table 3.3 Flows of foreign capital, 1986–98

<table>
<thead>
<tr>
<th>Year</th>
<th>Net DFI (US$ million)</th>
<th>% Change on previous year</th>
<th>Total capital flows (US$ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1986</td>
<td>276.3</td>
<td>55.5</td>
<td>-376</td>
</tr>
<tr>
<td>1987</td>
<td>361.7</td>
<td>30.9</td>
<td>896</td>
</tr>
<tr>
<td>1988</td>
<td>1 118.5</td>
<td>209.2</td>
<td>2 926</td>
</tr>
<tr>
<td>1989</td>
<td>1 827.9</td>
<td>63.4</td>
<td>5 780</td>
</tr>
<tr>
<td>1990</td>
<td>2 587.8</td>
<td>41.5</td>
<td>9 910</td>
</tr>
<tr>
<td>1991</td>
<td>2 055.6</td>
<td>-20.6</td>
<td>10 726</td>
</tr>
<tr>
<td>1992</td>
<td>2 150.6</td>
<td>4.6</td>
<td>9 630</td>
</tr>
<tr>
<td>1993</td>
<td>1 674.9</td>
<td>-22.1</td>
<td>10 636</td>
</tr>
<tr>
<td>1994</td>
<td>598.1</td>
<td>-64.3</td>
<td>12 229</td>
</tr>
<tr>
<td>1995</td>
<td>1 995.5</td>
<td>233.6</td>
<td>21 803</td>
</tr>
<tr>
<td>1996</td>
<td>2 298.9</td>
<td>15.2</td>
<td>19 741</td>
</tr>
<tr>
<td>1997</td>
<td>3 751.8</td>
<td>63.2</td>
<td>-8 637</td>
</tr>
<tr>
<td>1998</td>
<td>5 546.7</td>
<td>47.8</td>
<td>-15 593</td>
</tr>
</tbody>
</table>

Note: For the period 1986–96, US$1 was exchanged at about 25 baht. In 1997, after devaluation, US$1 was averaged at 31.37 baht, whereas, for 1998, the figure was 37.84 baht.


The sources of DFI altered with the expansion of investment. In 1984 the USA was the largest investor but, by 1986, Japan had this position. Japan's net investments increased nine-fold between 1987 and 1990, and accounted for about 44 per cent of all DFI. Interestingly, Japan, the USA, and Hong Kong remained the largest investors throughout the period.

Although foreign investment was strategically important, local business investments were far greater. For most of the period between 1960 and
1994, although foreign investment increased steadily, its contribution to
gross capital formation usually remained in a range of 1–8 per cent
(Hewison 1989:112; Pasuk and Baker 1996:35). Even among BOI-
promoted firms, between 1960 and 1993, approximately two-thirds of
registered capital was identified as domestic (Board of Investment 1995:11).
These levels of DFI are relatively low when compared with other ASEAN
ment may have sparked the [post-1986] boom . . . [but] Thai investments
made it a big boom’.

The boom, driven by ballooning exports, pulled the domestic market
along. Bangkok and other urban centres experienced investment booms
that saw markets expand and diversify, especially in real estate, construc­
tion, and wholesale and retail trade. The outcome was the emergence of an
expanded capitalist class (Pasuk and Baker 1995:ch. 5; Pasuk and Baker
1996:chs 3–4). This resulted in a challenge to the financial dominance of
the big banks. As noted above, the banks and their controlling families
managed the supply of domestic investment funds. From the late 1970s,
however, some technocrats sought to reduce the economic power of these
families. It was decided that a limit on bank ownership in other business
sectors and a widening of bank ownership would enhance growth
(Hewison 1989:191). The dilution of family holdings was already under
way as the families were unable to keep pace with the capital expansion
requirements of their bank. However, it was only the expansion of the
boom that was able to loosen banking family control in other business
sectors.

Although the banks did well from the boom, and were aggressive in
financing exports, a range of factors challenged their dominance.

First, the post-1985 increase in DFI saw foreign investors seeking local
partners. The level of demand was such that it went well beyond the bound­
aries of the bank-dominated cliques.

Second, policy change saw controls on capital flows eased, meaning that
domestic borrowers were able to go beyond domestic banks. Another
important change was the ability to borrow overseas. At the same time,
increased numbers of foreign banks were established in Thailand, and were
particularly aggressive in their corporate and business lending. In addition,
merchant banking expanded significantly, and several small finance com­
panies were in a position to expand their activities, especially as they were
also freed from reliance on the commercial banks.16

Third, the banks were challenged by the expansion of the Stock Exchange
of Thailand (SET). The SET had existed for years, but had been hampered
by a lack of investor confidence, particularly after a finance sector crisis in
1979 (Hewison 1981). However, following the Wall Street crash of October 1987, the SET took off, and capitalisation and turnover expanded markedly (see table 3.4, below). Although still volatile, the SET became attractive to both local and international investors. It mobilised large amounts of capital, loosening the grip of the banks on finance and industry. An important factor in this was the establishment of international securities and brokerage companies in Bangkok (Pasuk and Baker 1996:39).

Table 3.4 Selected statistics on the Stock Exchange of Thailand, 1985–99

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual turnover (US$ billion)</td>
<td>0.6</td>
<td>25.1</td>
<td>52.1</td>
<td>29.6</td>
<td>20.7</td>
<td>42.5</td>
</tr>
<tr>
<td>Average daily turnover (US$ million)</td>
<td>2.5</td>
<td>101.6</td>
<td>213.6</td>
<td>120.0</td>
<td>84.7</td>
<td>173.6</td>
</tr>
<tr>
<td>SET Index (end of period)</td>
<td>134.9</td>
<td>649.4</td>
<td>910.3</td>
<td>447.2</td>
<td>331.3</td>
<td>395.5</td>
</tr>
<tr>
<td>Market dividend yield (%)</td>
<td>8.2</td>
<td>3.6</td>
<td>3.5</td>
<td>6.0</td>
<td>1.3</td>
<td>0.6</td>
</tr>
<tr>
<td>Number of quoted companies</td>
<td>97</td>
<td>214</td>
<td>454</td>
<td>431</td>
<td>418</td>
<td>392</td>
</tr>
<tr>
<td>Market value capitalisation (US$ billion)</td>
<td>2.0</td>
<td>24.5</td>
<td>102.4</td>
<td>36.1</td>
<td>30.7</td>
<td>58.0</td>
</tr>
</tbody>
</table>


For many rising capitalists the expansion of the SET and financial liberalisation were liberating, as they were finally free of the control of the banking families. A range of companies and groups emerged to challenge those who were powerful during the ISI period. Many saw the SET as an unlimited source of funds and an expression of the free-wheeling spirit of capitalism. Manipulation was not unusual, especially as regulation was deliberately loose (Handley 1997).

The result was a larger, more diverse, capitalist class. The dominance of banking and industry was challenged. These areas remained important, but remarkably wealthy capitalist groups were produced by the widened financial sector, and by telecommunications, real estate, tourism, and a range of services (Handley 1997). Some of these upstart business groups even chose to challenge the big families on their own ground, in banking, and there was a number of takeover battles among the smaller banks. Huge profits were made and, although much was reinvested, consumption spending also increased markedly, further expanding the domestic market, but setting the scene for the 1997 bust.

The accumulation regime of the ISI era had seen a small capitalist group dominant, buttressed by its relationships with powerful political figures. Technocrats tended to have control of economic policy-making, but this did not amount to independence. The EOI-driven boom disrupted these relationships. Although many of the links remained, the nature of
Thailand's capitalism meant that technocrats were more concerned to manage an economy that enhanced expanded accumulation, being less particularistic and more concerned with the health of capital in general. This was a better strategy for dealing with a diversified business community. However, the expansion of electoral politics, where success depended on access to enormous quantities of money, saw business and elected politicians establishing relationships not unlike those between officials and business under ISI.

Thailand's consistent economic growth from the late 1950s to 1997 was not unreservedly positive. A range of negative issues was identified (see Medhi 1995). Before examining the crisis, it is appropriate to discuss briefly a central problem of the boom, wealth distribution.

**Wealth distribution and the boom**

The World Bank (1993) 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 3.2 (below), rapid increases in per capita incomes brought significant reductions in absolute poverty. These figures are, however, based on unrealistically low poverty lines. But even if a still very low per-capita figure of US$1 a day is used, whereas 33.6 million were below the poverty line in 1988, this had been reduced to just 9.1 million in 1996 (TDRI 1998:23). People outside the agricultural sector did best.

Significantly, however, income and wealth distribution became increasingly skewed (see figure 3.3, page 90). In urban areas, where workers have

![Figure 3.2 Poverty incidence, 1975/76–1996](image)
made significant contributions to economic growth, they have not 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. The related phenomenon of widespread exploitation of women and children in small factories and sweatshops is also well known (see Mathana 1995).

Many analysts and policy-makers had expected, and had repeatedly restated their 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 economist, ‘... much has been accomplished ... Measured against what is possible to achieve with ... five decades of growth, much is wanting’ (Ammar 1996:5).

Distribution was most inequitable between rural and urban incomes. The principal reason for this is that smallholder agriculture had become a marginal way of making a living. This is illustrated by comparing population and productivity of the various regions. Bangkok dominates. Most industry is clustered around the capital, meaning that the area is highly productive. Generally, as distance from the centre increases and agricultural activities become more significant, productivity decreases. This is most noticeable for the north-east, the most populous region and heavily reliant on agriculture. The result is that its productivity is low, poverty is high, migrant labour is common, and incomes are the lowest of all regions. Interestingly,

**Figure 3.3** Income distribution, 1975/76–1996

![Income distribution chart](image)

*Sources: TDRI (1992; 1995; 1998; 1999)*
despite governmental efforts to decentralise development, the gaps have widened.

Some planners and politicians began to view the issue of distributing the benefits of growth as suggesting a potential for conflict (Nation 1992). This was a shock as growth had been expected to solve such social problems. Protracted debate led to a recognition that agriculture would stagnate and income disparities could worsen further. The policy answer was to encourage industrial activity in rural areas (NESDB n.d.:99–104). It was considered that this would enhance trickle-down effects in provincial areas, while not compromising growth, and would expand export-oriented industry.

However, this approach did not achieve any short-term impact on distributional issues. There was little consensus in business or government on the need for higher-level skills. 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. These debates were temporarily abandoned when the 1997 crisis hit.

There were other signs that the economy faced problems. 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 before 1997. The 1996 failure of the Bangkok Bank of Commerce 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.

Thailand: the bust and beyond

There has been a range of explanations for the Asian crisis (see chapter 1, this volume). From these, several important issues emerge for Thailand. Particularly significant were the downturns in investment and exports already noted, partly attributable to the high value of the baht. There was also over-capacity in a range of sectors, including electronics, household appliances, auto construction, textiles and garments, footwear, electricity generation, real estate, and heavy industry (especially cement, petro-chemicals, and steel). Despite this, 'hot money' poured into unproductive areas and sectors with over-capacity (US Embassy 1998:1). These factors eventually brought a 'price collapse' and an erosion of 'the rates of return
on new capital invested’ (Bank for International Settlements 1998:35–6, 117). In addition, as already noted, the troubles of the finance sector in 1996 saw investor confidence begin to weaken.

The 2 July 1997 devaluation marked the beginning of a downward economic spiral. The IMF brokered a US$17 billion support package, demanding substantial reform and restructuring from Thailand’s government. The IMF response was based on orthodox economic assessments of the crisis. This was no surprise as the World Bank and IMF had implemented similar programs in Africa, Latin America, and Eastern Europe. What was something of a surprise for these international institutions was that the package deepened the downturn, arguably causing the depression that followed. Devaluation meant the end of many businesses, with hundreds closing in all sectors. The resulting social and economic impacts were substantial (Hewison 2000a). There is no need to detail the events of the crisis here. Rather the focus will be on the class outcomes and the impact on the EOI accumulation regime.

As noted above, crises are elements of the logic and contradictions of capitalist production that include cycles of over-expansion and over-production. Crises also mean a recomposition of capital, as competition becomes intense among capitalists. Invariably there are bankruptcies, mergers, and acquisitions. Such processes are now components of globalised capital accumulation and cycles of crisis. In Thailand, the boom emerged from the mid 1980s crisis. This crisis marked a significant restructuring of domestic capital, responding in part to global economic and competitive change. The crisis of the late 1990s resulted from tendencies generated by the boom. Domestic capital is again faced with the need to restructure under renewed domestic competitive pressure and by aggressive international capital. One result has been a massive reorganisation of ownership and control, including the transfer of assets to other Asian (particularly Japanese), American, and European investors through debt-for-equity swaps, takeovers, investment in devalued local companies, and buy-outs of Thai partners.

The restructuring process has been accepted by significant elements of domestic business, technocrats, and politicians who believe that competitiveness in an era of global capitalism requires open markets and a convergence of regulatory environments (Panitch 1998). Establishing and enhancing these processes was the intent of the IMF, World Bank, and Thailand’s government reforms. The centrality of liberalisation and regulatory reform is indicated in the World Bank’s program. Although the Bank trumpeted social safety nets, by October 1999 only US$43 million were made available through ‘social-sector’ activities. For restructuring in
business and government reform, the total was more than US$2 billion (Shivakumar et al. 2000:20). The crisis provided an opportunity to promote a raft of changes, sweeping aside national laws and regulations considered restrictive. So there were demands for enhanced transparency, stronger financial systems, further liberalisation, reductions in ‘unproductive’ government spending, an end to ‘cronyism’, and more ‘cost-effective’ spending on health, education, the poor, unemployed, and the environment (Ouattara 1998).

This program, albeit with some rolling-back of the IMF’s original monetary extremism, challenged not only the successful boom-period relationships between capital and state, but also that between capitals. It has devastated Thailand’s capitalist class. Foreign currency debts and the liquidity squeeze that came with the IMF’s program crippled many industrial firms, already reeling from weak exports. Initially, financial, real estate, and construction firms dissolved. Land developers fared particularly badly, with few surviving through 1997 and 1998. The finance sector was in tatters, with only a handful of finance and securities companies remaining after 1997. Industrial investment also collapsed, with up to 400 billion baht in approved investment cancelled or delayed by the end of 1997. This was not helped by a plunge in domestic demand. All manufacturers appeared to be struggling in 1997–98, with over-capacity in many sectors (BP 1998d). Survival became the aim as bankruptcies doubled in early 1998, with five thousand companies closing by June 1998 (Nation 1998). Even in early 2000, more than 25 per cent of non-performing loans was in the manufacturing sector (Nation 2000d). The retail sector was also heavily indebted. Low local demand throughout the 1997–99 period made it difficult for this sector to rebound. The result has been that a very large number of the 1990s high-flyers was wiped out by the crisis, many crushed under the weight of their foreign currency loans.

The crisis has had class impacts that go deeper than the destruction of a swathe of boom-time entrepreneurs. The powerful banking families were also challenged as finance companies and banks failed and capital write-downs reduced family holdings in their core enterprises. The crisis marked a significant moment in the competitive reorganisation of banking capital. As noted above, this process had commenced during the boom. A number of the families found it difficult to recover, from the internal conflicts and competitive pressures of the mid 1980s and from state efforts to reduce their power. Banks in this category included the Siam City Bank (Mahadamrongkul family), First Bangkok City Bank (Tejapaibul family), and the Union Bank of Bangkok (Cholvicharn and Penchart families). The Bangkok Bank of Commerce (Jalichandra family) had collapsed in 1996,
despite strong support from political figures. Small family banks, often acting as little more than family treasuries and investment brokers, also came under pressure during the boom. For example, the Laemthong Bank had been the subject of takeover battles, and the Nakornthon (Wanglee family) and the Bank of Asia (Phatraprasit and Euachukiarti families) experienced periods of weakness. The crisis meant serious difficulties for these troubled banks. By October 1998 the government had taken over four struggling banks, and virtually all of the financial sector’s companies were gone.

Many of the smaller banks were unable to attract the new capital required by the Bank of Thailand. When combined with record losses and non-performing loans averaging about 50 per cent (1.78 trillion baht), the survival of all but the largest banks was in question (BP 1998c). Maintaining family control became a major concern. The Siam Commercial Bank was able to convince its major Japanese investors to increase their stakes, and the royal family restructured its vast investments to retain its strong holding. The Bangkok Bank and Thai Farmer’s Bank were able to raise new capital, although this meant moving to 49 per cent foreign ownership, facilitated by their long-standing international connections, especially with US investment banks. The shareholdings of the powerful Lamsam (Thai Farmer’s Bank) and Sophonpanich (Bangkok Bank) families had already been diluted during the 1980s, but these families have been able to maintain management control.21

As shown in table 3.5 (page 95), foreign investors have made significant inroads into the banking sector. This will mean significant changes in the structure of business and the capitalist class. As already noted, the banking sector has been the most powerful fraction of domestic capital in the period since 1957. Formerly protected, family dominance is now seen in only four banks. Foreign owners and minority shareholders change the patterns of doing business, suggesting the end of bank-based conglomerates that has been so central to development since the late 1950s.

Foreign capital has been supportive of the government’s reforms and restructuring, carping only when the pace slows. This is hardly surprising given the great advances that foreign capital has made. Foreign investors have made numerous demands of the government, including reform of alien business laws, revisions to duties, taxes and customs procedures, privatisation, transparency, an end to corruption, and further liberalisation in all sectors (BP 1998b).

Interestingly, the government and big local business have also been supportive of the reforms. The boom, but especially the crisis, emphasised the highly competitive nature of international and regional capitalism. As shown in table 3.5 (page 95), those banks that have survived, avoided state
### Table 3.5 Thailand's banks, 1997-99

<table>
<thead>
<tr>
<th>Bank</th>
<th>Foreign stake (March 1997)</th>
<th>Situation at end of 1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangkok Bank</td>
<td>25.0%</td>
<td>raised capital; 48.78% foreign stake; significant share held by Singapore Investment Corporation</td>
</tr>
<tr>
<td>Thai Farmer's Bank</td>
<td>25.0%</td>
<td>raised capital; 48.98% foreign stake; 3% stake held by Singapore Investment Corporation</td>
</tr>
<tr>
<td>Siam Commercial Bank</td>
<td>25.0%</td>
<td>raised capital; 49% foreign, mainly Japanese stake</td>
</tr>
<tr>
<td>Bank of Ayudhaya</td>
<td>24.9%</td>
<td>40% foreign stake; resisted state recapitalisation; Ratanarak family sold other assets to retain the bank</td>
</tr>
<tr>
<td>Thai Dhanu Bank</td>
<td>9.4%</td>
<td>Development Bank of Singapore has 51% stake; now DBS Thai Dhanu Bank</td>
</tr>
<tr>
<td>Bank of Asia</td>
<td>6.1%</td>
<td>75% owned by ABN Amro</td>
</tr>
<tr>
<td>Nakornthron Bank</td>
<td>5.6%</td>
<td>73% owned by Standard Chartered Bank; now Standard Chartered Nakornthron Bank</td>
</tr>
<tr>
<td>Radanasin Bank*</td>
<td>n.a.</td>
<td>75% owned by United Overseas Bank of Singapore</td>
</tr>
<tr>
<td>First Bangkok City Bank</td>
<td>n.a.</td>
<td>merged with Krung Thai Bank in late 1998</td>
</tr>
<tr>
<td>Siam City Bank</td>
<td>n.a.</td>
<td>taken over by government</td>
</tr>
<tr>
<td>Bangkok Metropolitan Bank</td>
<td>approx. 5%</td>
<td>Tejapaibul family lost control when government took over; for sale to a foreign bank</td>
</tr>
<tr>
<td>Thai Military Bank</td>
<td>approx. 12%</td>
<td>military ownership diluted; reluctant to bring in foreigners; recapitalisation long delayed; Thaksin Shinawatra has acquired a substantial stake</td>
</tr>
<tr>
<td>Laemthong Bank</td>
<td>n.a.</td>
<td>taken over by government and merged with Radanasin Bank</td>
</tr>
<tr>
<td>Krung Thai Bank</td>
<td>approx. 7%</td>
<td>state bank; mired in non-performing loans and corruption scandals</td>
</tr>
<tr>
<td>Union Bank of Bangkok</td>
<td>n.a.</td>
<td>taken over by the state and then merged with 13 finance companies (also seized by government) to form BankThai</td>
</tr>
<tr>
<td>Asia Trust Bank</td>
<td>n.a.</td>
<td>defunct before the crisis</td>
</tr>
</tbody>
</table>

*Created from Laemthong Bank and several finance and securities companies, all of which had been taken over by the government

* n.a. means no data available or not applicable

Sources: Bangkok Post (editorial staff) (1998); BP (1998a; 1999); Nation (2000a; 2000b; 2000c; 2000e); TEM (2000); SET (2000b)

Takeover, and maintained majority Thai ownership and control of banks, all had significant levels of foreign investment before the crisis. With the exception of the Bank of Ayudhaya, each also had significant international or regional operations. EOI had required more internationally competitive banking, and internationalisation revealed weaknesses in the structure of the industry. The big banks, although realising the risks of increased competition, were keen that the government push through further reforms. In
addition, the fact that the high level of non-performing loans threatened these banks suggested the need for a way to retreat from the business practices established during the boom. To survive and compete, the banks realised that it was in their long-term interest to establish better rules. In the industrial sector it has become clear that the same patterns are emerging, with export-oriented firms appearing to recover quickest.

Although a new accumulation regime is still emerging, it is clear that this will involve a more significant role for foreign capital, a restructured domestic capitalist class (in which export-oriented and internationalised capital will be most powerful), and a state–capital relationship that will be increasingly rules-based. The last will see the government's economic role limited and more attention given to regulatory activities. Further privatisation and liberalisation can be expected. Interestingly, the development of a more rules-based business environment is congruent with reforms in the political sphere, where the 1997 constitution has established numerous rights and responsibilities for citizens and has better defined the roles of politicians and state officials.

Although workers and rural families suffered during the crisis, the focus on regulation and internationalisation might well be in their long-term interest. To be internationally competitive Thai firms must advance beyond low-cost production. This will require better-skilled labour, and investments in improved education and training by the state and capital. This could eventually benefit the poor.

Conclusion

Thailand's economic development can be judged successful in growth terms. The crisis has not altered this judgment, even though it has prompted a reconsideration of the reasons for economic achievement and failure, and the role of the state. Before the crisis, some concluded that Thailand offered little theoretical support for the efficacy of either interventionist or minimalist states. Others argued that Thailand's growth might have been higher had it not been for poor state institutions. The crisis focused attention on institutions capable of facilitating markets through rules-based and predictable systems.

This chapter has attempted to demonstrate that this debate is not always enlightening. In general terms, it is not surprising that Thailand's development strategies and plans have supported the expansion of markets and capitalist accumulation. These policies were adopted not necessarily because politicians, bureaucrats, and technocrats were listening to
capitalists or including them in policy-making—sometimes they did—but because structural imperatives demanded that the state support capitalist accumulation.

Beyond the general, the history of Thailand's development has seen the establishment of particular accumulation regimes. These regimes are an amalgam of economic, social and political power, and structure policy development. In other words, policy outcomes are not a measure of the abilities of institutions (state or private) or of the relative insulation of decision-makers. Rather, policy results from competition and conflict over production, profits, wealth, and power. These conflicts are intimately bound to the trajectory of various classes and class fractions. In Thailand, this has been seen in the development, diversification, and competition within domestic capital, and between domestic and international capital. The crisis highlights that these struggles for conflicts are sharpest when capital needs to restructure. Only by understanding the nature of globalised corporate battles can policy outcomes be adequately understood.

Notes

1 Andrew Brown, Garry Rodan, Jane Hutchison, Pasuk Phongpaichit, and Chris Baker provided comments on earlier versions and ideas.
2 These paragraphs are a characterisation. For more detail see Bottomore (1985). Discussions of the development of Thailand's capitalism are in Hewison (1989:16-32) and Pasuk and Baker (1995).
3 For a discussion of the issues involved in the comparative study of capitalist development in Asia and Europe, see Rutten (1994).
4 It should be emphasised that the categorisation used results in a focus on the differences among the various approaches. This is not meant to deny synergies and overlaps between them.
5 The World Bank also has taken up 'social capital' in its post-1997 crisis analysis (Shivakumar et al. 2000), but adopting different definitions from Unger. The Bank assesses the relationship between social capital and the crisis.
6 Writing from a different perspective, Yoshihara (1988), in arguing that Southeast Asian capitalism is ersatz, develops an analysis that produces conclusions close to those of dependency theorists.
7 Note that this report was strongly influenced by new institutionalism. The connections between the two approaches are set out in Peters (1999).
8 His definition is close to Riggs's bureaucratic polity (Hutchcroft 1999).
9 The outline is necessarily schematic. It seeks general patterns in rapid change. Such characterisations are meant to convey the...
particular accumulation regimes, and tend to give less attention to counter-
vailing tendencies.


11 The event is usually portrayed as the replacement of one elite by another. It was far more than this. The People’s Party, although not cohesive or ideologically coherent, established the fundamentals of the political and economic landscape and discourse. It defined a political opposition (royalists), brought the military to political prominence, and raised economic management, modernisation and progress, constitutionalism, representation, and opposition as important issues.

12 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 1989:192–5).

13 Sarit had fewer links to state enterprises than did the leaders of the previous government. His connections were with the private sector (Silcock 1967a:20).

14 The USA had provided substantial aid prior to Sarit, concentrated on military assistance (see Darling 1965). This increased after Sarit came to power.

15 The BOI made no particular distinction between foreign and domestic investors. Promotional privileges to foreign firms have also been available to domestic investors, although a few areas of employment were reserved for Thais. The privileges have been generous. In addition to guarantees against nationalisation, state monopolies, or government competition, BOI promotion offers incentives such as tax holidays and other taxation relief, import bans on competing products, tax deductions, repatriation of profits, and substantial and additional benefits for exporters (Board of Investment 1995).

16 Some technocrats and smaller business groups pushed these changes as a further attempt to reduce the business power of the banking families.

17 The poverty line used to calculate these figures in 1996 was 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.

18 The focus on distribution became politically significant when electoral politics was dominant. One reason for this was that rural areas provided the majority of national MPs.

19 For example, the Bank of Thailand (1997a:5), reporting the first nine months of 1997, referred to ‘subdued’ economic conditions; this when the crisis was under way. Shortly afterwards, the bank’s annual report referred to ‘severe difficulties’ and a ‘sharp economic slowdown’ (Bank of Thailand 1997b:5–6).

20 The results of the crisis have not been fully played out. Even so, general observations are possible.
An important study by Claessens, Djankov and Lang (2000) indicates the strong control that families had maintained in SET-listed companies to 1996.

References


Board of Investment, *Key Investment Indicators in Thailand*, various issues, with the year publication indicated in each reference.


BP, see *Bangkok Post (BP)*.


NESDB, see National Economic and Social Development Board (NESDB).


SET, see Stock Exchange of Thailand (SET).


TDRI, see Thailand Development Research Institute (TDRI).
TEM, see *Thailand Economic Monitor* (TEM).
US Embassy, see United States (US) Embassy.