In the first decade of the twenty-first century, Thailand is unequivocally a capitalist economy and society. This once agricultural society is now incorporated into a world system of production, exchange, and investment, subjecting its people to the many vagaries associated with international capitalism.

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, transforming a subsistence economy into one in which 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 the norm.

Conceptualising these fundamentals as integral to a system is important. Capitalism, as well as being a way of organising economic production, also structures society. Capitalist enterprise demands a social system in which the working class has at least some of its labour for sale, to be purchased by a much smaller class of business owners and managers. As capitalist globalisation enters a phase that sees production increasingly broken into many component parts because capitalists seek to reduce their costs, national borders are no longer obstacles to internationalised production and trade. Finance, too, has had to become mobile and, as a result of this change, huge sums of money are invested internationally.2

It is sometimes argued that Thailand’s capitalist transition has not matched the history of Anglo-American development (see, for example, Pasuk & Baker 1998:ch. 4). Thailand’s progress has not followed the same trajectories as that of Britain, Japan, or the US; however, Thailand’s transformation has much that is recognisable in other experiences of capitalist transition. Thailand’s capitalist development has been rapid and has deeply transformed society. Capitalist revolutions involve a rearrangement of the forces that rule a society. New elites are created while old elites struggle to maintain their economic, social, cultural, and political power. At the same time, subordinated classes are reconfigured. Of course, such transformations involve considerable political activism and are inevitably highly contested.

Thailand’s transformation was underpinned by a remarkable period of uninterrupted growth from 1957 to 1996 (Warr & Bhanupong 1996). While the Asian economic crisis ended this growth period, and dramatically demonstrated Thailand’s integration into the global capitalist system, economic expansion again resumed from 1999. Contestation over the shape of this development and over the benefits that flow from it are both economic and political. It is these struggles that are the focus of this chapter. In examining contestation, the analysis will follow two main dimensions of struggle: the first is conflict between classes, focused on the contest between capitalists, workers, and other subordinated classes; the second is the conflict within the capitalist class itself. In outlining these patterns, the accumulation regime of each of the epochs examined will be delineated. The analytical task is not so much to identify good and bad economic 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 outline is necessarily schematic. It seeks to determine general patterns in periods of rapid change and to convey the essence of particular accumulation regimes.

This perspective is explicitly grounded in the social conflict approach outlined in chapter 1 of this volume. As was noted in that chapter, this is not
the only interpretation of capitalist development in the region. It is, therefore, appropriate to begin this chapter with a brief outline and critique of the theoretical debates; however, as chapter 1 has detailed the general approaches that analysts have taken, this first section will elaborate upon these only for Thailand. Following this, the chapter turns to the story of contestation over the control and outcomes of Thailand’s capitalist transformation over the last 150 years, paying particular attention to the last five decades.

A SKETCH OF THEORETICAL APPROACHES

Modernisation approaches

The dominant perspectives on Thailand’s society and politics remain much influenced by modernisation theory. This theory characterises Thai society as ‘loosely structured’, 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, Riggs famously analysed Thailand as a ‘bureaucratic polity’, a conception of the relations between business and government that remains exceptionally 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 businesspeople 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 that the benefits of development served the interests of the military and bureaucracy first and the masses second. Riggs used bureaucratic polity as a theoretical conceptualisation of the transition from tradition to modernity, while most others who utilise the concept tend to use it as a descriptive category to identify a polity in which the civil and military bureaucracies retain considerable political power and privilege and where society is relatively powerless.

By the 1980s, bureaucratic polity came to be seen as an inappropriate characterisation of a Thailand experiencing rapid economic growth and massive social change. The rise of a powerful and apparently independent business class and the concomitant decline of the military contradicted the Riggian-derived description (see McVey 1992:20–2). They saw the bureaucratic polity replaced by a system in which business had far more autonomy, which led to the historical institutionalist approaches discussed below, where business–government relations were conceptualised as a partnership, albeit characterised by corruption that emerged from patronage (Anek 1992:13–15).

The 1997 economic crash saw a limited resurgence of modernisation perspectives. Unger (1998), for example, 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 Thais, 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 that have deep cultural roots.

Like his modernisation predecessors, Unger operates with models of society, politics, and ethnicity that tend to downplay much of Thailand’s diversity, political competition, repression, and struggle. Like his theoretical predecessors, Unger also pays too little attention to the international dimensions of capitalist development. The relative neglect of these factors means that revised modernisation approaches are unable to capture the full ramifications of Thailand’s recent economic and political development.

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, complicit in the exploitation of their own country (Suthy 1980).

A major problem emerged for this approach when a significant local capitalist class developed. Dependency approaches could only explain this as an artefact of foreign investment. Hart-Landsberg and Burkett (1998), for example, 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 development over several decades.

The Asian economic crisis saw a resurgence of interest in dependency approaches. The attraction lay in its criticisms of the negative impacts of capitalist development and its nationalist economic rhetoric. 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 interests of the majority of the population. Thailand’s development was considered as ultimately unsustainable and dependent on investment decisions made overseas. For these analysts, the 1997–98 crisis demonstrated the power of the major capitalist nations, especially the US, and Thailand’s weakness. They condemned the IMF for taking advantage of
the crisis to demand increased liberalisation that reproduced structures and approaches inspired by the US model of capitalist organisation (Bello 1998; Bullard, Bello & Malhotra 1998:124). Rejecting the IMF program, dependency analysts argued for a nationalist approach to development, including reorientating production to domestic markets and controls on international capital flows (Bello, Cunningham & Li 1998:249). This was seen as the only sure way to avoid domination by rich countries.

While the revised dependency approach directs attention to national responses to the negative impacts of liberalisation and capitalist 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 in the context of the embeddedness of capitalist development in South-East Asia (Hewison 2000b).

**Neoclassical and neoliberal economic approaches**

Despite fads and fashions in development theory, the promotion and sustaining of economic growth has been the central pillar of Thailand’s public policy since the early 1960s. Indeed, international financial institutions have praised Thailand for its conservative economic policy and growth (Warr & Bhanupong 1996). The official view has been that growth is best achieved through the operation of the free market, although this has not always meant adherence to all aspects of neoclassical and neoliberal economic doctrine. Indeed, while the discussion in chapter 1 shows that the neoclassical approach asserted the primacy of market over government, this had to be modified following the success of the East Asian development model. Government was seen as having a role in getting the basics right and setting the legal and institutional frameworks that allow markets to operate.

The Asian economic crisis prompted neoclassical 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 resource misallocation as factors in the crisis. They argued that 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).

The crisis saw these analysts supporting IMF and World Bank market-enhancing reform. This meant considerable attention to issues of so-called good governance. Good governance is usually seen to involve the neoliberal policy orthodoxies of privatisation, liberalisation, and the development of institutions for a rules-based market system. The aim of many governance
projects is public policy developed by technocrats, where they are relatively insulated from political influences. It is assumed that there are universally applicable and technically correct policies available to capable technocrats.

These approaches suggest a narrow appreciation of the social or political nature of institutions and often fail to address the power relations inherent in programs that alter the existing arrangement of political and economic forces. That the market and policies are socially and politically constructed is inadequately considered. Indeed, for Thailand, neoliberal reformers have sometimes suggested that parliamentary politics has been an impediment to good policy development because rent-seeking politicians have obstructed the work of able technocrats (see Christensen et al. 1993:19–20). This proclivity for technocratic solutions to economic problems, while bypassing or ignoring politics and power, is essentially anti-democratic and ignores the fact that democratic struggles have been—and remain—essential elements of Thailand’s modern development. Since the 1980s, for all of these problems, orthodox theory has been transformed into an ideology that has driven the policy agendas of the international financial institutions and most developed country governments, making it an exceptionally powerful doctrine and one that is difficult to challenge. As will be shown later in this chapter, following the Asian crisis, there was a Thai challenge to the orthodoxy, reflective of the economic and political contestation unleashed by the recession.

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 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 comparatively weak states. Unlike the states of North-East Asia, these ‘weaker’ South-East Asian states have not been subject to the popular challenges that led to the emergence of the developmental states (Doner, Ritchie & Slater 2005). 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 & Ramsey 1997:273). Thus, in the face of market failures, a lack of popular challenge, and indifferent or predatory state policies, it has been business driving development.
The Asian crisis brought a re-evaluation. The more state-focused historical institutionalists argued that the extent of the impact of the crisis on 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), echoing Riggs, argues that Thailand has exhibited the characteristics of ‘bureaucratic capitalism’, where the state was relatively stronger than were business interests, and where the state was ‘relatively more patrimonial’. However, the economic boom of 1986–96 saw business establish its collective interest over that of the state. Market liberalisation occurred, with little attention paid 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 was reflective of a weakening of the state interests vis-à-vis those of business (Hutchcroft 1999:474, 495–7).

Such revised approaches were attractive for explaining differences between Thailand and developmental states, and for including historical arguments about the development of power and institutions. However, they have tended to emphasise trust, cooperation, and order among private-sector actors, while downplaying competition and conflict among them. Reform is often seen to be about establishing order, stability, and accountability. 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 factions 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. 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 patterns of social, economic, and political relations. The period of growth from the late 1950s that culminated in the 1986–96 economic boom, saw a rapid advance of capitalist relations throughout the country and the rise and diversification of competing capitalist groups, together with increased attention from international capital.

Marxist political economists, then, saw the Asian crisis as a moment in this development process. In explaining the crisis they pointed to issues sometimes ignored in other approaches—overexpansion, overproduction, declining profits, 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. These analysts also recognise that a crisis will be associated with a recomposition of business. The tendency for competition among capitalists to become more intense and for capitalists to turn on each other in times of crisis means that crises 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 (see Robison, Hewison & Higgott 1987), and the country was again consumed by crisis in the late 1990s. Although domestic capitalists did exceptionally well during the boom, the crisis saw a remarkable reconstruction of the local capitalist class, brought about by both the deepest recession since the 1950s and intense competitive pressure from international capital.

We may now turn to the examination of Thailand’s capitalist development.

THE POLITICAL ECONOMY OF CAPITALIST DEVELOPMENT

Early development

While significant socioeconomic change was already underway in Thailand by the 1850s, the signing of the 1855 Bowring Treaty marked the emergence of modern Thailand and its enmeshment in trading patterns negotiated on Western terms and involving Western notions of free trade (Hong 1984; Nidhi 1982).

In 1855, Thailand’s relatively small population was overwhelmingly a peasantry engaged in subsistence production that was within family and community units (Chatthip 1999). The links between these units and the royal
state often 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 royals and nobles who were also the state’s officials (Reid 1995). Royals and nobles dominated the class and political structures, drawing their wealth and power not just from their control of trade, but also from their command over labour and land. The monarchy, often in competition with leading noble families, kept close control of government, developing a highly personalised state that was focused on the monarch.

Changes to this system emanated from a range of pressures. First, international trade patterns altered, driven by industrial production in the West and the need to sustain colonial empires. This saw Thailand’s exports increase, initially of rice and later of timber, rubber, and tin. Second, colonial aggression in the region and the need to facilitate trade required that the Thai state modernise its administration and more carefully define its territory (Tej 1977; Thongchai 1994). A significant outcome of these changes and reforms was a greatly strengthened monarchy and state. By 1900 the monarchy, supported by a modernising military and bureaucracy, had become absolute. Any opposition to the regime was vigorously suppressed; political decision-making was controlled within the court.

Economic and political change was associated with a transformation of class relations. Slavery and the corvée were eventually discarded by the rulers, resulting in the emergence of a free peasantry. For the ruling class, the direct control of peasant labour became less significant as this class came to rely on land, taxation, and the control of business for their wealth and that of the state (Hong 1984). Hence, peasants were far more useful released from bondage and producing commodities for the export trade. The development of business saw the ruling class and state—with little distinction between state assets and those of the monarch—entering into alliances with foreign and local Chinese business. As trade grew the ruling class expanded to include foreign and local Chinese businesspeople. Not only did they become partners with the Thai elite in business and trade development, but foreigners also became part of the administrative reforms, with some Chinese acquiring tax farms (and associated royal titles) and some Westerners participating in bureaucratic modernisation as senior officials. Tax farming allowed the state to convert its revenue system to one based on money. In business, Chinese merchants, royals, aristocrats, and Western interests developed a supportive, yet still competitive, business structure that remained in place until 1932 (Suehiro 1989). Additionally, Chinese merchants and traders spread throughout the country, establishing businesses and shops and enhancing commodity trade.

At the same time, a working class was being created and it was overwhelmingly Chinese. As trade and industry developed, labour was in short supply, especially in Bangkok and the southern tin mines. This was partly
due to Thailand's small population, but also because Thais, freed from labour obligations, took advantage of opportunities in smallholder agriculture. The result was that, from the late 1880s to the 1930s, there was an addition of about 1 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 economic and political change. 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 political change. In June 1932, a small group of commoners, organised as the People’s Party, overthrew the absolute monarchy and established constitutional rule.

The overthrow of the monarchy brought 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 the year of a move against unrepresentative politics (Nakharin 1992). Initially brought together by economic nationalism and their opposition to the monarchical state, the People’s Party split over economic policy and political representation. Even though no agreement could be reached, the regime held together through its resistance to a royalist restoration. For the population as a whole, the ousting of the monarchy promised an end to royal privilege and a more rational economic system that might spread economic benefits more broadly in society.

The period from 1932 to 1957 saw considerable debate over economic policy, dominated by nationalist concerns and the role of the state in the economy and, especially, over industry policy and the lot of farmers. Indeed, this economic contest revolved around the struggle by the royalists to maintain their economic and political power. The competition that emerged was bitter. The royalists wished to preserve their privileges, as did those businesses that had done well from the royalist economic and political regime. The new political freedoms saw workers and peasants demanding a better deal. As more radical elements in the People’s Party, supported by workers and students, proposed increased state intervention in the economy, the royalists countered with accusations of bolshevism.

The political outcome of this dispute was an increased role for the military. Economic policies meant to promote ethnic Thai non-agricultural employment and investment were also developed. This sometimes meant investments by the state. When the military seized power following the Second World War, economic policy and practice became more closely associated with private benefits to senior political figures. Even so, there was no
widespread opposition to private enterprise. It was this period that Riggs (1966) identified as the clearest expression of the bureaucratic polity, with military and bureaucratic leaders tapping into state enterprises and the resources of Chinese business for personal gain and to finance their political activity. Clearly, for those businesses that managed to link themselves to powerful political leaders, there were significant competitive advantages.

When the boom that had developed with the Korean War 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 received the support of foreign businesses. US companies, the largest foreign investors, also 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).

In two coups, one in 1957 and another in 1958, military leader General Sarit Thanarat seized political power. While a military-led administration was not new for Thailand, Sarit’s coup established a government that set about altering the ways in which politics and economics had been organised. Sarit did this in the context of promises to improve the then struggling economy, proclaiming that his government would boost national income and improve standards of living. Sarit proclaimed that his government’s authoritarianism—a system described by one analyst as ‘despotic paternalism’ (Thak 1979)—would deliver the political stability necessary for the expansion and strengthening of the middle class. The new government’s economic approach represented a significant change from that of previous administrations, evidencing a determination to promote private rather than state investment and encouraging foreign participation; the state’s economic role was to be limited to infrastructure. This enthusiasm for the private sector developed from the realisation that a number of state enterprises were in serious economic trouble and coincided with a range of reports by international organisations recommending increased support for the private sector and import-substituting industrialisation (ISI) (World Bank 1959). These reports echoed a sentiment regarding development strategy that had emerged among a rising group of young technocrats who took important positions in Sarit’s new economic agencies.

The system that the military promoted—Sarit called it a ‘revolution’—required that a bargain or social contract be developed between the military leadership and domestic capital that demarcated their joint hegemony over the working and peasant classes. The military government would deliver political stability and support the further expansion of private capital while domestic capital was required to deliver the increased and sustained economic growth that would modernise the economy. The subordinated classes, who
had no role in establishing this developmental deal, were involved through an assumption that enhanced capitalist development would permit a gradual trickle down of benefits to them.

The era of import-substitution industrialisation

When the World Bank (1959:94–106) country report urged an ISI strategy for Thailand, Sarit and his advisers seized upon its recommendations as a justification for their new economic model and moved quickly to expand manufacturing. The government established generous incentives for private investment and sought to attract foreign investors. The first national development plan (1961–66) saw a shift to policies that emphasised industrial development and the government welcomed US and World Bank assistance in implementing the plan, revising the Promotion of Investment Act (1960) and other policies that supported business and directing state investments to infrastructure.

The US had provided substantial aid to Thailand prior to Sarit, which aid was concentrated on military assistance (see Darling 1965). This aid increased and broadened after Sarit came to power, with Thailand being the centrepiece in the US’s Cold War strategy in Asia. Thailand’s authoritarian governments were firm US allies; they provided a number of bases for the Vietnam War and opposed communism.

The focus on industry did not mean that agriculture was neglected. Indeed, in addition to ISI, the first national plan emphasised agricultural development. The government was keen for agricultural exports to grow as this permitted agricultural taxation and the extraction of household savings into the commercial banking sector to provide much of the domestic capital required for the development of industry (Silcock 1967b; Jansen 1990). 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. At this time, foreign manufacturers were also keen to establish behind protective barriers (Hewison 1985:280–1).

The government created a number of agencies to support ISI, including the Board of Investment (BOI), a new national planning office, later named the National Economic and Social Development Board (NESDB), and a revamped Ministry of Industry. By the time of the second development plan (1967–71), ISI was embedded, with the bulk of capital invested with promotional privileges going to import-substituting industries.

Manufacturing’s contribution to GDP rose significantly (see table 3.1, below). High rates of protection encouraged domestic investment and further strengthened local finance and banking. The banking and finance sector was also protected—no foreign banks could enter branch banking and were
permitted to offer only limited services; 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 fifteen to twenty families dominating commercial banks (Hewison 1989:ch. 8). These mainly Sino-Thai families also invested heavily in the expansion of manufacturing. It was their control of finance, when the stockmarket 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>
<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 resulted in a larger and more diverse working class, the expansion of which coincided with the class’s ethnic and gender transformation. Following the cessation of large-scale Chinese immigration, it was Thais, mainly from rural areas, who moved into industrial employment, some temporarily, but increasingly on a permanent basis. Although agricultural activities remained the predominant occupational activity, the industrial labourforce expanded substantially. Between 1960 and 1979 the total workforce expanded by more than 20 per cent or almost 3 million people. The manufacturing workforce grew by 45 per cent over the same period (Hewison 1989:215). Increasingly, too, women moved into manufacturing employment.

ISI policies protected the big conglomerates. Funds deposited in the banks grew rapidly, enabling 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 & Baker 1995:130–8).
Export-oriented industrialisation: the creation of an economic boom

Export-oriented industrialisation (EOI) is an approach to development that is meant to be based on a nation's advantage in producing commodities for a world market. For many Asian economies, this has meant utilising cheap labour. In Thailand, critics of ISI had long argued that ISI was limited by the relatively small domestic market and that the strategy created disincentives to export (see the summary of arguments in Hewison 1989:118–21). However, there was no strong pressure from business, especially as profits were maintained. In fact, under pressure from domestic capitalist groups, protection for import-substituting manufacturing actually expanded through the 1970s and into the early 1980s (Pasuk & Baker 1995:144–5). It was not until the mid 1980s and an economic downturn that the necessary policy momentum for a change to an EOI strategy was developed.

This downturn resulted from a confluence of events. First, from the late 1970s, the baht, being tied to the strengthening dollar, began to climb. Second, agricultural commodity prices had been declining since 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 and, as counterinsurgency ended, the military embarked on a spending spree, buying new weapons, further expanding public debt (Hewison 1987:61–76; Pasuk & Baker 1996:ch. 4).

The economic downturn had a substantial impact on business. Growth continued, but was the lowest for years. Bankruptcies mushroomed, private investment collapsed, unemployment increased, and even the strongest companies reported flat profits or their first losses in years. The slump also highlighted problems with state policies. Budget deficits ballooned, public debt reached unprecedented levels, and trade and current account deficits increased. 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 that workers' wages were eroded by inflation and increased government-owned utilities charges.

As Pasuk and Baker (1996:65–6) point out, technocrats were split on the appropriate response to the economic slowdown, but even entreaties from the powerful banking and textile sectors and the World Bank brought few decisions. It was the belated recognition that there would be no rebound of agricultural prices that would lift growth that resulted in a devaluation and a concerted move to embrace EOI. An important impact of the devaluation was to make Thailand’s manufactured goods cheaper, emphasising the significance of cheap labour for export-oriented industries.
In terms of policy and production, EOI remained the dominant strategy until the 1997 economic 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 and 11 per cent in the 1970s, with rates rising to over 16 per cent a year in the 1980s, and remaining above 10 per cent through the first half of the 1990s. However, in a warning of things to come, there was no increase in 1996. 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, 1985–96 (%)**

<table>
<thead>
<tr>
<th></th>
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<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>15.8</td>
<td>12.7</td>
<td>12.6</td>
<td>12.3</td>
<td>10.4</td>
<td>10.7</td>
<td>11.1</td>
<td>11.0</td>
</tr>
<tr>
<td>Mining and quarrying</td>
<td>2.5</td>
<td>1.6</td>
<td>1.6</td>
<td>1.5</td>
<td>1.3</td>
<td>1.3</td>
<td>1.2</td>
<td>1.4</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>21.9</td>
<td>27.2</td>
<td>28.2</td>
<td>27.6</td>
<td>28.1</td>
<td>28.0</td>
<td>28.2</td>
<td>28.4</td>
</tr>
<tr>
<td>Construction</td>
<td>5.1</td>
<td>6.2</td>
<td>6.7</td>
<td>6.7</td>
<td>7.0</td>
<td>7.4</td>
<td>7.3</td>
<td>7.4</td>
</tr>
<tr>
<td>Electricity and water supply</td>
<td>2.4</td>
<td>2.2</td>
<td>2.1</td>
<td>2.3</td>
<td>2.4</td>
<td>2.3</td>
<td>2.4</td>
<td>2.3</td>
</tr>
<tr>
<td>Transport and communications</td>
<td>7.4</td>
<td>7.1</td>
<td>7.1</td>
<td>7.2</td>
<td>7.5</td>
<td>7.4</td>
<td>7.3</td>
<td>7.3</td>
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<tr>
<td>Wholesale and retail trade</td>
<td>18.3</td>
<td>17.6</td>
<td>17.0</td>
<td>16.7</td>
<td>16.7</td>
<td>16.5</td>
<td>16.2</td>
<td>15.5</td>
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<td>Banking, insurance, real estate</td>
<td>3.3</td>
<td>5.5</td>
<td>5.3</td>
<td>6.4</td>
<td>7.3</td>
<td>7.8</td>
<td>7.5</td>
<td>7.6</td>
</tr>
<tr>
<td>Ownership of dwellings</td>
<td>4.2</td>
<td>3.0</td>
<td>2.8</td>
<td>2.8</td>
<td>2.6</td>
<td>2.4</td>
<td>2.4</td>
<td>2.4</td>
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<tr>
<td>Public administration and defence</td>
<td>4.6</td>
<td>3.5</td>
<td>3.5</td>
<td>3.7</td>
<td>3.7</td>
<td>3.5</td>
<td>3.7</td>
<td>3.7</td>
</tr>
<tr>
<td>Services</td>
<td>14.5</td>
<td>13.3</td>
<td>13.0</td>
<td>12.7</td>
<td>12.9</td>
<td>12.6</td>
<td>12.8</td>
<td>13.1</td>
</tr>
</tbody>
</table>

**Sources:** TDRI (1995; 1998); Bank of Thailand (2000, 2005)

The change in the relative shares of the manufacturing and agricultural sectors in the economy is remarkable (see figure 3.1, page ??). In 1960, agriculture was the most important economic sector. It accounted for 40 per cent of GDP, most exports, and employed the vast majority of the population. Manufacturing made a 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 had shrunk—it grew, but far less rapidly than did 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 data underscore the magnitude of change as most agricultural families now rely on income from off-farm sources. At the same time, employment in non-agricultural activities grew significantly. EOI saw the further development of the working class. Between 1979 and 1998, the workforce expanded by more than 50 per cent or almost 11 million people; the manufacturing workforce almost tripled over the same period (TDRI
1999:14) and, by 1992, women made up half the manufacturing workforce (Yada 1998:126).

Growth was driven by the private sector. Measured as a percentage of GDP, private investment in 1975 was about three times greater than was public investment. The boom in private-sector investment following the policy changes of the mid 1980s saw private investment levels almost 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).

These impressive results mirrored the expansion of a powerful domestic capitalist class and also saw this 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, the inflows of foreign capital increased

---

**FIGURE 3.1 GDP in agriculture and manufacturing, 1960–2003**

![GDP Chart](chart.png)

Source: Bank of Thailand, *National Income of Thailand*, various issues
substantially in the late 1980s and remained high until 1996. It is of interest, however, that direct foreign investment (DFI) continued to increase during the early crisis period before sharply declining (discussed below).

**TABLE 3.3 Flows of foreign capital, 1986–2004**

<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</td>
<td>55.5</td>
<td>$-376</td>
</tr>
<tr>
<td>1987</td>
<td>362</td>
<td>30.9</td>
<td>$896</td>
</tr>
<tr>
<td>1988</td>
<td>1,118</td>
<td>209.2</td>
<td>2,926</td>
</tr>
<tr>
<td>1989</td>
<td>1,828</td>
<td>63.4</td>
<td>5,780</td>
</tr>
<tr>
<td>1990</td>
<td>2,588</td>
<td>41.5</td>
<td>9,910</td>
</tr>
<tr>
<td>1991</td>
<td>2,056</td>
<td>-20.6</td>
<td>10,726</td>
</tr>
<tr>
<td>1992</td>
<td>2,151</td>
<td>4.6</td>
<td>9,630</td>
</tr>
<tr>
<td>1993</td>
<td>1,675</td>
<td>-22.1</td>
<td>10,636</td>
</tr>
<tr>
<td>1994</td>
<td>598</td>
<td>-64.3</td>
<td>12,229</td>
</tr>
<tr>
<td>1995</td>
<td>1,995</td>
<td>233.6</td>
<td>21,803</td>
</tr>
<tr>
<td>1996</td>
<td>2,299</td>
<td>15.2</td>
<td>19,741</td>
</tr>
<tr>
<td>1997</td>
<td>3,752</td>
<td>63.2</td>
<td>$-8,637</td>
</tr>
<tr>
<td>1998</td>
<td>5,547</td>
<td>47.8</td>
<td>$-15,593</td>
</tr>
<tr>
<td>1999</td>
<td>3,562</td>
<td>-35.7</td>
<td>$-13,541</td>
</tr>
<tr>
<td>2000</td>
<td>2,813</td>
<td>-21.0</td>
<td>$-9,770</td>
</tr>
<tr>
<td>2001</td>
<td>3,873</td>
<td>35.5</td>
<td>$-3,908</td>
</tr>
<tr>
<td>2002*</td>
<td>1,023</td>
<td>-73.6</td>
<td>$-5,714</td>
</tr>
<tr>
<td>2003*</td>
<td>1,882</td>
<td>84.0</td>
<td>$-8,766</td>
</tr>
<tr>
<td>2004*</td>
<td>835</td>
<td>-55.6</td>
<td>$-211</td>
</tr>
</tbody>
</table>

*Preliminary figures.

**Note:** For the period 1986–96, US$1 was exchanged at about 25 baht. In 1997, after devaluation, US$1 was averaged at 31.37 baht, whereas for 1998, the figure was 37.84 baht and for the 1999–2003, US$ figures provided by the Bank of Thailand have been used.

The sources of DFI altered with the expansion of investment. In 1984 the US was the largest investor; by 1986, Japan held this position. Japan’s net investments increased ninefold between 1987 and 1990 and accounted for about 44 per cent of all DFI. Japan, the US, 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 & Baker 1996:35). Even among BOI-promoted firms, approximately
two-thirds of registered capital between 1960 and 1993 was domestic (Board of Investment 1995:11). These levels of DFI are relatively low when compared with other ASEAN states. As Pasuk and Baker (1996:35) observe, ‘Foreign investment 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, construction, and wholesale and retail trade. The outcome was the emergence of an expanded capitalist class (Pasuk & Baker 1996:chs 3 and 4). This resulted in a challenge to the financial dominance of the big banks. As noted above, the banks and their controlling families had long 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). As some families were unable to keep pace with the capital expansion requirements of their banks, the dilution of family holdings began, however, it was only the expansion of the boom that was able to loosen banking family control in other business sectors.

Although the Sino-Thai-owned 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 bank-dominated cliques.

Second, policy changes saw state controls on the finance sector and on capital flows eased, meaning that domestic borrowers were no longer tied to 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. Merchant banking also expanded significantly, and several finance companies were in a position to expand their activities, especially as they were also freed from reliance on the commercial banks.

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 & Baker 1996:39).
Table 3.4 Selected statistics on the Stock Exchange of Thailand, 1985–2004 (selected years)

<table>
<thead>
<tr>
<th></th>
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<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>20.7</td>
<td>42.5</td>
<td>51.2</td>
<td>125.6</td>
</tr>
<tr>
<td>Average daily turnover (US$ million)</td>
<td>2.5</td>
<td>101.6</td>
<td>213.6</td>
<td>84.7</td>
<td>173.6</td>
<td>208.9</td>
<td>512.7</td>
</tr>
<tr>
<td>SET Index (end of period)</td>
<td>134.9</td>
<td>649.4</td>
<td>910.3</td>
<td>331.3</td>
<td>395.5</td>
<td>356.5</td>
<td>668.1</td>
</tr>
<tr>
<td>Market dividend yield (%)</td>
<td>8.2</td>
<td>3.6</td>
<td>3.5</td>
<td>1.3</td>
<td>0.6</td>
<td>2.7</td>
<td>2.7</td>
</tr>
<tr>
<td>Number of quoted companies</td>
<td>97</td>
<td>214</td>
<td>454</td>
<td>418</td>
<td>392</td>
<td>389</td>
<td>439</td>
</tr>
<tr>
<td>Market value capitalisation (US$ billion)</td>
<td>2.0</td>
<td>24.5</td>
<td>102.4</td>
<td>30.7</td>
<td>58.0</td>
<td>49.5</td>
<td>113.1</td>
</tr>
</tbody>
</table>


For many rising capitalists the expansion of the SET and the liberalisation of the financial sector were perceived as freeing them from 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 often 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 new business groups even chose to challenge the big families on their own ground—in banking—and there were takeover battles among the smaller banks. Huge profits were made and, although much was reinvested, consumption and luxury spending increased markedly, further expanding the domestic market, but setting the scene for the 1997 economic collapse.

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), including a central problem of the boom period—wealth distribution.
Wealth distribution and the boom

The World Bank (1993) argued that one of the results of the East Asian miracle 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 poverty. The downward trend has been consistent, with urban dwellers doing better than those in rural areas.9

**FIGURE 3.2 Poverty incidence, 1975/76–2002**

<table>
<thead>
<tr>
<th>Year</th>
<th>Rural – old poverty line</th>
<th>Urban – old poverty line</th>
<th>Rural – new poverty line</th>
<th>Urban – new poverty line</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975/6</td>
<td>50%</td>
<td>45%</td>
<td>40%</td>
<td>35%</td>
</tr>
<tr>
<td>1981</td>
<td>45%</td>
<td>40%</td>
<td>35%</td>
<td>30%</td>
</tr>
<tr>
<td>1986</td>
<td>40%</td>
<td>35%</td>
<td>30%</td>
<td>25%</td>
</tr>
<tr>
<td>1988</td>
<td>35%</td>
<td>30%</td>
<td>25%</td>
<td>20%</td>
</tr>
<tr>
<td>1992</td>
<td>30%</td>
<td>25%</td>
<td>20%</td>
<td>15%</td>
</tr>
<tr>
<td>1994</td>
<td>25%</td>
<td>20%</td>
<td>15%</td>
<td>10%</td>
</tr>
<tr>
<td>1996</td>
<td>20%</td>
<td>15%</td>
<td>10%</td>
<td>5%</td>
</tr>
<tr>
<td>2000</td>
<td>15%</td>
<td>10%</td>
<td>5%</td>
<td>0%</td>
</tr>
<tr>
<td>2002</td>
<td>10%</td>
<td>5%</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>


Significantly, however, income and wealth distribution became increasingly skewed (see figure 3.3 below). In urban areas, where workers have made significant contributions to economic growth, they have not gained adequate rewards for their labours. Indeed, workers’ lives were characterised by low wages and poor working conditions. These conditions were necessary to maintain comparative advantage in both ISI and EOI strategies. In addition, there was widespread exploitation of women and children in sweatshops throughout the country (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. Distribution was most inequitable between rural and urban incomes. The principal reason for this is that smallholder agriculture had become a marginal way to make 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 northeast, the most populous region and the region 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, despite governmental efforts to decentralise development, the gaps widened during the boom.

When some planners and politicians spoke of inequalities as a potential source of social conflict (*Nation* 14 December 1992), this was a shock for many as growth had been expected to solve social problems. Protracted debate led to a recognition that agriculture would continue to stagnate and income disparities were likely to worsen. The policy answer was to encourage industrial activity in rural areas and increase skills training in an effort to enhance
the trickle-down effects of growth in provincial areas, while not compromis-

This approach failed. There was little consensus in business or govern-
ment 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.

In addition to increasing inequality, there were other signs that the
economy faced problems by 1996. From 1993, for example, 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. The 1996 failure of the Bangkok
Bank of Commerce and the cessation of export growth confirmed that the
economy was in trouble. But booms build confidence and many simply did
not want to believe that the boom was ending.10

ECONOMIC CRISIS AND RECOVERY: ESTABLISHING A NEW
ACCUMULATION REGIME

There have been a range of explanations for the Asian crisis (see chapter 1, this
volume). Particularly significant for Thailand were downturns in investment
and exports, partly attributable to the high value of the baht. There was also
over-capacity in a range of sectors. Despite this, ‘hot money’ poured into
unproductive areas and sectors with over-capacity (United States Embassy
1998:1). The result was 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, the 1996 troubles of the finance sector saw investor con-
fidence weaken.

The 2 July 1997 devaluation marked the beginning of a downward
economic spiral (see table 3.5 below). The IMF brokered a US$17 billion
support package, demanding in return substantial reform and restructuring
from Thailand’s government.

Much has been written of the economic impact of the crisis (see Glass-
man 2004; Hewison 2000a; Pasuk & Baker 2000). The popular picture,
especially outside Thailand, is that the crisis was a disaster for the country’s
corporate conglomerates and the middle class. Capitalists lost their business
empires, while many in the middle class were thrown out of work. There is
no doubt that the impact on business was considerable. Manufacturing firms
struggled with overcapacity, which continued into 2003, and many firms were
weighed down with debt, hamstrung by a liquidity squeeze and declining
domestic demand. The finance sector was left in tatters, with only a handful
of finance and securities companies remaining after 1997 and many banks
closed, taken over by the state or sold off to foreign investors. Thus, there is considerable truth in the popular picture. However, this is only a partial depiction of the broad impacts of the crisis. The principal impact was on the poor, who became poorer as a result of the crisis.

Table 3.5  GDP by industrial origin, 1997–2004 (%)  

<table>
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<tr>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>9.4</td>
<td>10.8</td>
<td>9.4</td>
<td>9.0</td>
<td>9.1</td>
<td>9.4</td>
<td>10.0</td>
</tr>
<tr>
<td>Mining and quarrying</td>
<td>1.7</td>
<td>1.8</td>
<td>1.9</td>
<td>2.4</td>
<td>2.5</td>
<td>2.5</td>
<td>2.6</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>30.2</td>
<td>30.9</td>
<td>32.6</td>
<td>33.6</td>
<td>33.4</td>
<td>33.6</td>
<td>34.7</td>
</tr>
<tr>
<td>Construction</td>
<td>5.7</td>
<td>3.9</td>
<td>3.6</td>
<td>3.1</td>
<td>3.0</td>
<td>3.0</td>
<td>3.0</td>
</tr>
<tr>
<td>Electricity and water supply</td>
<td>2.5</td>
<td>3.1</td>
<td>2.8</td>
<td>3.0</td>
<td>3.2</td>
<td>3.2</td>
<td>3.2</td>
</tr>
<tr>
<td>Transport and communications</td>
<td>7.8</td>
<td>7.8</td>
<td>8.1</td>
<td>8.0</td>
<td>8.3</td>
<td>8.3</td>
<td>7.8</td>
</tr>
<tr>
<td>Wholesale and retail trade</td>
<td>17.2</td>
<td>17.0</td>
<td>17.3</td>
<td>17.2</td>
<td>16.7</td>
<td>15.9</td>
<td>15.4</td>
</tr>
<tr>
<td>Banking, insurance, real estate</td>
<td>6.5</td>
<td>5.1</td>
<td>3.4</td>
<td>3.0</td>
<td>2.9</td>
<td>3.1</td>
<td>3.4</td>
</tr>
<tr>
<td>Ownership of dwellings</td>
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<td>Public administration and defence</td>
<td>3.8</td>
<td>4.2</td>
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<td>4.5</td>
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<td>Services</td>
<td>11.9</td>
<td>12.1</td>
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<td>13.1</td>
<td>13.4</td>
<td>13.3</td>
<td>12.5</td>
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Note: Categorisation for some sectors changed in the mid 1990s. This table modifies these so that they match earlier tables in this chapter. Data for 2003 are preliminary.

Sources: Bank of Thailand (2005)

It is worth recalling that, prior to the crisis, Thailand was seen by many orthodox economists as a success story (Warr & Nidhiprabah 1996:3), shepherded towards ‘good’ policies by capable technocrats. But in 1997, something went wrong with the orthodox success story and suddenly Thailand was at the centre of a regionwide economic crisis. The orthodox consensus was that the crisis was a result of poor policies, weak state and corporate governance, inadequate institutions, cronyism, corruption, moral hazard, resource misallocation, and failed liberalisation. While this conveniently ignored the existence of the same factors during the boom times of the early 1990s (Pasuk & Baker 1998:318), neoliberals were quick to reaffirm the critical differences between right and wrong policies, and the need for sound macroeconomic management that included further liberalisation. In Thailand, the post-crisis, neoliberal approach, promoted by the IMF, the World Bank, the Asian Development Bank, and a range of bilateral partners, emphasised expanded liberalisation and more privatisation, fiscal austerity, deregulation, and decentralisation. A fundamental concern was to further reduce the economic role of the state.

Following the flotation of the baht, its subsequent and rapid devaluation, and the flight of capital (see table 3.3 above), the IMF had brokered a rescue package with the government led by Chavalit Yongchaiyudh. The devaluation saw many companies pushed into insolvency. Those that weren’t
insolvent, together with many small businesses, found they were unable to access a banking system that had all but collapsed (see Hewison 2000a; Regnier 2001). Thailand had little choice but to accept the IMF’s US$17 billion standby facility and its demands for austerity and market-enhancing reform.

Initially, the IMF, drawing on Latin American experience, was concerned to stabilise the economy and negotiated policies that involved a tightening of monetary and fiscal policy. This was followed by attention to financial restructuring and reforms that demanded low wages, the privatisation of state enterprises (especially in 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 (see Hewison 2005).

The outcome of this misguided reform strategy was a recession that was far deeper than might otherwise have been expected. Not only was the economic distress deep, but there were also negative political consequences. The crisis cut a swathe through the domestic business class, destroying or weakening all of the bank-based conglomerates that had long dominated the domestic capitalist class, and crushed many of the new business groups that had mushroomed during the boom. With the banking sector crippled by non-performing loans, even small enterprises found they had no access to capital. Foreign investment grew rapidly as joint-venture partners were bought out and cheap acquisitions completed. This was especially notable in the finance and industrial sectors. While business struggled, the greatest impacts of the economic downturn were on poverty, employment and wages, and inequality.

As mentioned, prior to the crisis, poverty had been reduced; however, the crisis saw more than 7 million people fall below the World Bank’s poverty line of US$1.50 a day.11 The impact was especially hard in already disadvantaged areas and the crisis meant that poverty re-emerged as a serious national problem.

In just a year following devaluation, unemployment and underemployment also increased to about 10 per cent or almost 3.5 million people; a further half a million opted out of the workforce. Most affected were lower-skilled and semi-skilled urban workers in the construction, service, and manufacturing sectors. Contradicting popular views regarding traditional social safety nets provided by rural villages, not only were many of the unemployed found in rural areas, but people also continued to leave farms, just as they had during the economic boom. The already poor northeast region was hard-hit, accounting for almost 40 per cent of all unemployed.

Declining real wages had a substantial impact on Thai workers and farmers. Average monthly wages declined by 7.9 per cent between 1997 and 2000 and remained stagnant into 2004. Wages declined for all occupational categories, but most substantially in the agricultural sector, manufacturing,
sales, transport, and clerical work. The most severely affected were workers with only primary school or lower education. Strikingly, as the World Bank (2000c:32) concluded, ‘there was a shift in the distribution of aggregate wage earnings from groups with low pay to those with high pay’. This involved shifts in the distribution of aggregate wages from rural to urban areas, from poor to relatively wealthy regions, from shopfloor workers to technical and professional workers, and from those in small enterprises to those in large establishments.

The data on inequality are not so clear. The World Bank, using National Statistical Office data, indicates that inequality increased during the crisis, with the richest 20 per cent of the population seeing its share of wealth rise between 1996 and 1999, while that of all other quintiles declined. Part of the reason for this was that the poor had to transfer substantially higher proportions of their incomes to support their extended families than did the rich. The World Bank concluded that increased income inequality was associated with increased poverty and that inequality posed a threat to recovery. Surprisingly, given its ideological edge, World Bank analysis indicated that the source of inequality was profits; however, the TDRI (2003), using the same data, reports that inequality was marginally reduced during the crisis. Even if the more conservative data are used, it remains the case that the poor have not been able to improve their situation markedly (see figure 3.3 above).

All in all, it was the poor who were most severely affected by the economic downturn, with a movement of wealth and savings from the already poor to the already wealthy. This situation meant increased social conflict. While all workers suffered during the crisis, it was the lowest paid workers who suffered the most. Workers responded vigorously to their deteriorating situation and, while there were few strikes, officially reported grievances rose substantially (see Brown, Bundit & Hewison 2002).

As the economic crisis worsened, a widespread and popular opposition to the IMF’s strictures developed. This resulted in a loose alliance of workers, intellectuals, NGOs, politicians, domestic businesses, and even the country’s monarch, drawn together in a broadly nationalist opposition to a perceived loss of sovereignty over economic policymaking, negative social impacts, and a fire sale of local assets to foreign interests. Domestic business was especially vocal and urged the government to implement measures to save the economy. Despite these pressures, the government continued to implement a neoliberal reform agenda. This steadfastness caused powerful elements of the local business class to conclude that the IMF-sponsored reforms would so weaken their control and reduce their wealth that the demise of their class was possible.

These political developments took place in a context in which domestic capital was restructuring under intense domestic competitive pressures and in the face of aggressive competition from international investors. The result has been a massive reorganisation of ownership and control, including the transfer of assets to foreign investors (see Hewison 2002b, 2004).
In terms of the discussion of economic regimes, a significant change was the relegation of the once powerful banking families and their conglomerates. Before the crisis, these families controlled the partially liberalised finance sector, including thirteen of the sixteen commercial banks. While competitive reorganisation of banking capital had begun in the 1980s and continued through the 1990s, it was the crisis that ended the family control of a number of banks. By 1998, only five commercial banks remained outside state control and in majority Thai ownership, with each of these having foreign shareholdings of 40–49 per cent (Hewison 2004). This suggests the end of the control of the bank-based conglomerates that had been central for much of Thailand’s capitalist development.

Domestic capital thus identified IMF-sponsored reforms as a threat to their power and control. The government was seen to be implementing a program that kept the IMF and its Western supporters on side. The government appeared determined to save capitalism, but this plan seemed to favour foreign investors rather than domestic capital, contrasting with previous policies in which domestic business had long been supported by international agencies and various Thai governments; now these agencies seemed intent on its destruction.

This threat to the power of local business forced the domestic capitalist class to take direct control of the state, parliament, and ministries. In this they were supported by a broad coalition that felt that Thai society was being torn apart by crisis and neoliberal reform. The political vehicle for local capital’s fight was the Thai Rak Thai Party (TRT), established in 1998 by one of the few local tycoons to come through the crisis relatively unscathed, Thaksin Shinawatra.12

More than any previous party, TRT represents the interests of big domestic business. Previously, business leaders had remained aloof from corrupt electoral politics; they had not needed to be directly involved for government had supported domestic business. It was the threat to their interests and power posed by neoliberal policy that caused the remaining tycoons to conclude that big domestic capital needed to take control of the state. Many long-standing rivalries were put aside as big business coalesced around Thaksin. TRT thus became the vehicle to give back a competitive edge to domestic business. This was symbolised in the TRT’s runaway 2001 election victory.

TRT built an electoral platform that addressed the aspirations of many voters. It developed an inclusive message and nationalist policies and pledged help for those suffering from the slump. This was especially appealing to poor, especially rural, voters. TRT also targeted small business, promising to make credit available to them. In economic policy, TRT caught the mood of an electorate that had suffered the welfare declines outlined above. The Party emphasised a dual track development strategy, in which the initial emphasis was on strengthening the domestic economy by boosting demand. Particular attention was paid to schemes that poured government funds into rural areas.
Specific programs were developed to appeal to rural people: soft loans for every community in the country, a three-year debt moratorium for farmers, a 30 baht universal health care program, and a people’s bank (Thai Rak Thai n.d.).

Not only did these promises deliver a handsome election victory in 2001, but they also rejected the IMF-brokered policies. To emphasise this, Thaksin extolled the virtues of managed development, drawing on the examples of Malaysia and Singapore (Thaksin 2001). Not only did Thaksin and TRT make promises, but, following the 2001 election, also moved quickly to implement them, emphasising its pledges to the poor, which saw TRT win a landslide re-election victory in 2005.

These obligations to the poor should not conceal the fact that the TRT government was by and for the rich. Thaksin’s cabinets included representatives of the most powerful post-crisis business groups and families, including his own Shin Corp, Jasmine, Charoen Pokphand, Bangkok Entertainment, the Thai Military Bank, Thai Summit, and others. The TRT government set about helping domestic business, including those associated with its own leaders, advisers, and supporters (see McCargo & Ukrist 2005:ch. 6).

To protect domestic business the government slowed the pace of liberalisation in a number of areas, including in the telecommunications sector and the privatisation of state enterprises, and suggested limits on foreign ownership. In this the government ignored timetables and programs set by the previous government and the IMF. The government was also supportive of businesspeople who had come under investigation for deals done in the pre-crisis period and had state banks bail out a number of businessespeople (Baker 2004:18–19). That many of these were supporters of and advisers to TRT, and that there were serious conflicts of interest involved, was hidden in the language of economic nationalism.

Meanwhile, powerful nationalist rhetoric was not going to maintain political consensus for too long. As a result, TRT strengthened its political control. Thaksin and TRT have attacked critics, neutered independent agencies, limited the media, managed news, managed mergers with smaller political parties, limited parliamentary scrutiny, and strengthened state security agencies (see Pasuk & Baker 2004; McCargo & Ukrist 2005). As Glassman (this volume) indicates, the government has also utilised the US-sponsored war on terror to shore up aspects of its political control. The intention has been to make the government of tycoons safe over the long term by minimising and managing opposition. Thaksin himself has argued that adversarial parliamentary politics is a betrayal of the people (Thaksin 2002:4).

Renegotiating social contracts

But this was not a simple case of domestic business seizing the state. Rather, Thaksin, TRT, and domestic capital, operating within a representative
parliamentary system, established their political legitimacy through a new social contract that replaced Sarit’s developmental social compact.

A political backlash against neoliberal economic policies had brought Thaksin his first election victory and, while TRT strategists clearly saw the need for alternative economic recovery strategies emphasising demand-driven growth, neither TRT nor Thaksin were natural enemies of liberal economic policies. Thaksin supports free trade and some of TRT’s policies were congruent with those favoured by the international financial institutions (for example, on decentralisation, bureaucratic reform, and the promotion of small- and medium-scale enterprises). In essence, TRT’s policies were designed to give domestic capital enough space to restructure and regather its strength before returning to policies that looked more like neoliberal orthodoxy. Without this breathing space, domestic capital would have been uncompetitive and foreign capital would have won substantial gains.

Once TRT had secured its 2001 electoral victory, Thaksin set about delivering on the promises that had him elected. The party came to power through electoral policies that promised rapid economic recovery, targeted the poor, made social welfare a significant part of its platform, and allocated government a central role in reducing poverty. While the international financial institutions fretted over the increased role for the state and the impact of aggressive expansionary economic policies, this approach delivered growth and considerable political support for the TRT government. It also represented the establishment of a new social contract.

The deal implicit in TRT policies was that, if the electorate supported TRT, then TRT promised enhanced social protection and economic opportunities for the relatively poor majority of the population. This side of the bargain was targeted directly at those who would elect the government in the 2001 polls—small farmers, the working class, and those in the middle class who had been adversely affected by the economic crisis. The other side of bargain was support and protection for domestic capital as it faced restructuring and significant competition, especially from foreign investors (see Robison, Rodan & Hewison 2005).

These policies raise an interesting question: How it is that a government that is representative of domestic capital developed a social contract that delivers state-supported social protection at a level never before considered possible for Thailand?

Interestingly, in the midst of competitive restructuring, the remaining elements of big local business were able to put aside their economic competition in order to cooperate politically. This was because they recognised that domestic capital needed a new social contract if it was to re-establish its economic power. In addition, domestic capital recognised that political and social unrest could result from crisis-induced rural stagnation, inequality, and poverty; it was keen to avoid the situation seen in Indonesia with the overthrow of the Suharto regime.
At the 2001 elections the domestic capitalist class allocated a high priority to achieving direct control of the state and to retain control for a considerable time. This was indicated by the large expenditures it allowed the TRT government to allocate to the five major election policies—the 1 million baht village and community fund, the 30 baht universal health scheme, the people’s bank, the one tambon-one product scheme, and farmers’ debt suspension—more than US$3.6 billion. The most significant of these programs were the village and community fund and the 30 baht health scheme, accounting for about 90 per cent of the funding and claiming almost 52 million beneficiaries by 2002 (Worawan, 2003:3).

Much of the public support for Thaksin and TRT was generated from programs delivering benefits to the poor, the success of their broader economic policies was also important. While Thailand’s growth rates have not returned to pre-crisis levels, the TRT government has presided over growth rates that increased to more than 6 per cent in 2002, which, despite a series of external shocks, were able to be maintained until 2005. Domestic capital benefited from a return to growth and other policies that supported recovery. The satisfaction of major business figures with the government was indicated during the campaign leading up to the 2005 election, when virtually all of them threw their weight behind TRT.

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 weak state institutions. The crisis focused attention on the 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. In Thailand, from the late 1950s to the 1997–98 crisis, this has usually been translated as support for domestic capitalists. It has only been under Thaksin and TRT that a capitalist state controlled by capitalists has emerged.

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 the development of public policy. 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 from political interference. 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, nationally and internationally. In Thailand, the conflicts unleashed by economic crisis and recovery have underlined the fact 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’ (Higgott & Nesadurai 2002:29). It is clear the government has been critical in shaping the accumulation regimes that have organised Thailand’s markets and institutions from the time when monarchs were most powerful. It is the understanding of this fact that led Thailand’s domestic capitalist class to seize control of the state in 2001. The importance of shaping the way markets will operate in Thailand has seen an attempt to reshape the accumulation regime through a social contract that delivers improved social welfare in a deal that also allows local capital to rebuild its competitiveness and avoid the bleak outcome that seemed likely under orthodox reforms proposed when the economic crisis began. Through intense struggle, particularly between domestic and international capital, the former appears to have achieved considerable success, re-establishing itself post-crisis through the use of state power and authority.

NOTES

1 I am grateful to Andrew Brown and Garry Rodan for comments on an earlier version of this paper.
2 These paragraphs are a characterisation; for more detail, see Bottomore (1985).
3 Writing from a different perspective, Yoshihara (1988), in arguing that South-East Asian capitalism is ersatz, develops an analysis that produces conclusions close to those of dependency theorists.
4 For a discussion of Thailand’s capitalist development that points out these shortcomings, see Hewison (1989).
5 The history of the Chinese in Thailand is analysed by Skinner (1957, 1958) and Suehiro (1989).
6 The event is usually portrayed as the replacement of one elite by another in a coup. 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.
7 Sarit evidently had fewer links to state enterprises than did the leaders of the previous government; he had built his connections with the private sector (Silcock 1967a:20).
8 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).

9 It needs to be noted that all of these data are based on unrealistically low poverty lines. The figure used to calculate these figures in 1996 was annual per capita income of the equivalent of 59 US cents per day for rural areas and 94 US cents a day for urban areas. In 2002, it was about 93 cents a day in rural areas and, in urban areas, about $1.29 a day (TDRI 2003).

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

11 This and the next two paragraphs are based on an analysis of World Bank crisis era research (World Bank 1999a–c, 2000a–c, 2001, 2005). For a detailed discussion, see Hewison (2002a).

12 A figure already higher than that used by the Thai government in assessing poverty incidence. It is unclear how Thaksin’s businesses survived the crisis. His telecommunications businesses continued to provide cashflow during the crisis. At the same time, it was said that, when deputy prime minister in the Chavalit government, Thaksin may have benefited from inside advice on the devaluation (Thitinan 2001:327). This allegation has been vigorously denied by Thaksin and his supporters. Thaksin’s business success coincided with the economic boom. From a small computer business in the early 1980s, Thaksin was, by 1996, one of Thailand’s wealthiest businesspeople and his companies were generally profitable (see Pasuk & Baker 2004). Even so, it is worth noting that much of Thaksin’s business success was based on state concessions in telecommunications and related areas (see Ukrist 2002). He had excellent connections in the military, where relatives had powerful positions, and the police, where he had trained; also, he had married the daughter of a powerful police general (see McCargo & Ukrist 2005). Thaksin had dabbled in national politics from 1994 to 1997, although he had not been particularly popular or successful.

REFERENCES


Board of Investment (xxxx), Key Investment Indicators in Thailand, various issues.


