Introduction

In a report on Thai public sector developmental roles, the World Bank argued in the late 1950s that Thai government agencies worked without a guiding vision, and that as a result state initiatives were uncoordinated and ineffective. The administrative apparatus was hobbled by tradition, hamstrung by status concerns, and short on personnel with technical skills; it lacked cooperation across departments and suffered from diffuse authority and responsibility. The Ministry of Agriculture, for example, provided few extension services and the Department of Industry did little for its clients. The obstacles to highway construction and maintenance included poor planning and ad hoc budgeting. And repeatedly the report’s authors bemoaned the absence of information and Thai officials’ lack of appreciation for the value of data.1

Thirty-five years later the World Bank was reporting that Thailand (known as Siam until 1939) had registered the most rapid economic expansion in the world between 1984 and 1994.2 What happened? Had Thai public administration transformed itself over the 1960s and 1970s? Did growth take place despite a hapless public sector? Was Thailand’s economic growth all the work of the Chinese-dominated private sector? Or of foreign capital? Was the economy’s collapse in 1997 evidence of the ephemeral nature of its earlier success?

There is something in each of these. The abilities of Thai public officials and the performance of Thai state institutions, for example, did improve during the 1960s and thereafter. Nonetheless, the more important story in Thailand is the willingness and ability of Thai state officials, beginning in the late 1950s, to encourage private investment. Officials asserted only minimal control over the allocation of that investment; they left the Chinese, with the help of foreign capital, to transform Thailand’s economy.
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Thai state officials have presided over a market-driven strategy since the late 1950s. One publication ranked Thailand eighth in the world in economic freedom between 1993 and 1995. If Thailand’s economic success resulted from market forces, perhaps a Ministry of Finance (MoF) official had it right when he said of the government of Prime Minister Prem Tinsulanonda in the 1980s that its claim to fame was to have done nothing, to have sat back and let things happen. State authorities and politicians, however, were not above trying to use available policy instruments to shape markets and favor friends. Various state agencies intervened extensively in markets to try to shape incentives facing private firms and to help them accumulate and reinvest profits. Officials used formal policy as well as “back door” interventions.

But no overall strategy guided public sector initiatives. As in the East Asian newly industrializing economies (NIEs), Thai officials formulated five-year development plans. In Thailand, however, plans served only very loosely as predictors of actual policies. Even in the area of macroeconomic management, where the record of Thai officials was particularly strong until the mid-1990s, Ammar Siyamwala insisted on using the phrase “behavior pattern” in describing officials’ selection of public policies: “Please note the use of the term ‘behavior pattern’ rather than the more purposive ‘policy.’ To use the latter term would be altogether too flattering.”

This book’s central argument is that the relative absence of cohesive groups within the Thai polity worked against policy deliberations, consensus formation, and the mobilization of broad political support. Cohesive groups within which individuals can reach compromises and foster shared understandings of common problems constitute what social scientists call “social capital.” The paucity of social capital in Thailand had the effect of weakening efforts by Thais to cooperate in pursuit of shared goals.

This book studies the impact that institutions have on politics and economics. It treats institutions as independent variables and notes their effects (or those of their absence) on politics and economics. It tries to explain the character of specific Thai institutions not only in terms of Thai political conflicts or the strategies leaders adopt to achieve their goals, but as products of broadly shared social habits and norms. This perspective suggests that institutions are not entirely products of apolitical institutional engineers concerned only to enhance economic efficiency. Neither can we explain them fully as creations of politicians sensitive to ways in which institutions distribute power, status, and wealth among various social groups. An adequate understanding of institutions requires that we recognize also that
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inherited ideas and norms about what is desirable and possible shape the ways in which institutions develop. Like enduring institutions, ideas and norms are shaped by “path dependence” – the shadow cast by the past. In short, broad cultural understandings have institutional consequences.7

For a full century following Thailand’s8 absorption into the world market economy, dating from the middle of the nineteenth century, Thais experienced little or no per capita income growth.9 Beginning in the latter 1950s, however, the Thai economy began setting a remarkable record of stable and steady growth. The baht was one of the world’s steadiest currencies, and Thailand was the only oil-importing developing country that managed economic growth in every year following the oil price hikes of the 1970s.10

This book offers a particular way of understanding Thailand’s rapidly growing prosperity of the last forty years. We need to start by explaining how Thailand’s politics became conducive to the adoption of a wealth-producing (market) economic framework. We also need ways of understanding the very favorable economic results that followed commitment to that framework. While we often conflate these two issues, it is necessary to separate them here. The first concerns conditions that facilitate adoption of an effective market strategy (Why did Thai leaders opt for a market strategy? Why were they able, politically, to implement one?); the second involves the ways in which individuals and firms respond to a framework of incentives once it is in place (Why did business perform so well?). In attempting to shed light on both these questions, this book argues that the political framework that gave rise to broadly market policies emerged from specific characteristics of Thai social organization, in particular the dearth of social capital. The nature of this social organization did not make leaders’ adoption of market policies inevitable, but neither did leaders operate entirely independently of their political and socioeconomic context – one which constrained their policy choices. Broad social patterns of organization, the specific preferences of national leaders, and the administrative capacities of state agencies alone did not determine policies. Together, however, limited social capital, conjunctural factors inducing Thai leaders to favor market policies, and the previous failures of state agencies in implementing interventionist strategies predisposed policymakers to adopt a market strategy.

Development strategies that worked elsewhere by attracting political support and supplying political resources did not work in Thailand. In South Korea and Japan, for example, for decades active state intervention in the economy was successful in both economic and political terms. Of course other countries, in addition to Thailand, discovered
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that dirigiste strategies failed to yield economic growth or to attract adequate political support. In Thailand, however, the political elite was not sufficiently unified in the 1950s to sustain the failed strategy after it nearly bankrupted the treasury. Competition within a small circle of political leaders encouraged them to reach out to groups able to lend potent political resources – the military’s arms and the Chinese business community’s cash. As elsewhere, Thai leaders discovered the structural power of capital. Unless they provided investors with adequate guarantees against arbitrary seizure of their property or imposition of punitive regulatory controls, investors would fail to invest and the economy to grow. The structural power of capital therefore constrained Thai leaders. The influence of the United States and international financial institutions also shaped the leaders’ policy choices. Ultimately, however, a particular conjuncture of political forces rooted in broad patterns of social organization determined the nature of the political coalition supporting market policies that Thai leaders forged in the late 1950s. This brief outline provides us with our initial, abstract answer to the first of the two questions posed above: why did a market strategy become attractive to Thai leaders? We turn now to the second issue.

A fairly serious commitment to the market helps to achieve sustained and rapid economic growth in any social setting. But market policies and even smoothly functioning markets may not always result in similar rates of economic performance – the vigor of the response to market economic policies varies. Different levels of “civic market competence” among groups across and within societies mean that even with similar macroeconomic policies and regulatory frameworks, economic effects diverge. By adjusting prices and other incentives, increasing information or otherwise diminishing risk, state officials may be able to unleash investors’ “animal spirits” and stimulate a strong response to a broadly market-ruled economic framework. Public policies and institutions alone, however, may not entirely explain variation in responses to common economic conditions across countries. Where market failures persist, private actors will have to devise their own means of overcoming those impediments. Individuals and firms’ capacity to bypass market failures depends in part on their ability to cooperate with one another, a skill that varies over time and across populations.

The nature of a nation’s social organization helps to explain why some economies grow more rapidly than others. Market policies in some settings induce more ebullient responses than they do in others. Something like this claim is probably what people have in mind, for example, if they suggest that sluggish economic performance in the United Kingdom during much of the twentieth century resulted not only from bad economic policies but also from the rigidity of its social
classes. These classes, this claim implies, conditioned the ways in which individuals and firms responded to frameworks of material incentives. Not only formal institutions, but individuals' and firms' capacity to work with those institutions, conditioned outcomes. This book offers a broadly similar argument about Thai social organization, government policies, and the responses of Chinese firms in Thailand, suggesting new ways to understand the Thai economic record. Readers may be able to apply the concepts used here to broader comparative analysis of political economies.

A few disclaimers. While I try to make as convincing a case as possible for the usefulness of particular explanatory concepts, these concepts are of course only several among many intellectual tools that scholars find helpful in discerning patterns in complex social phenomena. I emphasize the importance of social organization as an explanatory variable, but do not try to claim that I have unearthed a Rosetta Stone that can unlock all the mysteries about social life that baffle us.

Readers may take exception to the assumption here, perhaps in places implicit, that for analytical purposes we can on occasion suggest that society precedes the state. While surely most of us believe that society and state mutually constitute one another, denying the state its accustomed causal primacy may be a useful antidote to much of the work by political scientists in the field of political economy. In fact most studies of Southeast Asia's political economies do not offer state-centered explanations. The disparity between the apparently only moderate capacities of Southeast Asian state institutions and their very strong economic performances perhaps encourages a search for other explanations. Doner, for example, invokes the impact of private sector governance on economic growth in the region. Other scholars emphasize the ersatz or derivative nature of economic growth in the region. The present study, however, treats state weakness not only as cause of particular outcomes but also as result of specific patterns of social organization.

Some readers may be put off by what they discern here as the assertion of a Thai national character. In fact I discuss two national characters – those of the ethnic Thais and the immigrant Chinese. I do not assume that these characters are immutable, that their roots lie in genetic codes, or that ecological, economic, and political conditions cannot help us to identify their origins, but I do argue that broad norms and patterns of acquired behavior condition the responses of groups of people to frameworks of material incentives.

These broad concepts are developed in Part I. In Part II they are used to explain the organization in Thailand of policymaking, private–public interaction, and market responses to state policies in
three different economic sectors. To account for variation across these sectors, the book uses an analysis of structural factors, such as the number of actors involved and the ease with which they can detect cheating, that influence the ability of individuals and firms to cooperate with one another. The political economy literature generally refers to such impediments to cooperation as collective action problems. Chapters 4 through 6 examine the financial and textile sectors and the provision of heavy industrial and transport infrastructure. To explain the diverse patterns of interaction among firms and state agencies in the three sectors, I use an analysis of structural obstacles to cooperation, explaining variation in patterns of interaction among firms and state agencies across sectors of the Thai economy. These structural, or utilitarian, variables include the number of firms or state agencies seeking to cooperate, the frequency with which they encounter and seek to overcome shared problems, the duration of such problems and efforts, the extent to which the benefits that derive from cooperation can be divided among the firms and agencies, and the degree to which such benefits regularly arise.

A small number of commercial banks and regulatory authorities facilitated relatively intimate cooperation between private firms and public officials. Together they supported comparatively coherent policies and a domestic industry that served the economy well and generally remained robust until the mid-1990s. In contrast, a larger number of firms in the textile industry and more diffuse authority spread across several government regulatory agencies generally failed to collaborate effectively. The resulting inconsistent public policies, however, did not prevent this industry from growing rapidly and becoming Thailand’s most important industry, by most measures, in the 1980s. Coordination between and among public and private agencies and firms was most conspicuously absent in the case of transportation infrastructure and heavy industry policies. The difficulty of parcelling out the “lumpy” benefits in this policy area hindered cooperation and resulted in a policy record whose only strengths came from inaction, which occasionally saved firms and state agencies from commitment to flawed projects.

This book has three central concerns. In trying to account, first, for the emergence of market policies and, second, for the strong response those incentives elicited in Thailand, it draws on an analysis of Thai social organization. The arguments are comparative, often implicitly contrasting the Thai case with other modes of social and economic organization. I emphasize Thai social organization both because such explanations are relatively underdeveloped in the political economy.
literature and because that literature’s explanatory emphasis primarily on either market factors or the managerial capacities of state officials strikes me as not entirely satisfying. The book’s third concern, as noted above, is a comparative analysis of patterns of policymaking, public–private interaction, and market responses across sectors of the Thai economy.

To preview the argument briefly, the nature of Thai social organization (the dearth of social capital) induces, all else equal, relatively small firms, some of which are parts of large business groups with interests spread across economic sectors; relatively weak organization among firms, whether to secure the privileges of oligopoly or more economically beneficial forms of cooperation; few and ineffective labor unions, peasant cooperatives, or consumer groups designed to overcome collective action problems among large numbers of geographically dispersed individuals; weak coordination among state agencies; and a diffuse, ad hoc, and clientelistic pattern of interest aggregation in which personal relations dominate while broad, participatory institutions such as political parties are weak. These broad patterns, however, manifest themselves in distinctive ways across different sectors of the economy. To sum up the discussion above: that variation results from the number of firms and state agencies involved, the number of times and length of time over which firms and agencies meet in order to cooperate, the degree to which they can share among themselves the gains they achieve, and the number of times such gains recur.

Chapter 1 elaborates the themes introduced here. Chapter 2 offers support for the argument that Thais and Chinese have distinctive endowments in social capital and suggests tentative explanations for those differences. Chapter 3 traces Thailand’s political and economic development, sketches the Thai model of political economy, and describes the principal economic policymaking institutions and the key political actors and institutions that produce a distinctive politics of implementation in Thailand. Taken together, the chapters in Part I serve to inform the discussion of the cases covered in Part II.

Chapters 4, 5 and 6 analyze Thai economic policymaking and the forms of cooperation among private and state actors that emerged in different economic sectors. The analysis compares obstacles to collective action – the number of actors, the frequency and duration of interaction, and the divisibility and recurrence of benefits and costs to explain divergent patterns of cooperation within and among private and public institutions. A few commercial banks dominated the financial industry and generally worked closely with the Bank of Thailand (BoT) and the MoF. These state agencies generally eluded “capture” by their “clients,” the private financial institutions they regulated.
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Together they supported fairly effective state policies and a strong domestic financial sector, achievements which unraveled during the simultaneous transitions to a more liberal regulatory regime and to more open politics in the 1990s. The textile industry twinned poorly organized state agencies (in particular, the Ministry of Industry and the Board of Investment [BoI]) with a disorganized private sector. The resulting public policies were generally ineffectual, but they did not prevent the emergence of an important Thai industry, largely because authoritative state measures were often ineffective, did not hinder firms unduly, and because the scope for market failures in the industry was limited. Competition among government agencies and politicians provided private firms with various ways of getting official support, which they used in some instances to offset the obstacles thrown up by other groups of officials. Finally, in the development of heavy industries and transport infrastructure, the record of achievement was less consistent. Thailand developed a strong petrochemical industry dependent on tariff protection, but failed until the mid-1990s to nurture a fertilizer complex. At considerable cost, officials delayed the construction of ports and related infrastructure. Eventually most of these projects were put in place, but with the initially planned dominance of the public sector giving way to a leading role for the private sector. And at far higher cost, Bangkok’s mass transit systems faced an uninterrupted series of delays.

The analysis of different economic sectors in Thailand concludes that the greatest obstacles to cooperative economic activity occurred where no leviathan could impose solutions to collective action problems, where benefits and costs were not easily divided among claimants, and where prospects of gain from future collaboration were limited or the gains were indivisible. Stable and effective policymaking and performance in exchange rate and monetary policymaking until the mid-1990s resulted from the policy dominance of a small set of institutions (the BoT, MoF, and a few dominant private financial institutions). Similarly, though to a lesser degree, a small number of actors shaped financial and fiscal policies. Policy performance generally was less strong in other (nonfinancial) industrial policymaking that targeted particular sectors. Qualified success in the case of the textile industry resulted from efficient market forces and limited private sector governance. The greatest policymaking problems accrued, however, when large actors engaged in zero-sum competition in areas that precluded resort to market solutions, such as the provision of infrastructure.
PART ONE

Chapter 1

The Stock of Social Capital in Thailand

The approach used in this book in trying to understand patterns in Thailand’s political economy has similarities to the literature on social capital (discussed below) and that on state embeddedness. Like the latter, the analysis does not draw exclusively on a study of either state or social institutions but situates the institutions or agencies of the state within the surrounding society. While it is at times analytically useful to isolate market behavior and political institutions from their encompassing social contexts, that step carries costs because it distorts our understanding of how markets and institutions actually work.¹

In thus “embedding” Thai state institutions, I am making three arguments about the reciprocal interaction between state and society.² First, the impact of state agencies’ autonomy (the extent to which officials can select goals and policies rather than having them dictated by other groups) on their ability to govern well is indeterminate.³ State officials enjoying autonomy from demands by social groups and able to formulate and implement coherent agendas may enhance broad state capacities to achieve policy goals. The autonomy of some Leninist parties, for example, may have made them better able to transform the societies they governed. But autonomy can mean isolation, and it can undermine state officials’ efforts to achieve policy goals.⁴ Isolated, officials may have inadequate access to information and be unable to create effective political coalitions that reach out into society and draw on the support of social groups. In A Suitable Boy, for example, Vikram Seth depicts a local official facing the prospect of periodic rotation. By rotating officials, central government presumably hoped to make its administrative machinery more effective by checking the development of alliances between its agents and local power-holders. But how, asks the (corrupt) local patwari, can an outsider really understand the texture of
the life of the village? In short, we cannot, a priori, discern a link between degrees of state officials’ autonomy and their ability to select and achieve their policy goals.

Second, state officials draw on traditions of social organization and broad value-orientations similar to those of others in business and society more generally. Officials’ worldviews and behaviors are not necessarily distinctive. In such cases patterns of social organization that facilitate or hinder cooperation between private clubs, firms, unions, and a host of other associations should also affect officials working in state agencies. In the Thai case, however, the situation is more complex. Ethnic Chinese with distinctive social capital endowments dominate the private sector, while ethnic Thais dominate state agencies.

Patterns of social organization condition the performance of groups both in society and within the state apparatus. But I do not suggest (my third point) that the state is just one among many social institutions. While analytically we should embed state agencies within broader social networks and value-orientations, and recognize the state’s essential social character, the institution of the state remains unique. Its monopoly on the legitimate management of violence, its gatekeeper functions, and its international identity afford its officials potential powers qualitatively different than those of actors situated outside the state. Hence my argument steers a course between ignoring state agency on the one hand and reifying the state and ignoring its social embeddedness on the other. The aim is to draw on the strengths of statist approaches as well as pluralist traditions that often underplay the state’s crucial and independent roles.

Embedded analyses of state institutions that use a “state-in-society” approach or “bring society back in” approach emphasize the ways in which supportive social organization can augment state capacities. Migdal and colleagues argue that particular configurations of state-society relations condition state capacities. This book offers a similar argument, trying to avoid an “undersocialized conception” of the state in accounting for the weaknesses of particular Thai state agencies. States cannot be understood adequately separate from the social context in which they are embedded. The ability of top state officials to shape both society and state depends on their capacity to harness the organizational resources of social groups as well as to create for themselves a degree of autonomy. The embedded state perspective sees state officials drawing on the resources of social groups and authority structures to enhance their power. In short, this is the “judo” view of state capacity in which state officials try to harness the organizational endowments of society to their own ends.

Many academics see the state in functional terms as an artifice designed to overcome collective action obstacles. These obstacles post