

POLITICAL ECONOMY OF THE TRANSITION TO EXPORT-LED
INDUSTRIALIZATION IN THAILAND

by

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Abstract: This essay examines the prospects for a successful transition to export led industrial growth in Thailand. Since several analysts have suggested that Thailand follow a Korean pattern, a comparison between the Thai and Northeast Asian political economies of growth provides a convenient point of departure. After considering the similarities, the paper argues that the socio-political change of the past twenty years has undermined a strong state and created the basis for a more pluralist society. The essay examines the impact of Thailand's nascent political pluralism on the transition and suggests that it might generate pressures for a return to the bureaucratic polity. This could presage the emergence of a Northeast Asian style developmental state and facilitate the transition. Although possible, a robust economy and a socio-political tradition which limits popular demands on the state should enable Thailand to avoid a return to authoritarian government. The essay then suggests that the greatest threat to a successful transition lies in the state's inability to exercise sufficient influence over the business community. The paper concludes by arguing that if the government can broaden its base of support, it might be able to build a political coalition to reform the trade regime and increase taxes to meet the public expenditure needs of the transition.

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I. INTRODUCTION

Thailand is at a turning point in its economic and political history. Between 1850 and 1973 development was managed by a bureaucratic polity that depended on the private sector, an industrious peasantry, and a large land frontier to produce an agricultural surplus for export.¹ Unfortunately, this traditional political economy of growth has reached its limits. Stagnating yields under a fixed technology, a disappearing land frontier, and environmental degradation suggest diminishing returns to the existing growth strategy.² Politically, the rapid socioeconomic change of the previous twenty years has undermined the legitimacy of the bureaucratic polity and created the basis for a more pluralist society.³ As a result, Thailand has been searching for a new development strategy within the confines of its increasingly pluralist politics. Until recently, the international donor community has been urging a modernization of agriculture, but, instead, Thailand opted for an export led industrialization

¹Because the bureaucratic polity emerged out of post 1850 administrative reforms, I've dated it at 1850 rather than at the more usual 1932. J. Ingram, Economic Change in Thailand: 1850-1970, Stanford: Stanford University Press, 1971, F. Riggs, Thailand: The Modernization of a Bureaucratic Polity, Honolulu: East-West Center Press, 1966, and J. Girling, Thailand: Society and Politics, Ithaca: Cornell University Press, 1981.

²For a discussion of these issues, see Thailand: Towards a Development Strategy of Full Participation, World Bank Country Study, Washington, D.C.: World Bank, 1980, and Thailand: Natural Resources Profile, prepared by Thailand Development Research Institute, Bangkok, Thailand, May 1987.

³A. Ramsay, "Thai Domestic Politics and Foreign Policy", A paper prepared for the Third U.S.- Asean Conference, Chaingmai, Thailand, Thailand, Jan. 7-11, 1985 and J. Girling, "Thailand in Gramscian Perspective", Pacific Affairs, Fall 1984, pp. 385-402.

strategy.⁴ The World Bank has endorsed this strategy and it has encouraged Thailand to follow a Korean pattern.⁵

The purpose of this paper is to assess the prospects for a successful transition to export-led industrialization. The paper focuses on the politics of the transition because political difficulties, especially in pluralist societies, have been identified as important impediments to the implementation of new development policies.⁶ Since several writers have suggested that a Northeast Asian "model" is a distinct possibility for Thailand, the political economy of Northeast Asia provides a convenient point of departure.⁷ In section II, the economic and political dimensions of the Northeast Asian transition to export-led industrial growth are examined. In section III the political economy of growth in Thailand is outlined, while in section IV the prospects for the transition within the confines of Thailand's increasingly pluralist society are considered. The argument is summarized in section V.

II. THE POLITICAL ECONOMY OF THE TRANSITION TO EXPORT-LED INDUSTRIAL GROWTH IN NORTHEAST ASIA

The economics of the transition to export-led industrial growth in Northeast

⁴"A Shift to the City", Far Eastern Economic Review, July 24, 1986, p. 56.

⁵P. Sricharatchanya, "Go for the Growth", Far Eastern Economic Review, July 24, 1986, p. 54.

⁶Reynolds has argued that turning points in economic development are frequently accompanied by political crisis. See L. Reynolds, "The Spread of Economic Growth to the Third World: 1850-1980", Journal of Economic Literature, Vol. 21, Sept. 1983, p. 963. On democratic stalemate in the developing world see S. Haggard, "The Politics of Adjustment, Lessons from the IMF's Extended Fund Facility", International Organization, 39 (3), Summer 1985, pp. 520-525.

⁷In addition to the World Bank, see J. Girling, "Thailand in Gramscian Perspective," , p. 402.

Asia is well documented.⁸ Sound macroeconomic management, market conforming government interventions, a realistic exchange rate, and the promotion of exports in an otherwise protectionist trade regime have been identified as important determinants of the region's successful transitions.⁹ While somewhat less is known about the politics of the transition, Haggard, Deyo, and Baeg Im have argued that the success of the East Asian NICs depended heavily on the state of the world economy and access to the American market.¹⁰ With respect to domestic politics, there is a fear that a successful transition may require an authoritarian state. Neither of the Northeast Asian NICs have enduring

⁸This paper defines Northeast Asia to include Japan, Taiwan, and South Korea following Johnson and Cummings. See C. Johnson, "Political Institutions and Economic Performance: The Government-Business Relationship in Japan, S. Korea, and Taiwan," in R. Scalapino et al. (eds.), Asian Economic Development: Present and Future, Berkeley: Institute of East Asian Studies, 1985, pp. 63-89 and Bruce Cummings, "The Origins and Development of the Northeast Asian Political Economy: Industrial Sectors, Product Cycles, and Political Consequences," International Organization, Winter, 1984, pp. 2-35.

⁹See, for example, C.R. Frank, K.S. Kim, and L. Westphal, Foreign Trade Regimes and Economic Development: South Korea, New York: NBER, 1975; W. Hong, "Export-Oriented Growth and Trade Patterns of Korea" in C. Bradford and W. Branson (eds.), Trade and Structural Change in Pacific Asia, Chicago: University of Chicago Press, 1987, pp. 271-306; T.H. Lee and Kuo-shu Liang, "Taiwan", in B. Balassa (ed.), Development Strategies in Semi-Industrial Countries, Baltimore: Johns Hopkins University Press, 1980, pp. 310-350; Kuo-shu Liang and Ching-in Ho Liang, "Trade Strategy and Exchange Rate Policies in Taiwan", in W. Hong and L.B. Krause, (eds.), Trade and Growth of the Advanced Developing Countries in the Pacific Basin, Seoul: KDI Press, 1981; C. Johnson, MITI and the Japanese Miracle, Stanford: Stanford University Press, 1980; and R Ozaki, The Control of Imports and Foreign Capital in Japan, New York: Praeger, 1972.

¹⁰S. Haggard, "The Newly Industrializing Countries in the International System," World Politics, vol. 38, 1986, pp. 344, 363; F. C. Deyo, "Coalitions, institutions, and linkage sequencing--toward a strategic capacity model of East Asian Development" in F. Deyo (ed.), The Political Economy of New Asian Industrialization, Ithaca: Cornell University Press, 1987, p. 221 and H. Baeg Im, "The Rise of Bureaucratic Authoritarianism in South Korea," World Politics, 34(2), January 1987, pp. 242-243.

democratic legacies and Keesing, Johnson, and Kaufman have all suggested that export oriented trade policies may diminish democratic prospects.¹¹

Others have argued that successful transitions in Northeast Asia were dependent on strong autonomous states rather than simply authoritarian ones.¹² In this view, autonomous states, i.e. those with sufficient insulation from domestic pressure groups, are required so that governments can implement the policy changes required, impose the costs of adjustment on affected societal groups, and weather the political opposition of those groups without unduly compromising the policies necessary for a successful transition.

Although strong autonomous states have been important in the success of each of the Northeast Asian NICs, because of the suggestions that Thailand adopt a Korean pattern, the following discussion focuses on South Korea.¹³ As in the rest of Northeast Asia, Korea's managed entry into world markets was heavily conditioned by a political history which saw the development of a strong centralized state and weak interest groups.¹⁴ Prior to Japanese colonization in

¹¹D. Keesing, Trade Policy for Developing Countries, World Bank Staff Working Paper No. 353, Washington, D.C.: World Bank, 1979, p. 152., C. Johnson, "Political Institutions and Economic Performance: The Government-Business Relationship in Japan, S. Korea, and Taiwan," p. 65, and R. Kaufman, "Liberalization and Democratization in South America: Perspectives from the 1970's" in G. O'Donnell, et al. (eds.), Transitions from Authoritarian Rule, Washington, D.C.: Wilson Center, 1984, p. 87.

¹²S. Haggard and C. Moon, "The South Korean State in the International Economy: Liberal, Dependent, or Mercantile" in J. G. Ruggie (ed.), The Antinomies of Interdependence, New York: Columbia University Press, 1983, pp. 141-161; and Bruce Cummings.

¹³The discussion which follows focuses on the role of the state and trade. A number of other reasons for Korea's success have been posited. These include the prior loosening of constraints to growth such as illiteracy, inadequate infrastructure, and land tenure abuses noted by P. Kuznets, "Government and Economic Strategy in Contemporary South Korea", Pacific Affairs, 58 (1), Spring 1985, p. 44.

¹⁴For a discussion of these issues, see Haggard and Moon, p. 142; Baeg Im, pp. 239-240, 249, and 253-255; and Cummings, p. 23.

1910, a long period of comparative political stability ushered in the development of a highly centralized state bureaucracy.¹⁵ Japanese colonial administrators strengthened the power and efficiency of this state bureaucracy while weakening the political influence of large landowners by carrying out an extensive land reform. The power of the state was subsequently strengthened by U.S. support for the military while repression of a nascent trade union movement weakened the political role of organized labor. As a result, by the 1950s, Korea possessed the makings of a strong autonomous state and weak interest groups.

Public outrage over the illicit accumulation of wealth provided President Park with the opportunity to further enhance the state's ability to centrally manage the development process.¹⁶ He used the opportunity to reform the bureaucracy and to alter the relationship between government and business. By granting substantial power to the newly trained technocrats in the Economic Planning Board, the President created an all powerful peak institution.¹⁷ The EPB was given responsibility for planning, budgeting, investment appraisal, price policies, and for the gathering and dissemination of statistics. The chairman of EPB was made a deputy prime minister, a status that afforded him substantial authority over the other ministries. In addition to reform of the bureaucracy, the attack on business undertaken during the campaign against illicit wealth accumulation increased the government's ability to tax the private sector and it led to

¹⁵E. Mason, et al, The Economic and Social Modernization of the Republic of Korea, Cambridge: Harvard University Press, 1980, pp. 62-66.

¹⁶L. Jones and Il Sakong, Government, Business, and Entrepreneurship in Economic Development: The Korean Case, Cambridge: Harvard University Press, 1980, pp. 69-70.

¹⁷For a discussion of the origins and role of the EPB in Korea, see M. Shinohara, T. Yanagihara, and K.S. Kim, The Japanese and Korean Experience in Managing Development, World Bank Staff Working Paper No. 574, Washington, D.C.: World Bank, 1983.

unprecedented government control over the allocation of credit.¹⁸ This made it possible for the government to rely heavily on microeconomic incentives to meet developmental objectives. Since access to duty free imported inputs and to subsidized credit was based on a firm's export performance, those firms that met or exceeded export targets had an easier time with government than those that fell short.¹⁹

Despite the heavy hand of the state, a collaborative relationship between government and business limited inefficiencies. Monthly export promotion meetings at the Presidential palace provided business with a forum for airing grievances concerning the negative aspects of government administration. Open discussions at the Korean Development Institute provided the occasion for representatives from industry, government, and academia to evaluate the likely impact of proposed changes in government policies.²⁰ The use of representatives from various industries in the preparation of sector plans and in the setting of export targets ensured that business and government worked together closely in the articulation of development goals. This tight integration of business and trade associations with the central bureaucracy ensured that the government was less likely to adopt policies which went against business interests.

While the details of state-managed entry into world markets for nontraditional exports differ somewhat elsewhere in Northeast Asia, the general picture of a

¹⁸On the government's ability to tax see Jones and Sakong pp. 111-115. Wontack Hong estimates that state credit subsidies averaged at least 10 percent of GNP each year during the 1970s. W. Hong, "Export-Oriented Growth and Trade Patterns of Korea," in C. Bradford and W. Branson (eds.), p. 285.

¹⁹For a discussion of the export promotion system see Yung Whee Rhee, Bruce Ross-Larson and Garry Pursell, Korea's Competitive Edge, Baltimore: Johns Hopkins University Press, 1984.

²⁰ibid., p. 22.

strong, autonomous state committed to export-led industrial growth remains.²¹

Critical political dimensions of the Northeast Asian transitions include:

1. Recognition that fundamental economic policy change is usually so contentious that it requires a political crisis. Crises have played important roles in the shift to export oriented economy strategies in Japan and Taiwan, as well as in Korea.²²

2. The adoption by political leaders of an unqualified commitment to rapid growth and development based on export promotion strategies. For a variety of reasons, progressive political leaders in Northeast Asia saw development along these lines as a mechanism for consolidating national power, enhancing national security, and ensuring their own personal political positions.

3. Strong state bureaucracies with impressive abilities to pragmatically implement economic policies. Important characteristics of those bureaucracies include the centralization of power in small elite peak institutions and a bureaucratic incentive structure which encourages bureaucrats to work toward the implementation of stated development goals.

4. A heavy reliance on industrial policy to guide private sector decisions.²³ The key element to those policies was the selective use of microeconomic incentives (subsidized credit, duty free access to imported inputs and technology, and tax credits) to guide private sector behavior.

²¹Several recent comparative studies focus on this issue. See F. Deyo (ed.) and IDS Bulletin, "Developmental States in East Asia: Capitalist and Socialist," vol. 5, no. 2, 1984.

²²C. Bradford, "Rise of the NICs as Exporters on a Global Scale" in L. Turner and N. McMullen (eds.), The Newly Industrializing Countries: Trade and Adjustment, London: Allen and Unwin, 1982, p. 21 and Johnson, MITI and the Japanese Miracle, p. 306.

²³This is less so in Taiwan, where the state relied more heavily on state ownership. R. Wade, "Dirigisme Taiwan-Style", IDS Bulletin, vol. 5, no. 2, 1984, p. 69.

5. The development by political elites of an open and collaborative relationship with leadership in the private sector. When combined with the relative exclusion of other interest groups, especially organized labor and farmers, from an active voice in politics, the result was a business government alliance which ensured that state planners did not adopt policies which ran afoul of business interests.²⁴

III. THE POLITICAL ECONOMY OF THAI DEVELOPMENT

Although there are important differences between Thailand and the political economies of Northeast Asia, it is important to recognize the similarities in their political histories.²⁵ As is well known, after 1850 Thailand began the process of integration with the West. The political crisis which accompanied the opening of the economy led the monarchy to turn to administrative reform and political change to preserve Thai independence. For the most part, the changes adopted fostered the development of a strong state and weak interest groups.

Prior to the Bowring Treaty of 1855, Thailand was a self-sufficient semi-feudal economy.²⁶ The monarchy arranged provinces around the central territory in four classes according to their strategic importance to the defense of the

²⁴Haeg Im, pp. 239-240 and 251-155, discusses this with respect to Korea.

²⁵For a discussion of similarities with Japan see L. Dhiravegin, "The Meiji Restoration (1868-1912) and the Chakkri Reformation (1868-1910): A Case for A Comparative Study", in C. Hongladarom and M. Krongkaew, (eds.), Comparative Development: Japan and Thailand, Bangkok: Thammasat University Press, 1981, pp. 71-100. For a comparison of more recent developments see I. Yamazawa and H. Kohama, "Trading Companies and the Expansion of Foreign Trade: Japan, Korea, and Thailand", in K. Ohkawa and G. Ranis, (eds.), Japan and the Developing Countries, Oxford: Basil Blackwell, 1985, pp. 426-446.

²⁶P. Bell, "The Historical Determinants of Underdevelopment in Thailand," Economic Growth Center, Yale University, Center Discussion Paper no. 8, February 1970.

kingdom. Each province was controlled by an administrator of the king's council who was responsible for maintaining peace and order, mobilizing military conscripts as needed, and collecting taxes. Since land was in abundant supply, control over the labor process through corvee labor was central. Because of transportation difficulties and strong regional political elites, central control was dependent on support from regional political power holders.²⁷

The administrative reforms undertaken by King Chulalongkorn extended central control over the outlying provinces, significantly enhanced the state's ability to tax, and weakened traditional regional power bases.²⁸ These administrative changes were accompanied by the gradual abolition of slavery and the replacement of corvee labor with a rural society of small producers. The resultant system of smallholder agriculture marginalized agrarian political influence.

By 1927 the outlines of the modern Thai political economy were set. The Center (Bangkok) had molded a loosely integrated collection of semi-autonomous provinces into a nation state by a triad of forces consisting of a highly centralized bureaucracy which invested in defense and the transport system, a freed peasantry which expanded the area under cultivation, and Chinese traders

²⁷For a discussion of the role of regional power centers in Thailand into the 19th century, see D. K. Wyatt, Thailand: A Short History, New Haven: Yale University Press, 1984, chapter 6 and M. Vickery, "Thai Regional Elites and the Reforms of King Chulalongkorn", Journal of Asian Studies, 29 (4), 1970, pp. 863-881.

²⁸For a discussion of the politics of this period, see D. K. Wyatt, chapters 7 and 8. As a result of these changes, state revenues increased from 3.5 million baht in 1868 to 67.5 million baht by 1916. Chai-anan Samudavanija, The Politics and Administration of the Thai Budgetary Process, PhD. Dissertation, University of Wisconsin, 1971, p. 30.

and European exporters who facilitated the rice trade.²⁹ This system was extremely effective in promoting rapid agricultural growth.³⁰

Subsequent political developments reinforced the tendency toward a strong autonomous state and weak interest groups. The 1932 "revolution" completed the transfer of political power from royal elites to Western trained bureaucratic elites.³¹ Despite the formal establishment of parliamentary democracy, real political power rested with the bureaucracy and the armed forces. This was followed by a strengthening of government control over the Chinese dominated business community.³² The attempt to Thaiify business led the Chinese business community to place Thai bureaucrats, especially cabinet officers, on the boards of directors of Chinese enterprises. This rapprochement between government and business provided the government with a unique opportunity to harness the business community to bureaucratic goals and it paved the way for a government directed private enterprise approach to development.³³ Although trade unions never exercised much political influence, the state, like its counterpart in

²⁹Expenditures for defense and the Ministry of Interior increased from 4% of the budget in 1892 to 48% by 1930. Chai-anan, p. 78. The government also invested heavily in rail development. D. Feeny, The Political Economy of Productivity: Thai Agricultural Development 1880-1975, Vancouver: University of British Columbia Press, 1982, pp. 80-81.

³⁰Area planted in paddy increased from 5.8 million rai in 1850 to 18.1 million rai by 1925-29 while the volume of rice exports increased from 990,000 piculs in 1857-59 to 23,390,000 piculs by 1925-29. Ingram, pp. 38 and 44.

³¹D. Morell and Chai-anan Samudavanija, Political Conflict in Thailand, Cambridge:Ockgeschlager, Gunn & Hain, 1981, pp. 13-16.

³²J. Girling, Thailand: Society and Politics, Ithaca: Cornell University Press, 1981, pp. 74-80.

³³This was reinforced by the report of a World Bank mission to Thailand in the late 1950s. IBRD, A Public Development Program for Thailand. Baltimore: Johns Hopkins University Press, 1959.

Northeast Asia, engaged in repressing labor.³⁴ As in Korea, post 1960 leaders recognized the importance of development for national unification and they ceded important roles to newly trained technocrats in peak institutions.³⁵ Similarly, the U.S. government contributed to the strengthening of an autonomous state by enhancing the role of the military in politics.³⁶ The major consequence of this political history was a narrowing of policy debate and political conflict to a small administrative elite. As one astute observer of the Thai budgetary process has commented,

When political parties are weak and incoherent, national parliaments subject to control by the executive branch, interest and client groups non-existent and military intervention in domestic politics constant, the only group which contests ... is the bureaucracy.³⁷

These post 1930 changes reinforced the high growth system based on extensive agriculture and agricultural exports.³⁸ Between 1960 and 1981 per capita GNP increased by 4.6% annually while exports grew at 11.8% per year.³⁹ Interestingly enough, the literature on Thai politics has discounted the positive

³⁴B. Mabry, The Development of Labor Institutions in Thailand, Data Paper no. 112, SEA Program, Department of Asian Studies, Cornell University, April 1979, chapter 2.

³⁵Girling, pp 80-86, and L. Stifel, "Technocrats and Modernization in Thailand," Asian Survey 16 (12), 1976, pp. 1184-1196.

³⁶ L. M. Hanks, "American Aid is Damaging Thai Society", Transaction, 5 (10), Oct. 1968, pp. 29-34.

³⁷Chai-anan Samudavanija, pp. 9-10.

³⁸Between 1960 and the early 1970s the area under cultivation increased by nearly 4% per year while yields stagnated. Thailand: Toward a Development Strategy of Full Participation, pp. 71-73.

³⁹This compares favorably with the large NICs. See table 1. Over a somewhat shorter period the incidence of poverty declined from 52% to 25%. See Income, Consumption, and Poverty in Thailand, 1962/3 to 1975/6, World Bank Staff Working Paper No. 364, Washington, D.C.: World Bank, November 1979, p. 52.

impact of the bureaucratic polity on development performance.⁴⁰ Yet the bureaucracy was able to maintain substantial continuity and coherence in its development policies over a long period of time. It took advantage of a large land frontier to rely on expansion of the area under cultivation by smallholders. It manipulated an industrious, but politically docile peasantry by giving peasants access to land while taxing them heavily.⁴¹ It also recognized that it was important not to squeeze agriculture too hard and, for the most part, it did successfully manage the agricultural surplus to meet urban needs.⁴² As a result, it was possible to extract resources from agriculture without impover-

⁴⁰Much of this literature assumes an anti-developmental bias in the bureaucracy and focuses on the role of cliques in bureaucratic infighting; in addition to Riggs, Girling and Morell and Chai-anan see D. Wilson, Politics in Thailand, Ithaca: Cornell University Press, 1962, chap. 4.

⁴¹On the industriousness of the peasantry see C. F. Keyes, "Economic Action and Buddhist Morality in a Thai Village," Journal of Asian Studies, vol. 52, no. 4, August 1983, pp. 851-868. S. Piker, "The Closing of the Frontier: Land Pressures and Thai Implications for Rural Social Organization in the Thai Central Plain", Contributions to Asian Studies, vol. 9, pp. 7-26, 1976 discusses the role of the land frontier on rural social organization. Heavy taxation of rice was accomplished by driving a wedge between farmgate and export prices. For a discussion of rice price policies in Thailand see A. Siamwalla, "A History of Rice Policies in Thailand", Food Research Institute Studies, vol. 14, no. 3, pp. 233-249. Wong estimated that approximately 7.8% of national income was transferred out of agriculture annually by export taxes on rice through the 1960s. C. M. Wong, "A Model for Evaluating the Effects of Thai Government Taxation of Rice Exports on Trade and Welfare", American Journal of Agricultural Economics, 60 (1), Feb. 1987, p. 72. Bertrand concludes that between 1955 and 1966 taxes on rice were about 40-45% of the export price and 80-85% of farmgate prices. He also argued that heavy taxation of rice stimulated the growth of the nonagricultural sector through the affect of depressed rice prices on the supply price of labor. By depressing the price of urban labor, profitability in industry was increased. T. Bertrand, "Thailand: Case Study of Agricultural Input and Output Pricing", World bank Staff Working Paper No. 385, Washington, D.C.: World Bank, 1980, pp. 45, 79.

⁴²Riggs, 327. An exception was government management of rice prices in 1972-73. See Siamwalla, pp. 244-246.

ishing the peasantry and to build, under government auspices, an industrial base in Bangkok behind protective barriers.⁴³

Table 1. Comparative Performance of the Thai Economy

Country/group	GNP per capita (1985) (US \$)	Growth ² rate GNP per capita (1960-81) (%)	Growth rate manufacturing (1965-80) (%)	Growth ² rate exports (1970-81) (%)	Percent decline in ag. share of GDP (1965-85) (%)	Rate of ¹ inflation (1970-81) (%)	Debt service percent of exports (1985) (%)	Percent of household income lowest 40% (%)
Thailand	800	4.6	10.9	11.8	51.4	10.0	14.7	15.2
Large NICs	1388	4.4	10.3	9.5	41.5	22.8	23.4	12.4
Large countries	934	3.5	9.6	5.4	32.2	19.0	23.9	13.7
Middle income countries	1290	3.4	7.3	4.1	24.1	13.1	21.6	na

Notes:

¹Unless otherwise indicated, data are from tables in World Development Report, 1987, Oxford University Press, 1987, various pages.

²These data are from World Development Report, 1983, Oxford University Press, 1983, various pages.

³Large LDCs are those with populations above 40 million in 1985, excluding China.

⁴Large NICs include Brazil, Mexico, Korea, Turkey, Thailand, and the Philippines.

⁵Excludes the Philippines.

The government's heavy investment in the transport system contributed to security objectives and facilitated the extraction of resources out of agriculture.⁴⁴ Its reliance on the private sector was consistent with cultural predispositions. It was flexible and adaptive enough to successfully integrate

⁴³N. Akrasanee, "The Manufacturing Sector in Thailand: A Study of Growth, Import Substitution, and Effective Protection, 1960-1969", Ph.D. Dissertation, Johns Hopkins University, 1973.

⁴⁴D. Feeny, pp. 80-81.

both the Chinese business community and liberal technocrats into its political economy of growth. For much of this period the bureaucracy's legitimacy was reinforced by its skillful use of external threats and national symbols such as the monarchy, Buddhism, and the Thai nation and by an urban coalition of civil servants, Chinese traders, and foreign exporters who benefited from this extractive policy toward agriculture.⁴⁵ It avoided inflationary finance and severe exchange rate misalignment. This is not to say that the bureaucracy was omniscient. It made mistakes.⁴⁶ It appeared, at times, to be too dependent on graft, corruption, and prebends.⁴⁷ Its day to day relationships with the peasantry left much to be desired.⁴⁸ But it did have clearly identified national security goals which were consistent with its development policies. It was highly pragmatic. Its autonomy from peasants, urban labor, and business meant that it was free, for much of this period, to pursue its own goals. In short, it is difficult to deny that this strong autonomous state contributed substantially to Thai development from 1850 to 1973.

If there had been little change in the structure of Thai society after 1960, the transition from agricultural led growth to export led industrialization could have been directed by a strong autonomous state as in Northeast Asia. But several developments weakened the prospects for a strong state led transition. The rapid socioeconomic change of the previous 20 years undermined the

⁴⁵M. Alagappa, The National Security of Developing States: Lessons from Thailand, Dover:Auburn House Publishing Co., 1987. pp. 46-47.

⁴⁶In addition to mismanagement of rice policy in 1972-73, its venturing into state owned enterprises in the 1950s caused serious problems. Ingram, 287.

⁴⁷N. Jacobs, Modernization without Development, New York: Praeger, 1971, chap. 4.

⁴⁸C.D. Neher, "Political Corruption in a Thai Province", Journal of Developing Areas, vol. 11, July 1977, pp. 479-492.

legitimacy of the bureaucracy and ¹ created the basis for a more pluralist society.

The success of the government's private enterprise approach to development saw the ² growing independence of business from government. The period of open politics between 1973 and 1976 which witnessed the toppling of a military government by a popular coalition of students, workers, and farmers substantially ³ changed the nature of the relationship between the bureaucracy and other elements of Thai society.⁴⁹ Finally, the ⁴ closing of the land frontier threatened to deprive the government of the economy's traditional source of growth and it unmasked disagreements and weaknesses within its development management system.⁵⁰

As the private industrial sector grew under the auspices of the government's import substitution policies, it became less dependent on government for success. The financial independence of a small number of very large Chinese business combines increasingly insulated business from the reaches of government⁵¹. This was combined with declining government control of trade, associations and the interpenetration of the public sector by representatives of those associations.⁵² Since Thai bureaucrats served on the boards of directors

⁴⁹For a discussion of this period, see Morell and Chai-anan.

⁵⁰Thailand: Toward a Development Strategy of Full Participation, Washington, D.C.: World Bank, 1980, pp. 27-30 and 71-75.

⁵¹Ingram reports that there was relatively little industry in Thailand prior to 1919 and that only 2% of the labor force was employed in industry by 1949. Ingram, p. 144. By the mid 1970s manufacturing accounted for approximately 20% of GDP (Thailand: Toward a Development Strategy of Full Participation, p. 139) and it was controlled by a small number of Chinese families whose base of support rested in the banking system. For a discussion of Chinese combines in Thailand see S. Prasartset, "The Nature of Thai Business and Implications for U.S. Investors", Faculty of Economics, Chulalongkorn University, June 11, 1982, pp. 2-27.

⁵²Prior to 1932, the government rigidly controlled and eliminated associational groups as they formed. After 1932 such groups were controlled by the government's power to attend and close association meetings, to investigate

of Chinese and Sino-Thai enterprises, it became all too easy for businessmen to lobby both publically and privately. From there it appears to have been but a short step to business representation on government committees and ultimately in the cabinet.⁵³ This progressive intertwining of bureaucratic interests with business interests along patron-client lines made it difficult for the government to enact policies which conflicted with entrenched business interests. Thus, after agreeing to liberalize the trade regime in 10 industries in 1980, only two industries were affected and government reformers suffered a notable setback in the attempt to liberalize trade in the electronics industry.⁵⁴ The government faced a similar setback in its attempt to raise taxes. Business opposition to tax increases contributed to a savings-investment gap; slowed the development of a government regulated securities market; and led the IMF to suspend lending to Thailand because the government could not narrow the public sector deficit.⁵⁵ This opposition has also forced the government to rely more heavily on the private sector during the sixth plan period.⁵⁶

Declining government control over the business community paralleled changing relationships between government and farmers and workers. The

the origins of group leaders, and by its ability to punish and fine groups. By the late 1970s trade association leaders were interacting on a regular basis with central government authorities and serving on government committees. See Prasartset, pp. 53-67.

⁵³Ramsay, p.6.

⁵⁴"A Shift to the City", p. 56.

⁵⁵"P. Sricharatchanya, "A Burgeoning Problem," Far Eastern Economics Review, March 20, 1986, pp. 122-24, and "No More Empty Pledges," Far Eastern Economic Review, September 25, 1986, p. 92. More Target Practice," Far Eastern Economic Review, June 26, 1986, p.62.

⁵⁶ "The Best Laid Plans," Far Eastern Economic Review, October 9, 1986, p. 67.

October "revolution" caused liberal technocrats in and out of government and elements of the military to argue that the government had to offer a better deal to Thailand's rural population.⁵⁷ Successive governments reached out to the countryside by supporting price floors for agriculture and by undertaking a variety of public works programs for the rural poor.⁵⁸ The government also reached out to urban labor by lifting the ban on strike activity in 1981 and by including unions in tripartite discussions with government and business on the setting of the minimum wage.⁵⁹

This growing accommodation between the bureaucracy and business, labor, and farmers suggests that the bureaucratic polity has been transformed into a "broker polity" where,

the key figure is the prime minister who has the main responsibility for brokering a free for all between a growing number of organized constituencies . . .⁶⁰

Not surprisingly, this broker polity has put extreme pressure on already strained public sector finances. Public investment in agriculture must expand to maintain the growth rate and to provide economic and social services to the poor and

⁵⁷For a discussion of the post 1975 rural antipoverty programs, see M. Rock, "Rural Poverty Alleviation in Thailand (1976-82): A Preliminary Analysis and Proposal," February 1983, a paper prepared for USAID/Thailand, Bangkok, Thailand. For a discussion of changing views in the military toward the countryside see Chai-Anan Samudavanija, The Thai Young Turks, Singapore: Institute for Southeast Asian Studies, 1982, pp. 35-36 and 57-62.

⁵⁸Bertrand, pp. 48-50 and Rock, pp. 1-5.

⁵⁹Ramsay, p. 6.

⁶⁰Ramsay, p. 8.

neglected areas.⁶¹ There is also a need to invest in infrastructure to facilitate the transition to export led industrialization.⁶² When combined with pressures to fund poverty alleviation efforts and to slow the pace of environmental degradation, there is a high premium on public sector resource mobilization efforts.⁶³ But because of business opposition, the government has been unable to increase public revenues sufficiently and, as a result, public sector balances have deteriorated. As data in Table 2 show, there has been a secular increase in the fiscal deficit as public revenues as a share of GDP have stagnated. The public sector savings rate has also declined as government consumption has risen to the point where revenues barely cover it. There has also been a significant rise in the ratio of public debt to GDP. These growing public sector imbalances could disrupt the transition to export led industrial growth, if taxes can not be raised, or if popular demands on the state begin to have a larger impact on the budget. If the latter were to occur, Thailand could find itself facing substantial economic difficulty because of its inability to tame popular distributional coalitions.⁶⁴ Those coalitions have stymied policy reform efforts in several

⁶¹In 1980 the World Bank estimated that this would require public investment to rise from 6.2% to 8.5% of GDP by 1985-90. Thailand: Toward a Development Strategy of Full Participation, p. 119.

⁶²"At Last a Real Beginning", Far Eastern Economic Review, Oct. 30, 1986, pp. 51-52.

⁶³Thailand's inability to raise revenues (taxes) stands in marked contrast to South Korea where the tax to GNP ratio rose from 9.5% in 1961 to 18.3% in 1976. Jones and Sakong, p. 112.

⁶⁴Scott argued that democratization of patron-client politics in Thailand is likely to put extreme pressures on public spending. See J. Scott, "Patron-Client Politics and Political Change, American Political Science Review, March 1972, 46 (1) pp. 91-113.

countries and they have been identified as the source of macroeconomic instability in several others.⁶⁵

Table 2. Central Government Finance in Thailand
(Data are percent of GDP)

	1961-65	1966-70	1971-75	1975-80	1981-85
Fiscal deficit	.63	2.14	2.84	3.34	3.42
Revenue	13.21	13.89	13.34	13.71	14.73
Gov't consumption	9.88	10.41	12.47	11.39	12.98
Gov't savings	3.34	3.48	2.88	2.32	1.75
Public debt	11.58	15.16	19.72	24.10	30.95

Notes:

1. Data are 5-year averages. Unless otherwise noted, data are from International Financial Statistics Yearbook, Washington, D.C.: IMF, 1986, pp. 654-655.

2. Data on public debt from 1961-65 through 1971-75 are from C.M. Wilson, Thailand: A Handbook of Historical Statistics, Boston: G.K. Hall & Co., 1983, various pages.

As public sector financing problems reveal, managing the broker polity is extremely complicated and this may explain why the government has found it so difficult to make major economic decisions.⁶⁶ It has also unmasked

⁶⁵On democratic stalemate in the developing world see S. Haggard, "The Politics of Adjustment, Lessons from the IMF's Extended Fund Facility", pp. 520-525. On the relationship between macroeconomic instability and popular demands on the state see J. Sheahan, "Economic Policies and the Prospects for Successful Transition from Authoritarian Rule," in G. O'Donnell, et. al., pp. 154-164.

⁶⁶ "The Legacy of Indecision which Plagues the Premier", Far Eastern Economic Review, July 9, 1982, pp. 37-38, J. Macbeth, "Above the Fighting", Far Eastern Economic Review, Aug. 23, 1984, pp. 24-26, and P. Sricharatchanya, "The Best Laid Plans", Far Eastern Economic Review, July 24, 1986, p. 67.

disagreements and weaknesses within Thailand's development management system. Disagreements within government over the direction of industrial policy have demonstrated that the earlier consensus over agricultural policy could not easily be transferred to a development strategy based on liberalizing the trade regime. Because of the lack of coordination of policy-making at the highest levels of government, these disagreements have complicated economic decision-making. Although Thailand's planning agency, the National Economic and Social Development Board and the Bureau of the Budget have supraministerial statutory powers, the separation of planning from budgeting and NESDB's organizational structure make it difficult for it to exert a leadership role.⁶⁷ This lack of coordination is made more severe by an independent Ministry of Finance concerned with fiscal policy and revenue generation. Unfortunately, problems only get worse at the sectoral level. At least six agencies/ministries are involved in the administration of industrial policy. There seems to be little coordination between agencies, and industries banned by one ministry have developed because of the aggressive promotion of others.⁶⁸ This spreading of industrial policy administration over an array of governmental organizations make it extremely difficult to undertake the rationalization of industrial policy necessary for a successful transition to export led industrialization.

⁶⁷D. Axelrod and C. Neher, "Evaluation of Results of Projects Conducted by the Public Administration Service to Improve Management Processes in the Royal Thai Government", USAID/BANGKOK, July 1983, p. 13, 22 and Thailand: Toward a Development Strategy of Full Participation, pp.27-30.

⁶⁸W. Brown, "The Private Sector Institutional and Cultural Environment in Thailand and Suggestions for Facilitating the Private Sector's Role in Development," Annex V, Thailand: Private Sector in Development Project no. 493-0329, USAID, Project Paper, April 1983, p. 71.

IV. Political Pluralism and the Thai Transition

Growing public sector imbalances, a weakened government position vis a vis the business community and other social groups, disagreements over the direction of development policy, and a weak development management system depict a broker polity that stands in marked contrast to the strong autonomous state of Northeast Asia. This suggests that, unless there is a return to a more closed politics, the Thai transition to export led industrialization will be significantly different from that in Northeast Asia. Although it would appear that Thailand has drifted too far away from the closed politics of the past to return, such a development can not be ruled out. As one recent analyst of Thai politics has noted, a highly centralized state bureaucracy remains cynical and suspicious of democratic politics. Perceptions of external threats, particularly from the Vietnamese, continue to heighten the military's readiness to intervene on behalf of national security.⁶⁹ When combined with the inability to resolve fundamental economic policy disagreements and the absence of an orderly political succession procedure, a shift back to a closed politics seems, at least, possible.

A return to the bureaucratic polity could presage the emergence of a Northeast Asian style developmental state. If it was combined with an enhanced role for the technocrats in government, increased government control over the financial system, and a government-business alliance which supported export led industrial growth, it could facilitate the transition. There are indications which suggest that this is possible. There is support within the business community for

⁶⁹Comments by Chai-anan Samudavanija taken from L. Diamond, S. M. Lipset, and J. Linz, "Developing and Sustaining Democratic Government in the Third World," paper presented at the 1986 annual meeting of the APSA, August 28-31, Washington, D.C., pp. 37-39, 46, 55.

open economy policies.⁷⁰ The government is attempting to create a Northeast Asian style collaboration with the private sector.⁷¹ Assistance from the donor community is being used to strengthen the bureaucracy's peak institutions and recent difficulties in the financial system have provided the government with an opportunity to increase its control over credit.⁷²

A return to bureaucratic authoritarianism could be hastened by economic crisis. In Latin America, a weakening of the centralized state alongside the growing strength of extra-bureaucratic forces was accompanied by a tendency for organized group claims on the state to either damage efficiency or outrun productivity capacity.⁷³ As a result, the continent's nascent open polities tended to be subject to large fiscal deficits, severe inflation, external disequilibria, and slow growth. This generated, with all too much regularity, authoritarian political backlashes.⁷⁴

⁷⁰P. Phongpaichit, "The Open Economy and Its Friends: The Development of Thailand", Pacific Affairs, Fall 1980, p. 450

⁷¹ "Working Together at Last," The Bangkok Post, Friday, December 31, 1982, pp. 31-32.

⁷²On reform of the bureaucracy see, "A Political Minefield", Far Eastern Economic Review, June 4, 1982, pp. 56-57; D. Axelrod and C. Neher, and Thailand: Toward a Development Strategy of Full Participation, pp. 27-30. Since the financial crisis of 1983, 25 financial companies have been taken over by the government, and the government has created a new institution, the Fund for Rehabilitation and Development of Financial Institutions. "Snub to the World Bank," Far Eastern Economic Review, June 19, 1986, p. 74.

⁷³J. Sheahan, p. 154.

⁷⁴J. Sheahan, "Market-Oriented Economic Policies and Political Repression in Latin America," Economic Development and Cultural Change, 28, no. 2, January 1980, pp. 267-291; D. Pion-Berlin, "Political Repression and Economic Doctrines: The Case of Argentina," Comparative Political Studies, vol. 16, no. 1, April 1983, pp. 37-66; and T. Skidmore, "The Politics of Stabilization in Post War Latin America," in J. Mallory (ed.), Authoritarianism and Corporatism in Latin America, Pittsburgh: University of Pittsburgh, 1977.

Although possible, a return to the closed politics of the bureaucratic polity does not appear to be the most likely political outcome in Thailand. The government's attempt to forge a new relationship with business is not likely to develop into a Northeast Asian style collaboration between government and business. It lacks the levers of control over business extant in the political economies of Northeast Asia. It is having great difficulty raising taxes, it exerts less control over credit, and business elites have interpenetrated government decision-making structures.⁷⁵ Unless middle class groups were convinced that popular pressures from below were threatening their security, they would seem to have little to gain from a return to a closed polity.⁷⁶ Since a conservative fiscal legacy has continued to dominate economic decision-making in the broker polity, this is not likely to happen.⁷⁷ A strong national identity and a cultural predisposition which limits popular demands can also be expected to exert a "civilizing influence" on those demands, especially if they begin to threaten Thailand's international position.⁷⁸ A preference for pragmatism and a consensus building approach to politics should also constrain popular demands on the state.⁷⁹ Finally, a fear that the military will intervene if demands on the state

⁷⁵On the tight familial linkages between Thai businesses and the private banking sector which limit government control over the allocation of credit see S. Prasartset, pp. 3-11.

⁷⁶This comment has been made with respect to Latin America by R. Kaufman, pp. 88-89.

⁷⁷Stifel, pp. 1187, 1191 and "Go for the Growth", p.55 In addition to the limit placed on foreign borrowing, the bureaucracy has been able to limit spending on the popular rural poverty alleviation programs. See Rock, p. 3.

⁷⁸L. M. Hanks, "Merit and Power in the Thai Social Order", American Anthropologist, vol. 64, 1962, pp. 1247-1261, L. W. Pye, Asian Power and Politics, Cambridge: Harvard University Press, 1985, pp. 109-111 and Alagappa, p. 39-48.

⁷⁹Ramsay, p. 6.

are not kept within reasonable bounds should reinforce the constraining influence of this conservative political culture on public expenditure.

In addition, the economy exhibits few of the characteristics which severely limited the ability of the state to manage the transition in Latin America. The traditional export sector remains strong.⁸⁰ The growth rate remains high, inflation is low, and the external account is strong.⁸¹ Urban wages are not substantially out of line with scarcity values, so a shift from import substitution industrialization to export-led industrialization would not require wage repression.⁸² If successful, it should also provide substantial employment for those constrained by the closing of the land frontier.⁸³ Since the exchange rate has been subject to periodic devaluation, there is likely to be little downward pressure on wages from exchange rate changes.⁸⁴ Since government spending in the social sectors has been limited, changes there are not likely to cause much distress. As a result, Thailand need not go through the wrenching shocks to living standards so characteristic of the austerity programs required in the Latin

⁸⁰This played an important role in the Colombian shift to an open economy development strategy in the 1960s as restoration of high coffee prices after 1967 eased a balance of payments constraint. J.M. Ruhl, "An Alternative to the Bureaucratic-Authoritarian Regime: The Case of Colombian Modernization", Inter-American Economic Affairs, 35, Autumn 1981, p. 62.

⁸¹GDP grew at an annual rate of 5.1% between 1980 and 1985. Over this same period inflation averaged 3.2% annually. Gross international reserves were equal to 3 months of imports in 1985 and debt service was 14.7% of exports. World Development Report, 1987, New York: Oxford University Press, various pages.

⁸²T. Bertrand and L. Squire, "The Relevance of the Dual Economy Model: A Case Study of Thailand," Oxford Economic Papers, vol. 32, no. 3, November 1980, pp. 480-511.

⁸³Baeg Im, pp. 247-255, discusses this process in South Korea.

⁸⁴The real effective exchange rate declined by 9% between 1972 and 1980 and it is generally thought to be near its market value. R. Agarwala, "Price Distortions and Growth in Developing Countries", World Bank Staff Working Paper No. 575, The World Bank: Washington, D.C., 1983, p.21.

American shift from import substitution industrialization to export-oriented development. This should afford policy-makers greater maneuverability and reduce the felt need to rely on authoritarian solutions.

The maneuverability provided by an economy which does not require an austerity program suggests that the greatest political challenge to export led industrialization ~~comes from the government's inability to exert greater~~ influence over the business community. Even though the economic rents associated with the protectionist trade regime in industry do not appear large by Latin American standards, the government has had great difficulty in liberalizing the trade regime.⁵⁵ Moreover, business opposition to tax increases threatens both macroeconomic stability and the growth rate. If taxes can not be increased to finance needed public investment, the growth rate should slow; rural dissent could rise; and/or public sector imbalances could begin to undermine macroeconomic stability thereby threatening export prospects.

It is not clear how Thailand will manage these competing pressures on the budget. The decision to focus on an export led industrial development strategy suggests that the government has decided to slow the pace of investment in agriculture. Since there is some room for further diversification in agriculture and/or expansion of area under cultivation, this may work in the short run. But the secular deterioration in the growth rate in agriculture means that this can not work for long.⁵⁶ Similarly, recently imposed limits on foreign borrowing may work in the short run, but only at the expense of much needed public and

⁵⁵N. Akrasanee and J. Ajanant, "Manufacturing Industry Protection in Thailand: Issues and Empirical Studies", in C. Findlay and R. Garnout (eds.), The Political Economy of Manufacturing Protection: Experiences of ASEAN and Australia, Boston: Allen and Unwin, 1986, pp. 91-92. 

⁵⁶The growth rate in agriculture declined from 5.7% between 1965-70 to 3.8% between 1970-77. Thailand: Toward a Development Strategy of Full Participation, p. 6.

private investment.⁵⁷ Perhaps the government's preference for pragmatism and its use of corporatist like cooperation between business and labor could be used to overcome business opposition.⁵⁸

Assuming the state can mobilize more public resources for development, a strong economy and a political culture and history which naturally limits popular demands on the state should enable Thailand to successfully implement an export-led industrial development strategy within the confines of its increasingly pluralist politics. But it is also likely that the constraining influence of Thai pluralism will make it difficult, if not impossible, for Thailand to achieve Northeast Asian-like results. Pressures to expand spending in the social sectors, to slow the pace of environmental degradation, to reduce income inequalities between regions, to decentralize industrial locations and political decision-making, and to extend political participation will undoubtedly detract from an unqualified commitment to rapid growth.⁵⁹ Consequently, growth rates in output, income per capita, and exports are likely to be lower than those found in the Northeast Asian transitions. The benefits of a slower transition should include politically satisfactory growth rates, greater internal political stability, and less income inequality. Such a transition, if successful, would suggest that it may be possible to shift from import substitution to export promotion policies in open

⁵⁷"Go for the Growth", p. 55.

⁵⁸D.K. Crone argues that states with broader bases of support have greater degrees of insulation from the demands of dominate social elites. D.K. Crone, "State, Social Elites, and Government Capacity in Southeast Asia", World Politics, January, 1988, pp. 254-258. If the government can continue to broaden its base of support, it might be able to put together a coalition which enabled it to reform the trade regime and raise taxes.

⁵⁹For a discussion of these issues see the sources in note 2.

polities without experiencing the political crises that have attended turning points in economic development in so many countries.

V. Summary and Conclusions

The transition to export led industrial growth in Northeast Asia took place under the auspices of strong autonomous states, weak interest groups, and, at least in the NICs, authoritarian governments. The region's managed entry into world markets was dependent on market conforming interventions and close collaboration with the private sector. This has led some to worry that successful implementation of open economy development strategies may require a closed politics. Until 1973, the Thai state managed a high growth system that was similar to the Northeast Asian pattern. There a highly centralized state facing weak interest groups and a closed politics relied heavily on the private sector. But the high growth system fostered rapid socioeconomic change which created the basis for a more pluralist society. The breakdown of the old bureaucratic polity was hastened by the closing of the land frontier on which the bureaucracy depended and by the growing strength of the private sector which increasingly challenged a bureaucracy that had become accustomed to controlling it.

Faced with diminishing returns to the existing growth strategy, The Thai government is attempting a transition to export led industrialization within the confines of its increasingly pluralist polity. This suggests a transition more akin to that in Latin America than Northeast Asia. There a similar weakening of the centralized state in the face of growing pressures from organized extra-bureaucratic groups was accompanied by popular claims on the state which outran productive capacity. This resulted in large fiscal deficits, severe inflation,

external disequilibria, and slow growth. All too often this facilitated an authoritarian political backlash.

Although a return to a more closed politics in Thailand can not be ruled out, this is not the most likely political outcome. The government lacks sufficient control over business and middle class groups would have little to gain by a return to a more authoritarian government. The underlying strength of the Thai economy should afford policy-makers more maneuverability than extant in Latin America's nascent open polities. This reduces the pressure to rely on an authoritarian solution. A political culture and history which limits popular demands on the state reinforces the maneuverability provided by a strong economy. This suggests that the greatest political challenge to the transition comes from the inability to exert sufficient influence over the business community rather than from the need to restrain popular demands on the state. If the government can continue to broaden its base of support, it might be able to build a coalition to support reform of the trade regime and the mobilization of sufficient public resources to meet the investment needs of the transition. Thus an extension, rather than a rolling back of Thai political pluralism may hold the key to a successful transition.