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.
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. 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. 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. 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 strategy.


strategy. 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. 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 Asia


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

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democratic legacies and Keesing, Johnson, and Kaufman have all suggested that export oriented trade policies may diminish democratic prospects. Others have argued that successful transitions in Northeast Asia were dependent on strong autonomous states rather than simply authoritarian ones. 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. 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. Prior to Japanese colonization in


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.\textsuperscript{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.\textsuperscript{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.\textsuperscript{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


unprecedented government control over the allocation of credit. 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.

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. 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

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19 On 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.


20 Ibid., p. 22.
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.  

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. 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.

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23 This 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 251-255, discusses this with respect to Korea.


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. 26 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


25 For 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. This system was extremely effective in promoting rapid agricultural growth.

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. 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. 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. Although trade unions never exercised much political influence, the state, like its counterpart in

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30. Area 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.


33. This 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, 1958.
Northeast Asia, engaged in repressing labor.\textsuperscript{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.\textsuperscript{35} Similarly, the U.S. government contributed to the strengthening of an autonomous state by enhancing the role of the military in politics.\textsuperscript{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.\textsuperscript{37}

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

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


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

\textsuperscript{37}Chai-anan Samudavanija, pp. 9-10.

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

impact of the bureaucratic polity on development performance. 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 small-holders. It manipulated an industrious, but politically docile peasantry by giving peasants access to land while taxing them heavily. 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. As a result, it was possible to extract resources from agriculture without impoverishing 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. N. Kong, "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 effect 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.

Riggs, 327. An exception was government management of rice prices in 1972-73. See Siamwalla, pp. 241-246.
ishing the peasantry and to build, under government auspices, an industrial base in Bangkok behind protective barriers.

Table 1. Comparative Performance of the Thai Economy

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

Notes:
3. Large LDCs are those with populations above 40 million in 1985, excluding China.
4. Large NICs include Brazil, Mexico, Korea, Turkey, Thailand, and the Philippines.
5. Excludes the Philippines.

The government's heavy investment in the transport system contributed to security objectives and facilitated the extraction of resources out of agriculture.

Its reliance on the private sector was consistent with cultural predispositions. It was flexible and adaptive enough to successfully integrate


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. It avoided inflationary finance and severe exchange rate misalignment. This is not to say that the bureaucracy was omniscient. It made mistakes. It appeared, at times, to be too dependent on graft, corruption, and prebends. Its day to day relationships with the peasantry left much to be desired. 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

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


legitimacy of the bureaucracy and created the basis for a more pluralist society. The success of the government's private enterprise approach to development saw the 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 changed the nature of the relationship between the bureaucracy and other elements of Thai society. Finally, the 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.

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 government. This was combined with declining government control of trade associations and the interpenetration of the public sector by representatives of those associations. Since Thai bureaucrats served on the boards of directors

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


51 Ingram 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.

52 Prior 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.\footnote{Ramsay, p.6.} 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.\footnote{"A Shift to the City", p. 56.} 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.\footnote{"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.} This opposition has also forced the government to rely more heavily on the private sector during the sixth plan period.\footnote{"The Best Laid Plans," Far Eastern Economic Review, October 9, 1986, p. 67.} Declining government control over the business community paralleled changing relationships between government and farmers and workers. 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.
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. 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. 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.

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

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

59 Ramsay, p. 6.

60 Ramsay, p. 8.
neglected areas. There is also a need to invest in infrastructure to facilitate the transition to export led industrialization. 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. 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. Those coalitions have stymied policy reform efforts in several

61 In 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.


63 Thailand’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.

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)

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Fiscal deficit</td>
<td>.63</td>
<td>2.14</td>
<td>2.84</td>
<td>3.34</td>
<td>3.42</td>
</tr>
<tr>
<td>Revenue</td>
<td>13.21</td>
<td>13.89</td>
<td>13.34</td>
<td>13.71</td>
<td>14.73</td>
</tr>
<tr>
<td>Gov't consumption</td>
<td>9.88</td>
<td>10.41</td>
<td>12.47</td>
<td>11.39</td>
<td>12.98</td>
</tr>
<tr>
<td>Gov't savings</td>
<td>3.34</td>
<td>3.48</td>
<td>2.88</td>
<td>2.32</td>
<td>1.75</td>
</tr>
<tr>
<td>Public debt</td>
<td>11.58</td>
<td>15.16</td>
<td>19.72</td>
<td>24.10</td>
<td>30.95</td>
</tr>
</tbody>
</table>

Notes:

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


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. 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. 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.


IV. Political Pluralism and the Thai Transition

Growing public sector imbalances, a weakened government position vis-à-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 polities 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. 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

open economy policies.\textsuperscript{70} The government is attempting to create a Northeast Asian style collaboration with the private sector.\textsuperscript{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.\textsuperscript{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.\textsuperscript{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.\textsuperscript{74}

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

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


\textsuperscript{73} J. Sheahan, p. 154.

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. 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. Since a conservative fiscal legacy has continued to dominate economic decision-making in the broker polity, this is not likely to happen. 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. A preference for pragmatism and a consensus building approach to politics should also constrain popular demands on the state. Finally, a fear that the military will intervene if demands on the state

75 On 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.

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

77 Stifel, 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.


79 Ramsay, 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. The growth rate remains high, inflation is low, and the external account is strong. 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. If successful, it should also provide substantial employment for those constrained by the closing of the land frontier. Since the exchange rate has been subject to periodic devaluation, there is likely to be little downward pressure on wages from exchange rate changes. 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

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51 GDP 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.


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

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. 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. Similarly, recently imposed limits on foreign borrowing may work in the short run, but only at the expense of much needed public and


86 The 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. 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.

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. 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.

58 D.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.

59 For 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.