Changes of the State-Capital Relationship in Thailand: Focusing on the Relationship between the State Macroeconomic Institutions and Commercial Banks[1]

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Abstract

This research aims to present a critical analysis of important features in the political economy of Thailand from 1958 to 2006 based on the Peter Evan's concept of "embedded autonomy," referring to an autonomous state that has an intimate network with certain private sectors. This article will first look at different perspectives explaining the role of the Thai state, and then argue the theoretical usefulness of the notion of 'embedded autonomy' in the analysis of the dynamics of the political economy of Thailand. To do so, this article focuses on the changes in relations of the state's macroeconomic institutions, such as the Bank of Thailand and the Ministry of Finance, and major commercial banks. Thailand experienced high economic

[1] The research for this article was partially funded by the Empowering Network for International Thai Studies (ENITS), Institute of Thai Studies, Chulalongkorn University. This article is partly adapted from the author's MA thesis.
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performance during the 1960-1980s despite the corrupted relationship between the military, civilian bureaucrats and capitalists. The Thai state's "bifurcated" features between clientelistic microeconomic management located in line ministries and autonomous and insulated macroeconomic management agencies, such as the Ministry of Finance and the Bank of Thailand, contributed to economic growth. The article then compares how the embedded autonomy of the Thai state has eroded after the democratization, especially after the tycoon-cum-politician Thaksin became the Prime Minister, with previous eras in the context of specific features of the political economy. This research will present the importance of embedded autonomy of the state based on the regulatory discipline to domestic capital in developing countries to overcome stable economic growth and politics.

Introduction

Thailand was the epicenter of the Asian economic crisis in 1997. Many liberal scholars criticized the corrupt relationship between capitalists and the state. They argued that East Asian crony capitalism had developed patron-client relationships based on asymmetrical social and political exchanges. Moreover, a handful of elites captured the state in order to collect rent and prevented market mechanism from functioning well. Even if this argument is acceptable, how can it explain the country's successful economic development in the previous era? How could the same 'corrupted network' contribute to economic success before the crisis? Prior to 1997, Thailand seemed to be a sure bet for a long period of high sustained economic growth. Many researchers studying the politics of Thailand have always been at odd with how Thailand was able to achieve a high rate of economic growth in 1980s despite the rampant clientelism in sectoral policies. Distinguishing between good and bad networks is just ex-post analysis and has a potential to make mistakes to legitimize the neoliberal theory. In this vein, there must be certain criteria to differentiate contradictory situations.

To conclude, the criteria is the ‘discipline’. That is to say, in the case of Thailand, the discipline is conservative monetary and macroeconomic policies. Despite the corrupted relationship between the military, civilian bureaucrats and capitalists, the Thai state’s “bifurcated” features between clientelistic microeconomic management located in line ministries and autonomous and insulated macroeconomic management agencies, such as the Ministry of Finance (MOF) and the Bank of Thailand (BOT), contributed to economic growth in Thailand.[3] Autonomous technocrats successfully managed conservative macroeconomic policy and stable monetary policy and thus contributed to Thailand’s high economic performance during the 1960-1980s. The military was an important political actor. They wanted to secure economic interests by expanding political leverage over capitalists. In the meantime, state macroeconomic institutions and business cooperated closely to overcome market failures; however, this relationship has been totally dissolved since the 1990s when the military elites’ political influence was sharply contradicted with the capitalists as domestic economic business groups grew.

The economic crisis in 1997 was a result of the growth of domestic capitalists and their intrusion into the political sphere resulting in the collapse of this discipline. Thaksin’s landslide victory in the 2001 election should be seen as a victory of big business in Thai politics. Regarding big capitalists’ seize of power, it should be addressed how the existing discipline that regulated the state-capital relationship changed. To present this argument, this article will first look at existing theoretical frameworks explaining Thailand’s political economy, and then will offer a different description by adopting new perspective – embedded autonomy.

Theoretical Launching Pads

Market versus State

Typically conceptualized as “corruption,” “rent-seeking” is one of the major features of underdeveloped states. To understand rampant corruption between the public and private sectors, the underlying

[3] Thitinan, “Crisis from Within”.

assumption is that the state generates and distributes the rents. Rent seeking is "political activity of individuals and groups who devote scarce resources to the pursuit of monopoly rights granted by governments."[4] Through rent seeking and corruption, small numbers of rent-seekers "buy themselves the ability to capture property or induce interventions that help them at the expense of broader society."[5] Rent-seeking theorists tend to focus on the interest groups or distributional coalitions. To be specific, Olson attributes rent-seeking through distributional coalitions as a critical factor of economic decline. However, by only having concern with the formation of interest groups, Olson describes the state as being a passive instrumentality that registers the preferences of interest groups. The political system offers "a quasi-market setting for brokering wealth transfers and extorting rents."[6]

Rent-seeking theory, however, fails to explain exceptional economic development of East Asian developmental states in the 1970s. Developmental states control distributional coalitions while distributing investment resources strategically through compensation and discipline. Given that the size and use of rent are the two most important factors,[7] M. Khan denounces the single meaning of rent and offers various kind of rent – Schumpeterian rent, learning rent, skill and management rent, monitoring rent, transfer rent.[8] Among them, Schumpeterian rent is most desirable. Considering the various meanings of rent, a developmental state is a unique case that transforms rents into productive means. In this case, 'state autonomy' and 'state capacity' are important characters of a developmental state. Due to its single-interpretation of rent, monopoly rent, public choice theory has overlooked many cases of rent-based capital accumulation. East Asian developmental states were able to achieve economic development by distributing rents to specific economic actors on purpose.

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[4] Mitchell, "Economic Models of Interest Groups", 525.

[5] Krueger, "The Political Economy of the Rent-Seeking Society", requoted from Khan, "Governance and Anti-Corruption Reforms in Developing Countries".

[6] Mitchell, "Economic Models of Interest Groups".

[7] Thanee, "Rents and Rent-Seeking in the Thaksin Era", 250.

[8] Khan, "Rents, Efficiency and Growth".

However, developmental state theory has ignored the dynamics of conflicts between various agents in the state as it treats the state as a unitary actor. Moreover, the concept of state autonomy was not enough to explain properly the performance of East Asian developmental states. To be specific, this theory paid little attention to the role of private actors, especially business organizations. Peter B. Evans introduced the notion of 'embedded autonomy' to overcome these shortcomings.[9] As Evans puts it, embedded autonomy is composed of internal bureaucratic coherence and close ties to private industrial capital. The bureaucratic apparatus can obtain a certain level of corporate coherence and autonomy based on a strict meritocratic recruitment system. Such internal bureaucratic coherence is a core precondition for the state's effective participation in external networks. Also, this notion implies that "dense links not with society in general but specifically with industrial capital" and "it was an exclusionary arrangement".[10] Evans puts developmental states (e.g., South Korea, Taiwan) having embedded autonomy on one side, predatory states (e.g., Zaire) on the other, and intermediate states (e.g., Brazil, India) in the middle. In sum, embedded autonomy means "a state that exhibits both independence in policy formulation and systematic linkages to particular social groups with whom the state shares a joint project of transformation."[11]

Perspectives on the Thai State

The World Bank included Thailand among High Performance Asian Economies (HPAEs: Japan, South Korea, Taiwan, Hong Kong, Singapore, Malaysia, Indonesia, Thailand) in its 1993 report, "The East Asian Miracle: Economic Growth and Public Policy".[12] This report points out implementation of market friendly economic policy as the background of the economic success of HPAEs. The private sector led the economic success, while the state played a limited role, such as maintaining economic stability and providing public goods (infrastructure, education and public health). When policy makers reveal

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[9] Evans, "Predatory, Developmental, and Other Apparatuses".
[10] Evans, *Embedded Autonomy*, 17.
[11] Evans, *Embedded Autonomy*, 59.
[12] World Bank, *The East Asian Miracle*.

their will of economic intervention, this brought about rent-seeking.[13] Praising efficiency in Thailand's macroeconomic agencies, Christensen argues that stable monetary conditions led the private sector to focus on productive activities rather than speculation. Especially strong commercial banks functioned as investment coordination, which had been normally conducted by the state, resulting in investment the growth of the private sector.[14] Those neoclassical economists disregarded the role of the Thai state mainly because rampant pressure group captured sectoral policies.

Rebutting the 1993 World Bank report emphasizing the role of market mechanism, several Southeast Asian indigenous scholars[15] asserted that the states' active involvement in the market was the key to success in those countries.[16] Some scholars tried to categorize Thailand into East Asian developmental states before the 1997 economic downturn. However, Doner and Ramsey refutes this view by insisting on the importance of non-state and non-market institutions such as banks, business associations, and commercial networks, which played a pivotal role in Thailand's economic success.[17] Doner and Hawes argue that Thailand's high economic performance was driven by the private sector in the face of market failure.[18] Moreover, the Thai state was not strong enough, unlike the relatively strong private sector. Considering the path of economic growth in Thailand, it is undeniable that 'market-rational' had more importance than 'plan-rational.' However, the role of the state should not be overlooked.

Thailand was named an 'intermediate state',[19] and 'quasi-developmental state'.[20] Especially, Doner has tagged Thailand under Thaksin as an 'ersatz developmental state',[21] which shows a certain level

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[13] Christensen, *Thailand*, 3, 7.
[14] Christensen, *Thailand*, 30.
[15] Refer to Jumo, *Southeast Asia's Misunderstood Miracle*.
[16] Jomo, *Southeast Asia's Misunderstood Miracle*.
[17] Doner, "Competitive Clientelism and Economic Governance".
[18] Doner, "The Political Economy of Growth in Southeast and Northeast Asia".
[19] Doner, *The Politics of Uneven Development*, 5.
[20] Lauridsen, "Rival and Complementary Views on State and Industrial Policy in Thailand", 9.
[21] Doner, *The Politics of Uneven Development*, 130.

of the state's role in Thailand until recently. While Thailand is not the ideal type of developmental state, there was a considerable degree of 'embedded autonomy' of the Thai state that made Thailand achieve high economic growth in certain periods of time. Regarding Thailand's state strength and capacity, Thailand could be located between developmental state and predatory state – an intermediate state.

Framework of Research and Methodology

Regarding Thailand's long history of an open economy, it is rare to see the Thai state's direct intervention in the economy and its accomplishments. In the private sector, it was not rare to see a negative meaning of rent-seeking behavior on the grounds of a dense linkage between civilian-military elites and capitalists though; the relationship between the state economic institutions and certain commercial banks best describes embedded autonomy, which led Thailand's economic growth. In Thailand's case, various resources were concentrated in major commercial banks that closely cooperated with the government. Thailand's financial institutions, especially the banking sectors, played a pivotal role from 1950 to the 1997 economic crisis.[22] The commercial banking sector makes up over 80% of financial institutions and even many of the manufacturing concerns were started as subsidiary activities of the major commercial banking and mercantile houses.[23] It is worth looking at the changes of relationship between the state economic institutions and commercial banks in the context of capitalists' entrance into politics through a comparative historical analysis method.

As such, Thailand's high economic performance can be described using the Evans's notion of 'embedded autonomy.' However, this notion does not pay much attention to the matter of corruption in the developmental countries. There should be certain criteria to classify 'embedded autonomy' to crony capitalism. Doner explains Evans's notion of the "intermediate states" as being "characterized by uneven bureaucratic coherence, significant clientelism in public–private relations, and factionalism within the private sector."[24] Thailand falls into this

[22] Hewison, "Pathways to Recovery", 1.
[23] Pasuk, "The Open Economy and Its Friends", 449.
[24] Doner, *The Politics of Uneven Development*, 17.

category. The Thai state has been bifurcated between efficient macroeconomic agencies and highly politicized and clientelistic microeconomic management in line ministries. Especially, commercial banks have close ties with political spheres and clientelistic set of arrangements, governing manufacturing and productivity-related tasks. This bifurcation made little contribution to industrial upgrading, though; macroeconomic institutions had the ability to put hard budget constraints on clientelistic line ministries and curbed the costs of inefficiency in sectoral arrangement.[25]

However, the Thai state represented by economic technocrats actively interacted with capitalists while maintaining a high level of political and economic insulation on the ground of their capability. I adopt a 'discipline' to assess the changes of embedded autonomy of the Thai state. Further, I will show how this 'discipline' was generated, developed and declined in the context of history. Specifically, 'discipline' here means relatively liberal conservative monetary policy implemented by insulated technocrats and institutions, which had regulated domestic capitalists by inviting foreign capital in the long history of Thailand's open economy. In order to look at the specific dynamics, this article focuses on the state economic institutions, such as the Bank of Thailand, the Ministry of Finance, and other commercial banks. Technocrats refer to "individuals with a high level of specialist training, particularly in economics and engineering, who are appointed to top positions within state institutions on the basis of their technical expertise."[26] They supported the economic growth of Thailand by sustaining stable macroeconomic conditions based on a high level of autonomy, which offset the military elites and capitalist's patron-cliental relationships.

However, after democratization in 1992, this pattern changed significantly. Given the same criteria, the 1997 economic downturn was a direct result of the collapse of the discipline and even 'embedded autonomy.' In this perspective, this article also focuses on how Thailand's embedded autonomy has changed since big business tycoon-cum politician Thaksin's landslide victory in the January 2001 election.

[25] Doner, *The Politics of Uneven Development*, 98.
[26] Thitinan, "Crisis from Within", 28.

Prior to the 1980s, Thailand can be described as a "Bureaucratic Polity" in which political results came from factious conflicts and maneuverings within the bureaucracy.[27] Meanwhile, Thailand's capitalists played a pivotal role for economic development while the state remained relatively strong over the capital. As Thailand became industrialized and its military's influence declined, such a symbiotic relationship dramatically shifted. Their relations can be described as below. According to the Thanee and Pasuk, business groups can relate to politics in three main ways: clientage, agency, and participation.[28]

Table 1: Historical pattern changes of relationship between the state and the capital

	I				II			
Regime Type	Military Regime		Civilian Gov.	Military Regime	Civilian Gov.	Military Regime	Civilian Gov.	Civilian Gov. (Thaksin)
Year	1932 ~1957	1957~ 1973	1973~ 1976	1976~ 1988	1988~ 1991	1991~ 1992	1992~ 2001	2001~2006
Type of State-Capital Relationship	Clientage		Mixture of Clientage and Agent		Mixture of Agent and Participation			Participation

Source: Adapted from Thanee and Pasuk 2008.

Changes in the first pattern and clientage show capital's expanding engagement in politics. The state-capital relationship from 1932 to the 1st democratization in 1973 fell under clientage. Under the patron-client relationship, business groups usually did not participate in politics directly; however, relying on such a relationship, they exerted their influence on government policy under the protection of political figures. This is somewhat unreliable and risky since certain patrons might have multiple clients, while a business group should solely depend on the patron. In this pattern, political figures dominated over the capitalists.[29]

[27] Riggs, *Thailand: The Modernization of Bureaucratic Polity*.
[28] Thanee, "Rents and Rent-Seeking in the Thaksin Era", 253-256.
[29] Thanee, "Rents and Rent-Seeking in the Thaksin Era", 253-256.

Under the second type of state-capital relationship, capitalists dispatched their representatives to the political sphere on their behalf by working as parliament members or political party officers. In this case, business groups seek influential parties to find opportunities for participating line ministries; and thus, government became less stable. In this period, of course, major firms still invited retired technocrats and bureaucrats on to their board of directors to develop means to influence government policy directly. But the problem of this method is "agency dilemma," which arises when a businessman does not have enough means or information to control the agency's action.[30]

Businessmen participated in politics directly under the last option, which eliminated uncertainties and problems of the former two methods. Moreover, this reduced the risk of reshuffling cabinets since they did not have to deal with multiple parties to form a government. However, businessmen might have faced criticism over conflicts of interest. Thaksin is the case. Based on the patterns of the relationship between the state and the capital, the main focus of this article is how the economic institutions' policy autonomy has changed in accordance with the changes in the patterns of capitalists' way of engagement in politics. It is useful to see how the notion of embedded autonomy can be appropriately adopted in Thailand.

Historical Changes of the State-Capital Relationship in Thailand

Before Thaksin: Creation and Development of Embedded Autonomy

In 1932, the People's Party, although fragmented by several cliques, such as old-time bureaucrats and younger army generals, overthrew absolute monarchy. The military of that time was the most modernized group in Thailand. However, severe struggles between cliques led to many coups, and thus made Thai politics unstable. Certain political figures led the cliques, and they competed for good positions in the line ministries. The military took the ministry of defense and interior, whereas the Finance, Agriculture, Foreign ministries underpinned the civilian bureaucratic power. None of the cliques dominated its counterpart. Even

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[30] Thanee, "Rents and Rent-Seeking in the Thaksin Era", 253-256.

though there was factional rivalry within the bureaucracy, the military and civilian bureaucratic elites were severe, they shared common institutional interests and continued to work with each other. Business groups, most of them immigrant Chinese, were relatively weak, such that political elites were able to control them since the government had implemented discriminatory policies against Chinese capitalists groups. Chinese capitalists offered military-bureaucrat elites economic interest in return for their protection.

Field Marshal Sarit Thanarat's coup in 1957 was a watershed for the new political economy system in Thailand. In the face of the Communist takeover of Indochina, Sarit's emphasis on the importance of national security and stable economic development legitimized his authoritarian regime. He tried to protect infant domestic manufacturers. Under import-substitution type industrialization (ISI), Chinese merchants enjoyed the economic rent created through tariff barriers and price controls, while their relationship with the government deepened. The import-substitute strategy starting in the early 1960s brought about the development of large-scale firms. Most of them were the subsidiary of major commercial banks. The largest business groups offered political parties financial resources and then sought benefits and favorable treatment from the government, through influencing the government coalition parties and individual politicians such as faction leaders.[31] During the period of Field Marshal Sarit Thanarat's developmental authoritarian rule, namely 'despotic paternalism,' the political-military elite typically sat on the firm's board of directors in return for protecting linked firms. Most of the big business companies of the 1950s were owned by Chinese traders or bankers. Under the government protection and joint venture with foreign companies, they led the economic development of Thailand. Especially, commercial banks expanded with the help of rising agrarian exports. Commercial banks collected domestic savings and allocated them to domestic business groups. Those businessmen were not reluctant to take the high risks of investment, and overcame the problems of the market (e.g., unsettled legal systems,

[31] Kitti, "From Political Reform and Economic Crisis to Coup d'état in Thailand", 881.

securing property right, and market information) by mutual co-operation with the commercial banks. Most of the manufacturing companies of that time were subsidiaries of commercial banks of trade companies affiliated with multinational companies (e.g., Asia Trust group owned Bangkok Bank, Thai-Hua group's Bangkok Metropolitan Bank, Bank of Ayudhya of Ayudhya group, and Mahaguna group's Union Bank of Bangkok). They were leading economic force of Thailand until the mid-1980s.[32]

According to Doner and Ramsay, patron-cliental relationships between business groups and the strong military-bureaucratic elites were the main ways to secure their assets when the property rights were fully protected by the law.[33] However, rivalry among political elites made patron-client relationships competitive. Consequently, entry barriers were kept low, and no single actors could prevent competition from new entrants.[34] Since the 1960s, those business groups grew and thus gradually engaged with politics in order to get their will over policy. Meanwhile, military patronage became less productive as the fragmentation and instability among the military elites deepened. In addition, electoral politics opened wider opportunities for business groups being MPs and holding cabinet posts.

Despite the corrupt client-patronage in the sectoral ministries, insulated macroeconomic institutions were free from crony capitalism.[35] For example, the Bureau of the Budget within the Prime Minister's Office and the Office of Fiscal Policy in the Finance Ministry were able to curb severe rent-seeking behavior by controlling the budgetary process. They prohibited government guarantees of private sector debt and enhanced their autonomy by forcing elected officials and other parts of the bureaucracy to act under hard budget constraints.[36] By maintaining formal institutions, such as the central bank and Ministry of Finance, with high levels of autonomy, these independent institutions were able to help ensure that policymaking and implementation were timely and free from intervention by special interest groups or politicians. Under the control of

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[32] Pasuk, "Thailand's Thaksin", 3.
[33] Doner, "Rent-seeking and Economic Development in Thailand".
[34] Unger, *Building Social Capital in Thailand*, 125.
[35] Doner, "Rent-seeking and Economic Development in Thailand".
[36] Doner, *The Politics of Uneven Development*, 96-97.

the Prime Minister, the BOT and the MOF were the main actors regulating domestic capital. Established in 1942, the BOT mainly oversees financial institutions, maintaining stable monetary policy. The governor of the BOT is accountable for, and nominated by the Minister of Finance, however, the governor has significant autonomy. Economic technocrats in the BOT and the MOF have legal independence. Both the military and technocrats shared the same object: economic development. Economic growth means more opportunities to extract rent; at the same time, offering the military political legitimacy.[37] The military offered functional autonomy to the economic technocrats. The military and technocrats effectively made an alliance. Technocrats ran the macro-economy, while the military controlled line ministries. Technocrats in those institutions were able to keep their autonomy and insulation during the 1980s due to the strength of Prime Minister Prem Tinsulanonda.

Thailand's government protected its own economy by maintaining stable and safe macroeconomic conditions. Fixed exchange rates and closed capital accounts were signals of the state's management gap between the current account deficit and the budget deficit. The efficiency of centralized macroeconomic institutions was able to make effective, market-conforming macroeconomic policies, and thus contribute to continue economic growth. However, these macroeconomic agencies implemented their policies with a close connection with domestic capitalists. The BOT closely cooperated with the Thai Bankers Association regarding allocating credits to industrial companies and collecting taxes from rural areas, while supervising commercial banks. Boonchu Rojanastien, head of the Bangkok Bank, was a kind of "agent" representing the interest of commercial banks. The state protected the banking cartel to secure the domestic capital market, which created an oligopolistic competition structure among commercial banks. However, the government kept a certain level of competition to prevent the situation from becoming full crony capitalism.[38] Under the coalition of the military and the technocrats, the Thai state was able to control distributional coalitions by implementing stable macroeconomic policies.

[37] Thitinan, "Crisis from Within", 56.

[38] Khan, "Rents, Efficiency and Growth"; Doner, "Competitive Clientelism and Economic Governance".

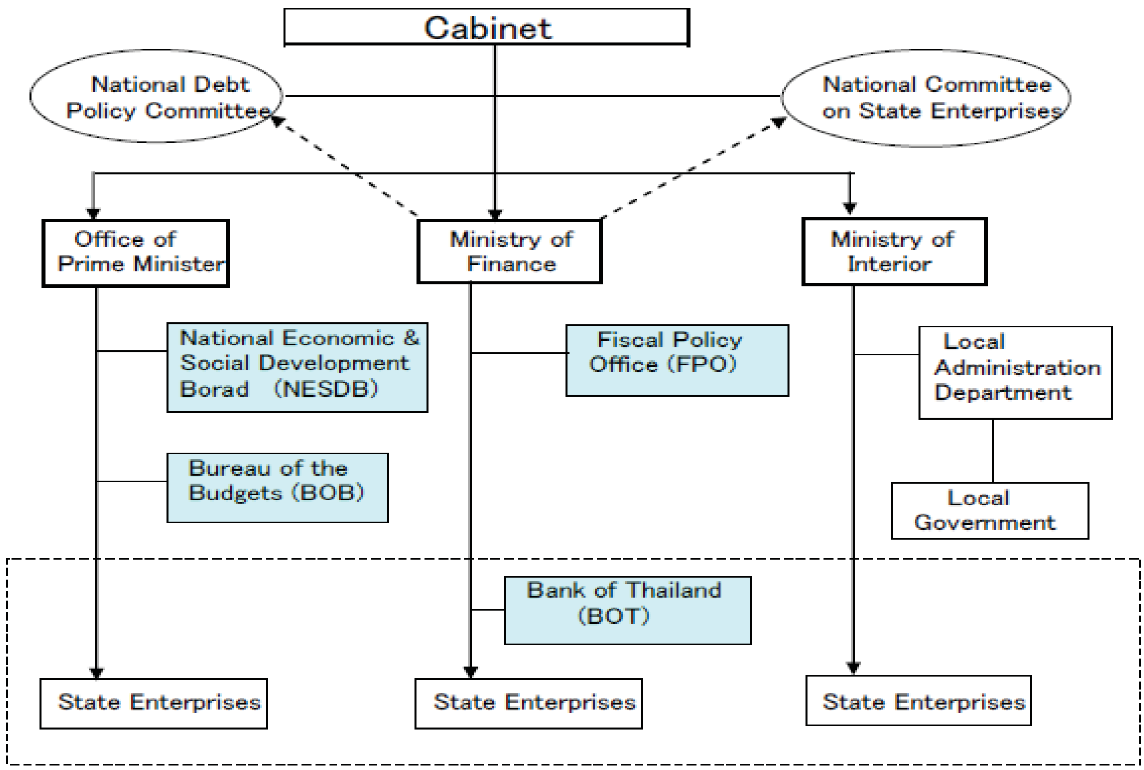

Figure 1: Policymaking Structure and the Four Core Agencies
Source: Akira, "State Reforms under the Thaksin Administration".

In 1988, Prem's semi-democratic regime was replaced by Chatichai's elected coalition government. Thailand suffered severe political instability since 1992. Coalition governments at that time frequently gave resolutions since many political parties linked with various business groups were gathered and dissolved repeatedly to gain economic interests. Switching party was not rare and almost all parties were factionalized. In historical context, Thai parties were just "mainly groups of individuals or a network of patrons-clients who are forced to be together by a party law requiring candidates to contest in the elections under party banners."[39] As a result, political parties were typically not coherent. This undermined the importance of party labels for both voters and politicians. Frequent replacement of the prime minister was a direct result of the abnormal combination of fragmented party politics and parliamentarism since 1990. During the 1990s, small-medium sized parties with narrow constituencies were gathered together to form the

[39] Hicken, "The Politics of Economic Reform in Thailand", 7.

government. As a result, cabinet posts were distributed to the coalition partners.

Rampant corruption and short-lived multiparty coalition government were also common in the 1980s; the military offered insulation to economic technocrats for political stability. However, the role of the military was marginalized after democratization. Rent-seeking behaviors of politicians were rampant. Many businessmen jumped into politics and actively sought government concessions. The military lost influence and politicians began to control the award of concessions. All of the three governments in the 1990s had to reshuffle because of their conviction of corruption.

Unstable coalition governments directly impacted the tenure of the economic institution. During the Prem government (1980-1988), there were only three Finance Ministers. However, after Prem (1988-1998), thirteen took that position. The BOT at that time was vulnerable to political influence. Elected politicians began to exert more power over the BOT. The BOT failed to do its job of regulating the financial sectors because of the loss of autonomy during the 1990s after the military stepped aside. Capital market liberalization in the 1990s merely involved deregulatory measures without effective regulation, policy, institutional restrictions and strong market governance. In addition, economic reform necessary to overcome the market failure and rampant rent-seeking behavior was delayed. The BOT's mismanagement of the Bangkok Bank of Commerce in 1994-1996 indicates the case. Bangkok Bank of Commerce suffered economic hardship since the early 1990s. However, the BOT did not take proper action to supervise this financial institution. Rather, they inputted huge amounts of money to save the bank, even though the bank was not likely to revive. Later, it was revealed that Prime Minister Banharn Silapa-archa's party politicians were involved in the large-scale illegal advances. The Bangkok Bank of Commerce scandal is attributed to the 1997 economic crisis. It also shows how distributional coalition can distort the economy.[40]

Of course, there were efforts for market reform to overcome the problems of the Thai financial system. However, there were few

[40] Thitinan, "Crisis from Within".

incentives for politicians to pursue financial market reform. By the time of the 1997 economic downturn, the World Bank-IMF crisis program emphasized overall political-economic reform. They pointed out rampant corruption and cronyism as a primary reason of economic crisis. Chuan Leekpai's government followed the IMF guidelines; however, the reform process was slow after the severe economic hardship eased. The government coalitions deterred economic reform regarding their economic benefits linked with certain business groups, especially the commercial banks. Those banks influenced specific parties to further delay the reforms.[41] They offered political funds to the politicians in the major parties. That money was the main source of election campaign funds.[42] Therefore, politicians having connections with commercial banks pursued pro-banking policies while ignoring the importance of market reforms. Zhang points out these tendencies as 'political particularism.' This happens where parties are captured by powerful interests. As a result, the reform process was delayed. Politicians with connection to the local business groups dominated the government in the 1990s.[43] Provincial politicians still dominated important positions in the partners of the coalition governments, even in the first Chuan Leekpai government (1992-1995), which featured more economic technocrats. The electoral and support bases of these parties were very much localized and regionalized; especially in Northeast Thailand. Therefore the party and factional leaders did not have incentives and capabilities to collect various interests into the national policy program. The rise of provincial politicians expanded the tendency of political particularism, especially in the financial policy process.[44]

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[41] Haggard, *The Political Economy of the Asian Financial Crisis*, 143, 159. When the military installed Anand Panyarachun as the Prime Minister in 1991, the MOF and BOT actively promoted economic reform by passing 20 financial reform bills based on their renewed independence and autonomy. Doner "The Politics of Finance in Thai Economic Development", 121. This is very much in contrast with the circumstances of the 1997 economic reform.

[42] Pasuk, *Thailand's Crisis*.

[43] Under the premierships of Chatichai Choonhavan (1988-1991), Banharn Silapa-archa (1995-1996) and Chavalit Yongchaiyudh (1996-1997).

[44] Zhang, *The Political Economy of Capital Market Reforms in Southeast Asia*, 139.

Thaksin (2001-2006): Erosion of Embedded Autonomy

Despite the important political-economic reforms made after the 1997 economic crisis, many capitalists still sought political connection to get government concessions.[45] This pattern has not changed. The economic crisis in 1997 was a critical juncture for this change. Many Thai conglomerates were sold to multinational companies or suffered from huge amounts of debt. Before the crisis, they did not have motivation to participate in politics directly for the state's protection. However, the economic downturn in 1997 and the Democratic Party's neoliberal economic recovery programs were far from protecting domestic capital. Thus, businessmen have actively engaged in politics directly since then. Moreover, the party list system, a legacy of the 1997 constitutional reform, facilitated the businessmen's entering politics without election.

As Hewison noted, the unprecedented threat to domestic business interests caused leading business groups to enter politics directly to seek protection for their own interests.[46] Thaksin's landslide victory in the 2001 elections should be seen as a triumph of big business in Thai politics. The ratio of politicians with business backgrounds has increased during the 1990s. Especially, the 1997 constitutional reform was a chance for many businessmen to launch themselves into politics supported by the democratic process. Thaksin's Thai Rak Thai Party (TRT) was the main beneficiary of the electoral reform, designed to weaken small parties.

Thaksin's landslide victory in 2001 based on national support was expected to finish the unstable coalitions as a result of inter-party factionalism by making a one-party system. However, it does not mean the end of political instability. Competitions between party factions were merely replaced by internal-party factions.[47] Moreover, many factions in

[45] Prime Minister Thaksin Shinawatra was able to make his initial fortune from four telecom concessions granted by the government at a time when military influence was strong.

[46] Hewison, "Neo-liberalism and Domestic Capital".

[47] Zhang, "Political Parties and Financial Development". As Zhang puts it, "the inter-party factionalism that impeded financial development prior to Thaksin reappeared as intra-party factionalism under Thaksin."

Thai Rak Thai still had close linkages with large business groups. Their main aim was to get cabinet post relating to their business interests.[48]

Business figures from leading business families in the Thaksin government controlled interest in twenty-three listed department in the government. Many leading businessmen came to cabinet posts: Pitak Intarawitayanunt and Wattana Muangsuk of the CP Group, Adisai Bodharamik of the Jasmine Group, Pracha Maleenont from a TV and entertainment conglomerate, and Suriya Jungrungruangkit from the largest local auto parts maker (Thai Auto Summit). Of course, leading Thai business groups have always had deep connections with politics, however, they actively engaged in politics since the 1997 economic crisis.[49] The allocation of rents to businessmen allied with TRT also seemed to be successful. As a result, the annual profits of groups related to the Thaksin administration were significantly higher than the market average. These outcomes were less relevant to the firms' financial performance. Rather, these results were purely from their political "premium".[50]

Politicians regarded capturing the reform process as a means of rent-seeking, rather than pursing public goods policies through market changes. While Thailand's financial policy demonstrated more public-regarding attributes in the early and mid-2000s, the overall reform program remained oriented towards private-regarding purposes.[51] Macroeconomic institutions seemed stable on the surface; however, they revealed vulnerability as Thaksin's closest inner economic team exerted strong influence over them.

McCargo and Ukrist describe how Thaksin tried to destroy the old political economy network and establish a new one by linking military, bureaucratic, political and capitalist elements.[52] This network was heavily

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[48] Thaksin established six more administrations (tourism, culture, social development and human security, etc.) for bureaucratic reform in 2002. This expansion of administration department also aimed at offering opportunity to place a loyalist in a position to implement the policies of Thai Rak Thai.

[49] Kitti, "From Political Reform and Economic Crisis to Coup d'état in Thailand", 881.

[50] Thanee, "Rents and Rent-Seeking in the Thaksin Era", 261-262.

[51] Zhang, *The Political Economy of Capital Market Reforms in Southeast Asia*, 205.

[52] McCargo, *The Thaksinization of Thailand*.

centered on Thaksin. Thaksin emphasized the role of the political party with social-economic reform. Therefore, factions in TRT were actively engaged with government policies. He recruited his co-workers in the business groups. Thaksin created an inner economic group which was composed of five or six members, including his sister Yaowapha and former finance minister Somkid. TRT controlled the policy-making process, especially in economic affairs.

Thaksin filled economic posts with his close friends. Among them, most prominent was Thanong Bidaya, formerly president of the Thai Military Bank (in which Thaksin's family took a major stake). For other economic advisers, Thaksin recruited several financial figures who were brought down in the 1997 crisis, including Vijit Supinit and Chaiyawat Wibulsawasdi, Narongchai Akrasenee, and Olarn Chaipravat.[53] As shown in Figure 2, economic institutions were under the direct control of Thaksin. As well, decision-making power was concentrated in the hands of Thaksin. This likely increased political interference in the macroeconomic policy making process.

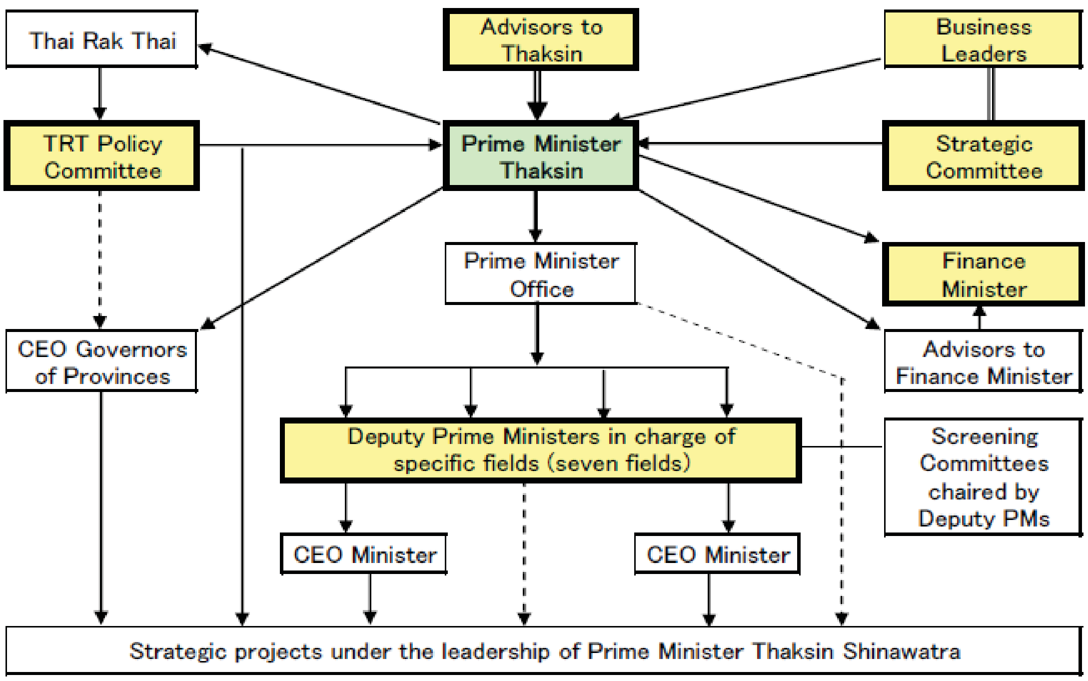

Figure 2: Policy-Making and Major Players in the Thaksin Administration, 2005
Source: Akira, "State Reforms under the Thaksin Administration".

[53] Pasuk, "Pluto-Populism in Thailand", 25.

Thaksin tried to control macroeconomic institutions. Monetary policy had been under control of the BOT. The MOF's attempts to get involved in the macroeconomic policy making process were regarded as undermining the autonomy of the BOT.[54] Thaksin finally shifted this authority from the BOT to the MOF. The BOT governor, Chatumongkhon, who had actively led the economic restoring process, was fired after having a dispute with Thaksin over the economic interest rate.[55] Thaksin's support for a high interest rate was finally implemented by Chatumongkhon's replacement, Pridiyathon Thewakun.[56] Such cases demonstrated Thaksin's self-confidence in macroeconomic policy, while undermining the reputation of the BOT. Moreover, Thaksin replaced senior bureaucrats who criticized his economic policy, such as the head of Thai Airways. As a result, the efficiency of existing economic agencies was severely undermined.[57]

However, soon after that, a loose alliance of several capitalists who had come to support movements to oust Thaksin from the premiership emerged. They were deeply disaffected with Thaksin's aggrandizing tendencies.[58] Thaksin was able to continue to get support from many businessmen, however, there was also growing business disenchantment with his use of political power to impede potential business rivals.[59] Moreover, Thaksin's government made conflict with some of the major commercial banks while pursuing his populist policies, such as debt moratorium for farmers, SMEs projects (small and medium size enterprises) in relation to assets capitalized. His domestic debt-financed economic programs needed huge amount of credit. At first, he requested domestic commercial banks to expand their credit to farmers and small and medium size enterprises. However, these banks were reluctant to lend to farmers and SME entrepreneurs since their low credit rating might jeopardize those banks. In the end, Thaksin utilized state financial institutions to initiate his populist policies. Thaksin openly competed with

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[54] Arissara, "The Politics of Macroeconomic Policy Making in Thailand", 282.
[55] See "Thailand's central-bank war".
[56] Montesano, "Thailand in 2001".
[57] Doner, *The Politics of Uneven Development*.
[58] Connors, "Thailand: The Facts and F(r)ictions of Ruling".
[59] Ukrist, "A Different Coup d'état?", 135.

commercial banks and did not cooperate with them. Pasuk points out that there was no sound supervision system to regulate state-owned banks while Thaksin utilized these institutions for his populist policies.[60] However, when Thaksin was ousted by the military coup, Thai financial politics had revived to its previous form of "pro-bank policies for particularistic interests by elected politicians."[61] As a result, reform for development of the capital market was ignored again.

Conclusion

Invited by the state for economic growth, Thailand's capitalists created a symbiosis relationship with the state during the 1950-1960s. Balancing among the fragmented elites and the political parties, Thailand's leaders vested economic institutions with authority to regulate business groups. Military and bureaucratic elites also made client-patron relationships with domestic capitalist. Also, the competitive nature of client-patronage relationships between the state and capital was possible because of the relative weakness of domestic capital. In other words, economic technocrats handled the policy making process, while management of sectoral policy was linked with corrupted patronage. Such a "bifurcation" of policy remained important until 1988.

By the onset of the 1980s, however, business groups had begun to penetrate the bureaucratic polity.[62] During this period, the characteristics of the Thai state changed conspicuously, although no conclusive agreement on the resultant nature of the state was to be found. Widespread pressure groups captured sectoral policies. After democratization in 1992, elected politicians increased their political control and undermined the shield protecting institutional autonomy while the military stepped back. They actively jumped into politics since the 1990s. Politicians' intervention in the economic institutions finally resulted to the economic crisis in 1997.

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[60] Interview with Pasuk Phongpaichit. 2011.7.16

[61] Pepinsky, "The Political Economy of Financial Development in Southeast Asia", 21-22.

[62] Girling, *Thailand, Society and Politics*.

The pinnacle of capitalist's attempt to capture political power was Thaksin. He seemed to overcome the negative elements of Thai politics, such as money politics and facilitation of party politics, by implementing many structural reforms. However, he failed. During his term as Prime Minister, Thai politics still showed the dominant power of distributional coalition, which brought about the legitimacy crisis of the Thaksin Administration. Political and economic power was concentrated in TRT, Thaksin and his closest associates. Many business groups outside of his associations turned away from Thaksin. Moreover, politicians who were funded by local business interests exerted significant influence over public policies.[63] State economic institutions became politicized and thus regulatory disciplines that supervise domestic capitalists were undermined.

In sum, the relationship between the state and capital in Thailand indicates changes in 'embedded autonomy.' Thailand has seen an increase in political instability as many capitalists have jumped into politics. Thaksin was the culmination of the case. As a result, factional rivalries have been common in politics. Evans's emphasis on the necessity of state autonomy should be noticed, especially in developing countries. Thailand's stable economic development was achieved with a relatively 'strong' state which has 'embedded autonomy' over specific interest group (or business groups) linked with political coalitions. Also, macroeconomic institutions' policy autonomy and ability has played a key role in regulating private actor's rent-seeking behavior. However, Thai politics went through political instability as capitalists actively jump into politics. This reveals the importance of the concept of 'embedded autonomy'. What should be noted here, however, is that the condition of insulated and autonomous economic institutions under military protection was no longer possible after the 1990s. It was only possible under the condition of an underdeveloped party system and weak society. In addition, the state's macroeconomic policy autonomy is vulnerable in the global economy. More importantly, it is undemocratic since they are not accountable to the voters.

[63] Pasuk, *Thailand's Crisis*, 351-356.

In this vein, the notion of embedded autonomy fails to deal with the matter of democracy. Thailand failed to solve such a limitation properly since democratization in the late 1980s, which should be addressed. All in all, the changes of the relationship between the state and capital reveal the need for further research on how economic growth can be compatible with democracy in developing countries with weak democratic foundations and achieve economic development.

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