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Thailand's Capitalism: The Impact of the Economic Crisis

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Abstract

Thailand's financial collapse in mid-1997 cause some serious stocktaking amongst economists and policy makers. This paper assesses some of this analysis of the crisis and resulting recession. It concludes that much of this analysis has failed to assess important factors such as over-production and the cyclical nature of boom and bust in capitalist development. It also discusses the impact on the capitalist class and various political responses to the recession, focussing on populist discourses.

The 2 July 1997 float of Thailand's currency, the baht, unleashed the most significant economic and social crisis Thailand has experienced in the past half century.² One of the reasons this crisis has been so deep and so shocking was that the long boom of the 1987-96 convinced many Thais and international investors that growth and profit was a 'sure thing'. Economic activity was fast and loose. Insider trading, easy and cheap finance, collusion, and expectations of state 'guarantees' encouraged a false confidence that saw the boom going on forever.

The fact is, however, that Thailand's economic crisis has shown that no boom will go on forever. As Prime Minister Chuan Leekpai recently stated, the country is broke (*Bangkok Post*, hereafter, *BP*, 19 July 1998). The social consequences of this are dire. Indeed, we have seen a process of 'de-development', with many of the income and other gains of the boom decade threatened.

It is obviously important to understand the nature of the processes at work during the crisis. My intention in this paper is to make some tentative observations about the impact of the 1997-98 crisis on the domestic capitalist class, noting that the crisis represents the most substantial restructuring of that class since the end of the World War Two. The paper begins with a background to economic development, followed by a discussion of the crisis and its outcomes, and an attempt to assess the impact of the crisis.

BEFORE THE 1997 CRASH

Thailand's economic success, especially during the decade prior to the crash, was well known. From the late 1980s, its economy was the darling of economists and journalists. It was one of the fastest growing economies in the world, having been among the first Southeast Asian countries to overcome the economic downturn of the mid-1980s. Thailand was able to attract enormous inflows of foreign investment (see Figure 1), especially from East Asia, and the economy boomed (Jansen, 1997). The boom brought

¹ An earlier version of this paper was presented at the Workshop 'From Miracle to Meltdown: The End of Asian Capitalism?', Asia Research Centre, Murdoch University, 20-22 August 1998.

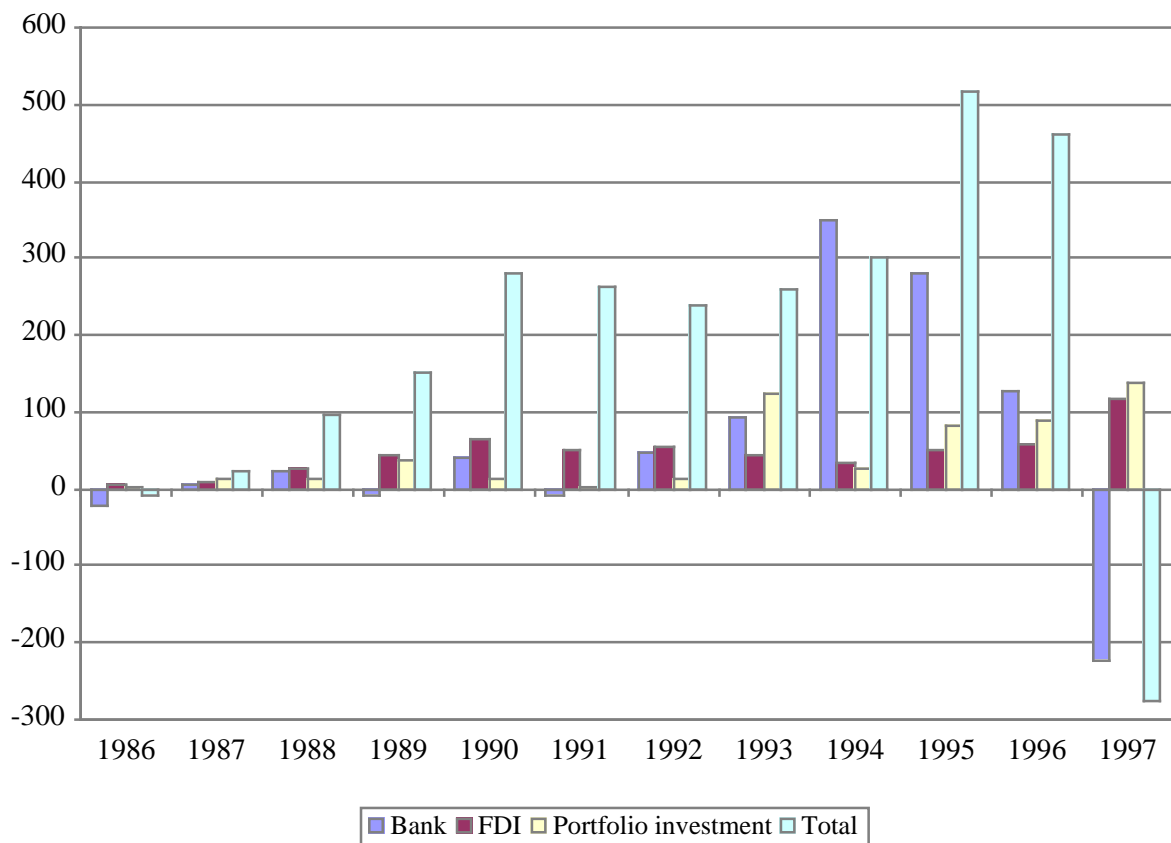
² Prior to the float, the baht was traded at about 25 to the US dollar. Following the float, it plummeted to 58 to the dollar, and has since traded in the range 35-42.

rapid change. Confidence brimmed, employment opportunities grew, absolute poverty declined, and fabulously wealthy magnates were created.

How did Thailand arrive at this position? The driving force has been industrialisation. Generally academics argue that the country's industrial path has gone through two broad, some might say 'loose', phases characterised by, first, import substitution industrialisation (ISI) and, second, export-oriented industrialisation (EOI).

Billion
Baht

**Figure 1: Flows of Private Financial Account,
Selected Data, 1986-97**



Note: 1997 data is preliminary.

Sources: Chittima and Mathee (1996), p. 48; *Bank of Thailand Quarterly Bulletin*, 38, 1 (1998).

The Industrial Revolution

Thailand's industrial revolution was born of a military-inspired political revolution. General Sarit Thanarat came to power following twin coups in 1957 and 1958. Establishing an authoritarian political system, Sarit's government, with World Bank and US support, decided to make Thailand progressive and 'civilised' (Hewison, 1989: Ch. 4). The private sector was pivotal, having the lead role in industrial development, with the state mainly limited to infrastructure development.

Manufacturing expanded through incentives for foreign and domestic investment. While the export-oriented agriculture remained dominant, development plans and investment

promotion laws directed resources to industry. Local manufacturers gained protection, and local business gained space to invest, free of state competition. Meanwhile, foreign manufacturers were able to establish behind protective barriers (Hewison 1985: 280-1). Industrialisation was funded through foreign investment, agricultural taxation, and the movement of household savings into the banking sector (Jansen 1990). Manufacturing's contribution to GDP rose significantly during the ISI period (see Table 1).

Despite its success, ISI came under attack from technocrats wanting a change to EOI. However, there was resistance to dismantling ISI. In fact, under pressure from domestic capitalists, protection for import-substituting manufacturing increased through the 1970s and into the 1980s (Pasuk & Baker 1995: 144-5). It was the economic downturn in the mid-1980s that saw EOI fully established. The downturn had a substantial impact, indicating problems for manufacturing policy, and for the state's fiscal and monetary position (Hewison 1987: 61-9).

Table 1: GDP by Industrial Origin, 1960-95 (%)

Sector	1960	1971	1980	1985	1990	1995
Agriculture	39.8	29.8	24.9	15.8	12.7	10.6
Mining & Quarrying	1.1	1.5	1.6	2.5	1.6	1.5
Manufacturing	12.5	17.5	20.7	21.9	27.2	31.0
Construction	4.6	5.5	5.7	5.1	6.2	6.3
Electricity & Water Supply	0.4	1.8	1.9	2.4	2.2	2.7
Transport & Communications	7.5	6.7	6.4	7.4	7.1	8.1
Wholesale & Retail Trade	15.2	17.1	16.5	18.3	17.6	16.8
Banking, Insurance, Real Estate	1.9	4.2	6.0	3.3	5.5	7.6
Ownership of Dwellings	2.8	1.9	1.5	4.2	3.0	2.7
Public Administration & Defence	4.6	4.3	4.2	4.6	3.5	2.6
Services	9.6	9.7	10.6	14.5	13.3	9.9

Sources: 1960-80, 95 – Bank of Thailand, *National Income of Thailand*, various issues; 1985, 90 – Thailand Development Research Institute (1995).

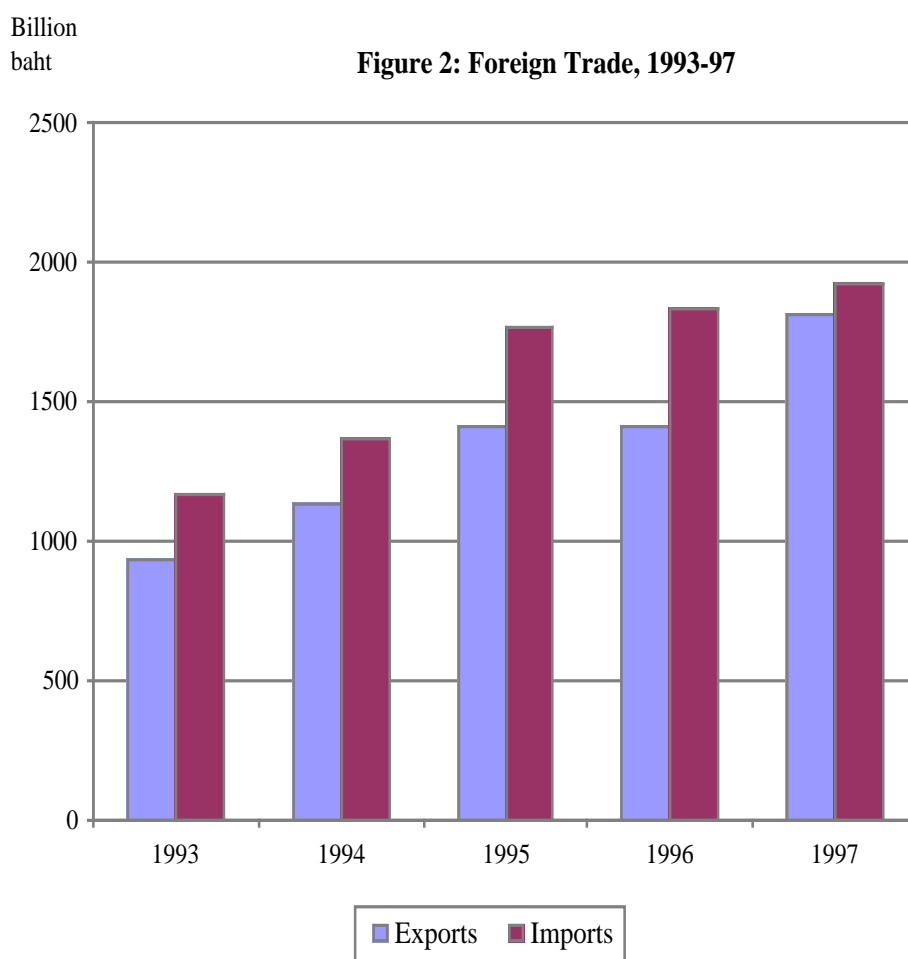
Growth predictions were the lowest for years, bankruptcies mushroomed, investment dropped, unemployment increased, and even the largest companies reported flat profits or losses. The IMF was called in, implemented stabilisation and structural adjustment programmes, and urged increased liberalisation (Hewison, 1987). As Pasuk and Baker (1996: 65-6) note, technocrats were unsure of the appropriate response to the downturn. It was the recognition that commodity prices were not going to salvage growth that brought devaluation and the fuller adoption of EOI. The devaluation immediately made Thailand's manufactured exports more attractive, and especially for manufacturers from Japan and the East Asian NICs.

The results were spectacular. Exports expanded rapidly, investment rocketed, and the economy was transformed (see Figures 2 and 3). In 1960 agriculture accounted for almost 40 percent of GDP, most exports, and employed the bulk of the population. However, industrial growth has seen manufactured exports expand from one percent of total exports in 1960 to 80 percent by the mid-1990s (Mingsarn, 1998: 3-4). In 1960, agriculture accounted for the employment of 82 percent of the economically active population. By 1997, just 48.4 percent were employed in agriculture, either full or part-time

(Economic Section, 1998: 9).

As a foreign investment boom began, the sources of foreign direct investment (FDI) changed. By 1986 Japan had become the leading investor, and the levels of net inflows from Japan increased nine-fold between 1987 and 1990 (TDRI 1995: 17). The boom pulled the domestic market along. While this was especially noticeable in Bangkok, urban centres nationwide experienced an investment spurt. According to Jansen (1997), domestic savings were insufficient to finance the economic boom. However, as Pasuk and Baker (1996: 35) explain, ‘Foreign investment may have sparked the boom ..., [but] Thai investments made it a big boom.’ The huge growth of domestic investment was made possible by the liberalisation of the finance sector that allowed Thai companies to borrow from overseas banks.

Industrialisation brings substantial social change. By the mid-1990s Thailand, like much of Asia, was undergoing a remarkable socio-economic transformation – a capitalist revolution – but at a pace that far outstripped similar transformations in Western Europe and the US.



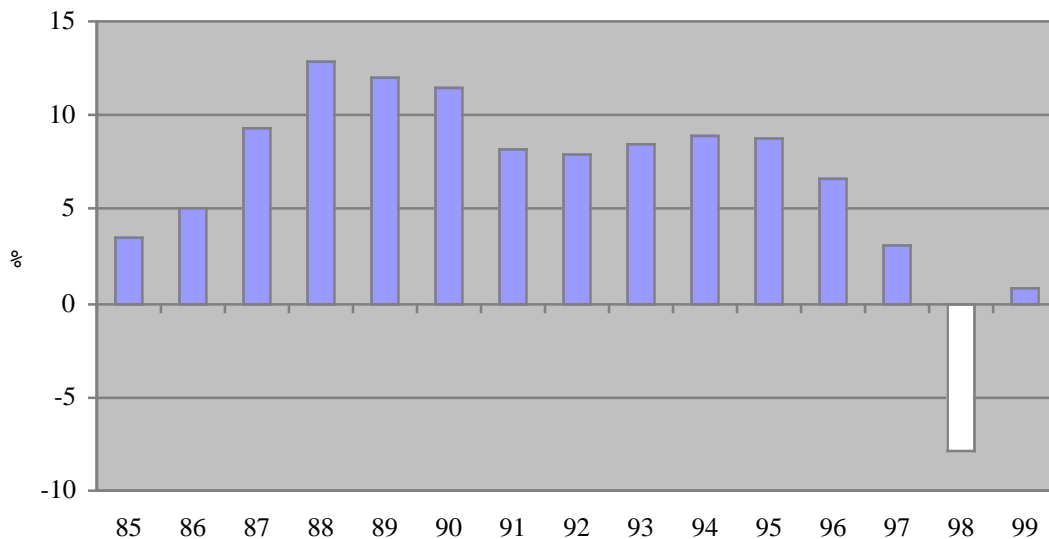
Source: *Bank of Thailand Quarterly Bulletin*, 38 (1), 1998.

The Capitalist Class

One result of this transformation was the emergence of a significant domestic capitalist class. By the mid-1990s, Thailand had become an industrially oriented capitalist economy. In order to appreciate the changes brought by the crisis, it is useful to examine the contours of this class, and explain the changes that took place during the boom.

Thailand's capitalist class has had a long period of development.³ Capitalism emerged under the absolute monarchy, through an alliance between a diminutive, mainly Chinese, domestic capitalist class, powerful royals, and a small foreign business community. These groups co-operated in commerce, trade and in processing agricultural products, and the royal state implemented reforms – including the control of labour and the peasantry – that established the conditions for capitalist accumulation.

Figure 3: Growth Rates, 1985-99



Sources: TDRI (1995); *Bank of Thailand Quarterly Bulletin*, 38 (1), 1998.

Early capitalist development saw many economic crises, and it was the Great Depression that led to the 1932 overthrow of the royalist regime. This was the first reorganisation of the small capitalist class, as royals lost state power, and had their business activities curtailed. World War Two saw a further reorganisation as Thailand entered the war as Japan's ally, and most Western businesses closed. This had a major impact on banking as Thai banks were established to provide services previously provided by Western banks. The 1940s and 1950s saw steady growth of the domestic capitalist class, with strong links between business and government.

The 1960s and 1970s, at the beginning of a long period of uninterrupted growth (1958-97), saw strong private sector growth. Increases in aid and investment saw foreign investors becoming more significant. However, domestic capital was dominant, especially in the financial sector. Those capitalists who established links to political and military

³ For details see Krirkkiat (1983), Suehiro (1989) and Hewison (1989).

leaders – especially bankers – did well. Banking’s extensive financing of industry saw a kind of finance capital begin to emerge (Hewison, 1989: chs. 7-8).

The economic downturn of the mid-1980s saw finance and banking squeezed, while over-capacity in the domestic market meant difficulties for ISI-based industrial capital. Despite problems, the owners of the big banks remained the predominant capitalists. However, the downturn saw some technocrats decide that the banker’s economic dominance was too great, and they moved to dilute the family control. Before these regulations could have a significant impact, however, changes in international competitiveness saw growth surge, and the technocrat’s challenge seemed insignificant.

While foreign capital became more important during the boom, the local capitalist class expanded and diversified, with a deepening of business, especially in the provinces. Political change saw business further establish its dominance over the state (Hewison, 1993). Thailand’s business became increasingly internationalised, and as EOI expanded, so did the financial sector. This saw ‘old’ banking capital challenged by ‘upstart’ and aggressive business groups in media, communications, electronics, manufacturing, retailing, finance, securities (see Pasuk & Baker, 1997; Handley, 1997).

The challenge posed to the financial dominance of the big banks was significant.⁴ The commercial banks had controlled the supply of funds to the domestic market (Jansen, 1997: ch. 3). The challenge emerged because: first, the boom saw foreign investors seeking local partners. This demand went beyond the boundaries of the bank-dominated fraction; second, changes to financial policies allowed borrowers to go beyond the domestic banks, seeking overseas loans. In addition, more foreign banks were established, and were aggressive in their lending. Merchant banking also expanded, allowing finance companies to expand, free of their reliance on the big banks; third, the long established but small Securities Exchange of Thailand (SET) took off following the 1987 Wall Street crash. While still volatile, and something of a surrogate casino, the SET became attractive to both local and international investors.⁵ It mobilised considerable capital for the private sector, loosening the grip the banks had on finance and industry.

The expansion of the SET was symbolic. For new capitalists, it was liberating, allowing a range of new companies to emerge. Handley (1997: 98) observes that the:

new capitalists were particularly confident. These were business people who found that, for the first time, they could thumb their noses at the big banks, which they saw as part of the control apparatus of the old elite, monopolising capital. The changes in the economy allowed them to tap non-bank resources.... This included investment funds from foreign lenders and investors, from the disposal of newly valuable assets like land, cashing in on the exports boom and, most importantly, from the SET.

Many new business people saw the SET as an expression of the freewheeling spirit of capitalism and an unlimited source of funds. Manipulation was not unusual, and regulation slack. It was this very laxity which fuelled confidence and investment. Handley

⁴ Big bankers did not oppose the direction of the boom, and many did well from it (Pasuk & Baker, 1996: 38).

⁵ By 1995, foreign investors became net buyers on the SET, and Thais net sellers (Bello, 1998a: 12).

(1997) shows that fluctuations of the SET index became a barometer of government performance. It was felt that the SET should be 'loose', and the state facilitated this. Regulatory interventions were rare, unwelcome and were denounced as the 'bureaucratic elite trying to prevent the new generation from enriching itself' (Handley, 1997: 104-5).

Banking and industry, while still significant, were no longer the areas where the dominant capitalist groups were concentrated. The broader financial sector, telecommunications, real estate, tourism and a range of services produced remarkably wealthy capitalist groups (Pasuk & Baker 1996: ch. 3). Huge profits were made, and while much was reinvested, consumption also increased in the late 1980s and early 1990s, expanding the domestic market.

The accumulation regime of the ISI era saw a small capitalist group develop, bolstered through close relationships to officials. The growth of the EOI period and the internationalisation of the economy disrupted this, and saw the expansion of the capitalist class, which became increasingly politically powerful.

Explanations of success

Almost everyone, with the possible exception of unreformed dependency theorists, praised Thailand and its economic boom. The IMF and World Bank were provided considerable kudos. For example, IMF Managing Director Michel Camdessus (1998: 1) stated, 'We have all admired the "Asian miracle" based on saving, prudent fiscal policies, investment in physical and human capital, and ... liberalization and opening up...'. Meanwhile, the World Bank (cited in Bello, 1998a: 12), praised Thailand as 'an excellent example of the dividends to be obtained through outward orientation, receptivity to foreign investment, and market-friendly philosophy backed up by conservative macroeconomic management and cautious external borrowing policies. In Thailand, economists and capitalists celebrated the 'liberation' promised by globalisation. Senator and constitution drafter Professor Chai-Anan Samudavanija (1997) argued that the forces of globalisation were unstoppable, and that they would sweep aside much that was anachronistic in society. Some were prepared to argue that Thailand possessed 'a number of sources of more permanent comparative advantages...', and predicted that double-digit export growth would continue for 1997 and 1998 (Chalongphob, 1997: 3, 8). Jansen (1997: 205), suggested that growth rates could be maintained in the medium term.

The range of orthodox explanations for Thailand's economic success, is remarkable for its uniformity (see Appendix 1). The fundamental orthodox explanation is that East Asia, including Thailand, 'got policies right' (World Bank, 1993: 5). Hill (1997: 131) asserts that there is 'near universal agreement' on three factors that make for such soundness: macroeconomic orthodoxy (the management of monetary and fiscal policies), economic openness (an economy driven by export production; increasing deregulation) and equity. The World Bank (1993: 5) adds that Asian governments established a solid foundation for private investment, including banking sectors with the necessary integrity to enhance savings, and fiscal regimes where 'price distortions' were minimised. Thailand's approach to liberalisation and economic management attracted praise. Warr and Bhanuphong (1996: 3) observe that Thailand was able to achieve remarkable long-term economic growth, despite political turmoil, because its technocrats followed conservative economic policies. They would agree with those who believe that the

monarchy has ‘protected senior economic policy-makers’ despite numerous changes of government (Radelet et.al., 1997: 53).

Economists critical of the strictly orthodox approach often argue that Thailand is a part of an East Asian model. However, this is misleading. The Economist (1998a: 7) has pointed out that the ‘biggest myth of all is that of a single Asian economic model. These economies differ hugely...’. This is correct, but it needs to be added that, at a more general level, capitalism dominates almost everywhere, and every capitalist economy will have a number of similar characteristics, but each capitalism emerges in a particular social and historical context. There is no single, clear path to capitalist development, politically or economically. Capitalist development arises from the specific history of class forces in each society where it emerges (Hewison, 1989: 214).⁶

Even so, the critical perspective offers some useful counterpoints to the ideologically-driven orthodoxy. For example, Jansen (1997: 13) asserts that policy-making has been ‘strongly *ad hoc* and lack[ed] strategic design.’ FitzGerald (1997: xiii-xiv) goes further, arguing that policy-makers have been constrained by private sector actions and international trade and capital market conditions. In this context, he suggests that policy-making has been pragmatic, but ‘geared to the provision of stable profit conditions for investors...’.

Whatever the emphasis in these approaches, and whatever the their differences, they all sought reasons for success, not potential problems. But severe problems did emerge.

THE CRASH

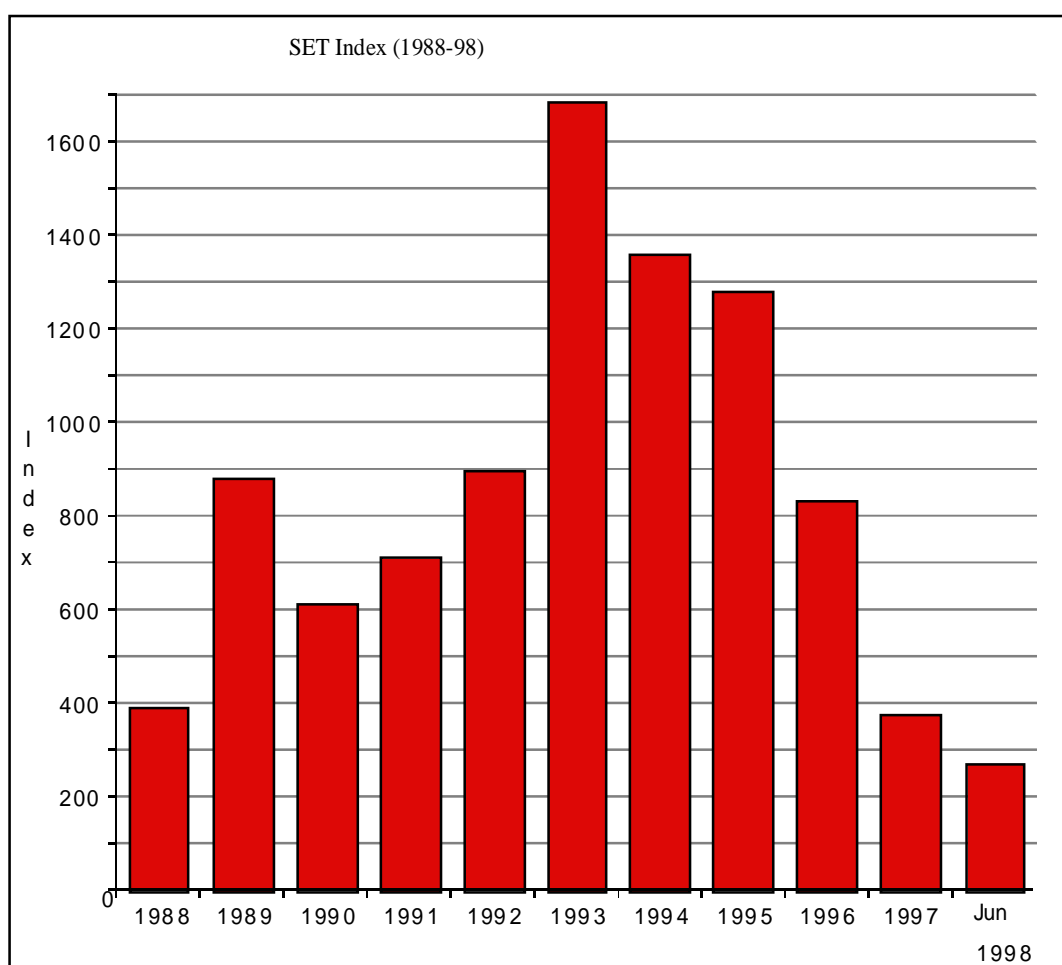
Signaled by the Bank of Thailand’s (BoT) expensive and ill-fated venture to shore up the baht in mid-1997, something went very wrong with the success story, (see US Embassy, 1998: 1; Bangkok Post eds, 1998). In hindsight, the confidence that the boom would continue appears naïve, and even when the crisis had begun, there was disbelief. For example, the BoT (1997a: 5) referred to the first nine months of 1997 as ‘subdued’, and used words such as ‘slowdown’, and claimed ‘substantial gain[s] on the stability fronts’. A few weeks later, the Bank’s annual report was forced to concede ‘severe difficulties’, ‘unproductive and speculative investment’, and a ‘sharp economic slowdown’ (BoT, 1997b: 5-6).

The baht crisis began with speculative attacks in 1995. While the BoT’s efforts to protect the baht were initially successful, speculators moved in when the BoT seen to be maintaining the peg. Concerted attacks in May and June 1997 depleted official reserves from about \$38 billion to just \$2.8 billion by the 2 July float of the baht (Chalongphob, 1998: 3-4, 8; BIS, 1998: 136).⁷ The result was that by August 1997 the government had very little choice but to go to the IMF. The ‘alternative was total collapse’ (US Embassy, 1998: 3).

⁶ Jansen (1997: 8-14) and Pasuk and Baker (1996) discuss some similarities and contrasts between the Asian NICs and Thailand.

⁷ For a blow-by-blow account of the events leading up to the devaluation of the baht, see the report of the Nukul Commission (Nukul, 1998).

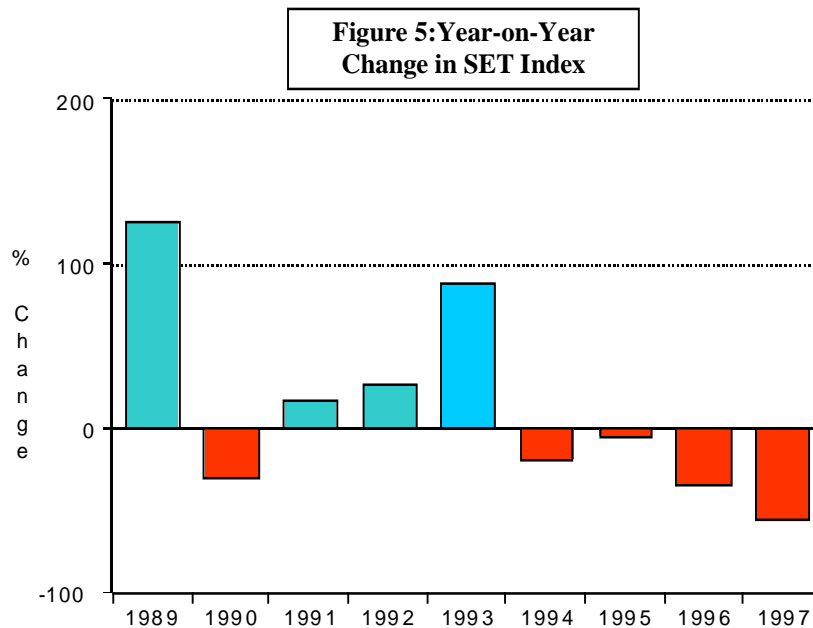
The boom had coincided with Thailand's increased attractiveness to Japanese investors after the 1984 devaluation. While the crisis might be seen to have begun when the baht, pegged to the dollar, became over-valued against the yen (Chalongphob, 1998: 3), combined with the competitive impact of Chinese devaluations in 1990 and 1994 (Wade & Veneroso, 1998: 10), this was not simply a financial crisis. There is a deeper economic malaise. Some of this was reflected in the SET, where price/earnings ratios peaked in 1993 (BIS, 1998: 122). The significant declines that followed suggest that investors were already factoring in lower returns (see Figures 4 and 5). Other problems were evident: increasing debt in the private sector and related unproductive investment, and contracting domestic and international demand. The problem was that few took notice of such changes when the economy was humming.



Thailand's external debt had grown to more than \$70 billion (about 38 percent of GDP) by the time of the crisis, with more than half borrowed from Japanese institutions. Almost all was in the private sector, and about two-thirds of it was of less than one-year maturity (Caton, 1998: 5; IMF, 1997: 7). European banks had lent \$19.2 billion, and US banks just \$5 billion. Much of this lending had been for productive activity. However, the length of the boom also encouraged investment in conspicuous consumption and unproductive areas such as real estate. Property had been highly profitable and was a convenient investment for borrowers and lenders alike, for as asset prices rose, borrow-

ing continued, because banks remained willing to lend as the value of their collateral kept rising (BIS, 1998: 120).

There was a concentration of investment in property, banking and finance, with up to 70 percent of the SET's capitalisation in these sectors (Nuntawan, 1997). This led to over-production in residential and commercial property. In 1996, the unsold stock of property units amounted to \$20 billion, and about half of annual GDP growth was in the property and construction sector. Some suggested that half of all investment was property-related. The SET had reflected the fragility of the property sector from 1994 (see Figure 3). In early 1997, when Somprasong Land and Finance One collapsed, 50 percent of loans to property developers – up to \$32 million – were non-performing (Bello, 1998a: 12-13; 1998b, c).



An earlier warning regarding the fragile finance sector was the late 1995 crash of the struggling Bangkok Bank of Commerce (BBC). The trigger for the collapse was under-collateralised loans; many made to influential politicians ‘to allow investment in stocks and land, which were then leveraged for further loans’ (Handley, 1997: 108-9). The BoT took over BBC in early 1996, putting up an estimated 100 billion baht in a bailout (US Embassy, 1998: 3). Rescuing BBC did not, however, result in action against corrupt owners and managers. Handley (1997: 108-9) argues that this may have been related to alleged credit from the BBC to BoT managers, and to the Chart Thai Party’s successful 1995 election campaign. Even so confidence had been dented. In the first half of 1997 there were several runs on finance company deposits, and the authorities pumped huge amounts into these companies. In fact, these companies were already insolvent (Chalongphob, 1998: 4). When this was realised, investor confidence crashed.

The rescue vehicle was the government’s Financial Institutions Development Fund (FIDF), established in 1985 to bail out troubled financial institutions. When 56 finance companies were closed in mid-1997, the FIDF was their largest creditor, having extended them about 430 billion baht. In August 1997, the government announced that the

FIDF would guarantee the deposits and liabilities of all financial institutions (Economic Section, 1998: 7). By early 1998 the FIDF had committed 800 billion baht to struggling financial institutions, and it was estimated that 1.1 trillion baht would be required (US Embassy, 1998: 3). When the crisis bit, as foreign investors shifted their funds, residents with unhedged foreign liabilities rushed to cover them, putting tremendous pressure on the baht (see BIS, 1998: 128; *The Economist*, 20 June 1998).

The contraction of the economy has been spectacular; estimates are for negative rates of up to nine percent (*BP*, 28 July 1998). It is significant that this economic crisis saw no military intervention. There has been political instability, a change of government from the bumbling Chavalit Yongchaiyudh's New Aspiration-led coalition to that led by Chuan Leekpai's Democrat Party, and a reshuffle of the Chuan coalition in October 1998. However, this has all been through constitutional means. There were demonstrations against Chavalit, led by business and middle-class groups, but the military stayed in their barracks.

The Capitalist Class and the Crisis

While no detailed analysis of the impact of the crisis on the capitalist class is yet possible – the outcomes are still being determined – it is clear that the pre-crisis structure, and wealth, of the class has been devastated. Not only have individual firms and businesses been crushed, but whole business empires have been threatened. Insights into the impact of the crisis on this class may be drawn from press reports.

The crisis has had a significant impact on the dominant banking and finance sectors. Nuntawan (1997) observes: 'How the mighty have fallen. For years the finance sector drew the ... best and the brightest.... Thailand's finance sector now lies in tatters...'. The banking families, long the paramount capitalists, have seen their number reduced as banks fail and capital write-downs occur. Many of the major families lost, or risked losing, control of their banks. In the words of one report, the 'economic downturn rocked the cosy old boys' club of Thai commercial banking to its foundations.... For many it will ... mean ceding family control to foreign investors' (Cholada & Parista, 1997: 1).

The crisis is a significant moment in a competitive reorganisation of banking capital that began during the boom. A number of banks, and the families who controlled them, had found it difficult to recover from internal conflicts and competitive pressures in the 1980s. This included: Siam City Bank (Mahadamrongkul family), First Bangkok City Bank (Tejapaibul family), and the Union Bank of Bangkok (Cholvicharn and Penchart families). The BBC (Jalichandra family) collapsed in 1995. At the same time, the boom demonstrated the competitive disadvantages faced by family-based banks, acting as family treasuries and investment brokers, in the era of globalised finance. For example, the Laemthong Bank (Chansrichawla family), Nakornthon (Wanglee family), and the Bank of Asia (Phatraprasit and Euachukiarti families).⁸ All were weak when the crisis hit (*Nation*, 13 August 1998).

The crisis brought more change to the banking sector than a decade of government efforts to dilute the power of the families and restructure the small banks. The Bangkok

⁸ For information on these banks and families at the beginning of the 1980s, see Hewison (1989: ch. 8).

Metropolitan Bank (BMB), First Bangkok City, Siam City and BBC have been nationalised. The Tejapaibul family stake in BMB was lost, and the family was found to owe the bank 4.42 billion baht (*BP*, 9 April 1998). Three banks (Thai Dhanu, Laemthong and Bank of Asia) sold majority stakes to interests in Singapore, Kuwait, Hong Kong and the Netherlands (Bangkok Post eds, 1998). The Ratanarak family sold 25 percent of its Siam City Cement to Swiss investors in order to support its holdings in the Bank of Ayudhya (*BP*, 12 August 1998). Siam Commercial, a conservative bank with a large Crown Property Bureau (CPB) shareholding, also went to 49 percent foreign ownership – mainly Japanese – as it raised 34 billion baht. Shareholders were to forego dividends for a number of years. The CPB pledged to maintain its holdings and to keep the bank in Thai hands (*BP*, 30 May 1998). Essentially, this amounts to a bailing out of the CPB. Ratings agencies responded to the bank's unwillingness to bring in more outsiders by downgrading its rating (*Nation*, 8 October 1998).

Thailand's biggest commercial banks, the Bangkok and Thai Farmers, were able to raise new capital quickly, but this meant moving to 49 percent foreign ownership. Both banks have long had strong international connections, especially with US investment banks (*Nation*, 13 August 1998). The shareholdings of the powerful Lamsam (Thai Farmers Bank) and Sophonpanich (Bangkok Bank) families had already been diluted during the 1980s, but these families have been able to maintain management control.

However, a number of smaller banks failed to attract new capital, as required by the BoT (*Nation*, 7 July 1998). Coupled with this, banks announced record losses of 155 billion baht for first-half 1998. The liquidation of 56 finance companies and government takeover of four banks wiped out about one-third of the financial system. The remaining finance companies reported first half losses of 48 billion baht (*Nation*, 2 October 1998). By mid-1998, Moody's had downgraded the financial strength rating for Thai banks to below E+; the level of Mexican and Pakistani banks (*BP*, 12 June 1998). By January 1999, non-performing loans (NPLs) at state banks averaged 66.3 percent, and even the strongest commercial banks were badly effected, with commercial bank NPLs averaged 43 percent. The financial system's NPLs were valued at over 2.7 trillion baht (*BP*, 24 March 1999). At least \$20 billion was required for recapitalisation (*BP*, 23 September 1998).

On the fringes of big banking capital, the rout has been devastating. Only a handful of finance and securities companies are likely to survive (Bangkok Post eds, 1998). The insurance industry experienced its worst result for five decades (Charoen & Walailak, 1997). Foreign buyers have been active in these sectors (*Nation*, 7 October 1998). When the dust finally settles, ownership of the financial sector will be overwhelmingly in foreign or state hands, and even the strongest institutions will have taken on increased foreign investment.

In industry restructuring will also be significant. One of the stars of Thailand's corporate capitalism has been the Charoen Pokphand (CP) group. CP is a giant in Thailand, and has 280 subsidiaries in 16 countries (Bangkok Post eds, 1997). CP's management was considered conservative, and the group was not expected to suffer greatly from the crisis. However, at the beginning of the crisis it was found to have cash flow problems, with up to \$1 billion in offshore debt, much of it unhedged and short-term. Five of its six listed companies reported 28 billion baht in 1997 losses (Bangkok Post eds., 1998). Massive restructuring got under way, and foreign investors were sought (*BP*, 13 & 19

May, 9 June 1998). However, this restructuring has seen it emerge as a strong player in Thailand's weakened corporate environment, and it has been making strategic purchases and expanding some of its businesses. CP is likely to be one of the winners from the crisis.

Another giant industrial corporation, the Siam Cement Group (SCG), also known for its conservative management, was found to have \$4.2 billion in foreign loans, three-quarters of it short-term, and mostly unhedged. About 60 percent were owed to Japanese institutions. The crisis caused SCG to sell overseas assets and shelve a large number of proposed projects. Recapitalisation has been difficult for SCG because the group's major shareholder, the CPB, would have been adversely affected (Bangkok Post eds, 1997). However, during 1999 the Group appears to have embarked on a significant restructuring that may also see it overcome some of its business rivals and enhance its domestic position.

Overall, however, industrial investment has crashed, with up to 400 billion baht in approved investment cancelled or delayed by the end of 1997. Domestic demand plunged. All manufacturers appeared to be struggling, with over-capacity in many sectors. There have been contractions of 80 percent in auto parts, 50 percent in construction materials and 40 percent in electrical appliances (*BP*, 25 September 1998). Profits in telecommunications plummeted, with only two of the 11 major firms being profitable in 1997 (Vivat, 1997: 3). Majority stakes in a range of the giant Metro Group's companies were being offered to foreign investors to offset a 16 billion baht debt (*Nation*, 4 October 1998). One of the country's biggest textiles plants, Thai Melon, closed, laying off 8,000 workers (*Nation*, 17 July 1998). Survival became the aim as bankruptcies doubled in early 1998, with some 5,000 companies closing by June 1998, and hundreds more were expected to follow (*Nation & BP*, 21 July 1998). The World Bank reported that more than 1,000 businesses a month were de-registering during the last quarter of 1997 and through 1998. All production indices saw massive declines over the same period (World Bank, 1999: 3-4).

Retailers also faced serious problems as local demand dropped. Daimaru, the pioneering Japanese department store, sold its 26 percent stake in Thai Daimaru, established in 1964, expecting a loss of more than 1.75 billion baht (*BP*, 26 June 1998). The country's largest retailer, the Central Group, sold stakes in subsidiaries to foreigners (*Nation*, 1 September 1998). Robinson Department Stores, with 1996 sales of 10.8 billion baht, suspended its loan repayments in June 1998, with more the \$200 million in outstanding loans (*BP*, 11 June 1998).

Land developers, the first to be affected by the downturn, have fared particularly badly. For example, the Kanjanapat family's Bangkok Land, once the most prominent developer, reported losses of almost 18 billion baht and debts of almost 45 billion baht (*Nation*, 7 October 1998).

The result of this has included unemployment in excess of two million by mid-1999 (*BP*, 25 September 1998). A massive restructuring of Thailand's capitalist class will also result. In addition to the obvious economic implications, this is likely to involve significant political consequences.

CRISES AND THAILAND'S CRISIS

Despite considerable argument over details, there is a consensus on the causes of the crisis amongst orthodox economists and policy-makers – exchange rate misalignments, weak financial institutions, export declines, and moral hazard (see, e.g., Noland, 1998). The emphasis placed on each of these factors varies, but the crisis is, in the words of Krugman (1998), ‘punishment for Asian sins, even if the punishment was disproportionate to the crime.’ The sins were corruption, lack of transparency, collusion and cronyism. As the Bank of International Settlements (1998: 35) observed, ‘In retrospect, ... [strong macroeconomic features] can be seen to have masked the fact that systems of governance in the corporate, financial and government sectors failed to keep pace with a rapidly expanding economy, and that investment strategies increasingly focused on areas with less solid risk-to-return characteristics’. But, as will be shown below, the implication of this is to unfairly and unwisely absolve profligate international investors who took no notice of risk when funding Asian investment.

World Bank and IMF analysis centres on two, often combined, explanations for the crisis. First, they concentrate on the so-called ‘weak policy environment’. Second, they examine ‘macroeconomic imbalances’. These weaknesses and imbalances are said to reveal that there were further ‘hidden’ weaknesses in the political economies of these countries – the governance issues mentioned above. From this perspective, the crisis reaffirms, for this perspective, the critical difference between ‘right’ and ‘wrong’ policies and the need for further sound macroeconomic management, though with a better framework (see Shirazi, 1998; Ouattara, 1998; *The Economist*, 11 April 1998).

US Treasury Secretary Robert Rubin (1998a: 1) observed that Asian countries shared common problems:

weak financial sectors, noncommercial relationships amongst banks, governments, and industrial companies, and a lack of transparency in financial transactions and government decision-making, to name a few – and all of this eventually led to severe financial instability. These problems are not ... self-correcting; they require the help of the international community and a reorientation of the role of government and the political will to implement that reorientation.⁹

Explanations that focus on problems of investment and its supervision during the credit boom miss important issues – over-expansion, over-production and declining earnings (Beams, 1998: 3, 8). Some analysts have pointed to over-capacity in similar industries, especially electronics, auto construction, electricity generation and household appliances, in a number of countries competing in the same markets (Caton, 1998: 1; Garnaut, 1998: 3). The BIS (1998: 35-6, 117) is clear that over-capacity led to a ‘price collapse’ an erosion of ‘the rates of return on new capital invested’, and ‘unprofitable industry capacity’. Real estate is also identified as a sector where heavy investment and speculation led to over-capacity and the financial downturn.

⁹ Rubin also took the opportunity to assert that any hardships resulted from the crisis, not the IMF package.

For Thailand, Chalongphob (1998: 3) points to over-investment in real estate and heavy industry, while Vichai Punphocha, general manager of Dresdner Bank in Bangkok, has argued that the fundamental problem was over-capacity in heavy industries (especially cement, petrochemicals and steel), and a range of other sectors, many of them duplicated in other Southeast Asian countries (*Nation*, 21 July 1998). The United States Embassy (1998: 1) points to finance companies being the principal conduit for 'hot money' pouring into Thailand, to fund unproductive activities and sectors with over-capacity.

In explaining such observations, orthodox analysts have some problems.¹⁰ The Economist (1998a: 6), for example, believes that the crisis is simply an example of the uncertainties which afflict countries in the early stages of development. There is also a perspective that governments previously adept at handling crises, suddenly became inept. For Thailand, Mingsarn (1998: 9) argues that it was only after 1994 that political ministers began to meddle in the Ministry of Finance and the Bank of Thailand. There is also a view that the BoT had no mechanisms for dealing with changed circumstances, such as managing private debt, and had suffered a 'brain drain' to the private sector (Chalongphob, 1998: 2; Mingsarn, 1998: 9).

None of these explanations appear strong. First, Asian countries are at different stages of development, but industrialised South Korea, a member of the OECD and the eleventh largest economy in the world, does not appear to be in an early stage of development. Second, the view that political intervention is a post-1994 phenomenon in Thailand is historically inaccurate (see Hewison, 1987; Handley, 1997). Third, the BoT was not unaware of the complexities of managing international capital. Then Bank Deputy Governor Chaiyawat Wibulswasdi (1996) made a speech in May 1996, which set out the challenges and risks faced by central banks in dealing with the global integration of capital markets.¹¹ The BoT also published articles setting out the process and problems of financial liberalisation, an awareness of other crises, and of the complexity of the new situation (see, e.g., Chittima and Mathee, 1996). Useful brains remained. Finally, these explanations all point to faults in the public rather than the private sector.

Sachs (1998b) has suggested that rapid development, based on huge capital flows, will *inevitably* lead to over-investment and speculation. In this context, it is worth repeating a point made by Beeson and Robison (1998: 8): financial and economic crises are normal in the capitalist system. Kindleberger (1978: 253-9) identified 34 crises between 1720 and 1975; and there have been crises aplenty since. He shows that the 'market' is a poor learner, and that all crises are marked by:

- cycles of boom, speculation, and bust;
- booms fuelled by excessive credit provision;
- overwhelming 'urge[s] to speculate';

¹⁰ Krugman (1998), while not explaining his opposition, sees explanations of the crisis in terms of over-capacity as a 'nonsense idea'.

¹¹ For Chaiyawat (1997: 3-4), the ways to deal with the risks included: financial reform and further liberalisation; maintenance of investor confidence; fending off speculative attacks; fiscal discipline; low inflation; export competitiveness; and maintaining the soundness of the financial system. In any case, Grenville (1998: 2) argues that the large private capital flows were 'not some aberration which could be avoided by better macro policies or by enhanced policy transparency, but were the normal manifestation of the working of capital markets.' He argues that volatility is intrinsic to international capital flows.

- the inevitably that bubbles burst; and
- an international impact (Kindleberger, 1978: 16-18).

Kindleberger, like Sachs, sees crises resulting from irrational market behaviour and criticises those who see the market as inherently rational.

Marxists, however, argue that crises are unavoidable and part of the logic of capitalist production (Bottomore, 1985: 11-17). Marx saw crises as remarkably complex, global, and having much to do with capitalist production, competition and credit (Sweezy, 1968: 133). Part of the reason for his interest in crises was that they demonstrate the contradictions of capitalism. For example, the existence of poverty amidst plenty as workers are thrown out of employment while there remains huge productive capacity (and often large commodity surpluses). Essentially, the cyclical nature of capitalist production means that there must be periodic and general crises.¹²

An important point in the Marxist approach is the recognition that a crisis is often a starting-point for a recomposition of capital, and new phase of investment (Marx, 1978a: 264, 358). This reflects the tendency for natural competition between capitalists to become more intense and for capitalists to turn on each other in times of crisis. O'Connor observes that 'Crises and their aftermaths ... invariably resulted in the growth of the largest capitals through internal expansion and acquisition and merger' (O'Connor, 1984: 28).

Thailand's crisis is indisputably a part of a global process of capital accumulation and cycles of boom and bust. The boom emerged from the aftermath of an earlier crisis, and the country is now consumed by crisis again.¹³ While domestic capital did exceptionally well during the boom, it is now suffering, and the immediate victor has been expanding international capital. The IMF response was in line with the need to restore the profitability of capital-in-general rather than a particular national capital. Hence the 'blame' has been sheeted home to national government and domestic capital.

In seeking 'culprits' for the Asian collapse, it is easy to point an accusing finger at central bankers, bureaucrats, poor policy, and the like, but the fact remains that those responsible for the crisis are capitalists, domestic *and* international. There is no escaping this conclusion. It is these groups who, for a variety of reasons – greed, over-confidence, ignorance, megalomania, competition – made bad investment decisions. William Thomson (1998: 2), a Manila-based business analyst, argues that the crisis arose because lenders got '... carried away by the seemingly inexhaustible ... opportunities and forgot the risks.' The boom created over-confidence and a lack of concern

¹² Many of Marx's observations show that not much has changed in 150 years! According to Bottomore (1985: 11-12), he emphasised the 'ten-year cycle of modern industry' and 'distortions and overcapacity' during booms. Marx saw that many 19th Century crises were international, and that there was contagion (see, e.g., Marx, 1978b: 623). Speculation during the boom following the 1843 Opium War, showed the frenzy of speculation that develop in such periods. He also points to the 'boundless fraud' in the East Indian trade as having much to do with the 1847 crisis (Marx, 1978b: 533-535, 618), and observed that 'the entire world of commerce [was provoked] into meeting the outbreak of a crisis by putting aside a reserve stock of banknotes, thereby accelerating and intensifying the crisis' (Marx, 1978b: 689).

¹³ One might note the socialisation taking place in international finance capital. As Beams (1998: 13) notes, the funds that have been awash in the world are the 'accumulated savings of millions of people.' But, this increasingly socialised capital has enhanced the global power of finance capital.

for business practices, for it was believed that 'endless growth would ... bailout all errors'.

Reporting a World Bank analysis of Indonesia, *Kompas online* (22 July 1998)¹⁴, comments that the Bank conducted a survey which showed that prior to the collapse, '... many international investors were very optimistic. Bureaucratic strings, corruption, insider trading and the weak financial system did not deter investors.... Almost all business players truly understood the weakness of the legal system, the lack of transparency in decision-making and the role of political forces.... But there were still no signs of hesitation on the part of investors...'. Robison (1998: 7) also notes that 'foreign investors were quite happy to deal with well connected families or governments if they thought it would lead to high rates of return.' That is, the 'let the good times roll' mentality led the crisis.

If the 'culprits' are easily identified, what has the IMF done? Wade and Veneroso (1998: 11-12) suggest that the IMF packages go beyond its standard approach (balance of payments, current accounts, inflation, domestic demand) to include pressure for institutional and structural reform, 'even though they are not needed to resolve the current crisis.' The aim, they suggest, is to make the Asian financial systems more like those of the West. Why?

There has been talk about global manufacturing, international sub-contracting, and the new international division of labour for decades. At the end of the 1990s, it is clear that the era of global manufacturing is upon us (see *The Economist*, 20 June 1998). But, for global manufacturing to become fully entrenched, it requires not only open markets, but an increasing homogeneity of regulatory environments. Sachs (1997: 19) argues that in the new globalised world, 'policies are likely to be more similar.' This will lead to a convergence between countries of the world.¹⁵ He argues that the world has to learn how to operate in this environment, through a *rules-based* system, with *shared* principles (Sachs, 1997: 22). A raft of reforms are being pushed, and the Asian crisis is an opportunity to promote these.

US Treasury Secretary Rubin (1998b) has explained the significance of reforming international practices to his domestic audience, suggesting that there are vital economic and security issues at stake in Asia, and that reforms will 'benefit the American people.' Responding to criticism of the IMF and fears about the 'rathole problem'¹⁶, he asserts that the 'United States needs an IMF that is financially equipped to help protect U.S. interests.... If we close the door on the IMF, we hurt ourselves.' Rubin is clear that the outcome of the rescues is restructuring which is in the interests of big, particularly US, capital.

¹⁴ A translation is provided by the electronic list, Forum on Labor in the Global Economy LABOR-L@YORKU.CA, 27 July 1998.

¹⁵ In making this point, Sachs drew on East Asian examples (from Radalet et.al, 1997), but was writing just as the Asian crisis was about to bite. His then bold predictions about continued Asian success might be one factor in explaining Sachs' emphasis on panic as a reason for the Asian crash (see, for example, Krugman, 1998; *The Economist*, 11 April 1998).

¹⁶ Pouring good money after bad. Krugman (1998) notes that US Treasury officials and politicians were concerned that IMF rescues might result in money disappearing into the same corrupt, politically-connected institutions that were seen to be behind the crisis.

But the changes sought do not amount to a US conspiracy. Low wages have become ever more important for global manufacturing, and the ease of movement for manufacturers is crucial (The Economist, 1998b). The Multilateral Agreement on Investment will deal with cross-border investments in OECD countries. The purpose is to provide investors with greater certainty regarding the 'rules of the game', and encouraged greater international investment. Global manufacturing needs global financing, but also certainty. *Fortune* magazine (cited in Grenville, 1998: 2), explains the dilemma perceived by business, 'You can't trust the companies, you can't trust the governments, you can't trust the analysts, and you can't trust the mutual funds managers. Watch out.' The Economist (1998a: 21) makes much of the changes required. It lists the 'magic ingredients': allowing the market to work better, and more 'discipline'. This means 'allowing financial markets, not mandarins, to allocate capital', and requires increased transparency, through international legal, accounting and disclosure standards.

The IMF concurs on what is required: greater transparency; stronger banking systems, avoiding cronyism; further liberalisation of capital flows (with prudent timing, of course); a level playing field for the private sector; reductions in unproductive government spending; a strengthening of domestic and international financial systems; higher, but cost-effective, spending on health, education, the poor, unemployed and the environment; and more effective 'dialogue' with labour¹⁷ (Ouattara, 1998). This is part of an attempt to 'institute a world-wide regime of capital mobility that allows easy entry and exit everywhere' (Wade and Veneroso, 1998: 19-20).

This is part of what Australian Reserve Bank Deputy Governor Stephen Grenville (1998: 1) identifies as the IMF-supported Washington Consensus. It involves twin elements for all countries: deregulation and opening economies to outside investors.¹⁸ While some Asian governments, including Thailand, had held out against the World Trade Organisation's liberalisation of financial services, the crisis saw this backsliding disappear (Wade and Veneroso, 1998: 19-20).

In Thailand, foreign capital has been largely supportive of the Chuan government's approach to the IMF reforms. It has also made numerous demands of the government, including reform of alien business laws, revisions to duties, taxes and customs procedures, privatisation, transparency, an end to corruption, deregulation, and a range of relaxations of rules and policies (*BP*, 1 August 1998). Foreign capital and its state bureaucrats have continued the pressure on the Thai government. The US government also appears to take responsibility for promoting the Washington Consensus (Economic Section, 1998: 1).

Robert Rubin, speaking to the chairman of the Thai Federation of Industries, is reported to have made it clear that for US investors would not be back until foreign ownership and investment restrictions were fixed (*BP*, 1 July 1998). The US Embassy has also argued that 'consistent and predictable enforcement of government regulations remains an obstacle to investment' (Economic Section, 1998: 6). Under the 1966 US-Thai Treaty of Amity and Economic Relations US investors are not subject to restrictions imposed on other foreign investors. However, US businesses feel that as long as corrupt practices remain, they are at a competitive disadvantage as US law prevents them from engaging

¹⁷ One might ask, why labour? Simple. Talk with labour to prevent opposition to reform.

¹⁸ Grenville is not sure that the deregulation of capital flows is as beneficial as the deregulation of trade.

in such practices. The Embassy believes that, despite 'resistance from indigenous business and political interests', the crisis will move the government to adjust its 'legal and regulatory regime with the objective of creating a more competitive climate for foreign investment' (Economic Section, 1998: 1).

The result of all of this is likely to be a massive transfer of ownership from Asia to its creditors and the establishment of procedures which will benefit mobile international capital (Wade and Veneroso, 1998: 20). Wade and Veneroso (1998: 14) argue that the social costs of this restructuring must be enormous. For example, by mid-1998, 2,000 workers *a day* were losing their jobs in Thailand (*Nation*, 26 July 1998). But, the point is, regardless of the social cost, the freeing of the market and the drive to secure profits must dominate, and this will surely require a sweeping aside of national rules and regulations considered restrictive to these goals (see Beams, 1998: 11). In the words of Henry Kissinger (cited in Beams, 1998: 10), 'If the definition of a revolution is fundamental change in the economic and political system ... then what we are trying to engineer in some of these countries is clearly a revolution.' This is the capitalist revolution in the garb of globalisation. While a critic of the IMF's approach in Asia, Sachs has been outspoken about the triumph of global capitalism. He notes that, for the first time in history, a global capitalist system has emerged (Sachs, 1997: 19), as a worldwide phenomenon, 'no longer in the ownership of a small group of countries' (Sachs, 1998a). Global capitalism, he says, 'is surely the most promising institutional arrangement for worldwide prosperity that history has ever seen' (Sachs, 1997: 22).

Thailand's Responses to the Crisis

After initial dithering by the inept Chavalit government, Thailand's government announced its 'full commitment' to the IMF's economic programme. Indeed, in its November 1997 Letter of Intent to the IMF, the Chuan government announced that it would 'strengthen the policy package'. It has accepted the IMF diagnosis of the causes of the problem, and the IMF's emphasis on the need to restore confidence (Thailand, 1997: 1). This is to be achieved through: a tight monetary policy; restructuring the financial system; deepening the role of the private sector; a return to international capital and finance markets; implementation of a social safety net (Thailand, 1998a: 1); 'deepening the external openness of Thailand's economy, and *increasing* foreign direct investment flows into the economy'; and reforming public and private governance through amendments to laws and policies which limit foreign investment (Thailand, 1998b: 4).

The Government has been careful to keep the IMF and its closer Western supporters on side. Foreign Minister Surin Pitsuwan recently explained the Thai position (reported in *Thai-Oz News*, 30 July – 11 August 1998, p. 11). He admits mistakes, a lack of discipline, and a failure to maintain balanced growth. The task, he says, is to 'win the trust and confidence of the international business community...'. He adds that this requires regulations which meet international standards, and a transformation of corporate governance. The aim is to make international business 'more comfortable' and to have rules 'acceptable to international investors'. Deputy Prime Minister Supachai Panitchpakdi has stressed that the private sector must drive change (*BP*, 21 May 1998), while Finance Minister Tarrin Nimmanhaeminda has repeatedly stated that the government will do all that is required to get foreign investors back. This includes addressing problems associated with business laws, customs procedures, and privatisation (*BP*, 18 June 1998).

Thailand has learnt its 'lessons'. But this is not simply Thailand responding to the West and the IMF, for as Prime Minister Chuan has explained, '[W]e must prove to the world that, despite their occasional problems and pitfalls, free trade and market liberalisation remain the most effective and efficient means of ensuring the sustained growth of all countries...'. (*BP*, 4 April 1998).

None of this should be much of a surprise. Thailand's economy has long been oriented to trade, and government policy has, for at least four decades, been highly supportive of the private sector (see Hewison, 1989).

The reaction in Thailand has not been universally supportive. Much has been made of the fact that the (domestic) 'culprits' are not being held responsible, while those who did not contribute to the crisis are being made to pay. For example, Prime Minister Chuan has been compared to the captain of the Titanic, only allowing the first-class passengers into the lifeboats (*Nation*, 8 June 1998). While Chuan agrees that 'the real problem did not originate from the poor or working classes', he argues that the impact of the crisis will be on 'all sectors of society' (*Time*, 23 March 1998). In any case, the IMF's programme allowed little room for manoeuvre, with \$14.5 billion of the \$17.2 billion allocated went to rebuilding foreign reserves (US Embassy, 1998: 3). The government has had to rely on the World Bank and Asian Development Bank for its 'safety net' support (Thailand, 1998b: Box E).

While recent IMF Letters of Intent have put more emphasis on welfare, it seems clear that the Thai government is socialising private sector debt. This is not out of place with international practice. The BIS (1998: 117) acknowledges that private investors need to be held responsible for their failures, and should bear a share of the costs of bailouts, the mechanism for this is not explained. Interestingly, it is radical free marketeers and radical populists who are allies in opposing the IMF precisely because the crooks do not have to pay. Free marketeers support this because they think that 'the market' should be allowed to 'work'. In Thailand, there have been examples of bailing out culprits in 1997 and 1998. (e.g. *BP*, 12 June 1998).

While domestic business has been critical of the IMF programme for the negative impact it initially had on liquidity, and was opposed to the Chavalit government's inept response, it has generally been supportive of the Chuan government. Bankers and representatives of big business have been especially positive (*Nation*, 22 July 1998, *BP*, 26 & 27 July 1998).

Big bank losses announced in mid-1998 have re-confirmed the relationship between banking capital and the state. The major bank shareholders would not or could not raise further capital, but were also refusing to allow their shareholdings to be diluted. After the losses, foreign analysts immediately predicted another financial crisis, and that more banks had to go (*Nation*, 23 July & 1 August 1998). With representatives of banking capital calling for action, the government announced that it would have to help shore up the banks (*Nation*, 3 August 1998; *BP*, 31 July 1998). The government launched a 'do-or-die' rescue plan for the banks. Chuan argued that the rescue was in the public interest, regardless of cost or political consequences. Explaining that the survival of the entire banking system was at stake, Chuan stated that this was 'not to help capitalists', but to rescue the institutions. Bureaucrat-turned-financier, Phisit Pakkasem, summed up the situation: since the government had guaranteed depositors and creditors, it could not

afford to allow any banks to sink (*Nation*, 1 August 1998). The cost of the bailout is estimated to be at least 1.5 trillion baht or 30 percent of GDP (*Nation*, 10 August 1998).

But, alternative views on understanding and dealing with the crisis have also developed. There is a strong view that the crisis has revealed basic weaknesses in the country's basic social and political make-up and the nature of its development since the 1950s. Social critic and historian Nidhi Aeusrivongse is reported to have observed that the 'fundamental reasons for Thailand's ... crisis are its shaky social foundations, misplaced development policies – which put economic growth before human resource development – and skewed distribution of wealth' (cited in Gill, 1998). There are many who agree with him. For example, the Forum of the Poor demanded that the IMF protect the poor, and that assistance 'should be based on the principles of social justice, morals, sustainable society, global concern and equality which will bring peace to the community' (*Watershed*, 3, 2, 1998, p. 21).

There is a search for alternatives, on both the left and right, and causing some unusual alliances to be seen. This search has included campaigns to raise local funds to buy state enterprises, attacks on the US for insisting on the forfeit of a deposit for fighters not taken by the armed forces, and 'patriotic movements' to save the country through, among other things, 'buying Thai', collecting gold and foreign exchange donations from citizens, and demanding Thai solutions rather than those of the West. There is also a call for a return to agriculture. Unfortunately, many of the proposals for rural development draw on the Thai King's naïve suggestions regarding 'self-sufficient' and 'contented' agriculture (Chai Pattana Foundation, 1995). Even so, the recognition that the rural sector has been ignored or exploited during the long boom may be useful. As Pasuk (1998: 23) sees it, '[T]he economic crisis is a great opportunity for rural people to be left alone to think up their own sustainable solutions to some of the problems that they now face. In this sense, it presents a huge opportunity for the growth of local community groups, and for them to push forward debates about local democracy and participation'.

Bello (1998a, b), like many Thai academics, suggests neo-liberal approaches are the root cause of the crisis, and are therefore unlikely to do more than embed the dominance of international capital. Like many economists, including some at the IMF, he calls for more control over financial markets. He also suggests Keynesian and populist responses, including establishing the centrality of the domestic market, 'selective globalisation', progressive taxation, promoting equity, ecological sustainability, self-reliance and democratic control over capital. Bello sees this control as being lodged in democratic decision-making by communities, civic organisations and people's movements. This approach draws considerable support from NGOs and other populist groups, many of whom have called for a rejection of 'foreign approaches to economic problems' (*BP*, 12 July 1998).

Some Thai NGOs have promoted crudely populist solutions. For example, the Director of the Project for Ecological Recovery, Srisuwan Kuankachorn (1998), provides the clearest presentation of this perspective. The problem is not in macroeconomic management, but in the very model of development chosen – the '... model of rapid, large-scale development, which is totally dependent on foreign capital, is wrong.' This model is seen to have been foisted on Thailand by the US during the Cold War, through aid and the Ford and Rockefeller Foundations. The aid and education provided meant that

those who studied in the US, 'mostly members of the Thai elite and high-level technocrats, were brainwashed.' They willingly implemented the US economic model. This 'trickle-down' approach relied on resource extraction and destruction, but did not bring benefits to the majority, who saw the wealth gap become cavernous. The IMF is now seen to be reinforcing this model, at the expense of people, families and communities. The capitalist forces of 'local and foreign corporations, the media, and the IMF and World Bank ... have changed the cultural values of the people in society.' It is the consumerist values that must be challenged. NGOs that participate in World Bank social investment programmes are considered to have been duped, and are 'supporting part of the problem, not the solution.'

Populism is a common response to capitalist industrialisation, but it is limited because it essentially is a reaction. As Pollack (1962: 2-3) explains, '...[C]learly, agrarians often aligned with conservative groups in the vain attempt to turn back history.... [W]hether radical or conservative, agrarianism ... takes on the shape of a retrogressive social force.' Thailand's populism is in this mould, and is certainly a reaction to industrialisation, and especially to the triumphalism of the capitalist boom, and to the glorification of globalisation that this involved. But, Thailand's populism has not wrenched itself free of the issues which have bedevilled populist politics everywhere: it is reactionary, often romantic, it sees conspiracies, it is anti-urban, and it includes a tendency to intolerance of outsiders (see Unger ed, 1964). While one can agree that there have been and are gross social and economic injustices involved in capitalist development, it is inappropriate to ignore the great gains that were brought by the boom. It is also a dubious proposition to think that there can be a return to the agrarian roots when the majority of the population have left these behind. The populists offer a political solution to the irrationality and exploitation of the market, but it does not offer a viable economic solution. However, the political impact of such responses to the crisis should not be overlooked.

In the context of this crisis (and of previous crises), the real struggle is not so much political as economic. Corporations – in fact, all capital in the globalised capitalist system – produce and invest themselves into a crisis of over-production, speculation, and boom. The inevitable crisis rearranges the architecture of capital. Outdated political and social arrangements must also be transformed, and this will inevitably involve political struggle. This struggle may result in a range of political outcomes, not all of which will be capital-enhancing – hence populism can have its day – much variation can be expected due to the particular social and historical context in which the struggles take place. States and the ability to influence them will continue to matter during the ongoing capitalist revolution.

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Appendix 1: What do orthodox economists say about Thailand's success?

Source	Explanation for the boom
Warr & Bhanuphong (1996)	<p>Macroeconomic stability, conservative, cautious policy-making and implementation.</p> <p>Conservative bureaucrats (p. 3), with a 'surprising degree of independence from political control.' (p. 18) In fact, it is asserted that bureaucratic advice tends to direct economic ministers (69, 70).</p> <p>Got the fundamentals right; chose the required policies (p. 2).</p> <p>Political instability does not mean that policy-making has been unstable – unity through a popular monarchy...' (p. 7). Bureaucrats long-term loyalty is to the king (p. 19).</p> <p>Policy-makers committed to growth and the use of 'prudent' public sector infrastructure investment to support the private sector (7, 67). 'The underlying philosophy of economic planning ... is a commitment to a market economy.' Policy directed to 'securing a smooth functioning of markets with a minimum of direct government intervention or controls.' (p. 71)</p> <p>Agricultural taxation has kept consumer prices low (p. 35).</p> <p>Policy support of manufacturing (35-6).</p> <p>Thailand attractive to foreign investment (p. 45).</p>
Hill (1997)	<p>Macroeconomic orthodoxy (p. 133).</p> <p>Equity; 'reasonably satisfactory equity outcomes' (133, 143).</p> <p>Openness; open trade policies driven by a 'domestic political consensus' (133, 141).</p> <p>Technocratic capacity (p. 136).</p> <p>Conservative economic policy-making. Economic and fiscal agencies insulated from other ministries 'dominated by narrow sectoral interests' (p. 138).</p> <p>Long-term political commitment to economic growth (p. 134); 'strong and able leaders' (p. 135), providing access for technocrats (p. 136).</p> <p>Political structures somewhat insulated from narrow vested interests, taking decisions in the national interest (p. 136). Limited 'intrusion' of parliament to policy-making (p. 138).</p> <p>Able technocrats somewhat insulated from political pressure groups – while Thailand does not appear to 'fit' this explanation, the monarchy is said to have protected a bureaucracy which has delivered good policy (134-5).</p> <p>Investments 'in education, health and other social goods, and the amelioration of inter-regional and urban-rural disparities.' (p. 142)</p>
Chalongphob (1997)	<p>Outward-looking/economic openness/the discipline of the market (p. 5)</p> <p>'Sound [government] development policy', including making the private sector the engine of development (p. 11).</p> <p>Exchange rate stability (p. 6).</p>
Jansen (1997)	<p>Unprecedented inflows of foreign capital, especially after Plaza agreements, fostered by devaluation of the baht (1, 15-16). A loan and investment boom.</p> <p>Openness and integration into the global economy (p. 22).</p> <p>Trade and financial liberalisation (144-5).</p> <p>Integration of financial system into international financial markets (3, 22).</p> <p>Macroeconomic stability (p. 14).</p> <p>Dynamic entrepreneurial class (p. 14).</p> <p>Enormous increase in private investment, much of it in export activities (p. 1).</p> <p>Global restructuring of investment flows – 'globalisation' (p. 150).</p> <p>Comparative advantage in low-cost labour.</p> <p>'Catch-up' after mid-1980s downturn (p. 173).</p>

Appendix 2: Summary of the periods of capitalist reorganisation

Period	Economic situation	Form of capitalist class
Before 1932	Small 'modern' sector, limited industrialisation. Personalised business relations with the royal state. Numerous financial and economic crises in the early 20 th Century.	'Tripod' – royals & aristocrats; domestic (often Chinese) business, in milling, trade, some banking, commerce, mining, timber; and foreign (mainly Western) business, in similar areas, but with dominance in banking and finance. Capitalist class small.
1932	Major global economic crisis (political change in Thailand).	One leg of the 'tripod' removed as role of royals & aristocrats reduced. State takes an increased economic role, encouraging manufacturing. Capitalist class remains small.
World War 2	Thailand's trade oriented to Japan. Major infrastructure and urban destruction at the end of the war reduced capacity.	The second leg of the 'tripod' removed as Western businesses closed. Some expansion by Japanese interests. Local business develops rapidly, especially in banking and finance. Local capitalist fraction expands significantly.
1960s	Long boom (1958-97) begins. Strong role for private sector. ISI begins in earnest; increases in foreign aid and investment; finance sector expands.	All fractions of capital expand. Foreign investors important, but domestic capital dominant, especially in finance and banking, and in industry. Strong links between business and government.
Early 1980s	Financial crisis and economic downturn. EOI firmly established.	Finance sector squeezed. ISI capital in trouble through over-capacity on domestic market. Banking capital remains predominant fraction, although technocrats want to reduce the power of banking capital.
The Long Boom (1987-97)	Huge economic growth. Financial deregulation. Export boom. Stock and property market booms.	Foreign capital becomes far more significant, but all fractions of capital expand substantially, including provincial. Increased diversity in the class. Export-oriented industrial capital explodes. Old banking capital is 'challenged' by 'upstart' business groups in media, communications, electronics, manufacturing, retailing, finance, securities. But room for all. State facilitates the operations of capital. Business establishes its predominance over the state.
The Crisis (1997-98)	Over-capacity, over-production. and over-borrowing. Major financial crisis and economic collapse. Massive debts and major restructuring.	Major restructuring and downsizing of the domestic capitalist class through bankruptcies and closures brought on by the crisis. A struggle to survive and maintain ownership. Massive transfer of ownership to foreign capital through debt for equity swaps, investment in devalued local companies, and buy-outs of Thai partners. Big domestic capitals in banking and industry best placed to survive and expand once immediate crisis overcome.