THE POLITICS OF ECONOMIC REFORM: THAILAND

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INTRODUCTION

In a relatively open democracy, there are limits on what can be achieved by top-down and outside-in pressures for reform. The aggression of the neo-liberal agenda has created some nationalistic reaction—but probably less in Thailand than would be found in other countries with more of a tradition of nationalism. Reforms in financial, corporate, or bureaucratic systems are needed, but will have to be achieved within the context of the political economy and national aspirations.

A social safety net cannot be created quickly if the government does not have the experience and machinery—however much the IMF shouts, and however much money is thrown at the problem. Thailand needs to upgrade its permanent welfare provisions—and its tax system—to keep up with changes toward a more urban and industrialized society. The political pressure for such reforms may decline as the economy recovers from the crisis.

In a country where money, information, and people flow constantly between city and village, an urban crisis has a hard impact on the countryside and particularly on the rural poor and landless who have few resources to fall back on. This problem cannot be solved by a quick fix. It requires a proper long-term commitment to increase the economic and political rights of all.

The crisis has contributed to a reduced public tolerance of corruption by politicians and bureaucrats. Clean-up moves have started in some parts of government (customs, army, etc.), but the police are still resisting. The anti-corruption laws and machinery have been significantly improved. However, the most effective weapon against corruption will continue to be public pressure targeted through the press and civil society.

Thai politics are likely to become even more complex and changeable in the short term, as the shocks of the crisis work through and as the new 1997 Constitution comes into play. It will look noisy and messy, and observers who like the permanence and simplicity of more authoritarian systems will not like it. But democracy is noisy and messy, and by and large the long-term trends are positive.

This report addresses the following issues: the politics of reform through boom and bust, in particular the “politics of distribution,” the impact on social policy and labor relations, the issue of corruption, and the consequences for “opposition to reform following the crisis.” We have chosen to cover many issues rather than to delve into one in great depth. While the labor issue is covered, it has not been given greater prominence than it requires, and as much space has been devoted to the rural impact and consequences.

Thailand is a complex and rapidly changing democracy; indeed, the notion of reform itself is complex. There are local agendas of reform and change, which only sometimes align with international aspirations of market reform, but which often do not. Moreover, reform cannot
be achieved by top-down manipulation in a polity where free expression and democratic rights
have become moderately well established. And, finally, there are traditions in Thai political life
that place a high value on social harmony, and on aspirations for development toward the
reduction of poverty. The past year has shown that agendas that try to override these traditions
are likely to fail.

THE BACKGROUND

The political and social impact of the crisis cannot be isolated from a broader background of
social and political change in Thailand over the last ten to fifteen years. First we summarize this
broader background under the headings of political space and economic change. Then we look
more closely at labor politics and the parliamentary system.

Political Space

Since the early 1980s, the legacy of military dictatorship has rapidly lifted. The political role of
the military has been reduced. Parliament has grown in power and stature. Many new interest
groups, including business associations, non-governmental organizations (NGOs) representing
various civil-society causes, and farmers’ groups, have become more self-assertive. The press
has fought to expand and then defend its freedom, and provides a platform for very open
public debate. While the electronic media remain largely under official control, one independent
TV station has been founded and other channels have been forced to cede more space to non-
official points of view. Mass television (over 90 percent of households have a set) has given
people viewing access to the political process through news programs and the television of
parliament. Dramatic no-confidence debates have been highly effective as political education.

Economic Change

The very rapid transition to export-oriented industrialisation in the mid-1980s created new
social groups, new political interests, and new lines of conflict. These new groups and conflicts
populated the expanding political space. Here we will just mention four major changes.

First, there was a rapid change in the employment structure. Over the decade 1985–1995,
the numbers employed in non-agricultural occupations swelled from 9 to 15 million. The
numbers in manufacturing alone doubled from 2 to 4 million. For decades before this, Thailand
had recruited a large part of its urban labor from rural migrants who circulated between village
and city. This remained true through the boom. But significantly larger numbers made a more
permanent transfer from village to city. In particular, many moved to the city in their late
teenage years and stayed. A large proportion of this flow was made up of women. The major
export-oriented industries had a large majority (up to 80 percent) of female workers. Other
service businesses (particularly construction) had more males, so the gender balance in this
rural-urban flow ended up roughly even.

Second, a minority but highly significant part of this changing employment structure was the
growth of a white-collar segment. The particular shape of Thailand’s new export-oriented
economy created a rising demand for educated workers as managers, executives, and
professionals. Education could not be expanded rapidly enough to meet the demand, resulting
in shortages and rising salary levels.

Third, in the latter stages of the boom—with 1990 onwards—the benefits began to trickle
down in a serious way. Real wages began to grow at 8 percent a year. Some of the benefit
flowed back to the rural economy through migrants’ remittances. Numbers below the poverty
line reduced rapidly. Rural consumption levels increased. Even so, the income skew grew worse. The gap between urban and rural incomes, and between rich and poor, grew steadily wider (see Figures 1–3). By the early 1990s Thailand had one of the most skewed income distributions in the developing world.

Fourth, the change and acceleration of the economy provoked many conflicts over resources. Supplies of land and water, which had seemed abundant in the recent past, very rapidly became scarce. Urban and rural interests often found themselves in competition for these scarce resources. Often neighboring communities fell into similar disputes. The issue of who controls resources—state, powerful individual, community—became hotly contested. Large numbers of people, especially in rural areas, were mobilized politically by the battle over resources.

**Labor Politics**

In this period, labor politics took a very specific form. Overall, the labor movement was weak. Dictatorial governments in the past invested considerable resources in bringing labor politics under control by a judicious mixture of: a) legislation, especially to limit unionization to enterprise unions; b) heavy-handed suppression of radicalism; c) political co-optation of moderate leaders; and d) state-administered paternalist policies, including a minimum wage and dispute settlement machinery. This left the labor movement weak and fragmented. Most urban workers were non-unionized and most of the unions were enterprise-based. Several umbrella organizations competed with one another. Under these circumstances, labor politics during the boom had three themes.

First, while strike or protest activity was relatively limited, the incidents, which did occur often, tended to be bad-tempered and violent. Typically such incidents occurred when businesses wanted to restructure their labor force, either to accommodate new technology or to react to the economic downturn. With no established union systems, firms often had inadequate channels to communicate and negotiate with their workforces. Disputes rapidly became confrontational and degenerated into violence. Such incidents were few, but tended to have a very high profile. The burning of a Sanyo appliance factory in December 1996 as a result of a relatively simple dispute over bonus payments is a good case in point.

Second, the issue of health and safety at work became a major focus of labor politics. Government had inadequate machinery to monitor health and safety standards, and firms often exploited this inadequacy to reduce their spending and hence increase their international competitiveness. The consequences were highlighted by a string of bad accidents, in particular the death of 188 people in a fire at the Kader toy factory in 1993. Women leaders of the large female contingent in the organized workforce became particularly focused on this issue, as many women workers suffered from acute health problems because of poor environmental conditions in the workplace and excessive work stress.

Third, state enterprise workers made a strong stand against privatization. Historically, state enterprise workers have been the largest and most effective element in the labor movement. They were able to secure generally better pay and conditions than private-sector workers, and they organized to protect these gains. The Chatichai government (1988–1991) made the first deliberate moves to initiate privatization of state enterprises—especially electricity generation and the port. The unions were strong enough to block these privatization schemes. After a coup in 1991, a military government banned the state enterprise unions. However, subsequent governments chose to steer clear of the fractious privatization issue. The state enterprise
workers were able partially to circumvent the unionization ban (by establishing labor associations) and maintained at least some of their organizational strength.

**Parliamentary System**

Historically, the Thai state has been highly centralized. Before 1973, the central bureaucracy (especially the Ministry of the Interior) ran things under the umbrella of military rule. Between 1973 and 1992, the military was gradually forced back into the barracks in favor of a structure of cabinet and parliament modeled roughly on Westminster. However, the extent of centralization remained fundamentally unchanged, while the new parliamentary structure conveyed power into the hands of provincial businessmen. Over 80 percent of constituencies were provincial and were dominated by the rural voters who formed over half the electorate. These voters selected few rural candidates, but instead bartered their support to provincial businessmen in return for a trickle of resources into their own localities.

The provincial business politicians concentrated on two activities. First, they competed to pull resources back from the centralized administration into their own localities—often creating the local infrastructure and services that elsewhere might have been the job of local government bodies. Second, they often treated politics itself as a business that could convey handsome returns through various pork-barrel activities. This twin focus had several results. First, much of political activity was deeply commercialized, with political goods such as election votes, party loyalty, and ministerial positions acquiring high and rising prices. Second, the local focus often led to neglect of national issues including economic management and legislation needed in response to the change and modernization in society and economy. The development of this “money politics” and parochialism had, by the early 1990s, given rise to an urgent debate over the compatibility of capitalism and democracy, and had prompted urban-based reform movements pushing for change.

**POLITICAL REFORM**

**Pressures**

Movements for political reform emerged in the early 1990s. It should be noted that these were generated out of local concerns over the direction of political change. Only later did they become connected to the diagnosis of the crisis, and began to interact with international pressure for political and administrative change under the flag of “good governance.”

Two main strands of reform pressure emerged in the early 1990s. The first can be termed “radical.” This strand is the direct lineal heir of the student movements that dislodged the military dictatorship in the 1970s. Many of the prominent figures are veterans of the 1970s movement, including the academic Thirayuth Boonmi who has served as a major mouthpiece. While the earlier student movement had battled for democracy and the rise of parliamentary institutions, in maturity this strand has lost most of its faith in the potential of representative democracy. It believes that the growth of parliament has so far failed to break down the power of the central state and has failed to pass many reforms on the liberal agenda such as protection of human rights and greater media freedom. This radical strand now puts its faith in “civil society,” defined as non-governmental organizations and other forms of popular organization and political expression. It wants to engineer a shift in the distribution of power—away from the state toward the individual and the local community.

The second strand of reform pressure can be labeled “enlightened conservative.” Its mission is to redirect Thai politics and administration by institutional engineering. It believes the
development of “money politics” within parliament must be contained by raising the risks and reducing the rewards, and by strengthening judicial institutions that act as checks and balances. This strand is based mainly among senior technocrats and other officials, and leaders of modern business.

The 1997 Constitution

These two strands cooperated in the early 1990s to push for a major reform of the constitution. They campaigned to force the parliamentarians to instigate the reform, captured the key posts in the drafting assembly, and worked hard to build political support. The constitution draft that was completed in early 1997 was a blend of the radical and enlightened-conservative agendas. It is a large and complex document, but can best be understood under three headings.

First, it codifies a large number of human, civic, and community rights, as demanded by the radical strand. Moreover, it goes beyond simply cataloguing these rights. It bestows on the state the duty to enact policies that fulfill certain of these rights. This duty amounts to writing the radicals’ reform agenda into the constitution. These reforms include liberalization of the electronic media, freedom of information, decentralization of government, and protection of community rights over local resources.

Second, the charter prescribes a major re-engineering of parliament along the lines wanted by the enlightened-conservative agenda. The changes include the addition of 150 new parliamentary seats elected on a “party list” system (a national vote by party); a separation of powers under which ministers will have to resign their parliamentary seats; new electoral laws that will make pork-barrel politics more difficult; and a strengthened, more independent counter-corruption commission.

Third, the charter founds a wide range of new judicial and quasi-judicial institutions which the two above agendas jointly require. These include a new election commission, human rights commission, administrative court, constitutional court, ombudsman, supervisory body for media frequencies, and so on. The constitution attempts to make these as independent as possible of both parliament and (to a lesser extent) bureaucracy. In addition, petitions signed by 50,000 registered voters can be used to launch a legislative proposal or to force the anti-corruption authorities to begin an investigation.

The draft charter faced massive opposition from most centers of established power—from the police, army, judges, senators, village officers, and most political parties. The procedure agreed to between the reformers and the parliament allowed the parliament only to vote yes/no on the draft, not to make amendments. The chances of the draft being approved might have been slim if the campaign to pass the charter had not become confused with the economic bust.

The business lobby and much of the urban middle class had been initially lukewarm about constitutional reform. However, the two cabinets in power through 1995–1997 dramatically illustrated the danger of entrusting Thailand’s fragile urban economy to the care of provincial business politicians. The two prime ministers and their major allies had little knowledge of economics, and little appreciation of the importance of economic management. Moreover, many were directly implicated in the bubble economy as share investors, real estate speculators, partners in finance firms, and so on. They distrusted technocrats, with the result that many talented figures withdrew their services. They obstructed moves to control the bubble, and hence ensured that the final crash was delayed and exacerbated. This scenario became glaringly obvious from mid-1996 onwards. As a result, the business lobby and white-collar groups came
out to support the constitution on grounds that some sort of change was necessary. In the last quarter of 1997, in the wake of the IMF arrival in Thailand, resistance to the constitution buckled in the face of strong urban political pressure. Parliament passed the draft, and shortly thereafter, the ruling cabinet was forced to resign.

Implementation of the constitution requires a large number of enabling laws to be enacted by parliament. These are currently in process. Inevitably with a document drafted by a committee working under a time limit, the constitution has many elisions, confusions, and contradictions which allow for some leeway in the drafting of these enabling laws. The reformers believe that old interests— in the parliament and in the judicial bodies involved in drafting and vetting— are exploiting this leeway to minimize the extent of real change. Moreover, initial attempts to mobilize provisions of the constitution have run into blocking tactics. The first attempt to use the freedom of information act (to expose the influences overriding the merit system for secondary school entrance) turned into a cat-and-mouse game. A (premature) move to use the 50,000-name petition to launch a corruption investigation was countered with a lawsuit. The new election commission was deliberately starved of funds and assistance. There is also some difficulty in locating sufficient numbers of suitably qualified people to fill the large number of places on the new judicial and quasi-judicial bodies. There will also be a large problem in absorbing so many new institutions and practices at the same time. There is a great deal of public confusion and ignorance in this area.

**Bureaucratic Reform**

These difficulties encouraged the reform groups to maintain their alliance to monitor the implementation of the constitution. At the same time, the success that this alliance had achieved in forcing political reform induced some of the reformers to consider applying the same strategy to seek bureaucratic reform.

Bureaucratic reform had been on the manifestos of most political parties and in the policy statements of most cabinets since at least the mid-1980s. Yet no government had made a significant stab at it. Again the onset of the crisis had a role in highlighting the need for reform. A commission appointed in late 1997 laid the blame for failing to prevent or manage the bubble economy firmly at the door of the Bank of Thailand. The blame was partly attached to specific individuals, but more widely to institutional practices that had not been modernized in pace with the economy. The Bank of Thailand was widely recognized as Thailand’s most capable and sophisticated technocratic institution. This condemnation hence applied with even greater force to the bureaucracy at large.

In 1998, the enlightened-conservative wing of the reform movement took up the cause of bureaucratic reform. Anand Panyarachun, who had been premier in 1991–1992 and had headed the constitution-drafting committee, was by now the acknowledged leader of this strand. As premier, he had brandished the idea of “transparency.” In the mid-1990s, he had become the most enthusiastic campaigner for the idea of “good governance” as meaning honesty, accountability, transparency, and efficiency. He seized the psychological moment of the onset of the crisis to invite his radical allies in the constitution reform movement to join in a campaign for good governance in corporate management and in public administration.

However, here the reform alliance split. The radical strand saw the standard agenda of good governance as a strategy to make the state and the bureaucracy even stronger— quite opposite to their own objective to reduce the power of state and bureaucracy. Besides, some of the radicals were not willing to align themselves with a movement that some interpreted as a
strategy for making developing countries safer and more accommodating for foreign capital. In writings and meetings through mid-1998, the radicals reinterpreted good governance to mean their own agenda of strengthening rights, decentralizing government, and returning power to communities.

Meanwhile, Anand was asked by the premier to head up an ad hoc think tank to plot Thailand’s future beyond the crisis. He seized this opportunity to include ‘good governance’ as one of the four constituent projects. The team on this project worked through 1998 to produce proposals under the headings of bureaucratic reform, corporate governance, and control of corruption. Even before these reports appeared in December 1998, Anand and his group had confronted the likelihood that these taskforce proposals would lie on the shelf given the increasing complexity of the crisis and the absorbing focus on short-term survival. The groups discussed ways to activate their proposals using the experience with the constitution drafting as a model. The good governance taskforce report proposed an independent body, founded by government but independent of it, tasked with monitoring good governance issues and campaigning for the panel’s agenda of reforms. The taskforce has set up such a committee while waiting for the government to embrace the proposal.

SOCIAL IMPACT OF CRISIS

Unemployment

From late 1997 and with increasing severity in early 1998, the crisis impacted on Thailand through two effects—shrinkage of demand and seizure in the credit system. By the end of 1997, demand for high-value durables such as automobiles dropped to a quarter of the former level. Spending on everyday items dropped by around 15 percent. In 18 months, capital equivalent to one-third of GDP fled the country, completely drying up liquidity. Thousands of businesses found that their customers disappeared, then their credit disappeared, and then they disappeared.

The official estimate of unemployment rose from 500,000 to 1.75 million, or 5.3 percent of the labor force. However, disemployment (layoffs) was much higher than this. By early 1998, employment in the construction industry alone had fallen by almost one million. Accurate figures on layoffs in manufacturing and services are not available. However, rough figures on bankruptcies and layoffs in manufacturing suggest the figure could be over half a million. Layoffs in the financial industry alone were over 30,000, and throughout the modern service industries were probably over 100,000. All in all, the total number of layoffs was probably over 2 million.

Labor organization was not significantly able to prevent or reduce the level of layoffs. There were only a handful of cases where unions appealed for government or public support, particularly in the textile industry. In these cases, the workers’ objective was to secure rightful compensation for dismissal, not to prevent dismissal. Some workers’ groups claimed some employers used the opportunity of the crisis to weed out older workers who were often more expensive and less cost-efficient. However, there were also reports of companies retaining labor despite excess capacity for the sake of long-term labor relations and some prominent examples of workforce labor sharing.

The dismissal compensation packages enjoined by law only give a few months’ pay. Unemployment benefit is non-existent. The majority of dismissed workers were thus obliged to find alternative forms of income to survive. Many fell into the informal sector. By early 1998,
employment in commerce and services had expanded by almost half a million over the same period in the previous year (see Figures 1–3). This net increase was probably the result of a sharp drop of employment in finance and organized commerce and services, and a correspondingly larger rise in informal work. Certainly, the expansion of petty vending and service businesses was patently visible in Bangkok and upcountry towns in this period. Numbers of pavement vendors multiplied. Large numbers of petty service businesses, such as car washes, laundry services, and foot massage, appeared. The trash recycling industry expanded.

Others fell out of organized industry and into the sweatshops. Surveys showed that this was the fate of around two-fifths of those dismissed from textile and other labor-intensive industries. In the sweatshops, workers earned less than the official minimum wage, usually had no job security, and often worked in very bad environmental conditions.

As a result of these transfers from the formal to the informal sector, average real incomes shifted downwards. Per capita real income fell 14 percent by mid-1988 and has probably fallen farther since then.

Social Safety Nets

From the first instance in August 1997, the letters of intent between the Thai government and the IMF contained commitments to create a social safety net to manage the social impact of the crisis. The demand for such a scheme became significantly more urgent in early 1998, as the letter of intent noted, “in the wake of rising unemployment and falling real wages.” Initially, this task was entrusted to a large-scale international project headed by the Asian Development Bank (ADB) and involving also the World Bank and the Overseas Economic Cooperation Fund. The Thai government expected this project would be up and running “by early 1998.” However, it turned out to be far from simple to design such a program to work in a country where such efforts were virtually non-existent. Government did not have the appropriate machinery. NGOs insisted that large amounts of money would be lost to corruption if the funds were distributed through usual government channels. On top, the IMF insisted that any program should not have any long-term effect on the openness and flexibility of the labor market. As a result of these restrictions, the planning for the ADB-led scheme took much longer than expected, and the scheme was not launched until a year after the arrival of the IMF. On top of that, the provisions of the scheme were limited by the need to prevent any long-term impact. And the administration of the scheme had to come under totally new machinery for approving and distributing payments. As a result, relatively few projects petitioned for funds under the project, and even fewer found approval. The total value of funds available was US$300 million, but by the end of January 1999, only 66 projects had been approved at a total cost of US$20 million.

From early 1998, the Thai government began to realize that the internationally organized safety net would be slow and unreliable. At the same time, the very rapid shrinkage of the economy (-12 percent in Q1 1998, -11 percent in Q2), increasing unemployment, and falling real wages were clearly causing widespread distress. The government came under pressure from labor groups, NGOs, social activists, and opposition parties which accused the government of concentrating its efforts on saving the financial sector (the rich) while ignoring the impact on the mass of the people (the poor). These pressures emboldened the government to rebel against the IMF macroeconomic program at the time of the fourth letter of intent in May 1998. The Thai side demanded that the IMF abandon its policy of seeking a budget surplus and instead
increase social spending and allow the budget to go into deficit. This policy was expanded through the next two letters of intent over the rest of the year. The additional spending was used to: a) maintain government spending on infrastructure, which generated employment in construction; b) provide grants and loans to support children who otherwise would have dropped out of school; c) increase medical aid for the very poor; d) provide small loans for the disemployed seeking to start a private business; and e) increase budgets for skill-retraining schemes. Throughout these projects, the Thai government emphasized to the IMF that it was “avoiding the kind of benefits schemes that could distort Thailand’s labor market” (LOI6, December 1998).

These efforts were hampered by the bureaucracy’s inexperience with social programs. Bureaucrats were often reluctant to disburse funds. The amounts provided were inadequate in face of the problems arising. The schemes for education grants and loans, for instance, were delayed for over six months by bureaucratic inertia. When finally implemented, the numbers of applicants were two to three times the number that could be supplied by the funds. By early 1999, an estimated 400,000 children had dropped out of school.

In late 1998, the continued deepening of the crisis, and the relative failure of the social safety net schemes, impelled the Thai government to grasp at the opportunity offered by the announcement of Japan’s Miyazawa Initiative to provide funds for the Southeast Asian countries in crisis. The Thai finance minister was the first leader from the region to travel to Tokyo to discuss making use of the scheme. While the original announcement of the Miyazawa Plan envisaged many potential uses of the funds, mostly related to financial bailouts or industrial restructuring, Thailand applied the funds with the joint purpose of stimulating the economy and combating the social impact. On March 30, 1999, the government announced it would inject US$1.54 billion into the economy, mostly drawn from the Miyazawa initiative. The funds would be dispersed on job creation schemes, local infrastructure, and other schemes that channeled the money as directly as possible into the local economies. The form of this package clearly followed a scheme applied in the mid-1970s. The return to a technique applied 25 years earlier amounted to a tacit admission that the combined efforts of the international agencies and the Thai government machinery were not able to cope with the social impact of such a crisis.

This sorry history has a positive side. The delays, failures, and final desperation of the Miyazawa spending revealed that the IMF’s attention to social safety nets was a futile attempt to confront the criticism that IMF conditionality always has a high social cost. States that do not have the machinery and experience in social welfare cannot manufacture the requirements overnight. This has prompted a new debate within Thailand on the need for a better, permanent welfare system that matches the requirements of a more urbanized and industrialized society. Such a system should go along with a revised and more equitable tax system. The government (more specifically, the finance minister) has conceded both these points in principle. It has undertaken to look at schemes to manage unemployment. It has promised a general review of taxation. However, it is not clear whether these undertakings will be remembered on the exit from the crisis.

**Rural Impact**

In terms of residence and employment, Thailand is still overwhelmingly a rural society. Over two-thirds of the population still lives outside the urban areas, and just under half give their main occupation as agriculture. However, agriculture has been virtually stagnant for several years because of the diversion of capital and labor resources to the higher-growth urban sector.
Agriculture supplies only around two-fifths of rural incomes, with the remainder coming from wage income, off-farm enterprises, and remittances from rural-urban migrants. The large volume of circular migration between villages and city and the dependence of the rural family economy on wage income and remittances ensure that the village economy is highly sensitive to the urban economy.

In previous crises of the urban economy, the impact was rapidly dispersed into the rural economy and society. First, the remittances from family members working in the city dry up. Second, short-term rural migrants cannot find work in the city. Third, migrants come back home to share in the family rice-bowl. This mechanism has the effect of a shock-absorber, spreading the impact of the urban crisis, and reducing the risk of serious urban distress or disorder. But it does not make the stress disappear; it only relocates it. During the mid-1980s urban slump, the numbers in rural poverty increased sharply—by one estimate from 23 percent in 1981 to 30 percent in 1985.

At the onset of the current crisis, it was not clear how this shock-absorber would function this time around. Many more people had moved from village to city, and many had left for a considerable time. Younger migrants would find it hard to return because they had grown up in the city, had never acquired rural skills, and would find returning psychologically difficult. Rural society had reacted to the outflow by investing in labor-saving systems (different crops, machinery) and might not be able to absorb the backflow of labor.

The full evidence is not yet clear, but a preliminary assessment goes like this. Over the 1997–1998 season, the prediction that few migrants would return home appears to have been correct. Most disemployed stayed in the city, sought new work, survived in the informal sector, and gradually used up any dismissal pay and savings. When asked why they did not return to the village, they replied that they did not want to be a burden on their families. They had stopped sending remittance home and felt this was burden enough. Meanwhile the rural economy absorbed this loss of remittance income without difficulty because the end-1997 harvest was exceptionally good. The out-turn was above average, while baht prices hit record levels as a result of the depreciating value of the baht in foreign exchange. Results from the government’s socioeconomic survey from early 1998 show that around a third of rural families had suffered from the crisis, and these were concentrated in the lower echelons which had little or no land and which hence relied on wage income and remittance. The upper levels of rural society, which benefited from the high crop prices, were generally better off.

The 1998–1999 season presents a different picture. Lower-echelon rural families who expected to earn some cash income by casual labor and short-term migration in the 1998 dry season were often disappointed as the demand for labor had dropped dramatically. The economics of the end-1998 harvest were very bad. The rains were poor and hence out-turn was low. Prices of imported inputs (fertilizer, seeds) had soared because of the weakened baht. Sale prices of crops were poor as the deepening of the crisis worldwide had led to a general fall in commodity prices. As a result, returns from the harvest were dismal. At the same time, increasing numbers of migrants returned home to the villages in late 1998 as they exhausted their resources.

The impact of these factors was severe, simply because the families affected have few resources to fall back on. By mid-1998 the numbers defined as “ultra-poor” had reached 4.3 million? almost a million higher than they would have been without the crisis. Since then numbers have doubtless increased. Most of these are the rural landless and land-poor. As
Thailand is a food-surplus country and local welfare provisions still operate, there is little risk of starvation. However, recent reports from the health department show that the weight of newborn children in rural areas has begun to drop rapidly. Cases of child malnutrition have increased—by one report, up to a quarter of all kids in the rural northeast. And hospitals and shelters report increased numbers of abandoned children.

Also, there has undoubtedly been an increase in prostitution. This has long been one of the real social safety nets of the rural poor. Since around 1990, the numbers of Thai rural girls entering the sex trade had fallen off a little—and been replaced by girls illegally smuggled in from Burma and China. This process went into a sharp reverse. Again, there are no figures, but observation and casual interviews show this is the case.

Since the early 1990s there has also been a definite increase in rural protests. These have been of three types.

The first have been about price—demands that the government create floor prices (or ban imports) so farmers can make a profit. The most serious of these have been about maize, rubber, sugar, and palm oil. The most dramatic has been by dairy farmers, who started driving a herd of 100 cattle along one of the main highways leading to Bangkok, generating chaos. They gave up when one of the cows died. Generally the government has dealt with these protests by quietly giving way.

Second, there have been demands for debt relief. These are coming from some of the best-organized farmers’ organizations, especially in the northeast. They argue that the government seems to be helping the (rich) banks to recover from their debts, and should extend the same policy to the (poor) farmers. Here the government’s strategy has been to divide the farmers’ groups by bargaining with them separately. It has refused to grant a general debt moratorium or debt relief scheme, but instead provides money for case-by-case rollovers for up to five years.

Third, there have been land invasions—attempts by the landless to take over areas of forest and clear them for cultivation. Often these are started by groups that were thrown off the land in the past (because of dams or anti-communist policies), and never received the land promised in compensation. But these protests are happening now because those involved had gotten by until recently by working in the city. With the disappearance of city jobs, they have returned to demand the land they were promised. Their numbers have been swollen by relatives and friends who have also lost city jobs.

Where these protests have become public, the government has not given way. In the most famous incident, it sent 300 police, 200 border police, 500 rangers, the provincial governor, the head of the forestry department, the police chief, the interior minister, and the deputy agriculture minister to negotiate with one defiant village of a thousand poor squatter families. But there are probably many other places where these land invasions are going on out of public view.

In a country where money, information, and people flow constantly between city and village, an urban crisis impacts hard on the countryside and particularly on the rural poor and landless who have few resources to fall back on. This problem cannot be solved by a quick fix. It requires a proper long-term commitment to increase the economic and political rights of all.
POLITICAL IMPACT

Nationalism

Most technocrats and businessmen believe that Thailand is, and should be, a relatively open economy. Businessmen appreciate that this openness provides access to technology and capital. Technocrats have long believed that increasing openness is needed to force Thai companies to become more efficient and to break down old monopolies. Hence liberalization and privatization have been staples of economic policy since the mid-1980s.

However, there has been some re-evaluation of this stance in the face of the sheer opportunist aggression of neo-liberal ideologues and foreign business interests in the context of the crisis. In late 1997, the judgement of many foreign economists and commentators was that Thailand (and other Asian countries) could only recover from the crisis by further liberalization and by allowing a fire-sale of assets to foreign buyers. Soon after the initial IMF package, the U.S. Chamber of Commerce in Thailand demanded a wholesale removal of all remaining impediments on foreign business activity. This phase was followed in early 1998 by the popularity of the “crony capitalism” argument which blamed the crisis on corrupt and inefficient “Asian capitalism” and argued that the solution would be its replacement by an Anglo-American variant implanted by legal changes and large asset transfers.

At these stages, there was only a relatively muted local reaction to these analyses, as Thai business was reeling from the shock of the sudden downturn. Since then, however, analysis of the causes of the crisis has become significantly more sophisticated, and these early conclusions now appear opportunist and frankly colonial. Among Thai businessmen, politicians, and mainstream economists, the Thai crisis is now seen to have its roots in an over-investment phase that is a common part of the business cycle, which was then overlain by a financial bubble pumped up by the careless and wayward behavior of the international and local financial markets, and finally, hopelessly badly managed by the Thai politicians and technocrats. While many Thai firms, especially in the finance industry, were directly involved in generating the crisis, they have already suffered the consequences: the Thai finance industry has been decimated. The failings of most Thai firms were that they followed the dictates of the market, and trusted in the ability of their government—which are not usually counted as attributes of bad capitalism.

Among businessmen, technocrats, politicians, and mainstream economists, there has appeared a growing resistance to large-scale transfers of assets and over-hasty changes in systems and frameworks. This resistance is subtle. It has to live with the realities of the crisis. While there have been occasional outbursts of nationalist rhetoric (“selling the country”), the resistance in general is more sophisticated, realistic, and calculating. Several mainstream economists and technocrats, for instance, who have a record of favoring the free-market model and market liberalization, have raised questions about the pace of change. They have begun to point out that Thailand’s pre-crisis record of 40 years of sustained growth was obviously based on something more than cronyism and bad Asian-style capitalism. They have begun to question the wisdom of implanting new legal and financial systems that have no local heritage. They have little sympathy for many of the bad habits of Thai capitalists, but they appreciate that the past record of growth has been based in no small part on these capitalists’ spirit of enterprise, and they question the justice and wisdom of allowing too many of them to be destroyed.

The government has generally accepted the view that the crisis presents an opportunity and an imperative for major reform, particularly in the financial system, in corporate governance,
and in related parts of the legal framework. However, the government also operates within a framework of political and social pressures, and within a tradition of national goals of economic development and social justice. The government has apparently resisted the possibility that the drastic financial crisis could result in wholesale internationalization of the banking system, as happened in some Latin American crises. Its policy appears to be to end up with a banking market that is shared among domestic, state, and international players.

Most businesses have sought survival by running down their reserves and selling off peripheral activities. Some of the most indebted have used delaying tactics in the belief that the prospects of an upturn will change the pricing of any necessary sell-off. As part of such tactics of survival and delay, they have sometimes petitioned for government assistance, refused to pay their debts, and resisted legislation that would hasten their doom. In the conduct of these political strategies, the rhetoric has occasionally become more frankly nationalistic. This trend peaked first in May 1998 when businesses demanded the government moderate the high interest rates that were hastening the effective bankruptcy of many businesses. It peaked again in January 1999 when the government was pushing through laws to improve and expedite bankruptcy and foreclosure proceedings.

However, the nationalism involved here is more rational business strategy than fiery emotion. Besides, Thailand has only a weak history of economic nationalism or of nationalism per se, and this has been reflected in very limited levels of popular support for these business-led campaigns. There has been no major public demonstration against the IMF involvement or against greater foreign intrusion. One of the leaders of the business campaign against the bankruptcy law was promptly voted out of his business association for being too radical.

**Privatization**

Thailand has a few state industries that date back to a phase of state-led capitalism in the 1930s-1950s (like the tobacco monopoly), but most state enterprises are public utilities. Privatization has been part of technocrat policy since the mid-1980s, but very little has resulted. In fact, over the recent decade, state involvement in the economy has possibly increased, albeit as a controller of concessions rather than investments, particularly in areas such as infrastructure, telecommunications, and petrochemicals. Resistance to privatization has come from organized labor in state enterprises, but probably more importantly from the political interests involved in managing and controlling state enterprises.

In the second letter of intent with the IMF in December 1997, the government proposed a fast-track program of privatization largely intended to raise money to meet the IMF’s insistence on a positive government cashflow. The projects slated for privatization were largely those the government felt would be easiest to sell. One of these was a share in the Bangchak oil refinery. This choice was unwise. The Bangchak company was famous for its involvement in “social capitalism” (largely community-based projects) which appealed to many technocrats and business leaders as representing a more human face of capitalism suitable for a Buddhist society. Hence the protest against this first crisis-based phase of privatization attracted opposition not only from the unions, but also from a wider swathe of social activists including important figures of the Thai elite. A press campaign of opposition to the sale of the Bangchak share ran in parallel with efforts by employees of the electricity-generating authority (EGAT) to disrupt planning of privatization in their industry.

In the face of this opposition, the government retreated from the policy of privatization as fire-sale. Instead it concentrated on drafting legal changes designed to make it easier to privatize
state industries through the stock market, and on drawing up a more reasoned list of projects. This list was publicized in the seventh letter of intent in March 1999 and included Bangchak, parts of Thai International, the airports authority, an electricity-generating plant (Ratchburi) and some waste management and water supply projects. The test case was to be the electricity plant. The state enterprise unions declared their intention to oppose the policy, and called a series of meetings and protests around May Day 1999. They did not oppose privatization as such, but insisted government should retain a 70 percent stake in any public utility in order to protect consumer interests. The threat of disorder brought the EGAT management into a fragile alignment with the labor case, against the opposition of the cabinet. The government side retreated to the position that the sale was necessary for fund-raising reasons, which seriously weakened its moral stance.

**Corruption**

Within Thailand’s relatively open polity, corruption has become a highly public issue through the 1990s. Successive governments have been hounded by corruption allegations against ministers—often aired in no-confidence debates on prime-time mass TV. While there is considerable public uncertainty about the definition of corruption—as a result of historical habits of paying those in power for services rendered—public awareness has increased considerably.

Since the onset of the crisis, there has been a string of corruption scandals that attracted public attention. First, highway police were filmed by TV news accepting regular bribe payments. Second, the rural doctors’ association pursued ministers and public health officials over a scheme to overprice drugs sold to local hospitals. Third, timber illegally felled in Thailand’s forests was found being laundered as imports from Burma through a very extensive operation probably involving many officials and powerful figures. Fourth, doubts were raised over collusive bidding for a large data-network project. Fifth, a scheme to distribute vegetable seeds to farmers was found to involve large-scale overpricing and leakage.

On the down side, several of these scandals showed a new pattern of close collusion between elected ministers and permanent officials. And many of the protests were effectively sandbagged when those involved closed ranks and used the usual tactics of bureaucratic evasion and delay. On the up side, the protests showed a new level of public intensity that appears to have several contributory causes. First, the role of the media was vital, especially the first independent TV station which opened in 1996. Second, intolerance of corruption appeared to rise because of the crisis and economic distress. People who had willingly paid bribes in the past as a tolerable cost of business were no longer so willing. Third, popular grassroots organisations played a growing role, particularly in the case of the rural doctors. Fourth, the seeds and health scandals forced ministers to resign and prompted major official investigations. These results are unprecedented.

Beyond these scandals, there is a growing movement to institutionalize reform. The 1997 constitution has many anti-corruption measures that will come into force over the next couple of years. The civil service commission is pushing harder than before for bureaucratic reform including performance audits. The new military commander has made a commitment to military reform including reductions in top-heavy staffing. Attempts have been made to clean up the customs service and the port authority. The one service that is especially prone to corruption but still resists reform is the police. Over the past year, many police officers have been caught in unlawful activities including the drug trade, systematic collection of illegal payments, and
protection rackets. The police command has reacted by weeding out bad officers. But it contends that the problem is “bad people” rather than “bad systems” and resists the more structural reform that is needed.

**Party Politics**

In the context of Thailand’s relatively open democracy, these various social strains and political demands become reflected into the process of party politics.

In November 1997, urban protests forced the resignation of the provincial-based government that had so obviously fumbled the management of the onset of the crisis and helped to install a new cabinet led by the Democrat party. The Democrats are Thailand’s oldest party with a tradition of urban support. More particularly, the party possessed the most credible team of economic managers at the time when the crisis and the previous cabinets’ record emphasized the importance of this element. With this origin, the Democrat-led government enjoyed a honeymoon of relative immunity from criticism for around a year— which counts as a record by recent Thai political standards.

However, since early 1999, opposition to the government has increased. This opposition has clustered around three themes that have arisen out of the economic pressures and social strains of the crisis.

First is the defense and revival of Thai capital. In a no-confidence debate in January 1998, the parliamentary opposition focused on corruption allegations— which is the standard fare of such debates and which excited no interest— and also on the government’s handling of the economy— which was wholly novel and generated considerable excitement. The essence of the criticism was twofold. First, the government has been too much of a good pupil of the IMF. This criticism was coded in the suggestion that there were “side letters” containing secret agreements with the IMF that had not been disclosed to the Thai public. Second, government had focused too much of its attention on the rescue and restructuring of the finance industry, to the neglect of firms in the “real economy” and particularly to exporters.

In late 1998, a new political party was launched and positioned to capture exactly this growing trend of corporate disaffection with the Democrat-led government’s policy. The Thai Rak Thai party is positioned as a party of small and medium business which could lead Thailand to an economic revival through a mixture of local entrepreneurship, local craft heritage, and high technology— an adaptation of the Italian, or Tuscan, model. This position makes a subtle appeal to the feeling of neglect, sublimated nationalism, and entrepreneurial pride of Thai business. The party was successful in attracting a core of business and technocrat leaders, and scored well in polls among potential urban voters. It hopes to exploit the known tendency of the Bangkok electorate to veer between enthusiasm for and rejection of the Democrats.

Second is a growing populism based more on the rural than the urban trend of protest. The New Aspiration Party (NAP) built its appeal in the early 1990s on two claims: first as the party of the northeast, the largest, most backward, and most neglected region of the country; second as a party of centrist conservatism analogous to the LDP in Japan. Since the party was ejected from power in November 1997 by urban protests, it has increasingly emphasized its northeast roots and has flirted with populist themes.

While in power in 1997, the NAP showed itself more willing than other parties to negotiate with the rising trend of rural protest (largely over resource issues). In early 1998, the Democrat-led government reversed out virtually all of the concessions that the NAP had made to rural
protest in the previous year. Since then, NAP leaders have devoted considerable time to stump tours through the northeast where they criticize the government for neglecting the countryside in the management of the crisis. The party has also recruited some experts at stump oratory and changed standards for Thai political life by blending their political tours with local cultural shows and by organizing support among Buddhist monks. The party’s new program published in early 1999 emphasizes help for the rural poor through decentralization and redistribution.

While this populism is clearly borne up on growing rural resentment and assertiveness, there are undoubtedly considerable barriers to any expansion on a Latin American or even a Philippine scale. Many of the old mechanisms—military, political, and cultural—for controlling rural politics, built up during the cold war, are still in place or capable of revival. The NAP itself is likely to be wary of unleashing a strident populism that the party would find difficult to control. Rural protest leaders are also aware of the dangers and of the limitations. However, this populist strain is likely to be a significant side factor in the political world of the near future.

Third is radical social activism. Radical groups have long distrusted the Democrats for adopting a pose of liberalism and progressivism when in opposition, but then lapsing into bureaucratic rigidity once in power. In particular, they distrust the dedication of the Democrats to implementing the constitution, and carrying out the program of reforms that the radicals have written into the charter (human rights, freedom of information, liberalization of electronic media, decentralization, etc.) These groups have also become more firmly opposed to the Democrats since early 1999 and have donated their considerable organizational and agitational expertise to help other protests by rural and urban dissidents.

There is widespread agreement that the crisis has highlighted the need for reform—in politics, in the corporate sector, in the administrative frame, and in the distribution of wealth, social goods, and political power. But there is much less agreement on the direction of reform. If anything, the crisis has mobilized more groups, more opinions, and more heat—and hence has increased the level of complexity and conflict. Two major debates are over the urban-rural distribution (of power and wealth) and over the opposing radical and conservative approaches to reform of the state.
### Chronology

<table>
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<tr>
<th>Date</th>
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<tr>
<td>February 1991</td>
<td>Military coup</td>
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<td>May 1992</td>
<td>Street demonstrations; fall of military coup group</td>
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<td>December 1992</td>
<td>Election; Chuan Leekpai (Democrat) government.</td>
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<td>July 1995</td>
<td>Election; Banharn Silpa-Archa government formed.</td>
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<td>November 1996</td>
<td>Election; Chavalit Yongchaiyudh government formed</td>
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<td>May 1996</td>
<td>BBC bank scandal exposed</td>
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<td>July 2, 1997</td>
<td>Baht floated</td>
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<td>August 15, 1997</td>
<td>IMF package agreed</td>
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<td>September 27, 1997</td>
<td>Constitution passed by parliament</td>
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<td>November 5, 1997</td>
<td>Chavalit resigns</td>
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<td>November 11, 1997</td>
<td>Chuan II government formed</td>
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<td>May 26, 1998</td>
<td>Fourth LOI; IMF macro package reversed out</td>
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<td>August 14, 1998</td>
<td>Banking recovery package announced</td>
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<td>March 23, 1999</td>
<td>Seventh LOI; privatization details announced</td>
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<td>March 30, 1999</td>
<td>Miyazawa-based stimulus package announced</td>
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<tr>
<td>May 1, 1999</td>
<td>Campaign against privatization</td>
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Figure 1

Real GDP Change (%)  
Source: Bank of Thailand

Annual 1968-93  
Quarterly 1994-99

68 70 72 74 76 78 80 82 84 86 88 90 92 94 95 96 97 98 99

-15 -10 -5 0 5 10 15
Figure 2

Household Income
baht/month, by decile

Source: Ikemoto using SES surveys

Top 10% of households

next 10%
Figure 3

Percent in poverty, 1996-98