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The Politics of Economic Reform in Thailand: Crisis and Compromise

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Abstract:
What explains the varying responses by Thai governments to changes in the international economic environment over time. To answer this the paper emphasizes the link between the nature of the political structure/policymaking environment and the government's reform capacity. Thailand's political structure typically undercuts the government's reform capacity in two way. First, it is difficult to get needed reforms on the political agenda. Second, it is even harder to push reforms through the policy process to implementation. During the 1980s, Thailand was able to overcome some of the challenges inherent in its political system via an informal compromise between party politicians and technocratic reformers. This 'pork-policy compromise' gave the government the capacity to adopt certain reforms—reforms that laid the foundation for the economic boom of the late 1980s and early 1990s. Changes in the political structure in the late 1980s brought an end to this compromise, thereby reducing the government's reform capacity.

Key words: Thailand, reform, political economy, capacity
JEL Categorization: H1, H3, H4

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Introduction

Like many of its East Asian neighbors Thailand has experienced rapid economic growth and large-scale foreign direct investment for much of the last two decades. In fact, between 1986 and 1990 Thailand had the fastest growing economy in the world (Warr and Bhanupong 1996). However, this period of impressive performance is bracketed on one side by the serious economic problems of the early-mid 1980s and by the economic deterioration and eventually crisis of the mid-late 1990s. What explains the varying fortunes of the Thai economy? Certainly, some of the explanation can be traced to factors completely outside of Thailand. The oil shocks of the 1970s combined with the global recession during the first half of the 1980s brought tremendous strain to bear on the Thai economy. The depreciation of the dollar relative to other currencies and a flood of foreign direct investment from northeast Asia during the mid-late 1980s provided the fuel for the economic boom. Finally, the dollar's appreciation combined with greater competition for both foreign investment and export markets had negative effects on Thailand's economic performance during the mid-late 1990s.

However, international economic factors do not fully explain Thailand's economic performance over time. Policymakers can respond to changes in the international economic environment in a variety of ways—some of which are conducive to investment and growth and some of which are not. In the Thai case, the economic reforms initiated during the early-mid 1980s paved the way for the subsequent high growth while the failure of the government to adopt needed reforms during the 1990s contributed to the deterioration and eventual crash of the economy. The focus of this paper is on explaining the difference in the government's capacity to adopted needed reforms during these two periods. What were the politics behind the reform efforts of the 1980s and 1990s? To answer this question I emphasize the link between the nature of the political structure/policymaking environment and the government's reform capacity.

The paper is organized as follows. I first briefly review the macroeconomic shocks of the 1970s and early 1980s, their effect on the Thai economy and the government's response to these shocks. I then turn my attention to the link between a country's political structure and a government's reform capacity, arguing that given Thailand's political structure the reform successes of the earl-mid 1980s should be viewed as the exception rather than the rule. In other words, I argue that Thailand's political structure (e.g. coalition governments made up of multiple, factionalized parties) presents enormous obstacles for would-be reformers. First, they have difficulty getting needed reforms on the political agenda. Second, they have an even harder time pushing reforms through the policy process to implementation. I explain how, during the 1980s, Thailand was able to overcome some of the challenges inherent in its political system via an informal compromise between party politicians and technocratic reformers. This 'pork-policy compromise' gave the government the capacity to adopt certain reforms—reforms that laid the foundation for the economic boom of the late 1980s and early 1990s. I then discuss how changes in the political structure in the late 1980s brought an end to this compromise, thereby reducing, though not eliminating, the government's reform capacity. Finally, to better illustrate the ways in which Thailand's political structure helped shape the speed, content and success of reform efforts I briefly review two areas of reform: financial sector liberalization and public enterprise reform.

External Shocks and Macroeconomic Reform

As the Thai economy entered the 1980s it was struggling to adjust to the same external shocks that were besieging much of the developing world at the time. The two oil shocks in the 1970s caused a severe deterioration in Thailand's terms of trade. Rather than undertaking painful adjustment, Thailand chose to borrow internationally.[1] Initially this strategy was attractive given the lower international interest rates. But, as interest rates began to climb in the late 1970s and early 1980s it became clear that borrowing internationally could no longer serve as a substitute for economic adjustment. In the mean time, however, Thailand had built up a substantial debt burden. Yet even as the debt burden was growing, the government's ability to service this debt was becoming problematic. National savings had declined sharply in the early 1980s and export competitiveness was growing weaker. The balance of payments and public sector deficits were large and clearly unsustainable.

To summarize, as the economy entered the early-mid 1980s major structural adjustments and economic reforms were required in order to keep the problems from degenerating into a larger crisis. Major lenders, including the World Bank and IMF, viewed the economy with growing alarm (Doner and Anek 1994). The government of Prem Tinsulanonda was initially slow to act but eventually responded by implementing costly, but needed policy reforms in several areas.[2] In the early 1980s interest rates were raised in order to produce a positive real

[1] See Warr and Bhanupong (1996) for a detailed description of the shocks and policy responses.
[2] See Doner and Anek (1994) and Warr and Bhanupong (1996) for more detail.

interest rate and slow capital flight. The baht was also devalued in 1981. Foreign borrowing was curtailed and the Bank of Thailand was given greater power over the financial sector. In 1983 a policy to limit credit was introduced and chit fund credit companies were outlawed. Government spending was also slashed and several large-scale infrastructure projects were scrapped or scaled back. Finally, macroeconomic policymaking was centralized under the direction and protection of Prem (more on this point below).

These initial reforms were not enough however. By the end of 1983 the strengthening U.S. dollar had wiped out the benefits of the 1981 devaluation causing exports to fall. The government's strict fiscal discipline and tight monetary policy had brought about a recession and threatened a full-scale crisis in the financial sector. This time the government responded with a complete overhaul of its economic strategy. Gone were the last vestiges of import substitution in favor of an explicit strategy of export promotion. In 1984 the government devalued the baht by 14.7 percent. In 1985 in abolished several export taxes and reduced import taxes on materials destined for export (Pasuk and Baker 2002, 156). In 1986 the government revised the tax code to encourage more labor-intensive manufacturing, and began a campaign of soliciting FDI projects geared for export (ibid.).

Although these policy responses by Prem's government were at times belated and reluctant (Warr and Bhanupong 1996, 209) the needed reforms *were* carried out. In fact, reforms were implemented even in the face of strong opposition from political parties, business groups, and most significantly, the military. As a result of these reforms the macroeconomic economy was stabilized. By 1985 the current account deficit had been reduced from 7.3 percent of GDP in 1981 to 4 percent. The depreciation of the dollar (to which the baht was pegged) relative to other currencies after the 1985 Plaza Accord further strengthened Thailand's terms of trade and led to a current account surplus in 1986. (See Table 1.) The budget deficit was also reduced from 4.7 percent of GDP in 1982 to 1.1 percent in 1987, and finally to a surplus of 1.7 percent in 1988.

The fruit of these reforms under Prem was a stable and restructured macroeconomy. This placed Thailand in a position to take advantage of the flood of investment from Northeast Asia during the late 1980s. As companies in Japan, Taiwan and Hong Kong sought to move more production off-shore in response to currency appreciation and rising labor costs, Thailand's sound macroeconomy made it an attractive choice for investors. Between 1987 and 1988 total foreign direct investment in Thailand more than tripled while FDI from Northeast Asia increased more than four-fold. Total and Northeast Asian FDI doubled again between 1988 and 1990. This flood of investment helped fuel the boom in the broader economy over the same period (see Table 1).

Table 1. Economic Background

	GDP Growth (%)	FDI (millions of U.S. $)	Inflation Rate (GDP deflator)	Current Account Balance (% of GDP)	Budget Surplus (% of GDP)
1980	5.2	190	12.7	-6.4	-4.9
1981	5.9	291	8.4	-7.3	-3.4
1982	5.4	191	5.1	-2.7	-6.4
1983	5.6	350	3.7	-7.2	-3.4
1984	5.8	401	1.4	-5.0	-4.0
1985	4.6	163	2.2	-4.0	-5.2
1986	5.5	263	1.7	0.6	-4.2
1987	9.5	352	4.7	-0.7	-2.2
1988	13.3	1,105	5.9	-2.7	0.6
1989	12.2	1,776	6.1	-3.5	2.9
1990	11.2	2,444	5.8	-8.5	4.5
1991	8.6	2,014	5.7	-7.7	4.7
1992	8.1	2,113	4.5	-5.7	2.8
1993	8.4	1,804	3.3	-5.1	2.1
1994	8.9	1,366	5.1	-5.6	1.8
1995	8.8	2,068	6.0	-8.1	2.9
1996	5.5	2,336	4.0	-8.1	2.4
1997	-0.4	3,745	5.4	-1.9	-0.9

Source: World Development Indicators. CD-ROM.

Thailand's responses to the economic challenges of the early and mid 1980s, and the growth these reforms made possible, are impressive on their own merit. However, they are even more impressive when one considers the political structure within which Thai policymakers typically operate.

Political Structure and Reform Capacity in Thailand

Reform capacity in Thailand, or any other political system, is in part a reflection of two factors: first, the incentives policymakers face to pursue reform, and second, their ability to enact their preferred policies (Cox and McCubbins 2001). Political actors in all polities face choices regarding the types of policies they will pursue and to which interests they will respond. Certain features of the political system, particularly the electoral rules and party system, generate incentives which shape how these choices are made. For example, certain electoral rules provide incentives for candidates and voters to place a relatively high value on party label while others encourage candidate-centered campaigning. When party label is not an important asset candidates must rely on building up their personal reputations and personal networks of support in order to be elected. This provides strong incentives for candidates to direct benefits (e.g., pork and patronage) towards their narrow constituencies. As individual candidates they cannot credibly claim credit for economic reform, nor can they gain much electoral advantage by claiming to be a member of a party which delivered that reform, especially when coalition governments are the norm. However, they can claim credit for particularistic goods and services targeted to their specific constituents and supporters. Indeed, their electoral fates depend primarily upon their ability to deliver targeted benefits to narrow constituencies rather than more general benefits to broader constituencies.

The preceding description certainly applies to Thai political parties. Parties are not disciplined cohesive national entities with strong party labels.[3] As one Thai scholar notes, "…political parties in Thailand are mainly groups of individuals or a network of patrons--clients who are forced to be together by a party law requiring candidates to contest in the elections under party banners." (Sombat 1987--translation). In other words, Thai parties have generally been temporary alliances of individuals and factions for the purpose of competing for elections.[4] The ephemeral nature of these alliances is reflected in the high rate of party creation and dissolution in Thailand. Of the 43 parties that competed in at least one election between 1979 and 1996 only 10 survived to compete in the 2001 elections. These 10 were joined in 2001 by 20 new parties. Over the same period parties on average competed in fewer than 3 elections before disbanding. Almost half (20) parties competed in only one election (Hicken 2002).[5] Party switching prior to elections by both candidates and factions is rampant. For example, prior to the elections in 1983, 1986, 1988 and 1995 an average of 38 percent of sitting and former MPs switched parties (ibid.). Finally, analyses of candidate and voter behavior also support the premise that party labels carry little weight for either voters or candidates (ibid.).

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[3] This may be changing under the new Thai constitution adopted in 1997. See Hicken 2002b and 2000c for a discussion of the implications of the new constitution for the Thai party system.

[4] Virtually every Thai party is composed of multiple factions (*phak phuak*), each of which vies for preeminence within the party. Parties and party factions are organized around powerful leaders who worked to attract the strongest candidates or factions to their group.

[5] The Democrat Party is the biggest exception to the short-life norm..

Given the nature of Thai parties, the expectation (and empirical reality) is that most Thai politicians are more concerned with channeling benefits to a narrow group of supporters than with pursuing a national-level reform agenda. These supporters can include both the voters in a politician's electoral district and any groups or individual that helps finance campaigning (business interests, political patrons, etc.). In short, the incentives for elected politicians and parties to pursue reform have been fairly anemic.

However, even if politicians have strong incentives to push for reform they might still fail to enact a reform agenda. Reform capacity demands not only the incentives to pass needed reforms, but also on the capability to do so. Whether or not an actor has the ability to push a reform agenda through the policy process is largely a function of the actor's power and position in the policy process. Where power in highly concentrated in the hands of a single actor, translating preferences into policy is a relatively straightforward process. On the other hand, if power is dispersed and the cooperation of multiple actors is required to change policy, an actor's ability to get their policy agenda adopted is much less (Tsebelis 1995, Cox and McCubbins 2001). Other actors may be in a position to block or slow reform efforts.

Since the return of elected government in 1979 power within the Thai government has been relatively fragmented. The combination of Thailand's unusual electoral system with few incentives for forming national parties produces multiple parties at the national level (Hicken 2002). The result is numerous parties in parliament and coalition government (Table 2). In addition, virtually every party consists of two or more factions in competition with one another. The large number of parties in the cabinet, combined with the factional divisions within nearly every party, mean that a large number of actors are typically involved in the policymaking process.

Table 2. Multiparty Governments

	1983	1986	1988	1992b	1995	1996
Number of Parties in Parliament	10	14	15	11	11	11
Number of Parties in Cabinet	4	4	6	5	7	6

Sources: Economist Intelligent Unit Country Report: Thailand. Various Years.
Report of the Election to the House of Representatives. Various Years. Election Division, Department of Local Administration, Interior Ministry.

To summarize, at least prior to the new constitution Thailand's capacity for reform was questionable. Thai politicians lacked strong incentives to consider interests beyond those of their local constituency and supporters. In addition, even when reform initiatives occasionally made it onto the agenda policymaking would remain difficult given the large number of actors in the policymaking process. The expectation, then, is that Thailand should have had difficulty adopting needed economic reforms.

The puzzle is, given the political structure just described, how is it that Thailand was able to implement an impressive array of reforms in the 1980s? How does one explain the apparent conflict between expectations and outcomes? Similarly, how does one explain the lack of a similar comprehensive reform effort in the 1990s? In the next section I provide a partial answer to these questions by looking at a) the informal institutional arrangements adopted by the Thai government to overcome some of challenges inherent in the political system, and b) the erosion of those informal arrangements over time.

Prem, Parties, and the Pork-Policy Compromise

One way policymakers can combat governance problems is by creating new formal institutions.[6] Independent central banks, currency boards, independent regulatory agencies are examples of institutional tools created to help ensure that policymaking and implementation are timely and free from interference by politicians and special interests.[7] In Thailand, however, the primary solution to potential governance problems during most of the 1980s came in the guise of informal, though significant, institutional arrangements. Specifically, a compromise was struck between Prime Minister Prem Tinsulanonda, and party politicians. I label this the pork-policy compromise. I will first discuss the unique position of Prime Minister Prem, his incentives and capabilities relative to most of the prime ministers that followed him, and then turn my attention to the compromise itself.

[6] A well-known example comes from seventeenth century England (North and Weingast, 1989). The addition of Parliament as a check on the English monarch's actions made it more difficult for the Crown to renege on public debt commitments. As a result commitments to repay were more credible and England was able to borrow money at lower interests than would have otherwise been possible.
[7] See also Geddes' discussion of 'pockets of efficiency' (1995).

Prime Minister Prem Tinsulanonda

Prem became Prime Minister in 1980 and remained Prime Minister until 1988. He was not, however, an elected member of parliament. During this period of what Chai-anan Samudavanija (1989) calls "semi-democracy" Thai governments came to power via competitive elections. But while elections were held, the leaders of the various political parties were unable to reach an agreement over who among them should be the premier. The heads of the political parties also realized that military support remained an indispensable condition for stable government. As a result, they asked General Prem Tinsulanonda, commander of the army, to head the government as Prime Minister.[8] With his military background Prem enjoyed the support of important factions within the military. He also enjoyed the backing of the King.

Because he was not an politician, Prem did not face the same electoral constraints as elected politicians. He was not directly accountable to the narrow constituencies that were the focus of party politicians. Numerous scholars have noted that Prem was able to stand above factional party politics and take a broader view than that typical of elected politicians.[9] However, while Prem's incentives towards national economic reform may have been stronger than other political actors, he still had to work with a coalition of factionalized parties as part of the policymaking process. Although unelected Prem still required the support of the parties in his cabinet (and the majority of the House) to remain in power. A simple illustration of this constraint on the Prem government is the level law production. During Prem's tenure an average of 2.7 laws per month were enacted by the legislature. This is comparable to the figure for Prem's elected successor, Chatichai Choonhavan (2.3/month), but much less than the law production during non-democratic governments (6.4/month) (Christensen and Ammar 1993).

In short, the support of elected party politicians could not be taken for granted. In fact, Prem's predecessor, General Kriengsak, had been forced to step down as Prime Minister in 1980 due in part to his failure to maintain the support of party leaders. In order to avoid a similar fate, and find away around the governance problems associated with a multiple actors, Prem forged a compromise with political party leaders.

The Pork-Policy Compromise

[8] Prem actually followed the one-year term of General Kriengsak who resigned in 1980.
[9] See for example Anek 1992a, and Pasuk and Baker 1995.

Prem and his advisors were aware that they needed the support of the political parties for stability and legitimacy purposes. However, they felt it was necessary to keep politicians from interfering in certain parts of the policymaking process—particularly macroeconomic policy. For their part, politicians were anxious to enjoy the spoils of government, but were also keenly aware of the need to maintain the support of the military. The excesses and instability of democratic governments from 1973-1976 had been part of the justification behind a return to military rule. The result was a compromise between Prem (and the technocrats) and the leaders of the various political parties. Macroeconomic policy would be insulated and run by Prem-backed technocrats, and Prem's appointees would have the ability to set some limits on pork-barreling and rent-seeking on the part of the political parties.[10] In exchange, the political parties would be given control of the sectoral ministries (Commerce, Industry, Education, Agriculture, etc.) and would be allowed to run them with very little interference from the Prime Minister (Christensen et. al, 1993).[11]

<u>Insulation of Macroeconomic Policy</u>

As discussed earlier, the foundation of Thailand's economic success beginning in the late 1980s was its prudent macroeconomic policy. Thailand was able to adjust to the external shocks of the 1970s and 1980s and achieve economic stability because it followed cautious economic policies and adopted needed reforms (Warr and Bhanupong 1996, Dixon 1999). However, it was the informal pork-policy compromise that gave reformers the political space to adopt these reforms. Prem was able to shield key economic officials from pressures from those who might oppose reforms, particularly political parties. It is not a coincidence that most of the policies designed to combat the economic problems of the 1980s were macro-economic or financial policies. Macro-economic policy under Prem was centralized and headed by technocrats.[12] The

[10] Doner and Ramsey dub this "hard budget clientalism" (2000, 152).
[11] It is important to note that the "bifurcation" of policy can actually be traced back to the Sarit era (see Christensen et. al. 1997). In 1958 the management of macroeconomic policy was reformed and technocrats put in charge of the policy making process. However, management of sectoral policy was not reformed and remained a bastion of corruption and patronage (ibid.) The innovation of the pork-policy compromise under Prem was that electoral politicians were given a piece of the pie *and* were able to keep it. (Elected politicians were also appointed to sectoral cabinet posts in 1975 but lost control of those posts after a military coup in 1976).
[12] Politicians with strong economic backgrounds filled a few positions. Boonchu Rochanasathian, head of the SAP party and a former bank president, was chosen as Prem's first Deputy Minster in charge of economic affairs. However, when Boonchu and Prem clashed over stabilization measures Boonchu resigned his post and the SAP left the government coalition. (Boonchu wanted to increase fiscal spending in an effort to try and jump-start the

budgetary process was also kept out of the hands of politicians and centralized in the Budget Bureau. Four organizations emerged as the key actors in charge of macro-economic management: the Budget Bureau, the National Economic and Social Development Board (NESDB), the Ministry of Finance and the Bank of Thailand. Concerns over economic stability had led previous military governments to insulate these important macroeconomic agencies and this pattern continued under Prem (Christensen et. al. 1997). Prime Minister Prem directly appointed the heads of three of these agencies and indirectly appointed the head of the fourth (the head of the Bank of Thailand is appointed and removed by the Minister of Finance).[13] These organizations, typically headed by technocrats and largely insulated from political and electoral pressures, were able to produce the stabilization reforms necessary to overcome the crises of the early and mid-1980s and lay the ground work for future economic growth.

To summarize, the pork-policy compromise essentially reduced the number of actors in the area of macroeconomic policy and allowed policymakers with broader interests than the typical politician to set policy. Thus, this group had the incentives and capability to implement costly but needed policy reforms—reforms that were often strongly opposed by the military, political parties and/or business groups. The fruit of this compromise was the stabilization and economic reform policies of the Prem period.

The Collapse of the Compromise

The nature of Thai politics fundamentally changed in 1988 when Chatichai Choonhavan, MP and head of the Chat Thai party, was named as Prime Minister. The choice of Chatichai marked the first time under the 1978 constitution that the Prime Minister's position was given to an elected politician.[14] As a politician, Chatichai was under the same pressure to build and maintain a personal electoral network as any other Thai politician. For Chatichai and the other

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economy while Prem and his advisors preferred a stabilization package). After Boonchu and the SAP left the cabinet, Prem assumed a greater role in economic policy making and appointed non-party people, mostly technocrats or retired bureaucrats, to the key economic posts. (Anek, 1992b.)

[13] For more information about the specific functions of each of these groups see Anek, 1992a, 1992b and Christensen et. al., 1993.

[14] Researchers point to several factors that contributed to the relative decline in the political influence of the military over the course of the 1980s culminating in the selection of an elected politician as Prime Minister in 1988. These factors include the end of the communist insurgency, splits and generational shifts within the armed services, international influences, economic development and the growing political power of economic elite, an alliance between the new economic elite and political parties (see for example Chai-anan 1989, 1993, 1997, Suchit 1989,

members of his party, electoral victory (and future electoral success) stemmed from their ability or potential to direct resources to their local constituents and supporters. In short, as an elected politician and party leader, Chatichai was tied to a much narrower constituency than was Prem. In addition, his tenure as prime minister depended on the continued support of politicians with equally narrow constituencies.

Chatichai's victory also marked the triumph of provincial politicians in the political process. Chatichai's party achieved electoral success by convincing many provincial politicians to run under the Chat Thai banner. This class of politicians, backed by the provincial business elite, had been growing in strength over the course of the 1970s and 1980s.[15] As a group the provincial politicians did not generally have strong national policy goals and where not interested in serious reform. Instead, they were most concerned with protecting and promoting the narrow business interests of their constituency, the provincial business elite.[16] Other Chat Thai party leaders included Banharn Silapa-archa, the provincial businessman dubbed "The Mobile ATM" because of his ready financial assistance of political candidates, and Pramuan Sabhavasu, another provincial businessman who made his fortune in the construction industry and was a major financier of Chat Thai candidates. In short, Chatichai's victory brought to power politicians who lacked incentives to pursue continued economic reform. This was not only because the electoral and party systems compel politicians to focus on local, narrow interests, but also because the key members of provincial politicians' constituencies were often either disinterested or opposed to such reforms.

Besides undermining the reform incentives within the Thai political system, Chatichai's victory also introduced more actors into policy process. First, as party leader, Chatichai not only had to worry about keeping other parties in the coalition happy, as Prem did, but he also had to contend with the various factions within in his own party. Second, the politicization of the Prime

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Sukhumband 1993). The fact that Chatichai was a retired general also helped facilitate the transition from a non-elected to an elected premier.

[15] James Ockey and Philip Robertson are among those who have chronicled the rise of these powerful provincial businessmen (or *Chao Pho*) and their entry into party politics (Ockey 1992, 1994; Robertson 1994; McVey 2000). These businessman became active supporters of candidates and political parties in an effort to gain more influence in the policy process. It was also the case that Bangkok-based politicians, preferring to run in rural constituencies rather than in ultra-competitive Bangkok, sought out the support and assistance of the provincial business elite (Ockey 1992).

[16] The fortunes of provincial business elite were often based on concessions or monopolies granted by the government (e.g. mining, timber, liquor production and distribution, petrol distribution, etc.) (Ockey 1992). Not

Minister's office led directly to the politicization of the once technocratic and insulated economic agencies. Under Chatichai virtually every cabinet position went to an elected politician. The Ministry of Finance was no exception with the Finance portfolio being given to Chart Thai financier Pramuan Sabhavasu. The Finance Ministry also became subject to the instability characteristic of coalition government. During the eight years Prem was Prime Minister there were only three Finance Ministers. In the ten years after Prem, 13 men served as Finance Minister (one of which served two separate terms).

Chatichai also sought to decrease the influence of the technocratic NESDB in economic policy making. Under Prem the NESDB was given a central role over economic policy making. Not only was the organization in charge of economic planning but it was given economic coordinating and monitoring responsibilities as well. The secretary general of the NESDB also sat as the head of the "Economic Cabinet", the Council of Economic Ministers (CEM), which was endowed with full cabinet powers. From this position the NESDB was able to screen, and occasionally veto the pork-barrel projects of the elected ministers in Prem Cabinets (Ungpakorn 1992, Anek 1992a). Not surprisingly, the NESDB engendered a considerable amount of resentment on the part of elected politicians. The Chatichai government expelled the NESDB from the cabinet and eliminated its coordinating and monitoring responsibilities. The director of the NESDB resigned in protest and was replaced by "a more pliable technocrat" (Pasuk and Baker 1995, 350). Finally, the power over government contracts was taken from the NESDB and placed under the control of individual ministries. In short, by pushing aside the technocrats, marginalizing the NESDB and giving control over government contracts to individual ministers, Chatichai's government shifted control of policy and resources from the insulated technocracy to elected politicians (Pasuk and Baker 2002).[17] As a result, macroeconomic and financial reform efforts stalled.

It is important to note that not every government post was completely taken over by elected politicians after 1988. Elected Prime Ministers have not infrequently appointed technocrats to head the economic portfolios in an effort to boost their cabinet's credibility in the

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surprisingly, they were against any attempt to remove concessions, dismantle monopolies or make the process of granting contracts more competitive and transparent.

[17] The JPPCC met a similar fate. The JPPCC was created by Prem to be the vehicle through which urban business interests would influence policy. Chatichai reduced the role of the JPPCC in a bid to allow elected cabinet ministers (and the provincial business interests which they represented) to gain more discretion over economic policy making.

eyes of foreign and domestic investors. Even Chatichai appointed a technocrat to head the Ministry of Finance later in his term. However, these technocrats were still accountable to elected politicians with narrow constituencies as opposed to a non-partisan premier with a broader constituency. Thus, these technocrats usually lacked the authority and autonomy that their predecessors possessed.[18]

Reform In the 1990s

It is easy to point to the recent crisis as *prima facie* evidence of the deterioration of Thailand's reform capacity in the 1990s.[19] However, the consequences of the post-1988 reform environment were evident well before the fall of the Baht in 1997. As two crisis commentators noted, "many had seen [the crisis] coming for some time. But little had been done. Economic policymaking and financial controls had lagged behind the changes in the nature and the pace of the economy. Politics had got in the way." (Pasuk and Baker 1998, 94).

The collapse of the pork-policy compromise in 1988 subjected macroeconomic policy to many of the same political constraints under which sectoral policy had operated. While Thailand was winning accolades in the mid-late 1980s for its coordinated macroeconomic reforms, sectoral policy was less pretty. The politicians that ran the sectoral ministries treated them as abundant sources of pork and patronage. Needed reforms within the purview of those ministries, for example education reform, skills training and infrastructure provision, went largely unaddressed. Government interventions within the sectoral arena tended to be uncoordinated, ineffective and prone to rent-seeking (Christensen et. al. 1993; Doner and Ramsey 2000). With the end of the compromise and the politization of the macroeconomic agencies the capacity for reform was reduced and macroeconomic policy began to resemble sectoral policy. Overall the

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Compared to a nearly monthly meeting schedule under Prem, the JPPCC met only five times in 1988, four in 1989 and twice in 1990.

[18] While the incentives and capabilities of politicians are the focus of this essay, there are certainly other factors that contributed to the decline in the quality of governance in the 1990s. One of the most significant is the hollowing out and politicization of the bureaucracy that occurred during the late 1980s and 1990s (Ammar 1997; Nukul 1998; Pasuk and Baker 2002). During the economic boom many of the most competent and well-trained bureaucrats left their government jobs for higher paying positions in the private sector. (In fact, many left after getting fed-up with increasing interference from cabinet politicians.) College graduates also began opting for high-paying careers in the private sector over jobs in the bureaucracy. This reduced the capacity of the bureaucracy to analyze the potential problems facing the economy, and offer accurate information and sound advice to policy makers. Without accurate information, policy makers' capability to enact sound policy was further undermined. However, even the strongest advocates of the bureaucratic decline explanation recognize the need to account for political factors as well. "Since the failure of the technocracy could in principle be ultimately corrected by the political leadership, it has to be explained why the Thai political system failed to deliver that leadership." (Ammar 1997, 64)

pace of economic reform slowed dramatically in the 1990s compared to the 1980s. To the extent economic reform did occur, it was generally uncoordinated and ad hoc. There are, however, two broad exceptions to this pattern—both exceptions that ultimately prove the rule. The first exception is the premiership of Anand Panyarachun from 1991 to 1992.

Anand's government was perhaps the most reformist Thailand has seen. That his government launched an impressive array of economic reforms is not surprising. Anand, a highly respected diplomat and businessman, was chosen by the military after a 1991 coup to head two interim governments between 1991 and 1992. He was not a politician and filled the majority of his cabinet with respected technocrats, businessman and government officials rather than politicians. Without the electoral, partisan or coalitional constraints that most governments face Anand was generally free to carry out a long list of large-scale national policy reforms, so long as he respected the interests of the military. Among his many reforms he accelerated capital liberalization, reduced tariffs, cut taxes and reformed the tax law, increased the pay of bureaucrats, formed the Stock Exchange Commission to oversee the Thai stock market, launched new infrastructure projects, pushed a proposal to create the ASEAN Free Trade Area (AFTA), formed an election monitoring organization (Poll Watch), set up new rules for screening projects and selecting contractors or concessionaires and opened the process to greater public scrutiny (Pasuk and Baker 1995, various news sources). Indeed, Anand's term saw the last large bust of reform in Thailand until the economic crisis of 1997 made reform a matter of economic and political survival.

The second exception to the lack of reform in the 1990s is the area of economic liberalization. Again, this is not surprising. Business interests in Thailand had historically been subordinate to and managed by the military/bureaucracy and were shut out of any formal political influence. But as politics opened up during the 1980s businessman sought gain greater political power via working in and through political parties. By the end of the decade business interests had come to dominate many Thai political parties. Business leaders provided the financial backing for expensive political campaigns and often entered politics themselves—forming new parties or taking over existing organizations. It is not surprising that once in power these business interests were eager to loose the bureaucratic fetters on business by pursuing some

[19] For an analysis of how Thailand's political structure contributed to the crisis see Pasuk and Baker 1998, Ammar 1997 and MacIntyre 2002.

economic liberalization. Two examples are worth noting: financial sector liberalization and public enterprise reform.

Pressure for financial liberalization and the elimination of capital controls initially came from outside Thailand in the form of the IMF and World Bank. However, by the mid 1980s a large group of economists and technocrats had come to support financial liberalization as a way to increase business competition the within the Thai economy and as part of an effort to make Thailand the a regional financial hub (Pasuk and Baker 2002). Banks, businesses and politicians—attracted by the promise of cheaper capital and fewer constraints on business—later joined the technocrats in support of liberalization.

The first tentative steps towards liberalization began under Chatichai but liberalization did not pick up steam until the caretaker governments of Anand Panyarachun in 1991 and 1992. Anand initiated a series financial sector reforms--reforms that were continued and expanded under his elected successor, Chuan Leekpai. In 1993 Chuan's government opened the Bangkok International Banking Facility (BIBF), which effectively opened up the capital market and facilitated lending by foreigners to Thai firms.[20]

Financial liberalization via the BIBF brought a flood of new money into the Thai economy. By the early 1990s total private inflows were twenty times what that had been in 1985. By 1995 the total annual capital inflow outstripped the total capital inflow for the entire decade of the 1980s (Pasuk and Baker 2002, 166). Attracted by the lower interest rates attached to foreign loans the private firms borrowed heavily through the BIBF. Between the time when the BIBF was established in 1993 and the end of 1996 the amount lent through the BIBF rose from nothing to $31.2 billion—almost half of Thailand's total private foreign debt (Ammar 1997). Most of the BIBF-contracted loans were for the short term and unhedged against currency fluctuations. Also, much of the lending went into non-productive or non-performing activities, especially in the real estate and property sectors—sectors in which politically-connected businesses were heavily involved (Medhi 1997).[21] In the end this tidal wave of capital fueled speculative booms in the stock market and real estate market while undermining Thailand's competitiveness by pushing up inflation and the value of the Baht.

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[20] For more information on the BIBF see Pakorn 1994, Ammar 1997 and Nukul 1998.
[21] Medhi 1997. Ammar 1997.

The massive inflow of capital into Thailand clearly created a need for the reform of the country's financial architecture and regulatory system. However, the government failed to adopt the needed reforms. Elected politicians had few incentives to push for a stricter accounting by financial institutions and borrowers as to how funds were being used. Regulation was a threat to many of the businesses that were typically part of a politician's constituency. Opponents of stricter regulation were able to use the decentralized nature of the Thai policymaking process to block reform attempts and prevent more stringent regulation of the financial sector. The result, according to a report by the World Bank, was "…a private enterprise system where few controls [were] imposed, increased material standards and private gains [were] secured at an observable communal expense." (World Bank 1991, 6).

The agency that had the specific responsibility for regulating the financial sector was the Bank of Thailand. Indeed, much of the blame for the crisis has been laid at the feet of the central bank. However, even the Bank's strongest critics acknowledge that the Bank's failure to better regulate the financial system was due partly to its loss of autonomy from political influences. With the collapse of the pork-policy compromise elected politicians began to assert more control over the Bank of Thailand. The Governor's position in the Bank was increasingly held at the pleasure of the elected politicians (Ammar 1997). The Governor of the Bank does not serve a fixed term. Instead, he is appointed and removed by the Minister of Finance. As the Finance Ministry came under the influence of elected politicians, this led to what Ammar Siamwalla calls "implicit interventions" on the part of elected politicians in the policies of the Bank of Thailand. That is, the Governor would anticipate the preferences of the Minister of Finance and follow the current political line when designing policy (Ammar, 1997, 71). By the mid-1990s the financial sector was in serious trouble. The lack of oversight had allowed cronyism and other imprudent lending practices to flourish—a point driven home by a series of banking and regulatory scandals, beginning with the Bangkok Bank of Commerce scandal in 1996.[22]

A second example in the area of economic liberalization is public enterprise reform/privatization.[23] During the economic crisis of the early 1980s one area singled out for reform in Thailand was the public sector. Over the course of the 1970s the Thai government had come to play a larger and larger role in the domestic economy through the operation of state-

[22] See Pasuk and Baker 1998 for more information on the BBC scandal.
[23] The discussion of privatization draws on Hicken 2002.

owned enterprises (SOEs). SOEs grew to employ nearly one percent of the total workforce.[24] During the first half of the 1980s investment by SOEs amounted to 13 percent of gross domestic investment and commanded a significant share of scarce domestic credit--2 percent. Finally, many (though certainly not all) SOEs were unprofitable and a drain on the country's budget.

It was in their contribution to indebtedness, however, where SOEs had perhaps their biggest impact on the economy. Thailand was reeling under a heavy debt burden during the first half of the 1980s. Total indebtedness approached the level of 50 percent of GDP in Thailand public and public guaranteed debt was a large portion of the total debt—an average of 50 percent in Thailand. For their part SOEs were directly responsible for 27 percent in Thailand. All told, SOE indebtedness averaged around 10 percent of GDP annually throughout the first half of the 1980s.

In addition to the heavy debt burden imposed on the government as a result of SOE borrowing Thailand was also faced with a growing need for private investment, particularly in the area of infrastructure. Government revenues were tight due to the economic crisis and the already enormous debt burden made additional borrowing to fund needed infrastructure projects unattractive. It is not surprising, then, that public enterprise reform and privatization found their way onto the policy agenda during the early to mid-1980s. Indeed, Thailand was just one among dozens of countries to jump on the privatization bandwagon during this period. However, traditional privatization—the selling of existing state-owned assets to private parties—has proceeded at a snails pace in Thailand. In part this is because the economic boom ameliorated the need to sell SOE assets for quick cash. However, there were also familiar political obstacles to reform. The strongest advocates of privatization have traditionally been the technocrats, particularly those in the National Economic and Social Development Board (NESDB) and the Ministry of Finance.[25]However, they have been unable to win the sustained backing of Thai Prime Ministers or the party politicians that head the various sectoral ministries which oversee the country's SOEs. As in many areas of reform, politicians and technocrats have often been in conflict when it comes to privatization policy (Christensen et. al. 1993; Hicken 2002).

It is not surprising that the party politicians that head Thailand's sectoral ministries have not been strong supporters of privatization. Recall that politicians and political parties tend to use

[24] The data on SOEs used in this section comes from the World Bank (1995, 2000) unless otherwise noted.

the ministries under their control as a source of pork and political patronage. Most ministries in Thailand oversee a number of SOEs and each SOE is considered an asset from which the politicians in charge of the supervising ministry can extract benefits. Politicians appropriate resources, both secretly and openly, from the SOEs under their jurisdiction, at the same time using board and management positions on SOEs to reward key constituents (Pichaya 1999). Privatization essentially means a loss of a valuable resource for the politician in charge of a supervising ministry, especially if privatization is in the form of a sale or divestiture by the government to private actors outside of ministry control. Thus, the issue of privatization has typically been met with resistance from the controlling ministries, mangers of the SOEs, as well as labor. As a result efforts launch a large scale, coordinated privatization program have been delayed and blocked and very little privatization has occurred. In fact, over the last two decades only 13 state-owned enterprises have been fully privatized. Most of these have been small and rather insignificant SOEs (e.g. a jute mill and a gunny sack factory). Together these 13 SOEs represent less that 2 percent of all SOE assets. (Pichaya 1999).

While large-scale privatization in the form of full sales or divestitures has been slow in coming, SOEs have made use of more limited methods of privatization or private participation. Two of the most popular forms of reform have been franchising and contracting—granting government concessions to private parties to undertake certain activities typically reserved for SOEs (Krongkaew 1999).[26] Franchising has received fairly consistent and widespread support from cabinet politicians. Franchising is popular for three reasons. First, it avoids expanding the role and reach of the government. Second, it reduces the pressure on the government and SOEs to mobilize additional financial resources for needed services, while allowing the SOE/Ministry to keep some control over the franchisee. Since the concession is for a limited period of time and is granted in order for new investments to be carried out by private parties, there is no loss of existing resources to the SOE and politicians. Third, those within the government with the authority to grant concessions stand to benefit. Franchising has been particularly popular in the area of telecommunications and transportation. Rather than selling-off the state enterprises that were in charge of telecommunications and transportation or keeping them as SOEs but letting them face competition, policymakers opted to keep their monopolies intact. Instead, state-owned

[25] Although there as been divisions even within these agencies over the course, speed and content of the privatization program (Piyasavati 2000l).

enterprises were forced to grant concessions to private companies to undertake major new investment projects. "…[P]ublic interest [was] the first casualty of the system of concessions that were granted." (Ammar 1997, 16) The negotiation process for these concessions was far from fair and transparent and concessions were rewarded to those with good political connections on very favorable contractual terms (ibid.)

Conclusion: Economic Reform Post Crisis

The economic crisis that commenced in 1997 laid bare the weaknesses of the Thai economy and challenges of its political system. As result there was a tremendous support for economic and political reform. Following the crisis the government of Chuan Lekpai adopted and began to implement a series of reforms in the areas of finance/banking, prudential regulation, corporate governance, competition policy and public enterprises. Party as a result of these initial reforms the Thai economy, after contracting by more that 10 percent in 1998 the economy began to grow again in 1999—though it has yet to return to pre-crisis levels. However, as the crisis has ebbed so has enthusiasm for reform. Financial and corporate sector reform has bogged down, privatization has run into familiar political obstacles and competition policy reform has suffered from a lack of political support from the new Prime Minister, Thaksin Shinawatra. Rather than pushing these reforms forward (reforms that strike at some of his business interests) Thaksin has launched a series of populist reforms, including a debt moratorium for farmers, a one million baht fund for villages to promote new enterprises, and providing universal health care to the population at 30 baht per visit. The jury is still out on how successful these reforms will be.

Political reform after the crisis took the form of a new constitution—dramatically different from its predecessors.[27] In part as a result of the new constitution Thailand now has a majority party for only the second time in its history—the Thai Rak Thai party headed by Prime Minister Thaksin. As a result political power under Thaksin is more concentrated than it has been in a long time, though he has not completely escaped the coalitional and internal party conflict that has been the norm in Thailand. Whether Thaksin will be able to successfully overhaul the political structure that has shaped policymaking in Thailand for the past 20 years is one of the most intriguing issues on the Thai political landscape.

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[26] Franchising typically involves some monopoly powers.

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[27] Other issues on the political reform agenda include a major reform of the bureaucracy and political decentralization.

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