

## CHAPTER IV

### *Thailand and Indochinese States in the 1980s*

The administration of Chatichai Choonhavan came to office in August 1988, after the general election for House of Representatives in the previous month and the predecessor PM Prem Tinsulanonda's relinquish of further premiership. This transition of political power was critically important in many terms: the new administration was formed through a democratic process of the election; the new PM was the first elected civilian since M. R. Kukrit Pramoj in the 1975 general election, for instances. This chapter at first section follows the history of Thai economy and its management after the World War II, tracing briefly the consecutive National Economic and Social Development Plans which first introduced in 1961, then it goes to focus on the state of economy of the 1980s during which the economic and social norms drastically changed. In the second part, the chapter will study the relations between public and private sectors, as a prerequisite to present the nature of Chatichai administration which will be examined in the following chapter. The focus of study will be on the institution highly appreciated during the decade, Joint Public-Private Consultative Committee (JPPCC); and on the House in which the number of business-cum-politicians greatly increased in the Thai political history by then. The final part will assess Indochinese economies, namely Vietnamese, Laotian, and Cambodian economies, in order to understand their transitional phases from "battle field to market places".

#### **1. Thai Economy and Its Development**

According to Chaipat Sahasakun and others, the Thai economy after the 1970s is classifiable roughly to four periods: 1) strong economy (1970-1978), 2) weak economy (1979-1981), 3) worldwide recessions and structural adjustment (1982-1984), and 4) slow recovery (1985-1987).<sup>1</sup>

---

<sup>1</sup> Chaipat, Nattapong Thongpakde and Keokam Krraisoraphon, *Lessons from the World Bank's Experience of Structural Adjustment Loans (SALs): A Case Study of Thailand*, Thailand Development

Another classification by Akira Suehiro and Shigeki Higashi, which is partly based on the research of Chaipat and his associates, extends the time span of their research and classifies the economy into 1) relative growth (1972-1978), 2) low growth (1979-1981), 3) worldwide recessions and structural adjustment (1982-1984), 4) slow recovery (1985-1987), 5) boom (1988-1992), 6) bubble economy (1993-1996)<sup>2</sup> while Ammar Siamwalla, prominent life-long observer of the Thai economy, roughly divide it into 1) the golden age of growth (1958-1973), the Oil Shocks, teetering on the brink (1973-1985); and the industrial boom (1985-1995).<sup>3</sup> These classifications are agreed and supported by researches of other economists in general. Taking a glance at these clarifications, one can notice that Thai economy in the 1980s, in any senses, followed the path from stagnancy affected by the worldwide recessions stemming from the OPEC embargos of oil supply, through the structural adjustment and the slow recovery from the precedent difficult conditions, to the booming; and the Chatichai administration appeared at the period between the slow recovery and its consequent boom in the late phase of the decade.

### 1.1 Economic Growth till 1980

Thai government's economic policy immediately after the World War II was highly influenced by state-centric ideology reflecting the nationalistic sentiment of Field Marshal Phibun Songkhram and other representative elites at the time.<sup>4</sup> During his tenure, the entities assigned to plan economic policy were regarded, by foreign observers, as lacking systematic mechanism to implement it. Inter- and intra-ministerial arrangement and coordination of policies were seldom

---

Research Institute, April 1988, pp.2-8.

<sup>2</sup> Akira Suehiro and Shigeki Higashi, "Taikenkyuu no Sinchouryuu to Keizai Seisakuron (A New Trend of Thai Studies and Economic Policy Studies)" in Suehiro and Higashi eds., *Tai no Keizai Seisaku: Soshiki, Seido, Actaa* (Economic Policy in Thailand: The Role of Institutions and Actors) [in Japanese], IDE Research Series No.502, second printing, JETRO Institute of Developing Economies, 2001, p.3.

<sup>3</sup> Ammar Siamwalla, "The Thai Economy: Fifty Years of Expansion" in TDRI ed., *Thailand's Boom and Bust: Collected Papers*, December 1997, pp.5-17.

<sup>4</sup> This Thai nationalism was one of the peculiar characteristics shared among the leaders at the time partly because they had experienced threats from foreign powers such as European imperialism and Japanese expansionism over Southeast Asia including Thailand till the 1950s. The nationalism in economic policy and actual implementation could be well described with the slogan at the time, "Made by Thais and Used by Thais".

existent in the bureaucratic side, and economic activity itself seemed to be only of Bangkok, thus other regions were basically ignored from the central power.<sup>5</sup> Under the nationalistic economic policy along with the anti-communist politics by the Phibun's regime, the dominant force in economic activity at that era, the Chinese merchants, were forcefully or voluntarily assimilated to Thai society, particularly after the communist triumph in mainland China in 1949. They came to invite the Thai elites in power, i.e. high ranking military and police officers, to their boards of trustees so as to seek political "protection". The Thai elites in power created a measure to accumulate wealth by banning many private business activities and replacing them with monopolistic public or quasi-public enterprises in which they control the management. These public enterprises, however, sooner suffered unfavorable balance due to their managerial inexperience. This failure of national assets consequently contributed to one of the crucial factors of the fall of the regime in 1957 and of the rise of Field Marshal Sarit Thanarat.<sup>6</sup> Nevertheless, this was a formative period during which the two elites in the society, military/political and business, aligned one with another and developed a system of a payoffs which would be a favorable ground for the government-business cooperation in the following years.<sup>7</sup>

It is almost agreed that it was around 1960 under the leadership of Sarit that effective

---

<sup>5</sup> The most often-cited observation by such foreigners is of John A. Loftus who was assigned in 1956 as an adviser to Minister of Finance Phao Boribhandh:

*the process of development planning is undemocratic... Projects do not originate in the grass roots of the provinces... Instead everything is done by a benevolent bureaucracy in Bangkok... Since development schemes are formulated by Ministries, arguments about which scheme is more important become inter-Ministerial arguments, and there is no automatic mechanism for adjudicating them... Projects... have the support and backing of the Ministries which devised them. But there is no basis on that backing on which to decide anything. The comparative importance of projects in different sectors cannot be discerned by measuring the political force that can be mustered in support of them. And the assessment of comparative utility is not subject to marginal analysis... In short... no machinery exists for resolving these [inter-Ministerial] disputes rationally... [The result is] a lot of random and uncoordinated schemes...*

Quoted in Robert J. Muscat, *The Fifth Tiger: A Study of Thai Development Policy*, United Nations University Press, 1994, p.52, from Loftus, "Economic Development Planning in Thailand", *Terminal Report*, August 1962, annex A-1, pp.1-7.

<sup>6</sup> Ammar, *Ibid.*, pp.3-5.

<sup>7</sup> Ammar, *Ibid.*, p.5.

efforts on economic policy and its implementing mechanism appeared.<sup>8</sup> In the late 1950s, International Bank of Reconstruction and Development (or World Bank) missions was invited by the Sarit regime several times to investigate the state of economy.<sup>9</sup> The World Bank mission recommended the structural change of economic policy and actual management from half-nationalized system to a more liberalized one open for the post-WW II western international trade system. The main contents of recommendation urged were an opening of the economy, major investments in public infrastructures, and a gradual withdrawal of the government from the industrial investment.<sup>10</sup> In addition, the mission urged the government to establish independent institutions which would assess and formulate effective policy and schemes. In line with it, the key institutions on economy, i.e., Budget Bureau in the Prime Minister's Office, National Economic Development Board, Office of Fiscal Policy in the Ministry of Finance, Board of Investment were all established in 1958-1960.<sup>11</sup>

This modernization was, in one sense, coincided with politics of the time. After the kingdom cleared her stand in the western camp in the international Cold War environment in the early 1950s, many young Thais went abroad to pursue their further academic activity, e.g. universities in the U.S.

Accomplishing their academic life, most of them were said to come back to the kingdom and found careers in higher positions of the administration system. They became bureaucrats and technocrats well familiarized with foreign economic systems, particularly the liberal one embraced

---

<sup>8</sup> Sarit succeeded in ousting Phibun and another rival Pao Sriyanonda in the 1958 coup and came to power. Sarit has often been said that he had extraordinary enthusiasm of development. According to Suehiro, the number of the term *development (pattanaa)* in his speeches given on every Revolutionary Anniversary Day between 1959 and 1963 increased from just 3 to 26, and the terminology was manifold from rural, economic to public health developments. Suehiro, *Tai: Kaihatsu to Minshushugi* (Thailand: Development and Democracy) [in Japanese], Iwanami-Shinsho No.298, Iwanami-Shoten, 1993, p.38.

<sup>9</sup> Thailand became a member of International Monetary Fund (IMF) and World Bank in May 1949. The first World Bank study mission came in 1957, the year Sarit succeeded in the coup ousting Phibun.

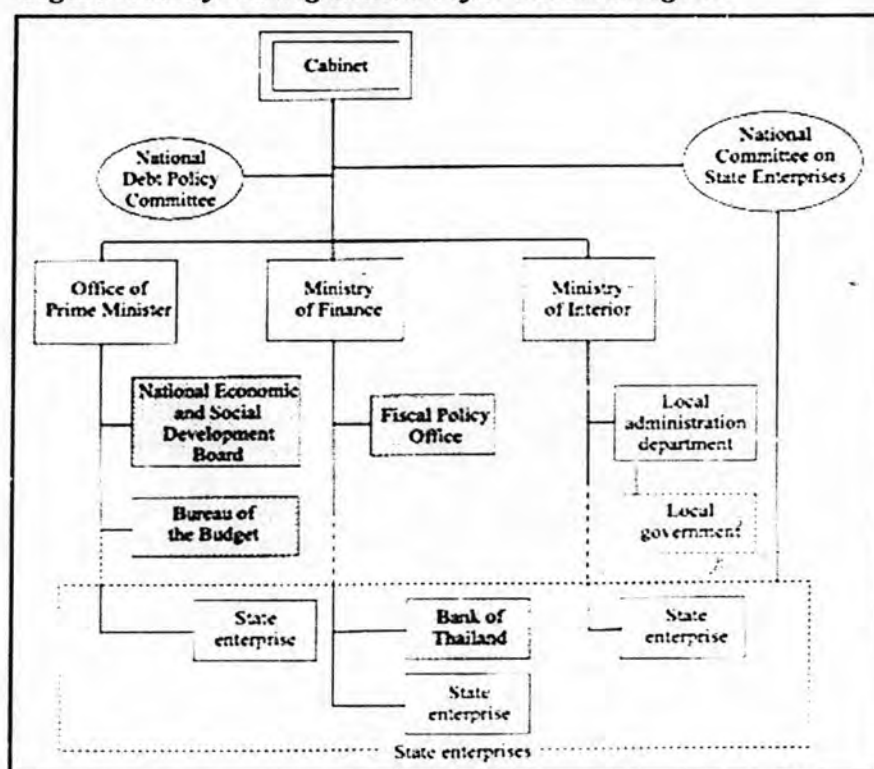
<sup>10</sup> Ammar, *Ibid.*, p.6; Muscat, *Ibid.*, ch.3.

<sup>11</sup> Social affairs were added to the theme of the Economic Development Board later and the body changed its designation to Economic and Social Development Board in gggggggggggggggg.



in the U.S, and enthusiastically adopted and implemented it with their own interpretation applicable to the Thai economic nature. Additionally, Sarit himself endorsed the role of them to a great extent to carry out his ideology of development of Thailand.<sup>12</sup> They were believed to be more or less free from politically intentional interventions by political groups, and to be allowed to pursue reasonable policy courses at their own capacity at large.

**Figure 4. Policy Making Structure after the Sarit Regime**



Excerpted from Warr and Bhanupong (1996), p.70.

What course a stake would take in order to develop her economy is often represented in her grand designs in the form of mid-term economic plans. In this regard, it is important to survey Thailand's consecutive Economic Development Plans (later the designation changed to Economic

<sup>12</sup> Nevertheless, it is misleading to regard that the Thai bureaucrats and technocrats at the time, who are often called "the first generation of economic technocrats", adopted uncritically the recommendations of the World Bank and other foreign entities such as USAID. In fact, they were sometimes critical and skeptical of the recommendation and held a regular meeting on a weekly basis to assess the foreign advices. Suehiro and Higashi, *Ibid.*, pp.22-23; Muscat, *Ibid.*, pp.88-94.

and Social Development Plan) first introduced in 1961. Each of the Plan was an reflection of will as well as desire of the Thais at the time concerned, although their consequences were sometimes distorted by other factors than economy itself.<sup>13</sup>

With the leadership of these modern institutions and Sarit, Thailand began to walk a path of industrialization. In 1961, the kingdom introduced the first Economic Development Plan (January 1961-September 1966) in which the authority attempted private-sector-led economic development, provision of industrial infrastructure facilities such as road expanding to rural areas, communications, power, and stability of monetary exchange rate.<sup>14</sup> In line with this stand, the government enacted the new Investment Promotion Act in 1960. In regard to the private enterprise investment, the Plan clearly expressed a withdrawal of the State from the private sector, declaring:

*To encourage domestic and foreign enterprises to undertake more industrial activities in the country, The State will assist and promote industries of various scale to suite the needs of the domestic market. The state will not engage in activities competitive with private enterprise, and will follow the policy set out in the Act of 1960 for promotion of industrial investment. There will be State interference only in regard to quality control.*<sup>15</sup>

It was after the Second Economic and Social Development Plan (October 1966-September 1971) that Thailand began to put in serious effort of industrialization.<sup>16</sup> Among seven main

---

<sup>13</sup> Scott Christensen, Ammar Siamwalla and Pakorn Vichyanond suggested an interesting observation on such phenomena in the Thai context:

*A simple description of Thai economic policy-making in the postwar period would convey the impression that the Thai state has been highly active in promoting economic growth. On closer examination, much of the action was full of sound and fury that in fact signified very little. That is particularly true of sectoral policies, where any attempt to delineate a well-conceived and systematic policy has been defeated often by corruption, and the concomitant shifts in personnel and direction.*

Scott, Ammar and Pakorn, "Institutional and Political Bases of Growth-Inducing Policies in Thailand" in TDRI, *Ibid.*, p.48.

<sup>14</sup> Suehiro, *op.cit.*, p. 119; Warr and Bhanupong, *Ibid.*, p.71.

<sup>15</sup> Quoted in Suphat Suphachalasai, "Export-Led Industrialization", in Medhi Krongkaew ed., *Thailand's Industrialization and its Consequences*, New York: St. Martin's Press, 1995, p.71.

<sup>16</sup> Even before the Second Plan, most of Thai technocrats felt a need of structural change from the monoculture economy of rice, rubber, tin and teak to a more diversified one. For example, Vichitvong N. Pombhejara, then a Ph.D. candidate in economics at Harvard University after serving as Chief, Aggregate Targets and Finance Sector of the NEDB, urged "agriculture will have to be diversified, and a certain

objectives of the Second Plan, three were explicitly aimed at encouraging industrialization chiefly through foreign trade: 1) the development and promotion of industrial and agricultural exports with expanding external markets and cooperating with foreign countries, 2) the establishment of standards for the quality of exports in the interest of producers, 3) the support of the prices of exports such as rice, other agricultural and manufactured goods, with due consideration for fairness to producers and exporters.<sup>17</sup> Induced by incentives given under the schemes, automobile giants of the U.S., Europe and Japan, for example, came into the kingdom and began to their businesses in terms of assembly and sales of their products.<sup>18</sup> However, the characteristics of industrialization and promotion of foreign trade during this period, as often pointed out, was still controversial in terms of whether it would aim chiefly at exporting local products or at protecting local businesses through an import-substitution mechanism.<sup>19</sup> In short, it is safe to say that the basic idea lying in the Plan was to promote foreign trade through the traditionally advantageous agricultural products while to protect the still immature industrial sector.

In the Third Plan (October 1971-September 1976), new values were added into the term "development", reflecting the economic and social instabilities seen since the late 1960s such as

---

degree of industrialization will have to be attained", citing "encouraging private investment in manufacturing industry" as one of the main development policies. He concluded that though industrialization takes some time to unfold, "it is at least conceivable now that such changes will occur, and indeed they are expected to begin during the next three years". Vichitcong, "The Second Phase of Thailand's Six-Year Economic Development Plan, 1964-1966", *Asian Survey*, Vol.5, No.3, March 1965, pp.162-163.

<sup>17</sup> Ministry of Economic Affairs (Thailand), *The 50<sup>th</sup> Years of Ministry of Economic Affairs*, 1969, p.15. Other objectives were 1) the promotion of a free enterprise system within a framework of regulations, 2) the prevention of monopolies and conglomerations, 3) the maintenance of a reasonable prices level and cost of living, 4) the promotion of commercial enterprise by Thai nationals and the establishment of more efficient supporting measures, both technical and financial towards that end. *Ibid.*, pp.15-16.

<sup>18</sup> Since the first European-Thai joint-venture auto company, Thai Motor Industries, Ltd., set up in 1961, twelve giants started their business together with local Thai partners by 1970. Suehiro, *Capital Accumulation in Thailand, 1855-1985*, Silkworm Books, 1996, p.209.

<sup>19</sup> Ammar, "Stability, Growth and Distribution in the Thai Economy" in Prateep Sondysuvan ed., *Finance, Trade and Economic Development in Thailand: Essays in Honour of Khunying Suparb Ossundara*, Sompong Press, 1975, p.38; Narongchai Akrasanee, "Import Substitution" in *Ibid.*, p.276. Both articles describe that the policy taken during the time was quite incoherent particularly of incentives for foreign investment to Thailand.

communist insurgency; imbalance among economic sectors, particularly between agricultural, and manufacturing and service. The Plan attempted to reduce the growing disparities between urban and rural areas and between sectors by giving greater incentives for industrial location in provincial areas.<sup>20</sup> In the field of industrialization and trade, its strategy changed from import substitution towards export promotion of manufactured items. The trend of strengthening industrialization and export promotion continued to stand on the priority of the development policy and it became more elaborated and clear in the Fourth Plan (December 1976-September 1981)<sup>21</sup> that industrialization should be achieved through connecting the advantageous agricultural sector and manufacturing sector in order to promote export, by for example, establishing export-processing zones.<sup>22</sup>

However, the performance of the economy in the Forth Plan period was ambivalent. This was partly because of the sharp decline of U.S. expenditure in Thailand<sup>23</sup>, of rising price of oil triggered by the OPEC's first oil embargo in 1973, and of the consequent high inflation (Table 1),

---

<sup>20</sup> Somsak Tambunlertchai, "Manufacturing" in Peter G. Warr ed., *The Thai Economy in Transition*, Cambridge University Press, 1993, p.139-140; Warr and Bhanupong, *Ibid.*, p.72; Muscat, *Ibid.*, .134.

<sup>21</sup> The Forth Plan irregularly began in December 1976 due to the political turmoil of the October 1976 incident. The new values added in the development in the Third Plan were given more legitimacy in the Forth Plan, now in the form of the "interrelationship between the socioeconomic and the defense sectors". The Plan urged:

*Internal and external situations necessitate advanced planning for dealing with possible disturbances during the Forth Plan period. National defense capability depends, among other things, on the economic power of the nation.... As there is a trade-off...the interrelationship between the socioeconomic and the defense sectors must be explored in more detail to work out a proper balance... Besides the security problems on the national level, some special attention must be given to specific problem areas of the four main regions of the nation. These problem areas are characterized by insurgency problems and economic poverty. In the past, these problem areas were neglected. In the future, socioeconomic development programs must be implemented in conjunction with actions to check subversive activities.*

Quoted in Muscat, *Ibid.*, p.139, from NESDB, *Fourth National Economic and Social Development Plan*, p.127. The main targets of the Plan declared were: 1) the development and conservation of economic resources and environment, 2) diversification and increased efficiency of production in rural areas, 3) the development of industry, 4) the promotion of exports, imports, and tourism; 5) the development of principal cities and the improvement of Bangkok, 6) the dispersion of basic services, the dispersion of social services and social development. Warr and Bhanupong Nidhiprabha, *Thailand's Macroeconomic Miracle: Stable Adjustment and Sustainable Growth.*, World Bank Comparative Macroeconomic Studies, Oxford University Press, 1996, pp.72-73.

<sup>22</sup> Somsak, *Ibid.*, p.71.

<sup>23</sup> The amount of U.S. military assistance dropped to 35.4 thousand dollars in 1974 from its peak of 122.1 thousand dollars in 1972, and the U.S. forces finally withdrew from Thailand in 1976. See Appendix 2.



and all of which negatively contributed to downsizing the domestic demand though the kingdom was said to be able to wipe the rising oil price to some extent by the soared demand and price of commodities in the world market simultaneously happened in the period *at least at the macroeconomic level*. However, this trade-off between rising prices of oil and commodities in the international market couldn't work in the second Oil Shock of 1979-1980 unfortunately because the market of latter sharply dropped and consequently collapsed. This was magnified by the declining demand of Thai products in developed countries due to the serial oil embargos.<sup>24</sup>

In addition to the external unfavorable factors, Thailand had begun taking an expansionist style in the economic and social development since the early 1970s as the role of government in the development increased as seen in the contents of the Third and Forth Plans, which led 20% growth of governmental expenditure in the final phase of the Forth Plan (1979-1981) from 9% in the initial phase of the Third Plan (1970-1972) (Table 2).<sup>25</sup> This was along with government's subsidies for various public utilities in the urban area in order to delay and avoid price adjustment consistent with higher production and energy costs; and with a rising defense burden due to increasing tension caused by the Vietnamese invasion of Cambodia.<sup>26</sup> The government managed to weather the unfavorable situation mainly by the external borrowing but it meant that the level of public external debt would rise accordingly. Indeed, the public external debt to GNP doubled from an average of

<sup>24</sup> Warr and Bhanupong, *Ibid.*, p.73; Suehiro and Higashi, *Ibid.*, pp.3-5.

<sup>25</sup> Chaipat, Nattapong, and Keokam, *Ibid.*, p.11.

<sup>26</sup> NESDB, The Office of the Prime Minister, *The Fifth Economic and Social Development Plan (1982-1986)*, p.6. The expenditure of the government budget was extended in the democratic period of the mid-1970s, particularly in the tenure of PM Kukrit Pramoj. Finance Minister Boonchu Rochanasatien put much store on rural development and improvement of life standard of the masses in urban areas with an increased amount of expenditure under the guise of "Budget for The People (ngop-praman prachachon)" in the FY 1976. Under which, free medical care service for the poor (65 million Baht), free bus fare (500 million Baht), increasing of the number of public welfare and health service facilities (20 thousands posts), restriction of consumer price and assistance of producer price of rice and so on were implemented on one hand; individual and corporate taxes were greatly raised to which the share of indirect tax in the revenue would reduce from 71% to 44%. These policies of extended services continued even in the following administrations of Thanin Kraivixien and Kriangsak Chamanand. Suehiro, "Zaisei Kinyuu Seisaku (Financial and Monetary Policy)" in Suehiro and Higashi, *Ibid.*, pp74-76.

3.9% for 1973-1975 to that of 18.6% for 1982-1984 (Table 2).<sup>27</sup> These external and internal factors accounted the multi-layered depressions around 1980.

**Table 1. Major Macroeconomic Indices (1972-1982)**

Year	GNP P.C. (Baht) GNP P.C. Growth (%)	GDP growth (%)	Manu. growth (%)	Export growth (%)	Trade balance / GDP (%)	Current account / GDP (%)	Infla- tion (%)	DSR (%)
1972	4,418 6.1	4.2	13.2	30.1	-4.9	-0.6	4.8	17.4
1973	5,538 25.4	10.0	15.7	43.3	-4.4	-0.5	15.6	15.3
1974	6,753 21.9	4.5	6.2	56.2	-4.9	-0.7	24.3	14.8
1975	7,155 6.0	4.9	5.8	-3.8	-6.0	-4.1	5.3	15.1
1976	7,999 11.8	9.2	15.3	25.5	-3.5	-2.7	4.2	12.8
1977	9,086 13.6	9.9	14.3	17.1	-5.7	-5.7	7.1	16.7
1978	10,717 17.9	9.9	8.7	16.7	-5.3	-1.5	8.4	17.4
1979	11,985 11.8	5.2	8.3	30.2	-6.8	-7.6	9.9	18.1
1980	13,908 16.0	4.6	2.9	23.1	-9.1	-6.7	19.9	17.8
1981	15,629 12.4	5.9	6.3	14.9	-8.7	-7.4	12.8	19.3
1982	16,521 5.7	5.4	2.6	2.6	-4.4	-2.8	5.2	21.0

Source: Suehiro and Higashi, (2000), p.4; Warr and Bhanupong, (1996), pp.62-63. Original source: NESDB, *National Income of Thailand: New Series 1970-1987*, (1989), and *National Income of Thailand: 1991*, unpublished report.

Note: "p.c." = Per Capita, "Manu" = Manufacturing; "DRS" = Debt Service Ratio, an annual amount of repayment of capital and interest for borrowings of long-term.

**Table 2. Negative Variables in the 1970s and early 1980s**

Years	1970-72 average	1973-75 average	1976-78 average	1979-81 average	1982-84 average
Major event		Oil Shock		Oil Shock	SAL1 & 2
<i>External Debt</i>					
Public External Debt/GNP (%)	4.5	3.9	6.0	12.5	18.6
<i>Government Budget</i>					
Growth of Revenue (%)	7.0	23.1	18.7	19.8	10.2
Growth of Expenditure (%)	9.0	16.9	19.6	20.0	10.9
Debt/GNP (%)	21.7	17.9	18.2	21.5	27.8

Source: Chaipat and others (1988), p.11. Original source: Bank of Thailand; NESDB, *National Income of Thailand: New Series 1970-1987*, (1989). Note: Some figures are omitted from the original table in Chaipat's.

<sup>27</sup> Chaipat, Nattapong, and Keokam., *Ibid.*, p.5.

## 1.2 The 1980s: Structural Adjustment and Rapid Growth

It is undoubtedly agreed that the Thai economy in the second half of the 1980s experienced an unexpected and enormous growth led chiefly by export. However at the same time, it is also the fact that the economy in the late and the early 1980s suffered the depression. Therefore, it is significant to anatomize the reaction taken by the authority to tackle the latter to see the rapid growth in the late 1980s.

It should be highly noticed that the NESDB, the Thai authority concerned with the new Fifth Economic and Social Development Plan (October 1981-September 1986), was keenly aware of needs to restructure the hitherto economic and social systems so as to bolster a future economy, which actually happened in the late of the decade. The obstacles, the Plan said, were caused by the “world economic changes during the past 7-8 years, particularly the rise in energy price, international financial crisis, high inflation and low economic growth” though; it simultaneously pointed out that Thai economic and social management system “have not adequately adjusted the structure to cope with changes in world economic conditions.”<sup>28</sup> And the Plan, drafted in 1978 by the NESDB, declared that it adopted a “new line” of thinking which was different from those of the past Plans and it should be considered a “policy plan” which gives clear policy directions to be translated into operational plans<sup>29</sup> under which six grand objectives were to be achieved: 1) the “adjustment of economic structure” rather than “economic growth”, 2) “equality” in national and social development effort, 3) poverty alleviation for people in backward rural areas, 4) more closer coordination between economic and social development effort, 5) the implementation of the Plan into operational plans, 6) stressing the role and cooperation of the private sector.<sup>30</sup> The Plan declared

<sup>28</sup> NESDB, The Office of the Prime Minister, *The Fifth Economic and Social Development Plan (1982-1986)*, pp.1-2 and p.8.

<sup>29</sup> *Ibid.*, p.2.

<sup>30</sup> *Ibid.*, pp.2-3. Among these “restructurings” cited in the Fifth Plan, some of them were already carried into practice even before the launching of the Plan in 1981. See more details about it in the “Letter from Development Policy No. MF.0304/4460, dated February 4, 1982, from Mr. Sommai Hoontrakul, Minister of Finance, to Clausen, President of the World Bank; Re: Thailand Structural Adjustment Loan”, excerpted in Chaipat, Nattapon, and Keokam, *Ibid.*, pp.(A)7-(A)10.

at the same time that the kingdom would become "a semi-industrialized country" if succeeded in structural adjustment.<sup>31</sup> The Plan, therefore in short, was a medical certificate of the past economic activity and system as well as a prescription for structural adjustment programs and improvement of economic efficiency.

Concerning industrial policy, the Plan said though the industrialization in Thailand in the past twenty years since the beginning of the first Plan succeeded in expansion and diversification in general, it warned that the production structure of the industry has high import content, thus "if the trend is allowed to continue then the country's economic and financial position will be seriously endangered".<sup>32</sup> The basic understandings of the problems obstructing a further growth of the industry were:

1) *The industrial structure is still very import dependent:*

The structures of most industries are highly dependent on imported raw materials, capital goods, machinery and energy resulting in a continuous rising trade deficit. The manufacturing sector is the main sector which utilizes most of the foreign exchange earnings generated by the agriculture sector;

2) *The export industry is not sufficiently developed:*

The structure of government's industrial promotion privileges is mainly biased towards the protection of import substitution industries for the domestic market. Moreover, for example, tax rebates for exports are still not systematically calculated and implemented; the provision of basic infrastructural facilities, like export processing zones and bonded warehouses, have not been seriously approached; the red tape involving many government agencies caused various problems;

3) *Industrial activities are mostly located in and around Bangkok and not dispersed to provincial areas;*

4) *The production process and the use of technology in manufacturing industries are still not labor*

---

<sup>31</sup> NESDB, *Ibid.*, p.1. The actual remark is...

*"the next five years will be a critical transitional period for the Thai economy. If production structures are adjusted and economic efficiency is increased, together with the restoration of the country's financial position and alleviation of the external trade and payment deficit problem in accordance with the targets laid down in the Fifth National Economic and Social Plan, it is expected that Thailand will be transformed into a semi-industrialized country".*

<sup>32</sup> *Ibid.*, p.17.



*intensive:*

The development of manufacturing industries through investment promotion privileges has encouraged these promoted industries to make extensive use a lot of machinery in the production process and therefore discouraged employment creation.

5) *Development of basic industry has not occurred.*<sup>33</sup>

In order to resolve these problems and issues, the Plan urged the government to take the following overall industrial investment policy: 1) promotion of the private sector, both domestic and foreign, to invest in the production and marketing of manufactured goods; 2) government's partial participation in an investment project with the private sector at the initial stage; 3) government's avoidance of price control measures except in those cases where the industrial structure is monopolistic, using the market mechanism to regulate prices; 4) cooperation with the private sector in implementing industrial development policies.<sup>34</sup> In line with this overall policy, the following schemes among more than sixteen ones for "restructuring of specific industries", "industrial export promotion", and "foreign investment promotions" were urged:

- 1) Adjustment of import taxes to levels which are *not excessively high*;
- 2) Adjustment and collection of business and exercise taxes on imported goods and locally produced goods *at the same rate*;
- 3) Abolishment of general import control;
- 4) Impose of price control *only* in certain cases and *only* for short periods;
- 5) Implementation of *sectoral* industrial development and promotional polices, consisting of investment promotional privileges, and financial, technical, tax, and legal assistances;
- 6) Improvement of the export promotion plan and measures by giving the responsibility to one central agency, and by enacting a special export promotion act;
- 7) Strengthening an agency responsible for the promotion, selection, and supervision of investment, trade, technology transfer, and registration of all foreign investment.<sup>35</sup>

In the field of foreign trade, the Plan indicated the major obstacles impeding export

<sup>33</sup> *Ibid.*, pp.59-61. The prescription for 3) and 5) are omitted here. For a full version, see *Ibid.*

<sup>34</sup> *Ibid.*, p.62.

<sup>35</sup> Italic added. For a full description of the schemes, see *Ibid.*, pp.62-65.

promotion in the past:

- 1) The flow of exports has been obstructed by government regulations and rules which have been imposed for other purposes. Moreover, the existing export promotion laws do not encourage the private sector's direct participation and many government's intervention policies turned out to be restrictive, thus increasing the cost of exports;
- 2) There is a lack of institutions in both the public and private sectors for effective export promotion. Existing institutions have limited capability and are unable to adjust their roles according to the changing export and world trade situation;
- 3) The government's export promotion services are inflexible and inefficient and thus are unable to provide useful services to the private sector. Furthermore, fiscal and monetary measures for export promotion are still very limited.<sup>36</sup>

For resolving these problems, the Plan urged many schemes and measures implemented or improved immediately, and among these were:

- 1) Review and adjustment of export taxes, fees, and regulations and *keep them to the minimum* in order to avoid creating burdens and obstacles, and consistent with the policy to raise domestic prices of agricultural products;
- 2) Encouragement of the private sectors to *merge into exporter's groupings* in order to create bargaining power and manage export trade more efficiently;
- 3) Tax rebate of a fixed proportion of the export value *with a simple tax rate structure*; goods of the same category will have the same tax rebate rate.<sup>37</sup>

These schemes were almost synonymous with liberalization of the industry and they continued in the following Sixth Plan (1986-1991), with a more augmentation of export orientation to the extent of which almost all of economic activities were guided by the logic of free market

---

<sup>36</sup> *Ibid.*, pp.71-72. Against the general policy of export promotion in the past, little was done in the 1970s. The government increased tariff levels on fifty three categories of goods and reduced only nineteen between 1974 and 1981. More on this, see Pasuk Phongpaichit and Chris Baker, *Thailand: Economy and Politics*, Oxford University Press, 1995, pp.144-146.

<sup>37</sup> NESDB, *op.cit.*, pp.72-73. Some other measures included were: establishment of an export credit guaranteed scheme, a packaging development center, an export training center, an Export Promotion Fund; promotion of activities related to trade representatives trade fairs in foreign markets; identification of incentives in the form of a merit system for exporters. For a full description, *Ibid.*, pp.72-73.

system.<sup>38</sup>

The Thai effort of restructuring the economic and social systems aimed at a future economic boosting was endorsed by the World Bank and IMF in the early 1980s.<sup>39</sup> As briefly mentioned earlier, Thailand suffered from the multiple deficits around 1980 by the unfortunate domestic and foreign factors. Worldwide recession and high interest rates triggered by the second oil shock of 1979 deteriorated the growth of as well as increased the deficits of foreign trade, current account, and finance of the kingdom. Interesting is that the period of drafting the Fifth Plan accidentally coincided with the policymakers consultation with the International Bank of Reconstruction and Development (the World Bank) and International Monetary Fund (IMF) on measures to alleviate the deficit. Thailand exercised her right of Special Drawing Rights (SDR) of the IMF to tackle the deficits and the Bank accommodated the kingdom with a standby loan of SDR

---

<sup>38</sup> One analysis of the Plan gave an unerring judgment of the nature of the Plan and probably of general mood among the NESDB during the drafting period in "The Sixth National Development Plan" in *Thailand's National Development: Policy Issues and Challenges*, Thai University Research Association and Canadian International Development Agency, August 1987, p.20 :

*(The Plan) places more emphasis on the laissez faire approach, market mechanism, and reduction of government burden in the areas of communication and transportation, agriculture, water resources development, energy, education and health through pricing policy and incentives.*

A similar observation was shared by other academics too. Pasuk and Baker, for example, point out:

*In the mid-1980s, many analysts found it difficult to attach the adjective 'capitalist' to Thailand's political economy without adding a qualifier—"ersatz", "semi", "dependent", "proto". By the end of the decade, these qualifiers had disappeared.*

Pasuk and Baker, *op.cit.*, p.143.

<sup>39</sup> Then NESDB Secretary General Snoh Unakul recalled in 1983 that he and his colleagues had been keen to incorporate the need of structural adjustment into the Plan during the drafting years: *By 1980-1981 when I was helping to formulate the strategy of the Fifth Plan, it had become quite evident that high growth alone would not be enough, nor desirable, nor sustainable in view of the growing domestic structural imbalances and the severe economic and financial constraints following the second oil shock and the longest and deepest recession the world had to face since the Great Depression. The Fifth Plan strategy was therefore deliberately designed to attain not only a more modest growth rate of around 5 to 6 percent annum, but also a more balanced pattern of growth. To achieve the balanced growth objective, a consistent package of economic restructuring programs was constructed to focus on four major areas: namely, stabilization, diversification, decentralization and cooperation of the Thai economy and society.*

Snoh, "Thailand: The Fifth Plan Strategy" in NESDB, *National Development Strategy of Thailand*, n.d., p.19. Indeed, the data utilized by the World Bank and IMF in their studies of Thai economy of the late 1970s and early 1980s was given or shared by the NESDB and other Thai authorities concerned, hence the conclusions of these studies were basically in line with the philosophy and strategy built in the Fifth Plan.

814.5 million (\$936 million) in 1981 and others in exchange of the bank-demanded structural adjustments. The adjustments were almost achieved by the mid 1980s to the extent of which the Fifth Plan and the World Bank's recommendations had envisaged (See Appendix 1).

The World Bank's Structural Adjustment Loans (SAL) programs, composed of SAL 1 of 1982 and 2 of 1984 which were regarded as one package required the kingdom to adjust six policy areas, namely agriculture, industry, investment incentives, energy, fiscal policy, institutional development.<sup>40</sup> In the industry policy area, the SAL programs required investment incentive structure reforms including tariff reform, restructuring reforms in eight specific sub-sectors, reforms of the Board of Investment incentive structure, export promotion measures, and reevaluation of the large-scale industrial projects.<sup>41</sup> Whatever the reason and motivation the World Bank and the Thai counterpart NESDB had in their minds, it is obvious that implementing the SAL programs were almost equal to a restructuring of Thai economic and social structure for an open and free market economy. This restructuring partly but certainly accounted the change of the Thai economy to become an export-oriented one, which actually happened with an unexpected booming in the late 1980s and early 1990s. Selected conditions, assessments and achievements of the SAL programs are shown in the Appendix 1 at the end of this thesis.

These efforts in Thai economic restructuring by the mid-1980s contributed to the economic boom in the latter half of the decade and early 1990s. The visible phenomenon of the boom appeared in the field of capital inflow to the kingdom from North East Asian economies, particularly from Japan. Though Japanese investment in Thailand goes back as early as to the 1960s, the volume remained relatively not high, compared with the investment from the U.S. The situation, however, greatly changed in the mid-1980s due to the appreciation of the Japanese yen. In 1985, the Group of Five (G5; U.S., U.K., France, Germany, and Japan) agreed that Japan would raise the value

---

<sup>40</sup> For a full and precise policy areas, see Chaipat and others, *Ibid.*, pp.54-72.

<sup>41</sup> Muscat, *Ibid.*, p.187; Chaipat, *Ibid.*, pp.54-55, 61, 65-66.



of yen against US dollar. Before the meeting of G5, the U.S. had maintained the value of dollar high to tackle the rising price of oil, and Japan on the contrary had kept that of yen low. Then, the dollar-yen ratio was significantly favorable for Japan to export its products overseas markets, especially the U.S., and eventually caused trade frictions between Japan and her trading partners.<sup>42</sup> After the meeting, though the frictions between them gradually eased, the Japanese manufactures at home began to seek new places of cheap labor to maintain their competitiveness in the international market. This led to the massive inflow of Japanese capital into Thailand. According to a calculation, the combined effects of the baht devaluation and the yen revaluation resulted in a 100% devaluation of the baht against the yen between 1986 and 1989.<sup>43</sup>

The thriving North East Asian economies poured a huge amount of their capitals to Thailand at the end of the decade at an excessive speed, which took a lead in the total amount of all the foreign direct investment in the kingdom, with the share of 59% (1986), 53% ('87), 74% ('88), 65% ('89), 66% ('90), respectively. More precisely looking at the inflow of each of the Economies, it must become clearer how substantial and voluminous the inflow was. Japanese capital drastically increased, being almost fourfold, over a year 1987-1988 and reached at last to 27.9 billion baht in 1990. Taiwanese invested just 0.7 billion baht in 1987 but the amount soared to more than ten times in 1990. Hong Kong's enthusiasm was more visible, making their investment in 1990 about nine times of the 1987 level. Thus, overall inflow from Northeast Asia mounted between 1987 and 1990, being almost nine-fold. Capital from Singapore and U.S. also showed a similar trend in those years

---

<sup>42</sup> Within Japan, the massive inflow of capital from overseas through foreign trade caused so-called "bubble economy" and some real estate firms dared to purchase the Empire State Tower in New York, hotels and condominiums in international resorts such as Hawaii, West Coast of the U.S., and the likes with the abundant financial stock at home. These purchases of the symbols of "American Spirit" caused harsh criticism among Americans. Also in Thailand, the Japanese capitals poured into realty developments such as golf courses and condominiums, and provoked abhorrence against Japan in some circles of the society.

<sup>43</sup> Pasuk and Baker, *Ibid.*, p.151. Thailand devaluated the baht several times in effect. In July 1981, the Bank of Thailand and Ministry of Finance decided 8.7% devaluation against US dollar and pegged it at the dollar. In November 1984, the authority devaluated the value of the baht 15% against the dollar. Since the baht was pegged at the dollar, the actual value of the baht depended on that of the dollar. Thus, after the appreciation of Japanese yen, the real value of the baht depreciated to certain extent.

(Table 3). The voluminous foreign capital was mainly poured into manufacturing industry, and as a consequence, the structural characteristic of Thai economy changed from agricultural-dominant to manufacturing-led one. (Table 4 and 5)

**Table 3. Net Flow of Foreign Direct Investment (1980-1991)**

Unit: Billion baht

	1980-5	1986	1987	1988	1989	1990	1991
<i>Japan</i>	1.7	3.0	3.3	14.6	18.8	27.9	15.6
<i>Korea</i>	-	-	-	0.3	0.3	0.5	0.3
<i>Taiwan</i>	-	0.1	0.7	3.1	5.1	7.2	2.8
<i>Hong Kong</i>	0.7	1.0	0.8	2.8	5.7	7.0	11.6
<i>Total N. E. Asia</i>	2.4	4.1	4.8	20.8	29.8	42.6	30.2
<i>Singapore</i>	0.7	0.4	0.5	1.6	2.7	6.1	6.5
<i>U.S.A.</i>	1.9	1.3	1.8	3.2	5.2	6.2	5.6
<i>U.K.</i>	0.3	0.3	0.3	0.9	0.2	1.1	0.3
<i>Germany</i>	0.2	0.2	0.4	0.6	0.8	1.2	0.8
<i>Others</i>	0.7	0.7	1.1	0.9	6.9	7.5	7.7
<b>Grand Total</b>	<b>6.1</b>	<b>6.9</b>	<b>9.0</b>	<b>28.0</b>	<b>45.7</b>	<b>64.7</b>	<b>51.4</b>

Note: the figure for 1980-1985 is an average. Source: Pasuk and Baker, (1995), p.156. Original Source: Bank of Thailand.

**Table 4. Foreign Direct Investment Inflow by Sector**

Unit: %

	1980	1985	1986	1987	1988	1989
<i>Industry</i>	26	31	31	53	58	47
<i>Trade</i>	19	25	26	9	14	18
<i>Services</i>	18	24	12	13	9	13
<i>Construction</i>	20	36	18	15	7	9
<i>Finance</i>	-5	-29	7	5	10	12
<i>Mining</i>	15	12	4	2	2	2
<i>Agriculture</i>	5	2	3	3	1	0
<b>% Export Oriented</b>	<b>41</b>	<b>77</b>	<b>63</b>	<b>88</b>	<b>88</b>	<b>n. a.</b>

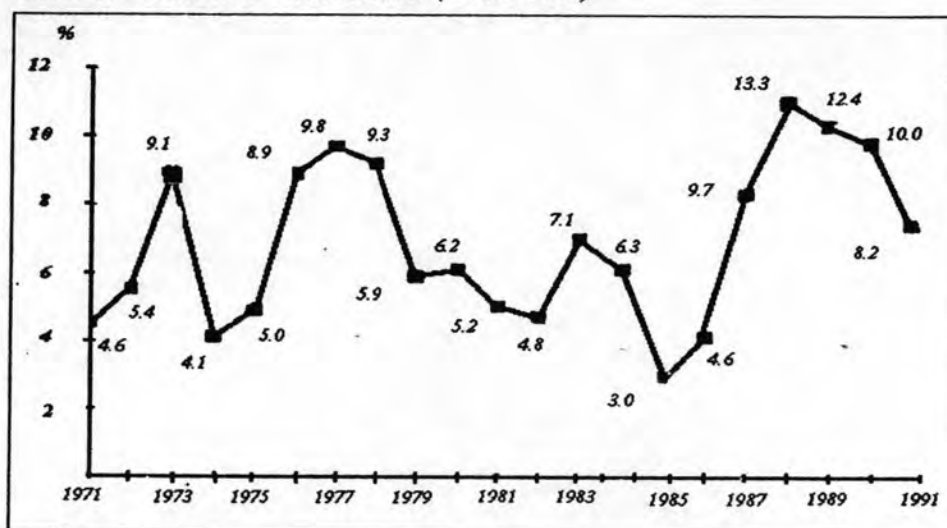
Source: Narongchai, Dapice and Flatters (1991), p.10. Original source: Bank of Thailand Quarterly and Monthly Bulletins, various issues.

**Table 5. GDP by Sector**

Unit: Million Baht, %

	Agriculture %	Industry %	Manufacturing %	Service %
1970	42,064 27	39,201 25	24,893 16	74,429 48
1980	61,770 21	92,287 31	64,984 22	145,415 48
1990	90,711 14	226,402 38	156,043 25	314,497 50

Excerpted from Pasuk and Baker, (1995), p.153. Original Source: Bank of Thailand.

**Table 6. Real GDP Growth Rate (1971-1991)**

Source: Warr and Bhanupong, (1996), p.45.

After all, the Thai economy enjoyed export-led growth in the late 1980s by virtues of the voluminous foreign capital inflow, the advantageous cheap labor, the emerging manufacturing industry, the export-oriented policies and schemes introduced during the restructuring period. The GDP growth rate, which had slumped in the early 1980s, revived in the second phase of the decade (Table 6).

## 2. Economic Expansion and Its Implication on Politics

The rapid economic growth in the 1980s was not limited to economic sphere. It brought substantial changes in the relations between business and politics at the same time. Often-pointed out regarding the relation a few decades ago was that the politico-business relation in Thailand was a patron-client norm. This was a great impact given by a number of observations by American political

scientist Fred Riggs and his notable work *Thailand: The Modernization of a Bureaucratic Polity*, Honolulu: East-West Center Press, 1966.

The relation, dubbed “*pariah* entrepreneurship” by Riggs, was basically full of suspicion and distrust. Phibun, for example, regarded the business community predominated by Chinese merchants as the ground to retrieve capital from aliens and the Chinese entrepreneurs in turn, under the nationalistic and educational policies, offered their seats of board of trustees to the Thai elites to buy protection for their business. Even when the government tried to enact the Trade Association Act and the Chamber of Commerce Act respectively in 1966, now Thanom’s tenure, the perception toward the associations was still full of suspicion. This continuous suspicion might be product of the underlining caution by the local Thai elites in the power circle of the “somewhat” alien Chinese since the reign of King Wachirawut, and of vigilance against the Chinese who might be involved with their home land where communists took control in 1949.<sup>44</sup> In any sense, soundly cooperative

---

<sup>44</sup> The Article 14 of the Chamber of Commerce Act of 1966 said: “a trade association of which half the number of its membership is not Thai nationals shall be established and existed only in Bangkok and Thonburi”. Translated by and quoted in Montri Chenvidyakarn, “Economic Interest Groups in Thailand: Some Observations on the Legal Aspects, Public Policy and Political Process” in *The Review of Thai Social Science: A Collection of Articles by Thai Scholars*, The Social Science Association of Thailand, 1977, p.236. Montri quotes an interesting remark of a former president of Thai Contractors Association who described the atmosphere of which the Association was founded, probably in the latter half of 1940s:

*All of us professional contractors therefore see the necessity to think of the interest of the majority by joining together to set up the Thai Contractors Association to make demands upon the State, Oops!, No, to appeal for sympathy and interest in the situation which was harmful to the country, to the employers, especially the largest “employer”, i.e., the State. We were at that time afraid to consolidate our force because 25 years ago, we didn’t know yet how to set up “centers”. The Martial Law at that time was also more severe than at present. Any meeting of the association could not be held without giving advance notice to the local police who sent a police officer to attend it. After repeated attendance, he sometimes sat yawning and later stopped coming. But even then, we were afraid that we might have to sleep in jail letting ourselves bitten by mosquitoes, and eating only food from pinto...*

Montri, *Ibid.*, footnote on p.228. Contrary, another analysis of the restrictions by the government suggests “ineffectiveness” of them at some circles. Muscat explains loopholes of the restriction, against the Chinese in his case, quoting a part of Richard J. Coughlin, *Double Identity: The Chinese in Modern Thailand*, Hong Kong University Press, 1960, pp.136-137;

*By the late 1950s the economic nationalism fashioned... (But) Coughlin concluded, in 1960, that the Chinese minority “has not been greatly disturbed economically” despite the impression one might gain from a catalogues of the restrictions. Coughlin cites several reasons for the “ineffectiveness” of the entire policy—the main occupations of the Chinese were not touched by the regulations; the community was responding by adopting Thai citizenship; administering officials could be bought off; regulations had loopholes that could be exploited;*



public-private relations seemed unformed till the late 1970s.<sup>45</sup>

## 2.1 Institutionalized Channel between Public and Private Sectors

It was during the Kriangsak administration when public and private relations came into existence to the extent of which the entity composed of the both sectors played certain roles in policy formulation. In May 1978, the Kriangsak government established a government-business consultative entity designated as Committee on Economic Affairs to exchange opinions between the two sectors and implement them into practice. While the key reason for establishing the committee was to tackle the problems and issues stemmed from the recession in the years, it has been believed that since Kriangsak, unlike premiers such as Sarit Thanarat and Thanom Kittikachorn, lacked his powerbase in the military sector, he tried to mobilize social forces other than military such as business associations and labor unions.<sup>46</sup> This attempt to strengthen the relations didn't work effectively as desired because the committee's work basically was an "ad hoc style" for solution only of immediate needs and problems, and because it was disrupted periodically by the "frequent changes in government"<sup>47</sup>. The Fifth Plan evaluated the achievement of public-private relations during the Forth Plan period as "not yet been pronounced" because of the red tape in the public

---

*and enforcement generally was not rigorous.*

Muscat, *ibid.*, pp.55-56.

<sup>45</sup> Anek Laothamatas, *Business Associations and the New Political Economy of Thailand: From Bureaucratic Polity to Liberal Corporatism*, Westview Press, 1992, p.29. The Third Plan (October 1971-September 1976) assigned the following tasks to the government:

- 1) Encouraging business to organize, especially in pivotal sectors such as exports, tourism and finance;
- 2) Encouraging the participation of business associations in various committees working on problems detrimental to national economic development;
- 3) Encouraging the establishment of a joint public-private committee in charge of the improvement of coordination between the government and the public sector.

Translated by Anek in his *ibid.*, p.29., from NESDB, *The Third National Economic and Social Development Plan, 1972-1976* [in Thai], 1973, pp.136-138.

<sup>46</sup> For the Committee from the private sector, representatives were sent from the three major business and trade associations, namely the Board of Trade, the Thai Association of Thai Industries, and the Thai Bankers Association. These associations together had already formed their loosely-connected private Joint Standing Committee on Commerce, Industry and Banking of Thailand, which also played a local chamber of ASEAN Chambers of Commerce and Industry. It has been said that the Joint Committee followed the Japanese Keidanren (or Japan Federation of Economic Organizations) as a model. The Keidanren has maintained close and intimate ties with Japanese Ministry of Trade and Industry and other ministries concerned, and the ruling Liberal Democratic Party, on economic and industrial policy.

<sup>47</sup> NESDB, *Fifth Plan...*, p.338.

sector on one hand and profit maximization without social responsibility in the private sector on the other, and of no formulation and mechanism for better coordination in the public sector, and others.<sup>48</sup>

The Fifth Plan envisaged desirable relations between public and private sectors in order to “reduce government interference in the market and facilitate the development of private business” during the Plan period. For this objective, the Plan urged establishment of centers composed of the both sectors for “monitoring and evaluation of development efforts” at the national, ministerial, and local levels in which they would direct operational plans and “speedily correct mistakes”.<sup>49</sup>

The objective became materialized in June 1981 when the Prem Tinsulanonda’s administration installed a cooperative entity between the sectors designated as Joint Public-Private Consultative Committee (JPPCC) with secretarial service being provided by the NESDB.<sup>50</sup> The committee was organized with the membership of representatives of the Thai Chamber of Commerce, the Thai Bankers Association, and the Association of Thai Industries from the private side while Premier Prem as Chairman, and other ministers and high-profile bureaucrats concerned with economic and industrial policy participated from the public sector. The Joint Committee had a structure that the Committee set up its provincial version, Provincial JPPCC, all over the kingdom with provincial governors would head them, and the National Committee would supervise the local

---

<sup>48</sup> NESDB, *Ibid.*, pp.339-340; Anek, *Ibid.*, pp.37-38. On the relation between government and business sectors, the then NESDB Secretary General Snoh Unakul recalled that there had been “distrust” and “arrogance” existent in both sectors:

*Prior to the Fifth Plan period, the atmosphere of public/private sector relationships was not good. There was a prevailing sense of distrust, and elements of arrogance on both sides. The public sector regarded the private sector as selfish entrepreneurs and thinking only of their personal profits with little sense of social responsibility. The private sector, on the other hand, suspected Government officials of being extremely inefficient, corrupt and bureaucratic in their working attitude. The two points of views were rarely reconciled as there was no formal and effective mechanism to bring about more fruitful dialogues.*

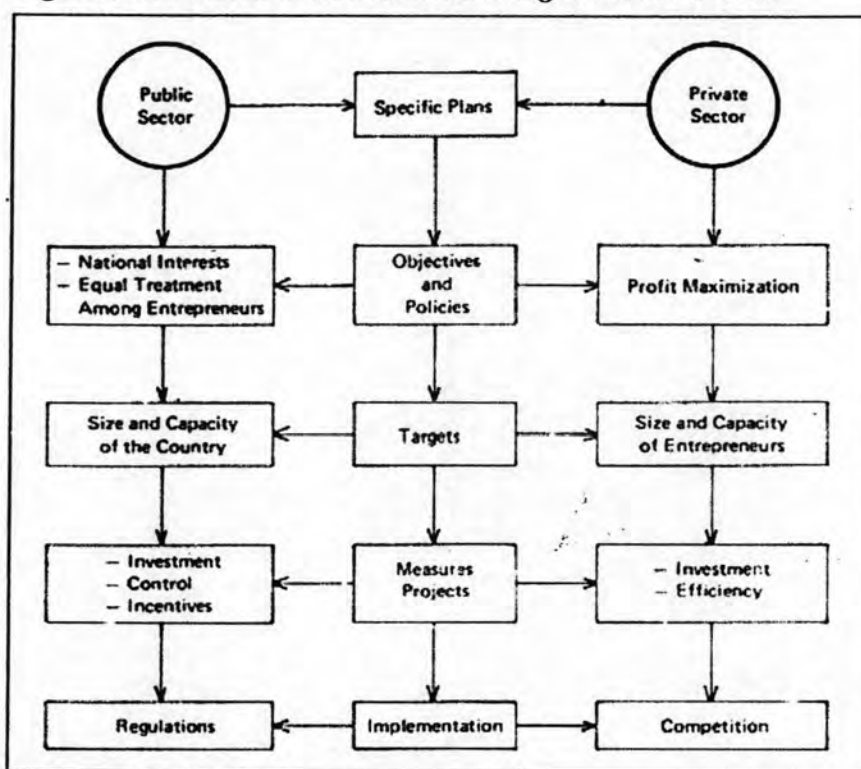
Snoh, *Ibid.*, p25.

<sup>49</sup> NESDB, *Ibid.*, p.3.

<sup>50</sup> A permanent consultative entity was lobbied by the three major associations, namely TCC, TBA, and ATI, after leaders of them had agreed that a public-private committee should be set up because ad hoc style demands by the business sector to the government in the ad hoc style committee was neither effectively listened nor implemented, particularly after the former president of TBA Boonchu Rochanasatien resigned from deputy prime minister in charge of economic affairs, who had played as a key channel to communicate the two sectors at his personal capacity, during the Prem 1 administration (March 1980-March 1981). Anek, *Ibid.*, p.39.

ones. The number of provincial JPPCC reached the same number of provinces in the kingdom by 1987, which was 72.<sup>51</sup> The main focus of the activities of the National JPPCC were 1) reviewing and improving laws and regulations abstracting private entrepreneurial activities, 2) policy formulation, 3) information and data collection and dissemination, 4) developing agriculture and agro-industry, and 5) developing a provincial partnership.<sup>52</sup>

**Figure 5. The Public-Private Relation Designed in the 5<sup>th</sup> Plan**



Source: NESDB, (1981), p.341.

The meeting of National JPPCC was held on a monthly basis and presided by the Premier at most occasions. By 1984, the National Committee set up subcommittees on taxation reform (1982), tourism promotion (1982), customs reform (1984), and energy policy (1984),<sup>53</sup> and

<sup>51</sup> *Ibid.*, p. 71.

<sup>52</sup> Kraiyudht Dhiratayakinant, "Public-Private Sector Partnership in Industrialization" in Medhi, ed., *Ibid.*, pp.110-111.

<sup>53</sup> Suehiro, "Tai Kenkyu..." in Suehiro and Higashi, *Ibid.*, pp.42-43. Original source of Suehiro is NESDB (JPPCC), *17 Pi Ko. Ro. Oo* (17 Years of JPPCC) [in Thai], 1998, pp.20-22.

three regional meetings were held in the North, the South, and the North East between 1984 and 1986 to discuss economic affairs of the respective regions and promote formation of provincial JPPCC.<sup>54</sup> At the place of the National JPPCC meetings of 46 times by the mid-1986, the members reached 34 key issues of which 15 were raised by the JPPCC Secretariat (that is NESDB) while 17 were by the business side, and 2 by the both sides.<sup>55</sup>

Significant here is that Thai industrialists came to organize themselves so as to push their interests in line with the philosophy of the JPPCC. The number of provincial chambers of commerce drastically increased by the mid-1980s, from just 2 in 1967 and 6 in 1981, through 15 in 1983, to the maximum possible 72 in 1986, with a membership increase from 778 in 1980 to 1,089 in 1986.<sup>56</sup> The membership increase of the ATI between 1980 and 1985 was more drastic, from 605 in 1980 to 1,317 in 1985, and the trend continued thereafter. With the organized power, the Chiang Mai Chamber of Commerce, for example, lobbied the Ministry of Communications to upgrade the provincial Chiang Mai airport to an international airport and they finally succeeded. The Nakorn Ratchasima Chamber tried to persuade the Ministry to expand the highway from Bangkok to their home province.<sup>57</sup> The magnitude of provincial chambers' activities sometimes became discordant with national policy, something being like political pressure groups. For example, the chambers of the North East came to urge a liberalization of trade across the borders with socialist Laos and Kampuchea; and the chambers of the South warned the government to resolve the crimes and violence in the region.<sup>58</sup> Though these examples were some extreme things in evaluation of the

<sup>54</sup> Anek, *Ibid.*, p.59 and p.70.

<sup>55</sup> *Ibid.*, p.70. Another research on the JPPCC shows different figures. Rangsana Thanaphonphan says that among 143 issues discussed, 87 were raised by the private sector while 14 by the public, 40 by the both sides, and 2 unknown. Rangsana, *Krabuan Kan Kamnot Nayobai Settakit nai Prathet Thai: Bot Wikhro Choeng Prawattisat Settakit Kan Muang Pho. So. 2475-2530* (Economic Policy Decision Process in Thailand: Historical Analysis of Politics and Economy of Thailand 1932-1987) [in Thai], Social Science Association of Thailand, 1989, translated into Japanese and introduced by Suehiro, *Ibid.*, pp.41-42.

<sup>56</sup> Anek, *Ibid.*, Table 2.6 on p.40, p.48 and p.71.

<sup>57</sup> *Ibid.*, p.63.

<sup>58</sup> *Ibid.*, p.64 and pp.95-97.



effectiveness and power of the business communities, it was certain that so called bureaucratic red tape and delays which had hindered private business activities were being removed or eliminated to a substantial extent.<sup>59</sup> And interesting is that the complaints by the private sector of the reduction, removal, and elimination of seemingly unnecessary laws and regulations were almost congruent with the conditions upon which the World Bank required the government to allocate the Structural Adjustment Loans. In sum, the Thai business communities during the period came to be assertive on their own interpretation of interests and more or less succeeded in creating officially institutionalized channels.

## **2.2 Increase of Business-Related Representatives in the Lower House**

In addition to the organized power and institutionalized channels with the government under the Plan, the economic expansion invited a change in relations between the government and business communities at another place too. The change occurred at the House of Representatives. Between the 1979 and 1988 elections, Thai politics was relatively stable under the leadership and management of premier Prem. During the period, participation of non-traditional forces of the society gradually increased through the semi-democratic parliament, particularly in the lower house. Accordingly their political clout came to prevail to the extent that the business-cum-representatives in the House finally occupied some 70% of all the seats in the House.

Technically, this was a consequence in part of a series of liberalization of the laws on political party system and promulgation of the 1978 Constitution, which aimed at fostering participation of politicians through political parties. Immediately after the October 1977 coup, the Revolution Council announced its intention to hold a general election by the following year under a new constitution after accomplishing drafting it. The new Constitution was proclaimed in December 1978 under which candidates for the House should belong to political parties. The election was

---

<sup>59</sup> For a precise description of examples upgraded by the efforts in the JPPCC, see *Ibid.*, pp131-144.

carried out in fact in April 1979 and the number of the elected with business careers occupied 112 (32.7%) out of the total 301 seats. (Table 7)

Before the 1983 elections, any eligible candidate for the House could stand either as a party-registered member or as an independent, at least in theory. While the Constitution required candidates to affiliate to political parties, while the provisional measure allowed them to stand at individual capacity. Thus in theory, anyone eligible could run for a general election, without affiliating to political party. This mechanism, however, changed in 1983 with termination of the measure. The elections hereafter would be administered under the provision of the Constitution which required any candidate must be a member of parties.<sup>60</sup> That is to say, an independent candidate could not, and only those picked up by political parties could run for the House.

**Table 7. Classification of Representatives by Occupation** (Unit: %)

	<i>Business</i>	<i>Bureaucrat</i>	<i>Lawyer</i>	<i>Journalist</i>	<i>Doctor</i>	<i>Farmer</i>	<i>Teacher</i>	<i>Others</i>
1933	19.2	34.6	26.9	3.8	2.6	10.3	-	9.0
1957	26.3	28.8	27.5	1.3	-	6.9	3.1	7.4
1957	27.5	26.3	23.1	5.0	1.9	8.1	3.1	11.9
1969	45.7	20.6	16.0	1.4	1.8	5.5	1.4	10.8
1975	34.6	12.3	17.5	3.7	2.2	8.6	7.4	19.6
1976	29.4	22.2	11.8	2.2	3.6	5.7	8.6	22.3
1979	37.2	18.4	13.6	0.7	1.7	8.6	7.3	15.0
1983	38.3	10.2	10.2	n.a.	1.9	4.3	n.a.	35.2
1986	53.6	13.8	12.7	0.5	2.0	2.0	8.0	6.9
1988	68.0	7.0	13.4	1.4	1.9	2.2	2.5	3.3

Note: The first general election was held in November 1933. There were two elections in 1957. "Bureaucrat" includes the incumbent and retired, "doctor" refers to physicians and pharmacists, and "teacher" includes professors. Source: Pasuk and Baker, (1996), p. 338; Anek, (1992), p.33. Original source: Krirkkiat Phipatseritham, *Economic Change and Human Rights Issue in Thailand* [in Thai], Thai Kadhi Research Institute, 1985, pp.466-467.

<sup>60</sup> Richard F. Doner and Anek, "Thailand: Economic and Political Gradualism" in Stephan Haggard and Steven B. Webb eds., *Voting for Reform: Democracy, Political Liberalization, and Economic Adjustment*, Oxford University Press, 1994, p.428-429; "The 1981 Political Party Act" translated and compiled in Eiji Murashima, Yoshiyuki Hagiwara, and Ikuo Iwasaki eds., *ASEAN-Shokoku no Seitoseiji* (Party Politics in the ASEAN Countries) [in Japanese], Tokyo: Institute of Developing Economies, 1993, pp.280-292.

Additionally, the 1981 Political Party Act obliged any party to have a membership of more than 5,000, as well as to have at least 50 members in a provincial chapter which should be existent at least in 5 provinces in all of the regions. These regulations were tougher than those of the 1974 Political Party Act which, for example, required a membership of at least only 1,000 to establish a party and no specific mention about disperse of the membership all over the regions in the kingdom.<sup>61</sup> According to Kato, the toughening of regulations in the 1981 Act aimed at avoiding an increase of small parties which often could result in lack of majority in the House, thus causing deteriorating political environments.<sup>62</sup> Through the reshuffling and reorganization of parties under the new Act, the number of the parties with representatives in the House reduced to 9 of immediately after the 1983 general election, from 14 in the 1979, 19 in the 1976, and 22 in the 1975 elections, respectively for example.<sup>63</sup>

The political participation in the House under the new mechanism, as a consequence, augmented the value of finance in election campaign, i.e. only those who were well-equipped to collect money for meeting the conditions prescribed in the Act could establish political parties. And only those persons who were financially affordable could run for the House partly because the parties once established needed financial sources to maintain the existence of them. The source in the society for such needs, generally speaking, lay in business community. Therefore, the value of politicians with financial affordability, or politicians-cum-private business in other words, increased drastically. Indeed, the percentage of the representatives with business backgrounds substantially increased in the 1983 election to 38.3% out of all the seats in the House, and the figure exceeded to the extent that more than half of representatives in the House was occupied by such members for the

---

<sup>61</sup> Kazuhide Kato, *Tai Gendai Seijishi* (The Modern History of Thai Politics) [in Japanese], Tokyo: Koubundou, pp.230-231; "The 1981 Political Party Act" in Murashima and others eds., *Ibid.*, p.281.

<sup>62</sup> Kato, *Ibid.*, p.230.

<sup>63</sup> 42 parties ran for the 1975 general election, 39 parties for 1976, 38 groups for 1979, and 11 parties for the 1983 elections, respectively. In the case of 1979 and 1983 elections, though candidates didn't necessarily belong to political party due to the provisional measure attached to the 1978 Constitution, they virtually formed parties, groups, or factions for these respective elections.

first time since the first general election of 1933. The trend accelerated more in the 1988 election, in which such politicians accounted for 68% of all the seats and this eventually contributed to the emergence of Chatichai as new premier (Table 7).

**Table 8. Occupational Distribution of Cabinet Members**

Premier	Tenure Began	No. of Ministers	Bureaucrats/ Others(1)	Business Persons(2)	Share (%)	
					(1)	(2)
<i>Sarit</i>	February 1963	14	14	0	100.0	0.0
<i>Thanom 1</i>	December 1963	18	17	1	94.4	5.6
<i>Thanom 2</i>	March 1969	25	24	1	96.0	4.0
<i>Thanom 3</i>	December 1972	28	25	3	89.3	10.7
<i>Sanya 1</i>	October 1973	28	24	4	85.7	14.3
<i>Sanya 2</i>	May 1974	31	28	3	90.3	9.7
<i>Seni 1</i>	February 1975	30	22	8	73.3	26.7
<i>Kukrit</i>	March 1975	27	11	16	40.7	59.3
<i>Seni 2</i>	April 1976	31	20	11	64.5	35.3
<i>Thanin</i>	October 1976	17	16	1	94.1	5.9
<i>Kriangsak 1</i>	November 1977	33	31	2	93.9	6.1
<i>Kriangsak 2</i>	May 1979	43	34	9	79.1	20.9
<i>Kriangsak 3</i>	February 1980	38	33	5	86.8	13.2
<i>Prem 1</i>	March 1980	37	20	17	54.1	45.9
<i>Prem 2</i>	January 1981	40	28	12	70.0	30.9
<i>Prem 3</i>	December 1981	41	24	17	58.5	41.5
<i>Prem 4</i>	May 1983	44	23	21	52.3	47.7
<i>Prem 5</i>	August 1985	44	23	21	52.3	47.7
<i>Chatichai 1</i>	August 1988	45	12	33	26.6	73.3

Source: Anek (1992), p.34; Pasuk and Baker (1995), p.339. Some were reprinted from Krirkkiat (1985), pp.472-475.

Also in the executive branch, this trend of business-turned and/or business-related politicians' dominance occurred. This was partly because PM Prem's managed democracy under which not only high-ranking officers of the military but also other social forces such as economic and academic circles, and sometimes opposition groups were invited to his executive machinery. Indeed, he set up a lot of so-called committees, boards, advisory councils to win them over to his



side and these entities in turn provided them of opportunities with which they could assert their interests. These efforts by Prem were generally regarded as a gradual development to a full democracy in the near future. The majority of the cabinet members occupied by the business persons came to be over 60% for the first time since the democratic administration of Kukrit Pramoj in the mid-1970s. (Table 8)

### **3. Indochinese Economies**

#### **3.1 Vietnam: Recovering from Policy Failure**

For Vietnamese economy, the year 1986 was the threshold. In December of the year, Communist Party of Vietnam adapted a new set of schemes, known as Doi Moi, to recover the devastated economy. Before the Doi Moi, the economy in the socialist country was severely stagnant partly because of the sequela of the prolonged series of wars for independence after the 1945, and partly because of failure of unrealistic policy of the party. In the political arena, a new generation who didn't adhere to the central-planned socialist policy came to join the politburo by the years. Through the harsh controversy between the conservatives and reformists in the early 1980s, the reformists gradually extended their clouts and finally gripped the leadership of the party at the Sixth Party Congress in December 1986 in which Ngyen Van Linh, a long time standard-bearer of liberal economic schemes to innovate the economic structure, was elected to the party's Secretary General.

Before the Congress which adopted the innovative Fourth Five-Year Plan (1986-1990), the degree of stagnation of Vietnamese economy had already reached at the level of devastation. Though the First Plan (1976-1980) aimed at reconstructing the war-torn economy by drawing foreign investment even from the western world, placing a weight on developing heavy industry, this objective fell sooner by the Vietnamese themselves<sup>64</sup>: Vietnam gradually invaded the neighboring Cambodia and captured Phnom Penh in December 1979 and most of the western countries applied

---

<sup>64</sup> Vietnam affiliated to IMF, the World Bank, and Asian Development Bank in 1976; and enacted the first Regulations on Foreign Investment in the Socialist Republic of Vietnam in April 1977.

economic sanctions against the socialist country; Chinese withdrew their assistance and aid to the Vietnamese as a retaliation of the invasion; the stationing of Vietnamese armed forces in Cambodia burdened themselves with a great amount of expenditure.

Moreover, the measures the Vietnamese authority took to achieve the ambitious target of the economy, e.g. development of heavy industry, were quite unrealistic. The industrialization policy were conducted under a blueprint that the government would purchase agricultural products from peasants at a quite low price and appropriate the products for employees of other sectors such as industrial sector as part of their wages, thus curtailing monetary expenditure. The government tried also to low-cost products of agricultural resources at a high price in foreign markets, thus producing certain interest. This attempt, however, faced severe resistances in the agricultural sector, particularly in the former "capitalist" South Vietnam where as radical policy of socialization went on a deadlock because of the opposition against collectivization of farmers, imposing of the cheap price purchase of rice solely by the government and the crackdown of Chinese "middlemen" of rice exporters, and so on.<sup>65</sup>

These "political" maneuverings invited miserable outcomes by the mid-1980s. GDP growth rate continued to fall down from 8.4% in 1984, to 5.6% in 1985, 3.3% in 1986, and 2.6% in 1987.<sup>66</sup> The most negative account for the growth declining was hyperinflation which reached as far as 478% in 1986, mainly due to a decline in food production.<sup>67</sup>

---

<sup>65</sup> Junichi Murai, "Present State of the Doi Moi and Its Prospect" in Shigeru Itoga ed., *Baats Keizaiken no Tenbou* (A Prospect of Baht Economic Zone) [in Japanese], Tokyo: Institute of Developing Economies, 1993, pp.66-67; Nayan Chanda, "The New Revolution", *FEER*, 10 April, 1986.

<sup>66</sup> Mya Than and Joseph L.H. Tan, "The Vietnamese Economy in Transition: Introductory Overview" in Than and Tan eds., *Vietnam's Dilemmas and Options: The Challenges of Economic Transition in the 1990s*, Institute of Southeast Asian Studies, 1993, pp4-6.

<sup>67</sup> Than and Tan, *Ibid.*, p.5. The main cause of the hyperinflation lied in the failed collectivization of farmers in the series of agricultural policies in the early phase of the decade. The sixth plenum of the Party in September 1979 introduced a package of schemes (see footnote No. 69 below), and in line with this, the Party adopted new schemes on agricultural reform as one of composites of the Third Plan (1981-1985) with which the government would freeze production quota for the following five years, lift purchasing price of agro-products 500% above the hitherto price, and grant peasants the right to surplus over fixed quota in the free market. However, the new scheme of the 500%-up purchasing rate of agricultural products consequently invited a severe budgetary deficit in the public coffer because the form

In conjuncture at the Sixth Party Congress in December 1986, the Communist Party of Vietnam decided to tackle the failures they had created. The Congress adopted the reformist Doi Moi, or Renovation, in which a set of programs with a certain extent of market economic system was endorsed as a new policy.<sup>68</sup> The key elements of Doi Moi were:

- 1) decentralization of state economic management and autonomy to state-owned enterprises in making decisions relating to production, distribution, and financing;
- 2) Replacement of administrative measures and controls by economic ones and in particular the use of market-oriented monetary policies to control inflation;
- 3) Adaptation of an outward-oriented policy in external economic relations, by adapting realistic exchange rates and a liberal foreign investment law in 1988;
- 4) Adaptation of agricultural policies which allowed for long-term usufruct right and greater freedom in marketing products;
- 5) Reliance on pr acceptance of the private sector as the engine of economic growth.<sup>69</sup>

As briefly touched above and in the footnote No.69, the financial system in Vietnam at the time was quite unstable and unreliable for further economic development. Hence, the government tried to invite foreign capital through investment. The National Assembly adopted the Foreign Investment Law in December 1978 which declared "foreign organizations and private persons may

---

of salary for employees in other sectors, i.e. supplying by agricultural spots, continued even during the Plan period. Thus, the government was forced to finance the difference from national coffer by borrowing from the central bank, thus the bank therefore had no other choices than increasing money supply. The average rate of inflation during the Third Plan period reached at 74.2%. In sum, this was a typical vicious cycle of socialistic economic management: the subsidy for agricultural products in the form of the 500% lift-up of purchasing rate → public deficits → money supply more than actual demand in financial market → inflation. Murai, *Ibid.*, pp.66-71.

<sup>68</sup> Nevertheless, the party had already employed some free market style measures in part in the field of agricultural management. In 1979, the party plenum introduced a rescue package of reforms allowing farmers a greater responsibility in the production process and granting them the rights to sell a surplus over the government-fixed quota in the free market. This package became a ground for the future Doi Moi. Chanda, *Ibid.*

<sup>69</sup> Myo Thant and Richard W. A. Vokes, "Vietnam and ASEAN: Near-Term Economic Co-operation" in Mya Than and Joseph L. H. Tan eds., *Ibid.*, p.240. In addition, other important measures employed were: 1) Abolishment of the subsidized distribution of food and other essentials to employees and instead introduction of cash compensation, 2) decision to allow private industrial enterprises to employ up to 10 employees, 3) granting provincial governments the right to engage in foreign trade, 4) proposal to set up export processing zones, 5) decision to cut down the size of its bureaucracy by 20% to 25%. Chanda, *Ibid.*

invest in Vietnam in any sector of the economy” and allowed even 100% foreign capital entities. In addition the Law provided guarantee for foreign investment against expropriation and nationalization, and for the transfer of income, profit, and capital out of Vietnam.<sup>70</sup> With the proclamation of the Law, foreign direct investment steadily and rapidly increased in Vietnam.

The serial reforms partly based on market economic philosophy after the official declaration of Doi Moi, the economic structure as well as the policy interest in the government side gradually but apparently changed. In the structural phase, the co-operatives, which had played a dominant role in economic activity by the mid-1980s, reduced their share in gross production from 28.1% in 1986 to 12.3% in 1990 while private enterprises increased their productivity from 15.6% to almost doubling 29.1% during the period (Table 9). The increase of private business and decrease of state-owned one showed the same trend in labor force in number (Table 10). With these efforts under Doi Moi, Vietnamese GDP growth, which had touched bottom at 2.6% once, turned an upward direction.

**Table 9. Index of Gross Production of Industry, by Structure**

	1986	1987	1988	1989	1990
<b>Total</b>	106.2 (100%)	116.8(100%)	133.5(100%)	129.1(100%)	133.2(100%)
<i>Central Gov.</i>	105.6 (33.8%)	112.7(32.8%)	126.6(32.2%)	134.0(35.3%)	154.6(39.4%)
<i>Local Gov.</i>	107.1(22.5%)	121.0(23.1%)	145.1(24.3%)	125.5(21.7%)	114.3(19.2%)
<i>Co-operatives</i>	114.8(28.1%)	121.5(27.1%)	122.7(23.9%)	78.4(15.8%)	62.7(12.3%)
<i>Private</i>	93.5(15.6%)	112.2(17.0%)	147.9(19.6%)	198.9(27.2%)	219.6(29.1%)

Note: Index: Year 1985 = 100. Figures placed within parentheses are shares of sectors. Source: Tetsusaburo Kimura, “Present Phase of Transition to Market Economy in Vietnam” in Mya Than and Tan, (1993), p.55. Original Source: Tong Cuc Thong Ke, *Nien Giam Thong Ke 1990* Hanoi: Nha Xuat Ban Thong Ke, 1992, pp.30-32.

<sup>70</sup> Dan Ton That, “The State and Economic Development in Vietnam’s Reconstruction” in Than and Tan eds., *Ibid.*, p.43.



**Table 10. Number of Cooperatives and Work Force between 1988 and 1990**

	1988	1990	Comparison
Co-operatives	5,551	3,275	-2,276
<i>Work force</i>			
Private sector	923,300	1,049,000	+125,700
Co-operative sector	1,177,800	458,100	-719,700
State sector	843,900	743,900	-100,000

Compiled from data in Kimura in Than and Tan, (1993), p.56. Original data is from Tong Cuc Thong Ke, (1992), p.66.

### 3.2 Laos: Middle Course between Capitalist and Socialist Economies

Interestingly, the Lao People's Democratic Republic has followed a middle course between capitalist and socialist ideologies regarding economic management since the installment of socialist regime in 1975. The Laotian socialist regime didn't abandon her membership of the IMF, thus accepting capitalist policy recommendations and advices from IMF and World Bank to some extent while maintaining economic ties with her fellow associates in the Eastern world simultaneously. Nevertheless, until the mid-1980, the Lao government was heavily influenced by the socialist model of centrally planned economy. After the visit of a delegation of the Council for Mutual Economic Assistance (COMECON) to the country in January 1978, a number of agreements on economic and technical assistances with the Soviet Union and other socialist countries were concluded and a great number of "advisers" from the Eastern bloc stayed in Laos.<sup>71</sup> With the assistance from the Soviet economic policy planning authority, the GOSPLAN, the Laotians launched the first intermediate three-year plan (1978-1980) during which the regime intensified the campaign of collectivization of farmers and their businesses between June 1978 and July 1979. But it suddenly failed as, an official statement admitted, "the people, including the peasants, have become seriously discouraged and

<sup>71</sup> Dorothea Arndt, "Foreign Assistance and Economic Policies in Laos, 1976-1986", *Contemporary Southeast Asia*, Vol.14, No.2, September 1992, p.191. Arndt gives the figure of "2,000" for the number of advisers, quoting it from Martin Stuart-Fox ed., *Contemporary Laos*, Santa Lucia, 1982, p139.

unhappy", thus seriously affecting and delaying production.<sup>72</sup>

The Laotian government launched the First Five-Year Plan in 1981 after admitting some failures they had committed.<sup>73</sup> However, although the Plan introduced autonomous managements in the state-owned enterprises and price adjustment of basic commodities in line with actual values, it was basically a socialist command model. The government under the Plan still continued to bring the economy as a whole and the dominant agriculture under the state watch by introducing price control and subsidy systems, regulating the trade, adopting regional self-sufficiency in rice production, and expanding the public sector production and distribution systems.<sup>74</sup> According to a Lao policy maker of the 1990s, there were some progresses toward economic development, especially in rice production in the Plan period but these progresses were paid off by negative effects such as inflation and budgetary deficits.<sup>75</sup> During the period, a certain degree of autonomous management in state enterprises was introduced to 3 enterprises "on an experimental base" at first in 1982 to negotiate contracts independently with both domestic and foreign companies. They reportedly could gain certain amount of profits and the experiment was extended to four more state companies in 1985.<sup>76</sup> After the experimental introduction of capitalistic measures into the managerial reform, a series of reforms was gradually introduced into other areas of Laos's economy. The measures, generally

---

<sup>72</sup> Arndt, *Ibid.*, p.192.

<sup>73</sup> Then Premier Kaysone Phomvihān acknowledged some failures in the economic policy management in November 1979:

*Many mistakes have been made... there is a tendency to stamp out the various non-socialists economic sections too soon... This is why production fails to be promoted and expanded... Various phenomena indicating discouragement among the people in society can be seen... For this reason it is necessary to transform the system of economic management.*

Quoted in *Ibid.*, from Kaysone Phomvihān's Report, in BBC, *Summary of World Broadcasts, The Far East*, FE/6343/C/6 (12 February 1980).

<sup>74</sup> Chanthavong Saignasith, "Lao-Style New Economic Mechanism" in Mya Than and Joseph L.H. Tan eds., *Laos' Dilemmas and Options: The Challenge of Economic Transition in the 1990s*, Institute of Southeast Asian Studies, 1997, p.23.

<sup>75</sup> *Ibid.*, pp.23-24. Chanthavong is Director, Department of Planning and Public Investment Programs, Committee for Planning and Cooperation, Lao LDP, as of 1997. In the words of Chanthavong, these were "high inflation, large budgetary deficits, increasing trade deficits, overvalued and multiple exchange rates, inadequate level of public resource to finance and manage the expanding number of public sector projects, and growing dependence on foreign borrowing". *Ibid.*, p.24.

<sup>76</sup> Arndt, *Ibid.*, p.198.

dubbed New Economic Mechanism under *Chin Tanakan May* or the New Imagination Policy, were endorsed at the Fourth Party Congress in November 1986 and continued thereafter. They included 1) privatization of state enterprises, 2) legal and regulatory reform including the proclamation of the Foreign Investment Act, 3) abandonment of price control and intervention to trading, 4) establishment of a single exchange rate based on actual state of the economy, 5) abolishment of subsidies, 6) reforms of taxation system and government finance, 7) restructuring of banking service, 8) reviewing of the currency and credit, and 9) reduction of import duties and improvement of customs service.<sup>77</sup> These measures required the state enterprises to make profits by their own business efforts and the enterprises were allowed to negotiate and establish joint ventures with foreign partners. The reform of economy under the New Economic Mechanism in the first round (1986-1988) focused on improving the structure and performance of state enterprises together with changes in finance and banking services, and selected deregulation of agricultural marketing arrangement. During the second round (after 1989), the reform was intensified and extended so as to "incorporate the establishment of a market-based economy" by transformation of the economic structure, incentive systems, and the role of the State.<sup>78</sup> Indeed, as (Table 11) indicates, economic structure of the country steadily changed increases of contribution of industry and service sectors while a decrease of the traditional agricultural sector.

External trade business was almost monopolized by state enterprises before the NEM but now other private and mixed companies were licensed to do the business.<sup>79</sup> And the Foreign

---

<sup>77</sup> Shigeru Takehara, "Liberalization Policy and Economic Development in Laos" in Itoga ed., *op.cit.*, p.121. About 125 state-owned production units, out of a total of 300 nationwide, turned into "autonomous economic enterprises" by the end of November 1986. *FEER*, 31 Dec 1987.

<sup>78</sup> Chanthavong, *Ibid.*, p.27.

<sup>79</sup> Before the New Imagination Policy, most of the foreign trade of Laos was with socialist countries, and foreign trade deficit was financed by economic assistances and aids. Nevertheless, the assistance from the socialist bloc was conditional upon an expansion of trade between Laos and them. Kaysone expressed dissatisfaction with the foreign trade style of the socialist bloc around 1980 and urged consideration of trading with "capitalist countries" in an univalent nuance:

*We must try to solicit aid from the socialist countries. However, the possibility of acquiring unconditional aid is both limited in time and scale... Only by decisively relying on the socialist economic system will we be able to establish relations with the capitalist countries without being*

Investment Act for the first time and a new tariff system were introduced in the spring of 1988 to promote foreign trade. Notably here is that the Investment Act was so progressive in terms of ownership of foreign-invested enterprises in Laos. The Act allowed 100 % ownership of ventures, joint ventures with a 30% minimum foreign share, or contractual cooperation; gave a fifteen year period to the venture contract with Laotian partners, with a possibility of further extension, for example.<sup>80</sup> The new regulation built in the Act and subsequent arrangements were quite liberal to the extent that the Lao foreign trade policy turned to a capitalist model one; and it indeed eventually changed the direction of foreign trade of Laos, with a drastic increase of trading with so-called convertible areas (or western countries including Thailand) during 1987-1988 period (Table 12).

**Table 11. GDP and Its Contribution by Sector**

Unit: Million kip, %

	1985	1986	1987	1988	1989	1990
<i>1. Agriculture</i>	189,321 (63.9)	219,093 (66.0)	202,401(65.0)	205,956 (64.4)	209,561 (60.2)	223,289 (59.2)
Rice	100,789 (34.0)	104,763 (31.6)	87,820(28.1)	72,481 (2.7)	101,439 (29.1)	107,761 (28.5)
Other Crops	36,504 (12.3)	27,933 (8.4)	37,787(12.1)	50,035 (15.6)	49,426 (14.2)	52,506 (13.9)
Stockbreeding	24,598 (8.3)	26,124 (7.9)	24,485 (7.8)	25,473 (8.0)	27,773 (8.0)	29,006 (7.7)
Forestry	27,430 (9.3)	60,273 (18.2)	52,879(16.9)	57,967 (18.1)	30,923 (8.9)	34,016 (9.0)
<i>2. Industry</i>	42,474 (14.3)	29,290 (14.9)	40,959(13.1)	40,109 (12.5)	53,001 (15.2)	61,418 (16.3)
Mining/Quarrying	1,027 (0.3)	1,247 (0.4)	969 (0.3)	760 (0.2)	1,048 (0.3)	1,066 (0.3)
Manufacturing	23,857 (8.1)	27,297 (8.2)	26,008 (8.3)	24,331 (7.6)	32,937 (9.5)	38,113 (10.1)
Construction	9,296 (3.1)	13,012 (3.9)	8,698 (2.8)	10,083 (3.2)	12,499 (3.6)	14,066 (3.7)
Elec./Gas/Water	8,294 (2.8)	7,934 (2.4)	5,284 (1.7)	4,935 (1.5)	6,517 (1.9)	8,173 (2.2)
<i>3. Service</i>	63,667 (21.5)	62,864 (18.8)	67,864(21.7)	72,018(22.5)	83,117 (23.9)	89,722 (23.8)
Transpiration	8,581 (2.9)	11,343 (3.4)	13,020 (4.2)	13,947 (4.4)	14,683 (4.2)	17,422 (4.6)
Whole Sale/ Retail	25,840 (8.7)	28,338 (8.5)	30,954 (9.6)	26,749 (8.4)	34,344 (9.9)	
Finance/Real Estate	181 (0.1)	346 (0.1)	1,314 (0.4)	773 (0.2)	798 (0.2)	886 (0.2)

*Continued to the following page.*

*dependent on their economy.*

Quoted in Arndt, *Ibid.*, p.194, from Kaysone Phomivane's Report in BBC, *Ibid.*, FE/6337/C/8 (5 February 1980).

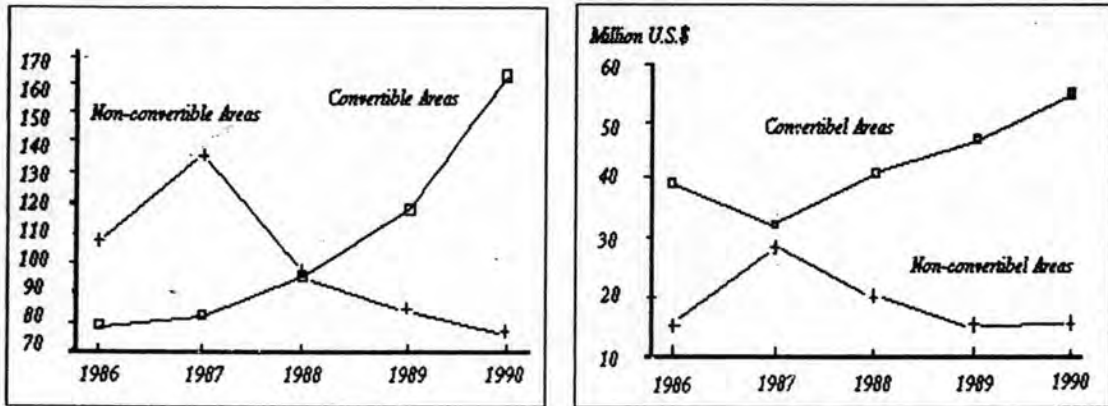
<sup>80</sup> For a precise description of the Act, see p.197. William Worner, "Economic Reform and Structural Change in Laos", *Southeast Asian Affairs 1989*, Institute of Southeast Asian Studies, p.197.



Rent Revenue	3,726 (1.3)	3,838 (1.2)	3,952 (1.3)	4,070 (1.3)	4,188 (1.2)	4,646 (1.2)
Public Admin.	10,212 (3.4)	10,610 (3.2)	11,445 (3.7)	11,941 (3.7)	11,250 (3.2)	11,753 (3.1)
Others	15,127 (5.1)	7,788 (2.3)	8,079 (2.6)	14,538 (4.5)	17,854 (5.1)	19,663 (5.2)

Note: "Stockbreeding" includes fishery. "Finance/Real Estate" refers to banking, insurance, and real estate. "Public Administration" includes defense. Source: Shigeru Takehara (1993), pp.122-123. Original source: Economic and Social Strategy and Planning Office, Lao Ministry of Economy, Planning and Finance, *Draft of the Third Year Plan of the Lao People's Democratic Republic (Version as of 11 March 1991)*

**Table 12. Trend of Trade Partners of Laos, Import (left) and Export (right)**



Source: Takehara (1993), p.131.

### 3.3. Cambodia: Planned but "Laissez Faire" Economy

Cambodian economy in the 1980s was quite interesting on the point that the People's Republic of Kampuchea (the Hen Samrin regime in Phnom Penh) waged the war against the resistance forces of Coalition Government of Democratic Kampuchea while the PRK implemented its own economic policy to certain successful degree in its dominion which occupied more than two third of the whole territory of Cambodia.<sup>81</sup> Nevertheless, the economic development in Cambodia was synonymous with a construction from almost scratch as the county was war-torn since the previous 1970s. After the installment of Phnom Penh regime in 1980, western countries and international organizations such as United Nations withdrew their assistances from the country because, they believed, the PRK was a puppet regime of Vietnam and then the countries turned the

<sup>81</sup> Here, the paper analyses the state of economy of the PRK since the CGDK was almost artificial government, though the CGDK was supported overwhelmingly by the international community.

direction of their assistance and to the people under the internationally-legitimized CGDK, chiefly through the United Nations Border Relief Operations (UNBRO). According to a calculation by an observer, an annual amount of assistance per capita under UNBRO was estimated to be 142 US\$ on one hand, that for those in the PRK dominion was just 3 US\$ receiving aids from international NGOs and others admitted in Phnom Penh, as of 1986.<sup>82</sup> In any sense, the PRK had no other choices than relying on assistances from Vietnam, Soviet Union and other COMECON members to rehabilitate her economy (Table 13).

**Table 13. External Indebtedness of PRK (1982-1988)**

Unit: Million US\$

	1982	1983	1984	1985	1986	1987	1988
<i>Long-term</i>							
1. OECD members	237	23	21	26	32	39	34
2. Multilateral assistance	17	16	16	17	19	22	21
3. COMECON members	128	246	243	269	377	520	649
<i>Short-term</i>							
1. Bank	2	3	-	-	0	6	6
2. Export credit	6	5	4	6	13	7	7
<b>Total</b>	<b>390</b>	<b>293</b>	<b>285</b>	<b>318</b>	<b>441</b>	<b>595</b>	<b>717</b>

Source: Amakawa (1993), p.148. Original source: OECD, Financing and External Debt of Developing Countries 1989 Survey.

The PRK government in Phnom Penh began its economic rehabilitation program in 1980, just following its installment in Phnom Penh in January the same year. In March 1980, the government reintroduced the currency *riel*, thus reviving trade and market based on the currency for the first time since the Khmer Rouge regime in the mid 1970s had abandoned it; and nationalized land, real estate, natural resources, capable factories because ownership of these assets had become unknown due to the serial battles.<sup>83</sup> The PRK tried to restore the traditional agricultural sector like

<sup>82</sup> Naoko Amakawa, "Kanbojia Keizai no Saishuppatsu (Cambodian Economy Starting All Over) [in Japanese]" in Itoga ed., *Ibid.*, p.147-148.

<sup>83</sup> Amakawa, *Ibid.*, p.149. Before the reintroduction of *riel*, the prevailing measures of

rubber plantations. As early as in December 1980, the PRK officially confirmed the importance of the restoration, as “an important source of exports”,<sup>84</sup> and established three public corporations in charge of rubber plantations by 1986. They were reportedly revitalized almost half of the total hectares of pre-war era.<sup>85</sup>

**Table 14. Rice Production in Cambodia**

Unit: 1,000 tons

1967	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
2,457	565	1,717	1,490	1,949	2,093	1,260	1,812	2,093	1,815	2,074	2,278	2,150

Source: Amakawa (1993), pp.152-153.

In agricultural sector, though the PRK first tried to collectivize peasants under the system of *Krom Samaki* or Solidarity Group in April 1979, the policy continued to be unsuccessful partly because the regime didn't hold full control over the dominion, and partly because people had no enough leeway, due to the starvation being most severe in 1979-1980, to react to such a political trial from the above. It was not until 1989 that Cambodia restored a similar level of rice production of the pre-turbulent 1970s (Table 14). Nevertheless, it also tells that the Cambodian economy was recovering from an abyss of grief with a gradual increase of food supply.

In October 1985, the ruling Kampuchean People's Revolutionary Party held its Fifth Party Congress and adopted the First Five Year Plan (1986-1990). The plan placed a heavy weigh on boosting food supplies, rubber, timber and aquatic products, it also recognized the significance of the already-emerging private business for increasing of employment and circulation of consumer goods for both domestic and foreign export needs, with Hun Sen referring to the existence of the private

---

exchange in market were rice, gold, Vietnamese *dong*, and Thai *baht*. Margaret Slocomb, *The People's Republic of Kampuchea 1979-1989: The Revolution after Pol Pot*, Silkworm Books, 2003, pp.112-113.

<sup>84</sup> Slocomb, *Ibid.*, p.117-118. The remark parenthesized is of then Premier Pen Sovann at the Council of Ministers on 28-29 July, 1981.

<sup>85</sup> Tounan Ajia Chousa Kai (The Research Society of Southeast Asian Affairs), Japan ed., *Tounan Ajia Youran 1987* (Southeast Asian Affairs 1987) [in Japanese], p.3-32.

sector as an "objective reality of history".<sup>86</sup> By then, the Cambodian economy was supposed to be conducted with three chief sectors as being Constitutionally-endorsed subjects, i.e. the State, cooperatives including *Krom Samaki*, and family. But under the Plan, the private sector was officially recognized and added into the subjects after modification of the Constitution at the National Assembly in 1986.<sup>87</sup> Since January 1987, the central Bank has established formal relations with banks in France, the U.K., Belgium, Singapore, and Hong Kong to facilitate direct money transactions in order to foster the private economic activity.<sup>88</sup>

**Table 15. National Income of Cambodia**

Unit: Million Riel, %

	1987	1988	1989	1990	1991
GDP	207,873	241,534	247,300	247,015	280,304
1. Agriculture	106,805	106,163	113,200	112,184	131,528
2. Industry	31,728	106,163	113,200	112,184	131,528
3. Service	69,340	94,446	92,800	94,540	105,034
Real growth rate	16.2	2.4	-0.1	13.5	-
1. Agriculture	-0.6	6.6	-0.9	13.5	-
2. Industry	29.0	0.9	-2.4	8.6	-
3. Service	36.0	-1.7	1.9	11.1	-
Share of real GDP	100.0	100.0	100.0	100.0	100.0
1. Agriculture	51.4	44.0	45.8	45.4	46.9
2. Industry	15.3	16.9	16.7	16.3	15.6
3. Service	33.4	39.1	37.5	38.3	37.5

Note: The figures for "GDP" are at constant 1989 prices. Source: Ou Orhat (1993), p.26. Original Source: Department of Statistics, the State of Cambodia and the World Bank estimate.

Visible highlights in liberalization of economy appeared in 1988-1990. The state owned enterprises were granted management autonomy in 1988, and private property and free market

<sup>86</sup> Sina Than, "Cambodia 1990: Towards A Peaceful Solution?" in *Southeast Asian Affairs 1991*, Institute of Southeast Asian Studies, 1991, p.98. Hun Sen's remark is quoted in Slocomb, *Ibid.*, p.343.

<sup>87</sup> Murray Hiebert, "Market Forces Flourish", *FEER*, 7 May 1987.

<sup>88</sup> Hiebert, *Ibid.*



system were officially introduced in April of the same year. The National Assembly amended the Constitution again to introduce concepts of private ownership of farmlands and the Cadastral Department was instituted in November 1989. Like the policies in Vietnam and Laos, the Cambodians encouraged privatization policy of state enterprises by promulgating Foreign Investment Law in July 1989 in the hope the investment would be "a provider of necessary know-how and capital".<sup>89</sup> In line with this liberalization and market-oriented economic development, the government set priorities in four areas: 1) production of good for export or goods for replacement of the essential imported goods, 2) services in order to promote income in foreign exchange, 3) infrastructure such as power plants, bridges, ports and airports, and 4) agriculture and stockbreeding.<sup>90</sup> To facilitate finance necessary for reconstruction of economy, Phnom Penh admitted joint venture in financial market: 22 joint venture banks and branches were allowed to do the business in the country, with Thai banks being majority.<sup>91</sup> These economic development policies led to a relatively steady growth in the ending phase of the decade and the early 1990s. (Table 15)

#### 4. Conclusion

Thai economy basically maintained the consistent growth throughout the post-WW II, except the period of stagnation triggered by the serial oil shocks in the 1970s. After the state-centric economic policy by the 1950s, Thailand began to diversify its agro-dominant economic structure with developing manufacturing sector, and the sector emerged with an import substitution manufacturing. Around 1960, the philosophy of development was geared to liberal one being away from intervention to economic activity, and institutions for modern economic management were established also with a newly adopted Economic Plan. Though the then government of Sarit tried to

---

<sup>89</sup> Ou Orhat, Vice Minister, Minister of Planning, State of Cambodia, "Current Situation and Prospect for Future Economic Development" in *Vietnam, Laos and Cambodia: The Path to Economic Development, Volume 2*, Tokyo: Sasakawa Peace Foundation, 1993, p.28.

<sup>90</sup> *Ibid.*

<sup>91</sup> *Ibid.*

draw foreign capital to the kingdom and actually succeeded, the extent of it was limited to some corners such as automotive assembly. In the 1970s, the development came to carry other burden in it, i.e. social development and national security. This was because the increasing insurgency, rise of political consciousness of people due to democratization, the withdrawal of the U.S. forces from the kingdom, and others. Against these negative factors, the governments after the Kukrit Pramoj took expansive expenditure. In addition, the hikes of oil price in the decade burdened the kingdom gradually. The economic and social systems of the kingdom came to a deadlock around 1980 after all, though the kingdom managed to maintain the growth at macro level ostensibly.

The first half of the 1980s was a period of remedy. Thai authority began spontaneously the restructuring of the systems, with some technical and financial assistance from the World Bank and IMF. During the period, the authority conducted serial reforms including tariff reduction, taxation consolidation, creation of bonded houses and new incentives for export promotion, institutionalization of public-private consultative entities, and so on. The restructuring was almost synonymous with liberalization of Thai economy in any sense and almost all of the restructuring policy was in line with promotion of exports. In sum, though the restructuring efforts were basically domestic affairs, it served as preparation for a future economic opportunity at the same time.

The opportunity came true when the foreign capital of some leading Asian economies were seeking a new place of relatively cheap but well-prepared labor force in the late 1980s. With the appreciation of Japanese yen in the mid-1980s, the foreign capital inflow came mainly from the Northeast Asian area, namely Japan, Taiwan and Hong Kong, pouring into Thailand at an unprecedented speed and with an overwhelming volume. Most of the investment was injected into the emerging manufacturing sector, and then the industrial structure of the kingdom substantially changed in the period, reducing significance of the traditional agriculture while increasing that of manufacturing industry.

The rapid growth of economy in the 1980s made significant changes in politics. Under the

leadership and management of Prem and the endorsement by the then Fourth Plan, the relation between government and business sectors became institutionalized in the form of Joint Public-Private Consultative Committee. The Committee encouraged provincial businesses to organize themselves in each province and these local organizations (and Bangkok businesses also) gradually gained bargaining power to assert their interests. The government side also changed and made efforts to adopt the suggestions from private side into actual implementation of economic and industrial policy.

At the place of direct political participation, a certain number of business-related candidates challenged the House of Representatives partly by virtue of democratization since the Kriangsak administration at the end of 1970s. But provision of the 1978 Constitution was more decisive in the increase of such politicians. As the Constitution required the candidates to be a member of a political party and parties also needed financial sources, those from business communities in effect acquired advantages by virtue of their capital power. Though the percentage of such members at the House was just 34.6% in 1979, it finally reached at 68% in the 1988 election. The executive branch saw the similar trend too. These explained that the business communities gradually increased their channels to assert their interests to the government, thus implicating the interests in government policies. In any sense, the distance between the two sectors substantially shortened.

Significant changes in economy were occurring in the neighboring Indochinese states too. All of these socialist economies in Indochina suffered the dormant economic relations within the Eastern bloc and were overhang to change fundamental economic systems. In Vietnam, the new policy called *Doi Moi* or Innovation began in December 1986. With the leadership of reformist General Secretary Nguyen Van Linh, the socialist country turned its philosophy of economic development from centrally commanded to market-led one and opened its door to foreign businesses with the Foreign Investment Law. Also in Laos, the government decided to introduce market system

to reconstruct its economy under the slogan of *Chin Tanakan May* or New Imagination after 1986. The country conducted new schemes one after another to liberalize the state-owned enterprises, like Vietnam, by introducing foreign capital. The Laotian regime dared to offer foreign investors a possibility of setting up 100% foreign capital companies in the socialist soil. Even in war-torn Cambodia, the PRK regime in Phnom Penh introduced the market-oriented economic system in the mid-1980s so as to support its own economy, being gradually away from foreign assistance of COMECON members. In short, all of these Indochinese states removed (not all) fences by the end of 1980s which had obstructed economic interactions with Western countries, particularly the nearest Thailand. That meant Thailand gained an opportunity to go into the neighboring states with her advantageous economic clout.<sup>92</sup>

---

<sup>92</sup> As of 1988, GNP per capita of Thailand, Laos, and Vietnam were 1,000US\$, 180US\$, and 200US\$, respectively. Mya Than, "ASEAN, Indo-China and Myanmar: Toward Economic Co-operation?", *ASEAN Economic Bulletin*, Vol.8, No.2, November 1991, p.174.