

The Role of Ethnic Chinese in Thailand's Banking Sector
Development: The Case Study of Bangkok Bank's Business
Strategy



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คนชาติพันธุ์จีนมีส่วนร่วมอย่างแข็งขันในกิจกรรมทางเศรษฐกิจของไทยตลอดช่วงเวลาประวัติศาสตร์ ในช่วงต้นของคริสต์ศตวรรษที่ 20 กลุ่มชาติพันธุ์ครอบครัวยุโรปได้แฝงตัวเข้ามาสู่รากฐานของเศรษฐกิจ ซึ่งก็คือ อุตสาหกรรมธนาคารของไทย จุดประสงค์ของการศึกษานี้ คือ ตรวจสอบบทบาทของชาติพันธุ์จีน อำนาจและยุทธศาสตร์ด้านธุรกิจในส่วนของการพัฒนาการธนาคารไทย ในช่วงการก่อตั้งของอุตสาหกรรมธนาคารในประเทศไทย จากการศึกษาพบว่ากลุ่มชาติพันธุ์จีนมีความพยายามที่จะก่อตั้งธนาคารพาณิชย์ในไทย ก่อนหน้าสงครามโลกครั้งที่สอง ทว่าล้มเหลวในการแข่งขันกับกลุ่มทุนยุโรป ขณะเดียวกันธนาคารสัญชาติยุโรปเองก็ไม่สามารถประสบความสำเร็จได้หากปราศจากกลุ่มนายหน้าชาวจีนซึ่งทำหน้าที่เป็นสะพานเชื่อมระหว่างธนาคารกับตลาดท้องถิ่น ในระหว่างสงครามโลกครั้งที่สอง กลุ่มชาติพันธุ์จีนประสบความสำเร็จในการก่อตั้งธนาคารพาณิชย์ท้องถิ่น เช่น ธนาคารกรุงเทพ กระทั่งในปัจจุบันยังคงเป็นเสาหลักของอุตสาหกรรมธนาคารในประเทศไทย งานศึกษานี้หวังที่จะสร้างฐานความรู้เกี่ยวกับบทบาทของกลุ่มชาติพันธุ์จีนในการพัฒนาการธนาคารไทย มีความคาดหวังว่าความเข้าใจที่ดีขึ้นจะมีคุณค่าในการศึกษาเพิ่มเติมในอนาคตเกี่ยวกับบทบาททางธุรกิจของกลุ่มชาติพันธุ์จีนในวงเศรษฐกิจไทย

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Ethnic Chinese people have actively participated in Thailand's economic activities throughout history. In the early 20th century, the ethnic Chinese family groups burrowed into the power-base of the economy - the banking industry in Thailand. The purpose of this study is to investigate the role of ethnic Chinese and their business strategy in Thailand's banking sector development during the formative years of the banking industry. This study finds that ethnic Chinese attempted to establish commercial banks in Thailand before WWII but failed in competition with European capitals, while the European-owned banks could not succeed without hiring Chinese compradors to bridge the banks with local markets. During WWII, ethnic Chinese successfully built some local commercial banks such as the Bangkok Bank in Thailand, which are still the pillars of the banking industry till nowadays. It is hoped that this study will provide the basis for improved understanding of the ethnic Chinese' contribution to Thailand's banking sector development. Expectations are that improved understanding will be of value for future investigation of the role of ethnic Chinese in Thailand economic society.



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CHAPTER I INTRODUCTION

1.1 Rationale

As China and Siam have enjoyed a long-standing economic relationship since the 13th century, the Chinese traders and immigrants influenced Thailand profoundly and subtly, especially in economics. The growth of capitalism and labor in Thailand is substantially related to the history of overseas Chinese. As for the business activity of overseas Chinese, there were five categories of growth patterns in accordance with both their business bases and socio-economic backgrounds: (1) tax or revenue farmers for opium, spirits, gambling, etc., (2) compradors employed in European trading firms and colonial banks, (3) merchants engaged in import and export business at major ports, (4) cultivators and processors of commercial crops and products, and (5) mine owners (Wen Xiongfei, 1929). The early stage of capitalist development in Thailand relied heavily on ethnic Chinese who work as tax farmers, merchants and rice millers, and comprador intellectuals in the first three categories. With the development of business activities, powerful ethnic Chinese began to establish remittance shops and banks to deal with the financing of trade. The establishment of the banking industry in Thailand was mainly based on the contributions of ethnic Chinese.

Looking back in time, Thailand banking industry started in 1888 with the first establishment of a commercial bank branch of the Hong Kong and Shanghai Banking

Corporation in Bangkok. After the conclusion of Bowring Treaty between Thailand and Great Britain in 1855 and a series of treaties of the same type with eleven Western countries during 1856-1870, foreign capitals were allowed to access the Thai market freely. Since then, the expansion of trade incubated the establishment of commercial banks in Thailand. But the successful establishment of European banks in Thailand could not achieve without the effort of ethnic Chinese. In the first few decades after the European banks opened branches in Thailand before the Second World War, the European banks' main business concerned the purchase from the Chinese rice millers in Bangkok of dollar bills drawn against shipments to Hong Kong and the Straits (Ueda, 1994). Therefore, ethnic Chinese were hired as compradors in the European banks as a method to overcome the language barrier and lack of information about local markets in Thailand.

In addition to five foreign banks and the Siam Commercial Bank (SCB) owned by the Crown Property in pre-war period of 1888-1941, a dozen commercial banks were established by ethnic Chinese to accumulate deposits to deal with their own business activities, including Chino-Siamese Bank (1908), Bangkok City Bank (1909), Kuang Ko Long Bank (1933), Wang Lee Chan Bank (1933), etc., however, most of these banks failed for the reason that their competitiveness cannot rival that of foreign banks.

Nevertheless, with the outbreak of the Second World War, foreign banks were prohibited in operating in Thailand, which provided the source of growth for domestic

commercial banks established by ethnic Chinese to fill the vacuum in Thailand banking industry. As a result, in the 1960s, five major banks in Thailand controlled more than 65% of total banking asset, one was SCB, associated with the Crown Property and the other four were all established by ethnic Chinese. In conclusion, it is fair to say that ethnic Chinese played an indispensable role in Thailand's banking sector development in the early 20th century.

Since the studies of the role of ethnic Chinese in Thailand banking industry are very limited, the major interest of this research is directed mainly toward the study of the role of ethnic Chinese in relation to the growth of Thailand banking industry. The time frame of this research paper covers the period from 1888 to 1945, the formative years of Thai commercial banking since the opening of first commercial bank till the end of the Second World War. The role of ethnic Chinese in Thailand banking industry, the government policy toward the ethnic Chinese groups, the economic history of the establishment of Thailand commercial banks, and the business strategy used by the ethnic Chinese to succeed in the banking industry will be explored in this study.

1.2 Research objectives

The objectives of this study are as follows:

1. To analyze the role of ethnic Chinese in the establishment and development of Thailand banking industry in the early 20th century;

2. To investigate whether the Thai government supports ethnic Chinese to raise their business in Thailand banking industry;
3. To explore the business strategy of ethnic Chinese in Thailand banking industry through a case study of the Bangkok Bank.

1.3 Research questions

Three research questions are addressed in this study:

1. What is the role of ethnic Chinese in the development of Thailand banking industry in the early 20th Century?
2. Has the Thai government supported ethnic Chinese to raise their business in Thailand banking industry?
3. What are the business strategies of ethnic Chinese to succeed in Thailand banking industry?

1.4 Theoretical framework

The general framework of this study uses “bureaucratic polity”, which is explained by Fred W. Riggs (1966) for understanding the Thai political system in the 1960s. Riggs’ model described the essence of the bureaucratic polity was that it represented an amalgam of often competing power groupings, but with a dominant military

bureaucracy complex. The polity rested on a pluralistic balance of forces. The groupings included the military, the royalist elites, and senior bureaucrats (Porphant, 2014). During much of the period between 1932-1973, Thailand was a classic bureaucratic polity. The country was under the rule of military governments or electorally derived governments which relied heavily on the support of armed forces. Extra-bureaucratic forces were thus unable to control or guide the government which was marked by “the official class as a ruling class.” Major policy decisions were made by the military bureaucratic elite who occupied both the political and administrative positions of the government, almost without input from nonbureaucratic groups (Anek, 1992). While James Okey (2004) pointed out that these elements of Riggs’ bureaucratic polity model were influential because taken together, they simplified Thai politics in an enticing but inaccurate way. The state, the ruling government, and the polity were all conflated into a single entity. Only since the mid-1980s, the scholars’ attention to the Thai politics shifted away from the military and the bureaucratic polity. They began to turn to the extra-bureaucratic forces in society that they thought were becoming important. For Prizza (1985), that was students. Anek (1992) turned to entrepreneurs. Others focused on the middle class (e.g. Anderson 1977; Likhit 1985) or on provincial notables (e.g. Okey 1992). Okey argued that the “bureaucratic polity” model has been abandoned and understanding the complexity of the Thai state required a greater understanding of the bureaucracy and the ways it functions, particularly given the extent of the reforms. Also, Anek (1992) stated that the bureaucratic polity model might have been for elucidating the political

experience in the first four decades following the 1932 revolution, Thailand in the 1970s began to outgrow it from bureaucratic polity to liberal corporatism. Thailand has ceased to be a bureaucratic polity because the organized business has formed politically effective extra-bureaucratic groups and the policy of the government was no longer determined solely by the bureaucratic elite.

In these studies, all the scholars state that the “bureaucratic polity” model is outdated to explain the complexity of Thai political system, especially after the 1970s. However, in this research, there is an attempt to elaborate that even in the early 20th century, not only bureaucratic polity but also extra-bureaucratic forces such as business associations and dialect communities attributed to the ethnic Chinese and their business strategy in the establishment of Thailand banking industry.

1.5 Hypotheses

1. Ethnic Chinese played an indispensable role in the establishment of Thailand banking industry. Before the Second World War, Europeans controlled the banking industry in Thailand, whose business could not succeed without hiring ethnic Chinese as compradors. Ethnic Chinese became the bridge of the banking industry and local business society. During wartime, with the Thai government's confiscation of foreign banks, ethnic Chinese established local commercial banks to fill the vacuum, which saw the formative years of Thailand banking industry.
2. The Thai government did not support the ethnic Chinese groups to raise their

business in the banking industry or any other industries in the early 20th century due to the rise of nationalistic policies backed by the slogan “Thailand for the Thai”.

3. It is hypothesized that ethnic Chinese had distinct economic culture and managerial skill, they used political patronage of powerful government officials and Thai military leaders and personal relations involving kinship and dialect community in their business strategy that led to success in Thailand banking industry.

1.6 Literature Review

I will present the summary of the literature reviews in four sections; namely, 1) the overseas Chinese business in Thailand, 2) the distinctive characteristics of Chinese capitalism, 3) history of Thailand banking industry, and 4) bureaucratic polity in Thailand. The four sections provide a solid foundation for this research.

1. Overseas Chinese business in Thailand

Being considered as one of the most important books in studying the overseas Chinese activities in Thailand, the book *“Chinese Society in Thailand: An Analytical History”* (Skinner, 1957) is necessary to assess the emergence and development of overseas Chinese business in Thailand since the establishment of Sukhothai. Skinner undertakes a diachronic inquiry to analyze the Chinese society in Thailand, arranging this book in chronological order which clearly depict the main problems of each period

such as the Sino-Thai relations, Chinese migration and assimilation, Chinese position in Thai economy, and Chinese nationalism to explore the role of overseas Chinese in the economic development and social evolution of Thailand. As early as the Thai reached the Chaophraya Delta and the Malay Peninsula in the thirteenth century, the Chinese traders had been already established in the markets and ports of the Gulf of Siam. The overseas Chinese who worked as coordinator of the royal trade between China and Siam in the early period and later in the nineteenth century dominated Siam's foreign trade and shipping. It is worth noting that Skinner claims that the major developments affecting the private Chinese sector of the urban economy during the century before the First World War include the entry of the Chinese into modern banking. After the impact of Western economic influence, the retail trade in Siam was still dominated by the overseas Chinese, which explained the reason why the Western powers should introduce the comprador system into their business in Siam. Skinner holds the view that the introduction of modern banking in Siam provides an example of the interplay of Western and Chinese interests.

The book *"A History of the Thai-Chinese"* (Sng and Pimpraphai, 2015) goes in details of the history of Chinese immigration to Thailand and the contributions of Thai-Chinese to this country. Sng and Pimpraphai structured the book as parallel chronologies between Chinese dynasties and Thai Kingdoms since the Auyudhya kingdom. The book approaches the successive waves of Chinese immigration along with business activities and a series of individual or family stories of prominent Thai-

Chinese. The social roles of Chinese changed with their participating in developing the economy in Thailand. The authors hold the view that the Chinese capitalist gained hegemony over the rice industry between 1855 and 1930, while the Thai Rice Mills opened under the government's nationalist economic policy, which made Chinese business people to alternate their business into commercial banking and insurance services. The bureaucratic-Chinese patronage system supported the establishment of local banks in Thailand.

To recapitulate, the literature related to overseas Chinese business in Thailand explained the background and reasons why ethnic Chinese participated and succeeded in Thailand banking industry.

2. The distinct characteristics of Chinese Capitalism in Thailand

The book "*Capital Accumulation in Thailand 1855-1985*" (Suehiro, 1989) is a must to learn Thai economic history and the ethnic Chinese capital accumulation process in Thailand. As mentioned in the title, the book explores the nature of Thai capitalism through the focuses on the detailed history of the rise of domestic and foreign capitalist groups in 1855-1985. Suehiro uses the concept of dominant capital to analyze how Chinese, European, and Thai capitalists became dominant and their economic policies and structures in three periods: 1855-1938 when Thailand integrated into the worldwide capitalist economy with the rise of European and Chinese capitalists; 1938-1957 when the emergence of state-led industrialization in Thailand with the rise of bureaucrat

capitalists, and 1957-85, the period of private capital-led industrialization with the rise of multinational enterprises and domestic capital groups. As for the Chinese capitalists, Suehiro offers a historical narrative of the emergence of the dominant three capitalist groups- tax farmer, compradors, and port merchants during the period between the 1855 Bowring Treaty and the 1932 Revolution. Suehiro claims during this period that three elements are crucial to them: political patronage, or dependence on the king's power, connections with foreign capital, and high educational achievement, since Chinese capitalists had no advantage in technology and no linkage to the core center of worldwide capitalism. Later with the reorganization of Chinese capitalists after the Second World War, the Chinese merchants moved into two sectors, one is commercial banking and insurance. Suehiro summarizes five distinctive characteristics of Chinese capitalists in the incorporation of commercial banks, including (1) the dependence on the social prestige of traditional bureaucrats (Khun-nang) and aristocrats, (2) the use of personal relations involving kinship and community ties, (3) the promotion of groups of leading families rather than single families, (4) the participation of customers as shareholders, and (5) the providing of technical know-how on international trade and precious information on international markets for customers. The book supplies a detailed and widespread history of Thailand's transition to capitalism.

Another important book to understand the distinct characteristics of Chinese Capitalism in Thailand is "*The Spirit of Chinese Capitalism*" (Redding, 1990). The book contributes to assessing the socioeconomic and cultural features of overseas Chinese

capitalism through a series of interviews with 72 senior executives of overseas Chinese family business about their belief systems and their ways of conducting business. Redding argues that Chinese capitalism, based on Confucianism and especially familism as a central tenet, mainly rests on personal networks rather than business organizations and principles. To understand the origins of the values of Confucianism and familism, Redding studies the psycho-social legacy of China that influences Chinese self and relationships, social structures, linkage networks, and business traditions. As a result, Redding claims that the economic culture of Chinese capitalism is the aggregate of the shared beliefs such as filial piety, paternalism, reasonableness, compromise, and propriety of the actors in the economic system. In addition, Redding addresses that a specific advantage of the overseas Chinese to compete with Western powers is the linkage with their own “home” territory.

3. History of Thailand banking industry

In order to know the history of Thailand banking industry, the book *“Finance and Banking in Thailand: A Study of the Commercial System, 1888-1963”* (Sithi-Amnuai, 1964) is a must to understand the commercial banking system in Thailand. The book is especially important to my study since it fully covers the evolution of commercial banks and other financial institutions from the period of the first establishment of a commercial bank in Thailand to the postwar developments in currency and banking. The history of the establishment of commercial banks and their unique characteristics,

the early regulations governing the commercial banks, the activities of Bank of Thailand, and the commercial banking legislation in modern period are well explored in this book. Moreover, Sithi-Amnuai argues that one of the inherent weaknesses of the banking system in Thailand is that entry into a bank is a rather difficult process, depending very much on family and other connections. The management of banks is still very much family orientated in that a close relative is preferred to a brilliant outsider (1964). This viewpoint leads my idea to combine the concept of extra-bureaucratic forces with bureaucratic polity as the theoretical framework of this study.

However, the statistics presented in this book such as the number of banks in the pre-war period need to be further investigated. Before the Second World War, only twelve banks were listed operating in Thailand in this book, while Suehiro (1992) illustrates that before the outbreak of the Second World War, twenty commercial banks had been established in Thailand. Documents of primary source should be reached in this study to confirm the history of local Thai commercial banks.

4. Bureaucratic Capitalism in Thailand

The book *“Thai Bureaucratic Capitalism, 1932-1960”* (Sungsidh, 1983) studies the emergence of bureaucratic capitalism in Thailand since the Ayutthaya era and indicates that Thai bureaucratic capitalism was an important social-economic phenomenon during 1932-1960. The book not only contributes to assessing Thailand bureaucratic polity under the People’s Party and the Pibulsongkhram government, but also provides

insight of the relations between ethnic Chinese and Thailand bureaucratic capitalists. The involvement of ethnic Chinese in the bureaucratic capitalism could be traced in early Siam, as Sungsidh states that Chinese traders were in charge of junk trade on the behalf of the Kings of Sukhothai to Chinese court because the Chinese had skill and experience in navigation and Chinese took care of foreign trade for the Siamese government during the early period of Ayutthaya. Up till the 1932 Coup d'état, Sungsidh claims that under the Kings' patronage, these Chinese were able to do trade and monopolized opium, liquor, tin, lottery, and gambling houses; the economic connections between the Thai ruling class and the Chinese merchants had been very smooth. After 1932, the People's Party and the military government cooperated with big Chinese businessmen to accumulate their capital in running variety of business such as Thai Rice Co., Ltd. and Bangkok Bank Co., Ltd. As for the relations of ethnic Chinese in Thailand bureaucratic polity, Sungsidh concludes that the Chinese merchants would be under the patronage of any political group in power, whose loyalty changed with the change of power.

With the motivation of introducing a better understanding of banks and bureaucrats in Thailand, the book *"Bankers and Bureaucrats: Capital and the Role of the State in Thailand"* (Hewison, 1989) examines the development of capitalism in Thailand and the relationship between the state and capital. Hewison structured this book into two parts; the first part focused on the development of capitalism in Thailand from the middle of the nineteenth century to the early 1980s with the emphasis on the position of the state and industrial development and the second part examined the

structure of the capitalist class by discussing four principal sections of capital including agrarian, commercial, industrial, and banking. Modernization theorists such as Riggs assert that the development of a bureaucratic polity prevented the emergence of truly modern society and economy. Dependency theorists believe that 'real' capitalist development is blocked and that local capitalists can never be more than a class of comprador. This study argues that there is indeed a domestic class of politically and economically powerful capitalists (Hewison, 1989). Hewison indicates that a transition from Sakdina society to capitalism has taken place in Thailand, in which banking capital is the dominant part of capital and a leading force in the development of Thai capitalism. And the domestic banks expanded rapidly after the War with the injection of both state and Chinese capital.

Overall, these studies highlight the need for investigating the role of ethnic Chinese in Thailand banking industry and their business strategy backed on the spirit of Chinese capitalism.

1.7 Research Methodology

The methodological approach taken in this study is a mixed methodology based on documentary research and interview.

1. The secondary sources include books, academic articles, theses, and dissertations in both Chinese and English. Besides, some statistics of Thailand's banking sector

are collected from online newspaper and accredited websites.

2. Semi-structured individual interviews will be conducted with (1) related ethnic Chinese Associations to explore the role of ethnic Chinese in Thailand banking industry and (2) Bangkok Bank to get more details of its economic history and business strategy in the years of establishment.

1.8 Significance and usefulness of the study

1. The study will be useful to those who wish to understand something about the development of Thailand banking industry. It will help them to know the economic history of the Thai commercial banks, especially in the formative years.
2. The findings in this study will provide the reader with more information and clear understanding, which may be of value for future investigation of the role of ethnic Chinese in Thailand economic society.

1.9 Chapter Outline

This study has been divided into five chapters as follows:

Chapter I deals with the background, objectives, theoretical framework, hypotheses, and research methodology of this study.

Chapter II begins a review of overseas Chinese business in Thailand, with special respect to the expansion of ethnic Chinese business, which provided the demand of the

birth of commercial banks to deal with their trade activities. The chapter also elaborates on the development of bureaucratic capitalism or state capitalism in Thailand, which paves the way for explaining more systematically the reasons of ethnic Chinese business success in Thailand banking industry in the next chapters.

Chapter III describes the history and background of Thailand banking industry and explores the role of ethnic Chinese in the development of Thailand's banking sector in the early 20th century. It pinpoints the functions of ethnic Chinese to help the running of European banks and the establishment of domestic Thai commercial banks.

Chapter IV concentrates on the analysis of ethnic Chinese business success in the Thailand banking industry through a case study of the Bangkok Bank. It shows the business strategy used by ethnic Chinese with the distinct spirit of Chinese capitalism such as the use of family relations and patron-client relations with Thai bureaucrats.

Chapter V presents conclusions of the importance and business strategies of ethnic Chinese in the establishment of Thailand banking industry.

CHAPTER II OVERSEAS CHINESE BUSINESS IN THAILAND AND THE DEVELOPMENT OF BUREAUCRATIC CAPITALISM

Throughout Thai history, the business contribution of overseas Chinese has played a very important role in the national-building process of this country. In this chapter, I will review the Overseas Chinese business activities and the development of bureaucratic capitalism or state capitalism in Thailand according to the time sequence, in order to provide the background information that might explain why and how ethnic Chinese could raise their business in the banking industry in Thailand.

The words “Chinese,” “overseas Chinese,” and “ethnic Chinese” in this study represent both Chinese people living outside China and people of Chinese descents who are foreign citizens and have political loyalty to their resident countries. The three terms will be used interchangeably to avoid repetition.



2.1 Overseas Chinese business in Thailand

2.1.1 Overseas Chinese business activities prior to the 19th century

2.1.1.1 Sukhothai period

According to the study of Skinner (1957), it is believed that Chinese traders were already established in the markets and ports of the Gulf of Siam when the Thai reached the Chaophraya delta and the Malay peninsula in the 13th century. This could

be proved by some bas-reliefs in Khmer art on the outer gallery of a temple at the center of Angkor Thom completed in no later than the first decade of the 13th century, on which a Chinese junk used to trade within the Gulf of Siam in recent centuries was found. In old Thai records, Chinese junks were destined to the east side of Malay peninsula for trade every year on the monsoon, thus the first part of Siam that attracted Chinese traders was the Malay peninsula. Before the establishment of Sukhothai in the mid of 13th century, Chinese envoys had visited the same area to enroll small states as China's tributary states. So once the Sukhothai was founded, the Chinese traders knew of the rise of this new state and the route to there. During the entire Sukhothai period (1238-1438), four Chinese missions were sent in 1282, 1293, 1294, and 1295 in Yuan dynasty to demonstrate China's cultural superiority and exercise its claim of overlordship. As a response, fourteen missions were sent to China during the Sukhothai period, among which the first emissary dispatched by King Ramkhamheng in 1292 and the last one by King Loethai in 1323. Although these missions were politically oriented, some economic connections emerged from these tributary missions. In the 1290s, King Ramkambeng's emissaries to China brought back Chinese artisans, weavers, and potters to Sukhothai. In 1300, Emperor Ch'eng-tsung allowed a certain number of Chinese pottery makers to settle down in Siam and to help manufacture the so-called Sangkhaloke wares which were developed into major export goods of Sukhothai (Suebsaeng, 1971).

2.1.1.2 Ayutthaya period

In the early Ayutthaya period, sending frequent missions to China for trade privileges was one of the essential factors in maintaining the power of the Siamese kings economically and politically. However, since the end of the Yuan dynasty in 1368, the tributary missions decreased due to the Chinese dynastic change and the more secured situation of the kingdom of Ayutthaya in the first two and a half centuries of the Ming dynasty. Since the Ming court prohibited the tribute missions in carrying Chinese passengers back to China, more private Chinese traders immigrated to Siam and actively participated in business activities. By the early 16th century, there was already a Chinese quarter in Ayutthaya and by the beginning of the 17th century, the position of Chinese traders in Siam was much more substantial (Skinner, 1957). The lifting of the Ming ban on private trade allowed Chinese junks to supply porcelain and raw and finished silk to Ayutthaya's entrepot trade freely. Chinese junks brought pretty large cargoes of all kinds of Chinese goods such as ceramics, tea, silk, and metals to Siam and returned with big loads of sappanwood, lead, and other merchandise. By the time Westerners arrived in Ayutthaya, they found that Chinese trading networks were already well established in major towns including Paknam Pho (modern-day Nakhon Sawan), Bang Pla Soi (Chanthaburi), Paed Riw (Chachoengsao), Tha Chin (Samut Sakhon), Ban Don (Surat Thani), Ligor (Nakhon Si Thammarat), Songkhla, Phuket, and Patani (Charnivit and Wright, 2007).

Nevertheless, the Chinese trade in Siam reached a nadir during 1620-32 as

unprecedented proportions of Japanese traders settled in Ayutthaya and dominated the trade in Siam under the reign of King Ekathotsarot and King Songtham. It was recorded that the Japanese business was more important than the combined trade between Siam and other foreign countries by the late 1620s. This situation changed when King Prasattong ascended the throne. The King firstly implemented trade monopolies in 1629 which required foreign traders to gain permission when conduct business at ports of Southeast Siam. In 1632 the King massacred the Japanese colony in Ayutthaya and drove most of the Japanese out of the country for the reason that he feared a Japanese plot against him as he was a usurper who seized power against the desires of the influential Japanese element at the court. As a result, since 1632, Chinese traders took over the Siam-Japan trade and became more important in Ayutthaya. Some Chinese traders were absorbed into the state trading system when the King realized that significant benefits would be achieved through Chinese traders who were experienced seamen and had access to many ports in China. In the 17th century, major Chinese in Ayutthaya were merchants and traders who involved in shipbuilding, mining, artisan work, pig breeding, vegetable gardening, and tax farming on liquor, royal agricultural estates, gambling and peddling (Lieberman, 2003), others were Chinese drama actors in the Thai court, physicians (King's chief doctors), and scholar-officials. When the trade restrictions were relaxed in the Qing dynasty, the Chinese government allowed Chinese merchants to travel to Siam to buy rice, engage in shipbuilding, and import Siamese lumber; the trade between China and Siam expanded. By the last decade of Ayutthaya,

Chinese traders became the engine driving the kingdom's economic prosperity as China remained the most important trading partner of Siam.

2.1.1.3 Thonburi period

After the fall of Ayutthaya to the Burmese, King Taksin who was born of a Chinese father and Thai mother established Thonburi Kingdom (1767-1782). The Chinese traders were hired as envoys by the King to maintain his diplomacy with China to achieve trade privileges, so the Chinese played an essential role in the development of Thonburi's economy. Once King Taksin came to the throne, he sought to restore the tributary relations with the Chinese court mainly for the need of trade with China, especially purchasing iron and cannon for the use against the Burmese. The resumption of tribute and trade was operated by hiring experienced Chinese junk merchants who had conducted business between China and Siam for years to carry official royal letters on behalf of the King to the Chinese court. Moreover, to rebuild the Kingdom's economy, King Taksin openly and tacitly encouraged the Chinese, especially his own speech group Teochew to move into Thonburi by giving them priorities as the "royal Chinese". During the Thonburi period, besides trading expertise, Chinese migrants also provided much-needed manpower as junk master, navigators, crew, helmsmen, craftsmen, cash croppers, accountants, clerks, port officials, merchandisers, and miners for the trade-driven economic strategy of King Taksin (Puangthong, 2004).

2.1.2 Overseas Chinese business activities in the 19th - early 20th century

2.1.2.1 Royal trade monopoly before 1855

Since the Chinese played an essential role in the development of Thonburi's economy, after the Chakri dynasty was founded, skilled Chinese labors and experienced entrepreneurs have continued to show strong performance in all kinds of business activities such as agribusiness, royal monopoly trade, foreign trade, sawmilling, mining, and construction. During the reigns of Rama I and Rama II, the royal monopolized products for export such as tin, lead, timber, pepper, ivory, sappanwood, cardamom, gamboge, and elephants had to be sold to the royal warehouse which sold them directly to foreign merchants. The economic expansion through the royal trade monopoly attracted more Chinese traders, sailors, fishermen, and farmers to Siam. In the third reign, several of the royal monopolies were farmed out to the Chinese merchants. Chinese tax-collectors were hired to collect citizen's tax at rates stipulated by the government and the collectors paid a fixed lump sum to the government over the overall collection. They could make profits by accessing the citizen's earnings thoroughly. Similarly, the government also farmed out sole rights to administer and selling of specific products such as lotteries, gambling, spirits, and the collection of duties on certain imports and exports. Even when the royal trade monopoly ended after the conclusion of the Bowring Treaty in 1855, the Chinese still managed innumerable revenue farms including opium, gambling, lottery, and spirits while the Crown collected tax from more items for state revenue. The tax of these farming systems was the

country's principal source of state revenue during the 19th century.

2.1.2.2 Western competition during the 1850s-1930s

However, since 1855, Western capital could enter Siam freely after the signing of the Bowring Treaty and eleven similar treaties between Siam and Western countries. The Western traders competed with the Chinese in Siam's major business activities, including rice, tin, timber, and rubber.

Rice had been the main export of Siam, with the open of market in 1855, the rice export soared from an average 100,000 tons during the 1860s to 200,000 tons in the 1870s, to five times that amount by the turn of the 20th century (Baker and Phongpaichit, 2005). Before the conclusion of the Bowring Treaty, Chinese mills dominated the rice output for export. While since 1858, Western capitalism came into Siam and established steam mills. By 1867 there were five steam mills, all Western-owned, while by 1879 there were as many Chinese as Western steam mills in Siam since Chinese ordered from England for their own use (Skinner, 1954). However, in the 1910s, the Western-owned mills failed to compete with the Chinese, either sold to the Chinese or closed down. The Chinese gained hegemony over the rice industry during 1855-1930 not only because they were willing to buy steam mills from Europe, hired Western engineers, and improved technology to produce white rice, but also because of the Chinese dominance in Siam's various economic sectors as the source of paddy was in the hands of Chinese middlemen, and the major rice importing firms were largely Chinese in Singapore,

Hong Kong, and South China. The second largest export product-tin -was monopolized by the Chinese throughout the 19th century since the Chinese had a good knowledge of the country's mineral resources secretly. Nevertheless, Chinese miners lacked the capital to purchase dredging equipment and so stuck to the open-cast or gravel-pumping system. Western dredging firms surpassed that of small Chinese mines around 1929, and by 1937-38 the output of Western firms was about 1.7 times that produced by non-dredging methods in Chinese-owned mines (Skinner, 1954). But it is worth noting that the labor for all mines remained Chinese. Rubber, as the third largest export, which started producing during the First World War, has been dominated by the Chinese in the 1930s. Timber was also a significant product of Siam, dominated by the Chinese before the 1880s. While since 1883, Europeans entered the teak business and monopolized the forest operations and the export of teak for Western markets due to their capital and equipment advantages. But the Cantonese managed a small Chinese share of teak export, and the Teochew monopolized the retailing of timber by the 1930s.

In conclusion, by the 1930s, Chinese capital and entrepreneurial skill were overwhelmingly dominant in the transport, processing, retailing and export of rice, and in the production, processing and export of rubber, and were important in the processing, retailing and export of timber, and in the production and export of tin. Aside from rice, several of Thailand's other major food products such as pork, fish and fish products, market vegetables, and sugar were produced and marketed in large part by Chinese in the period under review as in the decades preceding it (Skinner, 1954). In addition to

Chinese entrepreneurship, the Chinese provided a large amount of labor to Siam in the 19th century. Since 1840, plantation owners consisted of major Chinese immigrants settling down in Siam, who hired many agricultural workers in the plantation of pepper, sugar, cotton, tobacco, production for the local market- vegetable garden, betel-leaf, areca-nut groups, and pigsties. In 1870, on the demand of changing Bangkok from a city on the water to one on land, the agricultural labor declined as the increase of construction wage labor hired by hundreds of Chinese construction firms to build temples, canals, roads, and Thai railway system in Bangkok. According to the study of Skinner, during the three decades following 1910, Chinese provided between 60% and 75% of all skilled and unskilled, non-agricultural labor in Thailand. The major types of Chinese unskilled labor were mill workers (rice, timber, rubber, sugar), dock workers (including lighter crews), miner, construction workers (roads, railways, buildings), manpower transport workers (rickshaw and cart pullers, carrying-pole runners, riverboat polers), and domestic servants. The skilled Chinese labors were mechanics, carpenters, craftsmen, artisans of all kinds, foremen, and office workers (1957). As a result, the Chinese were estimated to constitute 85% of the commercial class and to hold in their hands 90% of the country's commerce and trade by the 1930s (Kanchananaga, 1941).

Since the Chinese had involved in Siam's economic activities for centuries, who had premier knowledge of local markets, languages, and trade information, the Western merchants found it difficult to reach the local markets and expand their trade directly. As a result, the comprador system developed in Siam. Western commercial houses had

no choice but to hire Chinese compradors who could speak Thai, some English, and Chinese dialects to handle the firms' relations with local markets and the Thai government. Chinese compradors became important in Western trading houses, shipping industry, and the commercial banks. The introduction of commercial banks in Siam after the implementation of the Bowring Treaty was also an example of the interplay of Western and Chinese interests, which will be illustrated in Chapter III.

2.1.2.3 The rise of Thai nationalism in the 1930s

After the Revolution in 1932, Pridi Phanomyong provided the “Thailand for the Thai” economic policy. Under the regime of Field Marshal Plaek Phibungsongkhram in 1938, the Ministry of Finance established the Thai Rice Co., Ltd. to buy out Chinese rice mills in order to free the rice industry from the Chinese hands. In the coming years, a series of laws were promulgated to expel the Chinese entrepreneurs and labors out of the Thai business activities, including the Act on Birds' Nests, the Salt Act, the Tobacco Act, the Act for the Slaughter of Animals for Foods, the Signboard Act, the Vehicle Act, and the Liquid Fuels Act. But the new nationalistic policy did not eradicate the Chinese merchants, especially the sizable Chinese business families that the government could depend on to accumulated capital, so the Chinese transferred their business into other industries such as banking and insurance.

2.2 The development of bureaucratic capitalism in Thailand

According to Lasswell and Kaplan (1950), “A bureaucracy is a hierarchy of considerable power and diversification, and low circulation.” The Siamese bureaucracy was a graded hierarchy of officials utilized bureaucracy as a tool to achieve benefits, which included the King as the superior of the hierarchy in the traditional system. As early as the Sukhothai period, bureaucratic capitalism emerged in Thai society. The bureaucratic capitalism in Thailand was changed or transformed during the process of modernization.

2.2.1 Bureaucratic capitalism in Thailand before the Bowring Treaty

Before the Bowring Treaty, there was no free commerce between Siam and foreign countries; the economic power was in the hands of Siamese bureaucracy. Since the 13th century, Siam was involved in China's tributary system. The political-oriented tributary relations promoted trade and commerce between the two sides. After achieving economic benefits from the tributary trade with China, Sukhothai Kings hired some traders to do business with China on behalf of them. As the tributary trade conducted by junk, most of the traders worked for the Kings were Chinese as they had rich experience in both trade and navigation. In the early Ayutthaya period, Chinese and Indian experienced traders were appointed by the Kings to take care of the country's foreign trade. In the beginning, these traders were not Siamese governmental officials; they just worked for the King and got the permission to do their own business

simultaneously. Later with the rising of the trade between Siam and foreign countries, King Baromtrilokanarth appointed the traders on his behalf to be government officials to work in the Foreign Trade Department of Ministry of Finance. The King also divided the Department of Foreign Trade into two divisions; the first one dealing with the trade with China, the second one dealing with the trade with Indians, Persians, Arabians, and Moors (Wichitmattra, 1973).

With the further development and flourish of foreign trade in the middle period of Ayutthaya, the Royal Warehouse Department was changed its former function to mainly control imports and exports of Siam (Sungsidh, 1983). Only through this department could foreigners conduct business with Siam, so the country's foreign trade was monopolized by the Kings through this only legal department. Under such monopoly, there were three categories of traders, including 1) nobility as trader, 2) Chinese as broker for bureaucrats, and 3) Chinese dependent upon nobility as trader (Sungsidh, 1983). Firstly, royal family members, Chao Nais or high bureaucrats, and nobles of high rank directly involved in the tributary trade between China and Siam. As China's tributary system is a way to require other countries' symbolic recognition and reinforcement of China's superior status in the Sinocentric world order, the Chinese court not only welcome ambassadors and envoys of the Kings but also the Kings themselves, royal family members, Chao Nai, and nobles of high rank to Chinese court in order to signify their submissions to the Chinese emperor and the "most civilized" China. In order to seek trade privileges and substantial economic benefits from China,

the Siamese nobles voluntarily became traders. Moreover, the nobles also relied on the Royal Warehouse Department to do their business. Senior officials of the Department sent their own junks along with the royal junks to trade with foreign countries. Secondly, as Chinese engaged in trading with Southeast Asian countries for centuries, they had rich experience and skills in language, routes, local markets, and navigation. So Chinese traders were usually hired as brokers for Siamese Kings and nobles in foreign business. For example, it is recorded that King Rama II granted permission to a Chinese named “Ho” to arrange for goods for shipment and also appointed a Chinese named “Chan” to be a skipper of a merchant ship to Kalantan (Mullica, 1975). Thirdly, as some Chinese traders built close relations with Siamese nobles of high ranks, they used the political patronage to depend upon noblemen for their own business success. The Siamese nobles assisted and protected Chinese traders by issuing some official letters to the towns, districts, and villages for them to conduct business freely. According to the study of Sungsidh (1983), the sources of income of the bureaucratic capitalists derived mainly from foreign trade and labor power of recruited male citizen and slaves, lending money at high interests to peasants, and buying, selling or renting of land in the capital city.

2.2.2 Bureaucratic capitalism after the Bowring Treaty, 1855-1932

Since the conclusion of the Bowring Treaty, the royal trade monopoly ended with the free entry of Western capital, commodities, and technology into Siam. While in order to compensate state revenue, the King levied taxes on more items such as opium, liquor, lotteries, and gambling. So, tax farming bureaucratic capitalist was one of the three

categories of bureaucratic capitalism in 1855-1932, the other two were Chao Muang in chartered provincial administration system and Chao Nai as bureaucratic capitalist. During the late 19th century, most tax farmers were Chinese who initially engaged in the junk trade between China and Siam. They participated in tax farming once the system established and gained large profits and wealth through collecting tax. Then Chinese tax farmers also jumped into other business such as rice milling and exporting. The tax farming bureaucratic capitalists had honorable names and high social status in Siam, and more importantly, they usually got political patronage from the Kings, royal family members, Chao Nai or high rank nobles, aristocrats, etc. This kind of tax constituted about half of the state income till its end in the reign of King Rama V. Another kind of cooperation between the Kings and Chinese traders was in the chartered provincial administration system. The Chinese were appointed as a Chao Muang or governor, especially in the southern part of Thailand such as Trang, Krabi, and Phuket under the patronage of the King or Chao Nai. Under this system, the Chao Muang gained not only a monopoly in tax farming, tin mining, or other business activities but also political power in Thai society. The net profits of their business had to be shared with the King or Chao Nai. With the booming of import and export trade in Siam after the open of its market, the King directly invested in modern enterprises and encouraged Chao Nai to invest in trading business too. Therefore, Chao Nai and nobles as category of bureaucratic capitalists during this period turned to new investments in the timber business, trade, construction, rice milling, ferry boat, railway

business, and tram service. In general, bureaucratic capitalists after the Bowring Treaty in 1855-1932 mainly participated in Siam's commerce, industry, and finance. Moreover, Western capitalists with sufficient capital, technology, and experience were very competitive in Siam during this time that controlled the country's financial business, navigation, tin industry, and forestry. As a result, some of the bureaucratic capitalists cooperated with Western power to protect their commercial interests by providing a political umbrella. For instance, the establishment of Siam Commercial Bank in 1906 was co-invested by the royal family, Chao Nai, Chinese merchants, and Western merchants. From 1855 to 1932, the state capitalism in Siam relied on both bureaucratic system and Western capitalism.

2.2.3 Modern bureaucratic capitalism in Thailand, 1932-1947

After the 1932 Revolution, the People's Party gained political power but no economic influences. The old ruler groups attempted to get their power back by closing the parliament, deporting Pridi Phanomyong, and initiating the Borworndeth's rebellion in 1933. In addition to the old rulers, Western imperialism and overseas Chinese also played a critical role in Thailand's economic field through dominating production and investments. As a result, the People's Party proposed the nationalistic economic policy backed on the slogan "Thailand for the Thai" to establish the state capitalism. This new bureaucratic capitalism in 1932-1947 could be classified into 1) state enterprise and the semi-governmental company, 2) private enterprise of members of the People's Party, and

3) business under the patronage of members of the People's Party.

First of all, when the People's Party became the new leader of this country that controlled the political and natural resources, it used the state capital to invest in state enterprises and the semi-governmental companies in various business sectors such as rice, banking, fishery, and navigation. Although the companies are joint companies between government and private sector, it should be noted that the private capital came from the members of the Party and the government or the merchants who had close relation with them. Using political power as a way to run the business, these state enterprises achieved business success quickly and easily. Besides, these companies were also set up to meet the Party's nationalistic policy. To understand more about the characteristics of this kind of capitalism, I will use Thai Rice Co. Ltd., the most influential company, as an example to further discuss hereafter. Thailand rice industry has been under the control of overseas Chinese and European merchants, while it was the most important trade sector and the largest export commodity in this country since 1855. So once the People's Party attempted to achieve the nationalistic policy, it should control the rice business. In 1938, Thai Rice Co., Ltd. was established by the Ministry of Finance. Using its strong political power to exempt tax, the company successfully expelled its competitors out of the rice industry in five years. The Chinese rice mill owners had no choice but to let the government buy out, rent, or operate their rice mills. However, since Chinese merchants participated in the country's economic activities for centuries, this nationalistic policy could not eradicate their influence in Thai industrial

sectors. Due to their valuable management skills, Thai Rice Co., Ltd. hired some Chinese merchants to be its managers and train the Thai employees. Other influential Chinese merchants such as Wang Lee family had more business than rice mills and then transferred its capital to other business activities such as banking, navigation, insurance, and production under the political patronage of the People's Party. The Thai Rice Co., Ltd. ended up in failure after another coup group took power over the People's Party in 1947, and the Party's goal of nationalistic policy could not be realized as the Thai rice mills were still in the hands of Chinese merchants and the politically powerful bureaucratic capitalists in every government.

Second, the members of the People's Party also used their political influence to establish private companies to accumulate wealth. These private companies such as the Thai Niyom Insurance Co., Ltd., Thai Niyom Panich Co., Ltd., and the Menam Warehouse Co., Ltd. covered various business sectors, including retail and wholesale, import and export, banking and insurance, etc.

Last, inviting powerful Thai government officials and nobles to be the board members of their companies has been a traditional way for Chinese merchants to run their business. During this time, Chinese traders also shared the economic benefits through political patronage of the People's Party. Some Party members joined many Chinese-run variety of business such as the Thai Life Insurance Co., Ltd., the Universal Trading Co., Ltd., Thai Farmers Bank, Bangkok Insurance Co., Ltd., and Ann Leng Life Assurance Co., Ltd. All these companies run successfully in general under the political

umbrella of the Thai government and the rich experience and capital of Chinese merchants.

In conclusion, bureaucratic capitalism in Thailand emerged no later than Sukhothai period. Before the Bowring Treaty, under the royal trade monopoly in Siam, Chinese merchants worked for the King and gained political or economic privileges for their business in Siam. Since the signing of the Bowring Treaty in 1855, Western capitalists could enter Siam freely and controlled several business sectors such as finance and forestry. The development of Thai capitalism depended on both Western and Chinese capitalisms. After 1932, the People's Party attempted to build its own economic power by implementing nationalistic economic policies, while the Chinese merchants also had close relations with members of the Party to run business and share economic benefits jointly. The nationalistic policy had driven out Chinese traders in some traditional industrial sectors, but it also pushed them to burrow into new business such as banking and insurance. The modern bureaucratic capitalism in a constitutional system after 1932 provided chances for ethnic Chinese to participate in Thailand's banking sector development at the beginning stage.

CHAPTER III THE ROLE OF ETHNIC CHINESE IN THAILAND BANKING INDUSTRY IN THE EARLY 20TH CENTURY

3.1 The introduction of commercial banks after the Bowring Treaty

After signing of the Bowring Treaty in 1855, foreign capitals could access the Thai market directly. Therefore, the import and export trade widely expanded in Siam. The increasing commercial interests of European traders in Siam led to the establishment of banks to deal with their business. In 1888, the history of Thailand banking industry started with the open of a branch of the Hong Kong and Shanghai Banking Corporation. The reason why Britain pioneered Thailand banking industry was to maintain the dominance in the field of commerce in Thailand as this country was the buffer state separating British Burma and Malaya from French Indochina (Sithi-Amnuai, 1964). The bank premises were situated on the east bank of the Menam river, close to the center of the business portion of the town. In 1889, the bank introduced the first banknotes into Siam with the permission of Siamese authorities. These notes were used widely to pay debts and taxes among traders, customs officials, and other government offices, which brought many conveniences for business. But since 1902, when the Thai government issued its own banknotes, the number of the Bank's notes in circulation decreased gradually. The second bank- a branch of the Chartered Bank of India, Australia, and China- was established in Siam in 1894. This Bank granted drafts and bought and received for collection bills of exchange on London and the major commercial centers

in Europe, India, Australia, America, China and Japan, and transacted every description of banking and exchange business. In 1897, a branch of the Banque de l'Indochine was established to deal with French financial interests, which conducted all the usual banking business and issued drafts and letters of credit on all the principal cities of the world.

In the first few decades after these European banks opened branches in Bangkok, as Chinese merchants played essential roles in the business of Siam's major exports and the European banks' primary business concerned the purchase from the Chinese rice millers in Bangkok of dollar bills drawn against shipments to Hong Kong and the Straits (Ueda, 1994), all the European banks hired Chinese compradors to expand their business. The use of Chinese compradors was not newly created in Siam's banking industry, but a common phenomenon in the bank branches in developing countries and regions such as Singapore, Hong Kong and the Chinese treaty ports to overcome their lack of business practices and local language, such as Chinese and Siamese dialects. The comprador usually had deep connections with ethnic Chinese merchants and local government officials, who could solicit the banking business of Chinese merchants. Typically, the comprador guaranteed loans made on his recommendations, as well as the cash balance at the end of each day. The comprador received a nominal salary from the bank but liberal commissions from the customers he introduced. According to the study of Lowy Stephen, in the early 1900s, important Chinese compradors included Wong Hang Chow (Hong Kong and Shanghai Banking Corporation), Sam Hing Si

(Banque de l'Indochine), and Cheah Chee Seng (The Chartered Bank of India, Australia, and China). Wong Hang Chow typified the well-established comprador. He was the son of Cantonese parents, and received his education and early business training in Hong Kong. He had been with the Hong Kong and Shanghai Bank in Siam for five years before rising to the post of Chief Comprador. He was a prominent and active member of Bangkok's Chinese community, helping to form and fund the Chinese fire brigade. He was the brigade's honorary secretary as well as the honorary secretary for the Chinese club (Stephen, 2007). The Chinese compradors played important roles as late as the mid-1950s and later the position of comprador became the business development officer in the banks. In short, the European Banks could not succeed in the banking business in Siam without the help of Chinese compradors.

However, these European banks had a reputation for treating Siamese and Chinese merchants with little respect. Besides, Siamese would have been able to finance their own state projects, which included the railway, large-scale irrigation projects for rice, and the development of military (Stephen, 2007). In 1904, H.R.H. Prince Mahisara launched a small Siamese-owned private trust named the Bank Club, which became the first Thai bank- Siam Commercial Bank in 1906. The capital of the Bank came from the Prince and his friends, most likely influential Chinese-Siamese merchants such as Kim Seng Lee, Chin Gun, Chin Yuan, Eng Liang Yong, and Seow Yu Seng. In the early years, the Bank hired Western managers to run its business; in 1906, it hired a German national Felix Kilian who had been working for Deutsch-Asiatishce Bank's Shanghai office as

the foreign manager. Later, another German national P. Schwarze was hired as the foreign manager in 1908-1913. Then SCB engaged a British manager, George Henry Ardron, for 13 years till 1927. After Ardron left, SCB got American managers- J.H. Brett and W.K. LeCount- to work for the Bank till 1941.

In addition to working as compradors in foreign banks, ethnic Chinese also established some commercial banks in the prewar period to deal with their business, mainly the rice exports and to transmit remittances to China. These banks were mostly family operated with the capital subscribed by ethnic Chinese merchants and millers. As early as the second half of the 19th century, remittance shops sprang up in Siam as China-born immigrants regularly sent money back to support their families in China. The gross profits of the remittance shop came from fees, from interests on the sum entrusted to it before the actual transmissions of money, and sometimes from fluctuations in the exchange rate. Merchants with business in China also remitted money for a variety of reasons: capital investment in China, the purchase of goods to be shipped to Siam, safe-keeping as deposits, etc. (Chen Ta, 1940). These remittance shops could be the predecessors of Chinese-owned banks in Siam.

Later Mr. Joo Seng Heng established the first Chinese-owned bank in Siam - Joo Seng Heng Bank, which was reorganized as Chino-Siamese Bank in 1908. Since Joo Seng Heng had a strong command of languages, lengthy experience dealing with foreigners, and an extensive list of business contacts locally and abroad he worked as a local manager in SCB during 1911-13 (Stephen, 2007). In the 1890s, Joo Seng Heng

worked as a clerk and later became a manager at the Bangkok Opium Farm. After collecting some fortune, in 1904 he opened his own business firm and bank- the Joo Seng Company. Later in 1908, he converted his company into Chino-Siamese Bank and became the largest shareholder and Chairman of the Board of Directors of the Bank. At the same time, Joo Seng Heng also cooperated with Luang Chitchamnongwat to run the Siam Rice Milling Company at the same building of the Bank. The Chino-Siamese Bank had a number of major Chinese entrepreneurs as shareholders, including Lee Tech Oh, the rice miller who in 1910 controlled 40 percent of Siam's rice trade, Kim Seng Lee, a prominent revenue farmer, and Tan Siang Kee Chan, another revenue farmer and rice miller (Brown, 1943). As an enormous amount of business was in the hands of ethnic Chinese in Siam, the bank became a big success in Siam's financial circle, which opened many branches in Siam in the first two years.

In 1909, Bangkok City Bank was established by Hoon Kim Huat, whose family business, the H. Swee Ho Dispensary, started by his father in 1868 to deal with imports, sales-commission business, and drugs and chemicals manufacturing. Due to mismanagement, the Bank failed in 1910 while being heavily indebted to the Chino-Siamese Bank. So, the Chino-Siamese Bank had no choice but to take over the newly-formed Bangkok City Bank to avoid the bankruptcy of both banks. However, this alliance only increased the Chino-Siamese Bank's liabilities. By 1910, the Chino-Siamese Bank had almost run out of capital and relied on the overdraft from SCB as the Bank was SCB's agent in the foreign exchange business since 1908. To save his

bank, Joo Seng Heng tried to use the Siam Rice Milling Company to hide the growing losses of the Chino-Siamese Bank and provided more loans to assist local rice traders. After struggling three more years, the Bank was on the brink of bankruptcy while Joo Seng Heng's trade partner did not allow him to use the Siam Rice Milling Company¹ to save the Bank anymore. In December 1913, the Chino-Siamese Bank failed and ended operation. The experience of the Chino-Siamese Bank made a great impression in Siam and had significant consequences for commercial banking. It goes far to explain the absence of a local Chinese bank until the 1930s (Brown, 1943).

While in the 1910s-1930s, four ethnic-Chinese owned banks in Singapore and Hong Kong opened branches in Bangkok as Siam's major export markets were Singapore and Hong Kong. These four banks were successful and large-scale, so they expanded their business abroad in Siam. Two Singaporean banks were Sze Hai Tong Bank and Overseas Chinese Bank that opened branches in Bangkok in 1910 and 1932; two Hong Kong banks- Bank of Canton and Chin Saeng Bank- established their business in Bangkok in 1919 and 1931. Later since the administrative changes in Thailand happened in 1932, Thai exports increased, and the commercial banking business thrived again. With the rise of Thai nationalistic economic policies, Chinese merchants and business owners moved into Thailand banking industry. A number of Chinese

¹The Chino-Siamese Bank's failure also caused a desperate trouble for the Siam Rice Milling Company as the latter lost all its deposits at the Bank. But since the Siam Rice Milling Company was the largest rice firm that accounted for forty percent of Siam's rice exports in 1913, its close-down could influence the whole commercial sector in this country. The government forced SCB and three European banks to provided loans to the company to survive. While after one year, the Siam Rice Milling Company was still forced into bankruptcy as it was not able to repay the loans.

merchants and business owners applied for licenses to establish banks: In 1933, Liew Yong Heng Bank, Thye San Bank, Hai Shua Bank, Kuang Ko Long Bank, Wang Lee Chan Bank, and Kuang Sun Li Bank were established; In 1934, Tan Pang Chun Bank and Thai Pattana Bank were found; In 1938, Sun Hok Seng Bank was formed; In 1939, Asia Bank for Industry and Commerce was opened, and in 1941, Siam City Bank was established. However, during that time the import and export business in Siam was small scale and the major export product was only rice, which could not support the development of commercial banks in this country. These Chinese-owned banks were also short of capital and skilled banking staffs. Almost all of them soon terminated their operations and ended up in failure due to lacking competitiveness with European banks and the branches of Singaporean and Hong Kong banks.

In conclusion, in the period of 1888-1941, Western capitals dominated the commercial banking in Thailand, but whose business depended heavily on the ethnic Chinese compradors. The ethnic Chinese also attempted to establish their own banks to support their family business but failed due to lack of skills and capital.

3.2 The establishment of local commercial banks during WWII

With the outbreak of the Second World War, Japanese invasion into Thailand resulted in a complete suspension of Western business operation in Thailand as Thailand declared war against Great Britain and the United States. The Thai government confiscated all the property of the “enemy” following universal custom. This resulted in

the halt of the operation of European banks in Thailand because they were a part of that confiscated property. For example, on 9th December 1941, the premises of the Hong Kong and Shanghai Banking Corporation were occupied by the Japanese and subsequently by the Thai authorities. The bank was “liquidated” by the government, and the Thai National Banking Bureau moved in. On 10th December 1942, the Bank of Thailand was formed, which took over the Banking Bureau and a formal opening ceremony was performed by Prime Minister Phibul Songkram (Perry, 1951). During the wartime, only one foreign bank operated in Siam, that was Yokohama Specie Bank owned by Japan. The government’s prohibition on the running of Western banks created a vacuum for ethnic Chinese to fill in the local commercial banking industry. Moreover, the government’s Thai nationalist economic policy in the 1930s expelled ethnic Chinese out of many business sectors, which also forced the ethnic Chinese to grab the available business opportunity to run the local commercial banks to provide the sudden shortage of banking services. The war also gave rise to a boom in internal and external trade, especially the trade in strategic materials such as copper wire, rubber, and tin. Consequently, ethnic Chinese merchants developed their business in banking industry during the Second World War.

In 1942, Mr. Lek Viriyaphan, who was born in a Chinese business family, established Monthon (Provincial) Bank Limited, which was later merged with the Agriculture Bank and changed its name to Krung Thai Bank. Before entering the banking industry, Lek Viriyaphan family business covered drugstores and Chinese-Thai

language newspaper. In 1944, Bangkok Bank was established by a Teochew Chinese group led by Chin Sophonpanich. Chin was born in Thonburi with a Teochew father and a Thai mother. As the ethnic Chinese's tradition, he was sent back to Shantou to get education till the age of seventeen. Later Chin came back to Thailand in 1927 and started his career in a timber shop. As Chin has extraordinary talents in accounting, commerce, and money management, he was appointed as the managing director of Siem Heng Long Co., Ltd. in 1939. In the same year, Chin founded his own shop named "Asia Trading" to deal in lumber, hardware, and canned goods. In war years, the increasing demand for precious metals made gold and foreign exchange market very lucrative. So, Chin established the Bangkok Bank with a group of Teochew merchants such as Tae Keng Ung, Lim Pek Kee, Chiu Shiew Bu, and Kuay Shik Shiu who were mainly engaged in the import-export and gold trade business. The Bangkok Bank's main business included gold trade, money exchange, remittance, and insurance.

In April 1945, another Teochew Chinese group led by Luan Buasuwan established the Bank of Ayudhaya (later known as the Krungsi Bank). Luan had been engaged in rice business and became the general manager of the large-scale Wing Seng Rice Mill in Udonthani Province. The Bank's leaders were upcountry rice-millers and members of Northeast Rice Millers Association or the Northeast Saw Millers Association, including Hong Ching Mein, owner of Hong Chiang Huat Rice Mill; Chieng Su Teng, owner of Tech Seng Hong Rice Mill; Lee Song Liang, owner of Hong Seng Thye Rice Mill, etc. To seek political patronage, the Bank gained support from Generals Phin and Phao, the

leaders of “Soi Ratchakhru” military clique in 1947-57 by inviting the generals to be the advisory directors of the Bank’s affiliate firms in insurance. Also, Luan Buasuwan served as a promoter, director, and shareholder of military-involved or state-sponsored companies to help the latter’s business. In this way, the Bank expanded rapidly into one of the largest military-associate conglomerates that dealt with the war arm business. The Ayutthaya group and the military firms led by Field Marshal Phin cooperated to monopolize the major lucrative business of the country. Important areas that they dominated by the early 1950s included the rice business, hog slaughtering and the pork trade, timber export, the jute and gunny bag business, and the local distribution of liquor and tobacco (Suehiro, 1992). In 1956, when Luan died in an airplane accident, the Auyudhaya Bank was taken over by another ethnic Chinese- Chuan Rattanak.

In June 1945, Thai Farmers’ Bank (later known as Kasikorn Bank) was established by a Hakka Chinese family- Lamsam family and later combined with a Teochew Chinese family- Wang Lee family. The Bank’s business varied from shipping, life insurance, and trading to mining and manufacturing. Lamsam family was one of the oldest business groups in Thailand. Before opening the Thai Farmers’ Bank in 1945, Lamsam family started a business in rice milling and export, then moved into forestry and sawmilling, shipping, rubber exports, and established the Lamsam Insurance Co., Ltd. in 1932. Wanglee family traces its origins to Tan Tsue Huang, who arrived in Siam during the reign of King Mongkut and succeeded in the rice milling business. By 1920, Tan’s second son became one of Siam’s largest rice millers and exporters. The

combination of Lamsam family and Wanglee family constituted the most extensive Chinese business block in Siam before the 1950s. With the help of Hakaa and Teochew communities and the patronage of Pridi Phanomyong's political group, the Thai Farmers' Bank had 26 affiliate firms with a total registered capital of 14.8 million baht in 1948-49.

As a result, during the 1960s, banking ownership concentrated in the hands of Chinese families. The largest institution was the Bangkok Bank, controlled by the Sophonpanich family. The three others were the Lamsam family (Thai Farmers' Bank), Tejapaibu (Bangkok Metropolitan Bank, Thai Development Bank [later, First Bangkok City] and Bank of Asia), and Ratanarak (Bank of Ayudhya and Siam City Bank). Most of the remaining banks were also Chinese-Thai family enterprises. They served as bases for these groups to invest in other types of financial enterprises (insurance, investment finance, consumer finance, etc.) and non-financial activities (Muscat, 1994).

In summary, the ethnic Chinese established the local commercial banking industry in Thailand in the wartime. Since then, with the birth of these ethnic Chinese-owned commercial banks in Bangkok, Thailand's banking sector got rid of the monopoly by the Western powers. Also, these ethnic Chinese-owned banks promoted the financing and trade of local entrepreneurs and Chinese entrepreneurs in Thailand.

Table 1 **Banks Founded in Bangkok between 1888-1945**

Year of Establishment	Name of the Bank	Nationality
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1888	Hongkong and Shanghai Banking Corporation	British
1894	The Chartered Bank of India, Australia, and China, Ltd.	British
1897	The Banque de l'Indochine	French
1904	Joo Seng Heng Bank	Ethnic Chinese
1906	Siam Commercial Bank	Thai
1908	Chino-Siamese Bank	Ethnic Chinese
1909	Bangkok City Bank	Ethnic Chinese
1910	Sze Hai Tong Bank	Singapore (Teochew)
1919	Bank of Canton	Hong Kong
1923	Mercantile Bank	British
1931	Chin Saeng Bank	Hong Kong
1932	Overseas Chinese Bank	Singapore (Ethnic Chinese)
1933	Liew Yong Heng Bank	Ethnic Chinese
1933	Thye San Bank	Ethnic Chinese (Wenzhou)
1933	Kuang Ko Long Bank	Ethnic Chinese
1933	Wang Lee Chan Bank	Ethnic Chinese (Teochew)
1933	Kuang Sun Li Bank	Ethnic Chinese (Guangdong)
1934	Tan Pang Chun Bank	Ethnic Chinese (Teochew)
1936	Yokohama Specie Bank	Japan
1938	Sung Hok Seng Bank	Ethnic Chinese (Teochew)
1939	Asian Bank for Industry and Commerce	Ethnic Chinese
1941	Siam City Bank	Thai (Hainan)
1942	Bank of Thailand	Thai
1942	Monthon (Provincial) Bank	Thai (Ethnic Chinese)

1944	Bangkok Bank	Thai (Teochew)
1945	Bank of Ayudhya	Thai (Teochew)
1945	Thai Farmers' Bank	Thai (Hakka & Teochew)

Source: *Organized from the studies of Narong, Sithi-Amuai, Supoj, Wang Zhumin, and Thai Bank Museum.*



CHAPTER IV ANALYSIS OF ETHNIC CHINESE BUSINESS SUCCESS IN THAILAND BANKING INDUSTRY THROUGH A CASE STUDY OF THE BANGKOK BANK

The Bangkok Bank is the largest commercial bank in Thailand and Southeast Asia and one of the fifty largest banks in the Pacific region. It was founded in 1944 by Chin Sophonpanich, a Teochew Chinese who seized the opportunity when European banks suspended operation in Thailand during the Second World War. As the Bangkok Bank has been one of the most important pillars in the banking industry in Thailand, it is used as a case study in this research to explore the business strategy of ethnic Chinese in the establishment of commercial banks in Thailand in the early 20th century.

4.1 The history and background of the Bangkok Bank

The Bangkok Bank was established in 1944 by Chin Sophonpanich, along with some retired government officials and businessmen. In November 1944, the Bank finished registration and got the permission from the Ministry of Finance to perform commercial banking functions. In the first year, a total of 23 officers and staffs were hired in the Bangkok Bank. General Chao Phraya Ramrakhob, formerly aide-de-camp to King Rama VI, was appointed as the Bank's first Chairman and Luang Roprukkit, who had retired from the Department of Railways, was appointed as the first Manager. On 1st December 1944, the Bangkok Bank was officially opened for business. On the

opening day, Prime Minister Khuang Aphaiwong inaugurated the Bank with the attendance of various Thai and Chinese businessmen. It was discovered that over 9 million Baht had been deposited on the first day, mostly by those merchants who had a close relationship with the Bank's founders. According to an interview of Chin Sophonpanich (1980), the aim of the Bank was to provide local businessmen the same services that foreign banks gave their co-nationals since local merchants in Bangkok's business districts such as Songwat and Yaowarat found difficulties in their dealing with foreign-owned banks in the pre-war years. The European banks were not interested in serving the needs of local enterprises to expand foreign trade, but only interested in financing their own nationals' endeavors. So once after its establishment, the Bank played an important role in promoting the foreign trade of local entrepreneurs in Thailand, which led them to wean from dependence on Western intermediaries. For example, when a local merchant wanted to import crockery, the Bank would help write a letter to the Commercial Attaché at the embassy of likely trading nations to build the contact of a crockery exporter. Then the Bank would order for the local merchant as the price quoted was usually 10 to 20 percent lower than the price of similar goods sold by foreigners in the Thai market. Also, the Bank provided translation services for the local merchants. Lastly, the Bank opened a letter of credit and provided trust receipt facilities of 60 to 120 days as to give local merchants some time to sell off the goods and then make repayment to the Bank. In a similar way, the Bank also provided export services for local merchants as usually 5 to 10 percent more profit would be gained than selling

locally to foreign buyers. Therefore, the Bank gained trust from local businessmen and expanded rapidly till the end of the Second World War. When the war ended, the Thai government had to return the frozen assets of the “enemy” nations and enable the foreign banks to resume operation in Thailand since 1947. To deal with the fierce competitions, Chin Sophonpanich decided to consolidate the Bank’s relations with ethnic Chinese, who were the major business group in Thailand. This strategy helped the Bank withstand the pressure of competition and attracted more deposits, pushing the Bank to become Thailand’s economically most powerful conglomerate by the early 1950s. In the Bank’s first seven years of operation (1944-1951), deposits had grown from 9 million baht on the opening day to 53.9 million baht at the end of 1951, assets from 11.2 million baht in the first balance sheet dated June 1945 to 84.7 million baht, and credits from 3.1 million baht in the first balance sheet to 56.1 million baht (Bangkok Bank Public Company Limited, 1982). Between 1952 and 1971 the Bangkok Bank increased its registered capital from 20 million Baht to 500 million Baht, in which Chin Sophonphanich and his family increased their stake to 33 percent and became the Bank’s largest shareholding group (Suehiro, 1989).

4.2 The Spirit of Chinese capitalism

Chinese capitalism did not follow the Western pattern of professionalization or bureaucratization. There was much in Chinese history, social, economic, and political factors to explain why Chinese capitalism was different from modern Western

capitalism. The economic culture of overseas Chinese was unique, which could be traced back to the psycho-social legacy of China: the fundamental beliefs and values system of Confucianism.

On 4th July 2019, I had interviews with two members of the Tio Chew Association of Thailand, a Vice Chairman and a Permanent Secretary, and learned more about ethnic Chinese and their business success in Thailand. Most ethnic Chinese immigrated into Siam or Southeast Asia were poor with limited skills. When they came to a new place, they could not own lands or other natural resources. At that time, modern industries had not taken shape in Siam or other Southeast Asian countries. So, the traditional business practices of ethnic Chinese such as agribusiness were deprived, they had no choice but to be traders to earn a living. Siam was fertile in natural resources, which made its people value agriculture while belittling business and reluctant to change traditional labor and production methods. With the development of farmers' commodity production in Siam, the demand for intermediaries who could help sell their products gradually increased. The ethnic Chinese brokerage activities adapted to this requirement, which enabled them to enter Siam's business sector more smoothly. The ethnic Chinese who were forced to flow into Siam or other Southeast Asian countries mostly had a common desire, that was to accumulate money as much as possible and remit it back to their families in China. This kind of motivation made ethnic Chinese people attach great importance to investment income and capital accumulation when choosing their jobs. Therefore, conducting business became the best choice for ethnic Chinese to

accumulate wealth. The two members of the Tio Chew Association of Thailand who I interviewed agreed that the ethnic Chinese business success in Siam was based on the spirit of Chinese capitalism. They thought that influenced by the fundamental beliefs and values system of Confucianism, ethnic Chinese were willing to work hard, save money, and put priority on families. The family-centered system in big ethnic Chinese families was similar in the organization model of Chinese-owned companies, which made most Chinese family-owned businesses particularly competitive with their management experience and flexible business strategy. After the mid-nineteenth century, as Western businessmen were arrogant, local people preferred to deal with the efficient Chinese merchants. Moreover, the special social organization structure of ethnic Chinese in Siam also provided favorable conditions for them to conduct business. With more overseas Chinese migrated to Siam, some community associations based on relatives, clan, surname, dialect and fellowship were established to unite ethnic Chinese together to resist pressure and infringement from the outside world. The establishment of these associations not only enabled newcomers to get help from relatives and friends, but more importantly, they helped ethnic Chinese to establish partnerships in business activities. Such networks provided major platforms for ethnic Chinese to share business information, reduce the cost of the transaction, and accumulate venture capital.

Based on the interview, I found some common features in the successful ethnic Chinese banks in Thailand: they were all family-owned and had close relations with dialect communities and Thai military leaders or powerful government officials. These

features were bases of the spirit of Chinese capitalism, which played a principal role in the ethnic Chinese-owned banks' business strategy.

4.2.1 Psycho-Social Legacy of China

4.2.1.1 Fundamental Beliefs

Chinese major philosophical ideologies and religions in history can be generalized into eight types: “Animism”, ancestors: 3,000 B.C., “Dualism”, the “Yin and Yang”: 2,000 B.C., “Taoism”: 604 B.C., “Confucianism”: 551 B.C., “Buddhism”: Second Century B.C., “Christianity”: Fourth Century A.C., “Islam”: Eighth Century A.C., and Atheist Communism: 1950 A.C. (Tao Liming, 2001). Of all these kinds of ideologies, the fundamental beliefs of China are Confucianism, Taoism and Buddhism. The prevailing ideology for most Chinese recorded history has been a set of ideas which go under the convenient label of Confucianism. According to the study of Redding (1990), the Confucian state was seen by its members as an enormous, but nevertheless united group. Thus, the Chinese state is in essence the super-family of Chinese people. The basic building block of the stable Confucian state is the family, as the Confucian state ideology designed to concentrate people's loyalties on the family as a means of stabilizing the state. Based on the ideology of Confucianism, familism becomes the most important factor in the spirit of Chinese capitalism. One can see from this the way in which the person is perceived to exist only in terms of his immediate family network, and by extension that society is seen

as comprising not individuals-who in themselves have no legitimate place-but families, around which life is formed (Redding, 1990). In such circumstances, when Chinese immigrants came in Siam, they usually chose those jobs and occupations that paid best in Siam such as traders and wage-labors in order to make more money to support their families. They did not want to copy a Chinese society abroad by engaging in farming or rice cultivation, but actively engaged in business activities to further the fortune of his family. The ethnic Chinese's actively participation in Thailand's business sectors provided a solid foundation for them to run business in the banking industry in Thailand.

4.2.1.2 Relationships Rules

The basic building block of the stable Confucian order is the family, and within that, the crucial stabilizing feature is filial piety (Redding, 1990). Filial piety is a virtue of respect for one's parents, elders, and ancestors, which is considered a key virtue in Chinese culture and lies at the heart of family design and in turn sets the tone for the social relationship. Moreover, China has always been an agrarian state and one in which subsistence level of living has been the lot of most people. In these circumstances, there is much to be said for a value system which places a constraint on the expression of individual desires (Bond and Hwang, 1986). Collectivism is another relationship rule for Chinese to place themselves among others. This could be also found in Chinese fundamental beliefs. The Confucian ideal

is that family, clan, and head of state take precedence over the individual. In Taoism, your body is lent to you by the universe in which you should lose yourself “as fish lose themselves in water.” In Buddhism, the ego is seen as an illusion, and the aim is to transcend it to the unborn pure being. The dignity of the person as an end in itself is not part of the most fundamental Chinese ideals (Redding, 1990). Based on these relationship rules, the family business of ethnic Chinese could be carried on from generation to generation. When the ethnic Chinese entered the banking industry, their long-term accumulated business experience, commercial relations, and capital strongly supported them to establish the commercial banks in Thailand easily.

4.2.1.3 Rules for Action

Chinese people have been traditionally described to have the personalities of diligence because Confucianism suggests men to strive to advance themselves as much as possible to achieve their lives' progression for each stage. Making contributions to family and society is an encouragement for everyone in a Confucian state. When Chinese migrated to a foreign country, they usually worked harder to make more money in order to support their families and guarantee their future as most of them suffered from poverty or wars in China before moving abroad. The working rules of overseas Chinese were basically founded on money, frugality, and pragmatism. Money is the basic thing to survive and continue the family line.

The inseparable twin of money-mindedness is frugality. And pragmatism could be seen as a super set of money and frugality. Taking decisions on what appears as practical grounds is needed to make sure of family survival. These rules permeated overseas Chinese life to take their family duties and avoid fear of insecurity. With these rules of actions, ethnic Chinese usually worked extremely hard to achieve success in the business they participated in.

4.2.2 Economic Culture

On 16th August 2019, I had an in-depth semi-structured interview with Mr. A, Director of Chinese Studies Center, Institute of Asian Studies, Chulalongkorn University. Mr. A claimed that the distinct economic culture of ethnic Chinese was different from that of Thai or Westerners, which was the most important factor for ethnic Chinese to succeed in Thailand's business field. First of all, ethnic Chinese were extremely diligent, who worked very hard to satisfy the needs of customers. Second, ethnic Chinese were very flexible while doing business, which enable them to adjust their business hour and business strategy quickly according to market changes. Third, ethnic Chinese businessmen could think from the perspective of clients. If they saw the customers were in need, they might sell their products with a lower price or give the customers more goods. Their expression of empathy strengthened customer loyalty, which helped them to maintain their business and expand market share. Last but not least, ethnic Chinese attached importance to

networks, especially associations. The first ethnic Chinese association in Thailand was established by Hainan group as the number of immigrants from Hainan was smaller than the Teochew, Hakka, and Yunnan groups. So, Hainan immigrants first banded together to help each other. Relying on those associations could easily share business information, reduce transaction cost, and raise capital quickly. Based on the interview, I further researched the ethnic Chinese' economic culture in banking industry as follows.

4.2.2.1 Family business

The business environments of the overseas Chinese provided fertile grounds for encouragement of a special form of capitalist enterprises, based on family ownership and control. The Chinese family business came to be dominant for the coordination and control of economic activity in the societies where the overseas Chinese flourished. The Chinese family business was usually small scale and relatively simple organizational structuring such as personal and family networks. There was a close overlap of ownership, control, and family. It could have a high degree of strategic adaptability but was weak in terms of creating large-scale market recognition and promoting financial efficiency. As for their management theory, Chinese family business was always lack of neutrality and professionalism but relied on nepotism. This provided strategic flexibility to Chinese family business to response quickly to market and achieve new visions. In Thailand, the Chinese families such as Wanglee family, Lamsam family,

Tejapaibul family, and Pornprapha family managed their business throughout the history. In old times, they dominated the tax farms, rice mills, mining, etc. Later after the rise of Thai nationalism in the 1930s, Chinese families rebuilt their business in commercial and financial sectors such as hardware, vehicles, banking, and insurance.

In the 19th century, when overseas Chinese needed to send money back to China, some ethnic Chinese rice millers' families opened remittance shops to conduct such business as well as support their own rice miller. After the Bowring treaty, the ethnic Chinese families quickly burrowed into the banking industry to support the import and export trade. Later in the early 20th century, most of the commercial banks in Thailand were established and promoted by a single family or a group of leading families. These ethnic Chinese families had operated business in Thailand for several years, so they had capital, business networks, and rich knowledge in accessing local markets and dealing with government officials. Before the Second World War, the Chinese-owned banks were mostly established by a single family to finance their agribusiness and deal with the remittance back to China. These Chinese family-owned banks were small scale and lack of neutrality and professionalism, which failed to compete with European banks or Singaporean and Hong Kong banks. During the wartime, ethnic Chinese families moved into banking industry again after the suspension of the operation of foreign banks in Thailand. The ethnic Chinese merchants started cooperating with each other in the operation of banks. For example, the Thai Famers' Bank was operated by Lamsam family and Wanglee family. The success of the

Bank of Ayudhaya was owed to the support of a group of Teochew rice merchants. These Chinese business families had built a successful business groups with most diversified industrial base and cooperated to set up commercial banks and involved in the incorporation of two or three commercial banks. This cooperation attracted more business partners from a wide range of occupations varying from rice exporter, textile importer, gold dealer, and liquor distributor to manufacturer, who contributed as shareholders of the Chinese-owned banks. The cooperation of leading families in banking industry represents the economic culture of ethnic Chinese, expanding business by relying on family is a traditional Chinese pattern in doing business and further the fortune of their families.

4.2.2.2 Use of networks

Network, as an extension of the family, was another significant factor for overseas Chinese capitalists to cooperate among themselves. It was seen as a fatal factor for facilitating smooth business operations and transactions. Some Chinese associations were founded based on this idea. These overseas Chinese associations were usually organized by the area of origin in China, the dialect, or the industry they engaged in. Overseas Chinese capitalists relied on personal relationships and networks when they were new in a country that could not gain any support from the government. These networks facilitated ethnic Chinese to grasp market conditions quickly, establish trade links with each other, and enter the commodity market directly. Therefore, a network

system of information, credit and business activities was formed among ethnic Chinese society. The completion of such a network system had played a role in promoting and guaranteeing the business activities of ethnic Chinese, especially the trade industry that relied on credit to run. In addition, the continuous development of such networks eventually led to the emergence of the self-circulation mechanism of the internal economy of the ethnic Chinese society, that is, the production, exchange, distribution, and consumption were formed within the ethnic Chinese society. As a result, using these networks was convenient and efficient to build trust, get information, reduce competition and costs, increase employment opportunities, and facilitated cooperation within the ethnic Chinese community. In an underdeveloped economy where the law was not perfect, these networks could effectively deal with people who were not willing to comply with the contract. Compared with other groups, the ethnic Chinese had clearly benefited from these kinship and social networks in terms of employment opportunities, credit, information, merchandise sales, and guarantees. Chinese business dominance in Thailand economic sectors owed a lot to their well-covered business networks in Siam and Siam's main exports market in China, Singapore and Hong Kong.

The ethnic Chinese-owned banks were principally incorporated on the basis of networks involving kinship and community ties. The ethnic Chinese in Siam usually established wide networks such as associations and communities for their business cooperation. The promoters, board members, and shareholders of a Chinese-owned commercial banks normally all belonged to the same dialect groups. And the banks'

supervisors and customers were also mostly in the same dialect groups. Such connection provided more convenience for ethnic Chinese to get loans from the banks as the banks' credit managers usually had a certain understanding of the customers in the same towns or dialect groups. Unlike the foreign banks, these ethnic Chinese-owned banks did not need sufficient mortgage to provide loans for people under such connection. The banks' business depended heavily on the networks to get customers and capital since these networks covered a wide range of business varying from agribusiness, textile, gold, liquor, and manufacturing. For examples, the Bank of Ayudhaya's success relied heavily on Luan Buasuwan family's networks with upcountry rice-millers and members of Rice Millers Associations. Also, the Chinese businessmen used networks with the compradors in banks to get funds. Building and using the business network and personal connections is a significant business strategy which contributes to the ethnic Chinese business success in Thailand banking industry.



4.2.2.3 Political patronage

The Chinese management theory was founded on the power of good human relations, which was totally different from the principles in the Western world. Therefore, political patronage of any political group in power was crucial for ethnic Chinese to manage their business in Thailand. Sungsidh (1983) concluded that the Chinese merchants would be under the patronage of any political group in power, whose loyalty changed with the change of power. Sometimes in order to continue their family

business, ethnic Chinese had no choice but to invite powerful Thai politicians to run the business together or put the business under the name of powerful Thai people. It seems like a win-win cooperation between Chinese and Thai elites, where Chinese merchants could get a safe umbrella and powerful Thais could get economic benefits.

From the interview with Mr. A, I learned that there are things in Thai culture such as political patronage that are similar to Chinese culture. Since the reign of Rama III, the ethnic Chinese leaders had built good relationship with Thai nobles and bureaucrats to facilitate their trade in Siam. During the reign of Rama IV, Western businessmen could freely enter Thailand after the signing of Bowring Treaty, but most of their business could not compete with ethnic Chinese traders since Westerners hardly understood this kind of political patronage relation in Thai culture. For example, every year during the big festivals such as Chinese Spring Festival, ethnic Chinese leaders in Bangkok invited powerful Thai bureaucrats to celebrate together in order to deepen cooperation and communication. Even after the 1932 Revolution, the old ethnic Chinese leaders became “new Chinese traders”, who still had close relation with powerful Thai politicians. The ethnic Chinese’ use of political patronage ended since 1960s when the Thai government made the first six-year national economic development plan (1961-66) that changed the country’s economic structure.

As the Thai government promoted the “Thai” commercial banks based on the “Thai business for the Thai” economic strategy, the ethnic Chinese usually invited native Thais of military power to become chairmen or board members. Political patronage is another

significant method used in Chinese business strategy in Thailand banking industry. Seeking protection of Thai military leaders and powerful politicians was very important for ethnic Chinese to establish the local “Thai” banks in the early 20th century. For example, the Bank of Ayudhaya gained support from the “Soi Ratchakhru” military clique, which expanded rapidly by dealing with the war arm business. For ethnic Chinese, inviting powerful Thai leaders to share the banks’ interests is a way to get a protective umbrella to raise their business to maintain the banks’ political stability. For Thai military-led ruling elites, cooperating with ethnic Chinese businessmen was needed for their own business activities due to their lack of seed capital, experience, and entrepreneurial skills.

4.3 The business strategy of the Bangkok Bank

In the old times, ethnic Chinese were afraid that their children would lose the Chinese culture, so they usually sent their kids back to China to get education for several years. The founder of the Bangkok Bank, Chin Sophonpanich, was also sent back to China till the age of seventeen. This experience made Chin’s ideas and principles basically build on Chinese culture and philosophy. Diligence and hardworking were the basic rules for actions of Chinese people to run business, which also laid the foundation of Chin’s business success. Chin worked very hard to run the bank in order to make contributions to his family and the local business society. According to Piya Siwayathorn (Bangkok Bank Limited, 1984), who worked for the Bangkok Bank for

thirty years, he recalled that when he was working for the Bank in the early days, they had to come to work on Saturdays and Sundays to get things done on time so that they could cope with the wishes of the customers. Everybody worked very hard because Chin set the example. Chin was there working side by side with them all the time. As a successful overseas Chinese businessman, Chin represented the culture that ethnic Chinese can work hard and for a long time to get things done without feeling tired. Also, the Bangkok Bank, as a Chinese family business, had the strategic flexibility to respond quickly to market and achieve new visions. This advantage led the Bank to satisfy the customers to the best and provide up-to-date customer services. Piti Sithi-Amnuai stated (Bangkok Bank Limited, 1984), “The Bangkok Bank is the first bank to offer agricultural credit to farmers, the first to introduce computerization to its customer services, the first to go online, these have provided quality services for the customers.”

In addition to hardworking and strategic flexibility, Chin's networks and personal connections were another important factor that contributed to the Bangkok Bank's business success. When overseas Chinese came to Thailand in the early years, they did not have relatives or close kin to rely on. People from the same dialect or origin usually relied on each other to find jobs and conduct business because it was easier for them to understand and trust each other. Later some trade associations were established based on these dialect groups to gather and share information, facilitate cooperation between financiers and businessmen, and promote ethnic Chinese people's interaction through social activities. Haley and Tan (1998) stated in their study of overseas Chinese people's

strategies and competitive advantages, “networks are designed to empower managers to talk openly, candidly, and emotionally without fear, to enrich the quality of their decisions, to test each other’s motives and build trust, and to encourage them to evaluate problems from the perspective of what is right for the customer and the company rather than from narrow functional or department interests”. Networks had been a critical factor for ethnic Chinese to secure favors, funds, and resources for their business. For the Bangkok Bank, since the first day, the Bank’s deposits mostly came from those merchants having close relationship with the bank’s founders. Chin’s wide personal relations and networks assured trust of more diverse and dispersed investors into the Bank. Once the war ended, Chin had to deal with the fierce competitions of foreign banks as the foreign banks resumed operation in Thailand. Chin’s close relations with ethnic Chinese, his major business group in Thailand, helped the bank withstand the pressure of competition and attracted more deposits. Using networks helped the bank to become Thailand’s economically most powerful conglomerate by the early 1950s.

Moreover, with the development of bureaucratic capitalism in Thailand, using political patronage was a must for Chinese merchants to run business in this country. Chin also built a network with powerful Thai politicians and military leaders. In 1944, the Bangkok Bank invited generals and government officials to be the Chairman and managers. Also, with the relations of these Thai bureaucrats, the Bank got large deposits from the Ministry of Commerce. In the early establishment stages, the Bank relied on this political patronage to gain political stability during the wartime and to deal with

Thailand's nationalistic economic policy. According to the interview with Mr. A, he stated that during the Second World War, Western banks were suspended operation in Thailand and some related bank managers were put in prison. In order to learn the management skills, Chin used his close relations with Thai police to take those Western bank managers out of jail for a while and treated them nice meals and then sent them back. Using this way, Chin acquired many advanced knowledge and methods to run a bank from the Western managers, which were very important for the development of Bangkok Bank in the early years. After the war, Chin used his relation with powerful Thai officials and invited them to run the bank jointly. In relative terms, the Thai government happened to indirectly support the ethnic Chinese to run commercial banks in the early 20th century due to the official prohibition of the operation of Western banks and the Thai politicians' private support of ethnic Chinese bank owners.

On 5th August 2019, I had an in-depth interview with Mr. B, who had worked in the Bangkok Bank for more than 20 years, to talk about the Bank's business success in the formative years. Mr. B believed that the birth and development of the Bangkok Bank was inseparable from the commercial activities of ethnic Chinese businessmen. The Thai financial industry, as well as the import and export industry and financial services industry, had been monopolized by Western colonial countries, especially Great Britain and France. Thai businessmen and Chinese traders had been ruthlessly exploited by these Western banks from deducting high service fees. The Bangkok Bank aimed to promote the foreign trade of local and Chinese entrepreneurs in Thailand, which was

largely supported by ethnic Chinese businessmen as they could wean from dependence on Western intermediaries. During the Second World War, there were some Thai businessmen trying to set up banks. However, they did not understand banking operations and blindly invested their deposits in real estate. As a result, they had to transfer their banks to the powerful ethnic Chinese businessmen who were then the bank's compradors because of the poor turnover. When Chin established the Bangkok Bank during the war, he sought to use professional management standards to avoid the failure of other newly established Thai banks. After the outbreak of the Second World War, Thailand was forced to declare war with Western power and confiscated all the assets of Western banks. Moreover, the Western banks' managers became prisoners of war. At that time, the elites of the Thai government tried every means to oblige these Western bank managers to explain to the Thai officials the business strategy, management skills, and operation of their banks, especially the entire process of financial services provided by banks. When Chin knew that the Thai officers who were responsible for the review of the operation procedures of Western bank managers mastered the operation of the banking operations skills, he provided high salaries to hire these Thai officers to lead the Bangkok Bank's business development and major planning work. The advanced professional banking operation skills learned from Western managers were very important for the Bangkok Bank's development in the formative years. With the booming development of the import and export trade of ethnic Chinese businessmen after the war, there was a common voice of the ethnic Chinese

business community to support the ethnic Chinese-owned banks because they were subject to the unreasonable exploitation by Western banks when they needed full funds to purchase goods. Therefore, the Bangkok Bank was fully supported by ethnic Chinese businessmen in the business. In the formative years, the major customers of the Bank were all ethnic Chinese importers and exporters. The business success of the Bangkok Bank in the formative years was based on the long-range vision of the banks' leadership, good knowledge of personnel placement, strict business management, and the flexible business strategy and operation skills advancing with times.

Mr. A also hold the view that the ethnic Chinese-owned banks in Thailand such as the Bangkok Bank introduced foreign graduates who had new management skills and abandoned conservative management methods right after the Second World War, which supported the banks' success based on the business strategies in line with the development at that time.

In conclusion, Chin got education in China and learned the Chinese culture by heart. He ran his business and the Bangkok Bank in Chinese pattern. From the Case of the Bangkok Bank's business strategy, in the wartime the major elements contributed to the ethnic Chinese business success in the banking industry in Thailand were based on the spirit of Chinese capitalism- the value of hardworking and family success, fast-changing business strategic flexibility, personal relations and networks, and political patronage. Both political patronage under the Thai bureaucrats and extra-bureaucratic forces such as business associations and dialect communities were necessary for ethnic

Chines to raise their business in the banking industry in Thailand.



CHAPTER V CONCLUSION

Ethnic Chinese has participated in Thailand's business activities for centuries and dominated various business sectors in this country, which provided the foundation for ethnic Chinese to form the backbone of Thailand banking industry during the Second World War. In the history of Thailand's banking sector development, ethnic Chinese has been thought of as a key factor in the formative years of local commercial banks.

Since the 19th century, with the increasing need of overseas Chinese merchants sending money back to China, ethnic Chinese established remittance shops to deal with this business and provide loans for Chinese merchants. Some of these remittance shops later developed into banks before the Second World War. These remittance shops pioneered the establishment of ethnic Chinese-owned banks in Siam, which were small-scale and mostly family-owned. With the booming of import and export trade after the signing of Bowring Treaty, Western capitals flowed into Siam and established the first bunch of commercial banks in Siam to support their business. As ethnic Chinese dominated several business sectors and built well-covered business networks in Siam, European banks had to hire them as compradors in their banks to maximize their business activities by attracting more customers and overcoming the language barrier and information lack of local markets. In addition to working as compradors, ethnic Chinese group also established some banks after the 1932 revolution when the banking industry thrived in Siam. But almost all Chinese family-owned banks failed to compete

with Western, Japanese, Singaporean, and Hong Kong capitals in Siam. The banking industry of Siam had been dominated by the Western powers in 1888-1941, while ethnic Chinese contributed to the prewar banking sector development as compradors, who bridged the banking industry with local business society in Thailand.

The domination of Western capital in Thailand banking industry halted with the outbreak of the Second World War, when the Thai government prohibited the running of all European banks in Thailand. During the wartime, the Thai government encouraged the establishment of local “Thai” commercial banks to deal with the internal and external trade. As Western banks also had no interests to promote the trade of Thai or ethnic Chinese businessmen in Siam but to deprive them by charging high service fee, it was a common desire of the ethnic Chinese merchants and local entrepreneurs to have more financing choices other than Western banks. The ethnic Chinese filled into the vacuum and established a bunch of commercial banks, which were supported by local business society and later became the pillar of Thailand banking industry after the 1940s.

Actually, the Thai government did not directly support the ethnic Chinese to raise their business in Thailand banking industry, but indirectly pushed them to establish the local commercial banks and supported their banks’ operation. Firstly, during the 1930s, the Thai government released the “Thailand for the Thai” economic policy to drive the ethnic Chinese out of many business sectors including rice, liquor, salt, etc. So, the ethnic Chinese business groups had no choice but to transfer from their previous

industries to some new business sectors. The banking industry, as the most important capital market of a country, was the best vacuum that ethnic Chinese could enter. Therefore, big ethnic Chinese families burrowed into the banking industry in Thailand and played the most important role in Thailand's banking sector development in the industry's formative years. Secondly, the Thai bureaucrats, military leaders, and powerful political officials also privately provided political stability to ethnic Chinese and jointly ran their banks due to their close relation and the share of interests. Last but not least, the successful operation of the newly established commercial banks in Thailand partly owed to the valuable managerial expertise of the Western banks. Without the help of powerful Thai politicians, the advanced operation skills and management strategy of Western banks could not be shared with the local commercial bank owners in Thailand during the Second World War.

Under the pressure of Thai nationalistic economic policy, ethnic Chinese still successfully raised their business into the banking industry in Thailand, which could be owed to the spirit of Chinese capitalism. The business strategy led ethnic Chinese success in Thailand banking industry was found on both bureaucratic political patronage and extra-bureaucratic forces, such as the long-lasting spirit of Chinese social and economic culture based on families and associations. The ethnic Chinese business success in Thailand banking industry was not an accident, but a must due to their well-covered economic relations in Thailand for decades and their special business strategy.

During the first half of the 20th century, especially after the confiscation of Western

capitals, it was an inexorable trend for the ethnic Chinese to establish and promote the local Thai commercial banks to meet the need of ethnic Chinese businessmen and local Thai merchants. From the view of history, the birth of these ethnic Chinese-owned commercial banks during wartime in Thailand was the turning point for Thailand to get rid of the financial monopoly by the Western powers. The success of the ethnic Chinese-owned banks in the formative years of Thailand's banking sector could owe to their perennial economic power, their unique business strategy, and the interplay of the interests between ethnic Chinese businessmen and ruling Thai elites.



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