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Thai State and Middle Classes after 1997 Economic Crisis

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Abstract: The 1997 East Asian Economic Crisis not only significantly affected the macroeconomy, but also opened a new era for the political economy in Thailand. This paper tries to explore this new era from various theoretical points of view. One crucial feature in this new era is the 1997 Constitution. The argument is that under the new political institution, the Thai state was, on the one hand, in a relatively strong position to shift itself towards being a developmentalist state; on the other, it also generated rent-seeking behaviour. This study examines the case of Thaksin Shinawatra and his government. The paper is also concerned with the distribution of resources among the Thai middle classes and suggests that the conflicts of interest between them were a crucial cause of the political crisis and, finally, stalled economic performance.

Key words: Thailand, State, Middle classes, Institutions, Thaksin

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A Note on spelling of Thai Names and Referencing

As it is convenient for the researcher and the reader to follow up the whole thesis, when discussing and referring to Thai scholars and people, this thesis will mention their first name and follow with surname which is normally used in Thailand. However, when referring to non-Thai name, this thesis will use their surname and follow with name although this style is not the tradition in some author's place.

Furthermore, in the bibliography, the name of Thai sources will be translated in to English but it will be mentioned "in Thai" in the end.

List of Abbreviations

AIS	Advance Info Service (Company)
AS	New Aspiration Party
BB	Bureau of the Budget
BoT	Bank of Thailand
CP	Chart Pattana Party
CT	Chart Thai Party
DP	Democrat Party
FDI	Foreign Direct Investment
IMF	International Monetary Fund
OTCC	Office of The Trade Competition Commission
OTOP	One Tambon One Product
MITI	Ministry of Trade and Industry (Japan)
MOF	Ministry of Finance
NESDB	National Economic and Social Development Board
SP	Seritham Party
SME	Small and Medium Enterprises
TDRI	Thailand Development Research Institute
TRT	Thai Rak Thai Party

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Chapter I: Introduction

1.1 Background and objective of the study

Many scholars have explored the roles of the state in economic development, especially in the context of the East Asia miracle. Although there is consensus that the state has a crucial role to play in the process of economic development in East Asia countries, there are many puzzles which are still highly controversial. The form of the state, the process of decision making, and the other institutions are differently interpreted by scholars. For example, some intellectuals use the spectrum between state intervention and a market-oriented business system as criteria for identifying the East Asian development model (Lee, Hahn & Lin, 2001). Park (2002) suggests that even though the theoretical conception of the East Asian development model generally refers to only one type of developmental process, there are many versions of the East Asian development model, and so the specific characteristics of each model should be afforded attention. Similarly, Abdulsomad (2003) postulates that developing countries are not homogeneous groups; although countries share some similar characteristics, the various roles of the state tend to generate different economic performances. In a cross-region analysis, Kohli (2009a) proposes that, in a broad sense, the different types of state between the Asian and Latin American countries led not only to higher economic growth but also to a lower level of inequality in the former compared to the latter in the 1980s. Some went so far as to argue that “both successful and failed attempts at industrialization in the developing world are best understood with reference to the economic role of more or less effective states” (Kohli, 2009b, p. 214).

As with other East Asian countries, the Thai state is also a main actor in the economic development process. Even though the grand narrative produced by neoclassical economists praises the liberalization of the market while labelling the state as the predator in the economy, many scholars have recently pointed out and reinterpreted the way in which Thai state actions have strongly and positively affected Thai economic performance. For example, Suchit (1996) proposes that the success story of the Thai economy in the 1980s was the outcome of state actions. From the historical perspective, Pasuk and Baker (1997) explore how Thai politics and economy have been closely and historically connected. The changes in Thai politics have had a significant effect on the Thai economy and vice versa. Raquiazza (2010) argues that the institutional configurations of the Thai state, which refer to the embeddedness of political leadership and developmental elites in state institutions and the pattern of interaction and contestation among those elites, are the decisive factors which have greatly affected Thai economic performance. In a further example, Apichart (2008) argues

that, from a historical perspective, the role and the effectiveness of the Thai state is the fundamental cause of both the success and failure of the modern Thai economy. On the one hand, the state in the 1960s was strong enough to establish its institutions. These include not only formal institutions such as federal economic organizations, the Ministry of Finance, the Bank of Thailand (BOT), the National Economic and Social Development Board (NESBD) and the Bureau of the Budget (BB); they also refer to informal institutions, that is, the mode of capital accumulation. Within a relatively effective state, the Thai economy had shown dramatic growth for 40 years, the 1997 crisis being the end of the legacy. On the other hand, the Thai state and its institutions have been too weak for the economy to recover after the crisis which took place in 1997.

However, the state and its institutions do not exist without context; the state interacts with society over time. Thus, specific historical conditions are a significant variable for understanding the behaviour of the state. In other words, the state's behaviour should be understood as the way in which its intermediate institutions, such as politicians, political actors and bureaucrats, interact with the social structure at the macro level. From this point of view, any study of economic development should take account of class in society in its analysis (Thelen & Steimo as cited in Raquiza, 1992). In order to be consistent with this idea, Kohli (2009a), for example, states that the balance between the state and the force of society, i.e. class formation, in East Asian countries allows not only the state to be autonomous but also allows for more options regarding policy. By contrast, relatively slow class formation has led the Latin American states to become part of the "US empire", with a lesser degree of autonomy and fewer choices of policy. Keeping the significance of the issue in mind, however, there are few studies which have fully attempted a class analysis of the state or that strictly describe the developmental state (Cammack, 2007).

In a modern economy, amongst the other classes in society, the middle classes are the most crucial players. Many prominent economic historians call attention to their roles in various ways. For instance, McCloskey (2010) argues that the rising ideology of the middle classes was the fundamental cause of the Industrial Revolution and modern economic growth. In a famous book, *The Farewell to Alms*, Clark (2006) applies a Darwinist approach to propose that economic growth is the result of the huge proportion of the rich, middle class, who can exploit their rational thought and calculation skills to survive in the modern world. Some institutionalists hypothesize that secure property rights, an economic institution which was established by the middle classes, are the most important foundation of long-term economic growth (Acemoglu, Johnson & Robinson, 2005). Landes (1998) has a very strong argument

that having a relatively large middle class is the ideal society for economic development and economic growth.

In the Thai case, the analysis of the middle classes and their impact on political economy has been conducted by many scholars who are experts in Thai study (see, for example, Englehart, 1993; Hewison, 1996, 1997, 2001, 2006; Pongpaichit & Baker, 2008). Nevertheless, most of the studies are trapped by the problem of the stereotype of middle class. They usually assume that the Thai middle class is a homogenous group which shares similar political and economic preferences, as well as other social institutions. Although this assumption is practical when analysing the Thai middle class and its role, it contains a huge disadvantage, especially when the socio-political economy has been dramatically changed and become more complex. Such empirical research suggests that Thai middle classes are more complicated than their stereotype suggests because they are diverse, not only in terms of origin but also in the process of emergence (Funatsu & Kagoya, 2003). Recently, the heterogeneities of the middle classes in Thailand have become more obvious and these differences can be seen in their preferred choices of both political and economic institutions, including economic policy. This point is crucial when considering that it has produced such a strong outcome in Thai society, i.e. the current crisis in Thailand.

Due to the significant role of both the state and the puzzle of the middle classes in Thailand, as outlined above, it would be very interesting to connect these two issues together. Thus, the aim of this research is to investigate the relationship between the state and the middle classes in Thailand, mainly in the period after the economic crisis of 1997. The broad questions here concern how the state and the middle classes in Thailand interact and what are the products of that interaction in terms of economic development.

1.2 The scope of the study and the research questions

There are several reasons for choosing the period after the economic crisis in 1997 as the object of this paper's case study. First, the 1997 financial crisis was the worst economic situation that the Thai economy has ever faced and had an inevitable effect on the Thai political economy. Secondly, and coincidentally, Thailand had launched the 1997 Constitution, which changed the rules of the political game. Under the rules of the 1997 Constitution, the Thai Rak Thai Party won the election and the first Prime Minister with a strong executive administration in Thailand has emerged. Thirdly, although the new Thai middle class has gradually increased its significance in Thai society since the end of the 1980s, the heterogeneities of the Thai middle classes are obviously seen only after the 1997

crisis, or more precisely, the period of political crisis since 2005. Last but not least, for practical reasons, the specificity of the period will help to scope the boundaries of the research. Therefore, in these connections, there are three questions which should be asked:

- (1) What are the impacts of the economic crisis and the 1997 Constitution on the state and its institutions?
- (2) Under the new political institutions, how does the state determine its economic institutions and what are the economic outcomes of these institutions?
- (3) How do the middle classes respond to these outcomes and what are the implications for institutions and long-term economic growth?

In order to answer the second two questions, the first needs to be answered fully; only if the second one is explored, will the answer to the third be found. In other words, all of the above three questions are closely connected to each other.

1.3 Research design

1.3.1 Research philosophy

In a broad sense, the research philosophy of this thesis is phenomenological, which shares characteristics with the subjectivist, humanistic and interpretivist. From this aspect, it involves qualitative research rather than quantitative study (Hussey & Hussey, 1997). Smith (2011) suggests that the phenomenological is about experience and the point of view of an individual regarding a particular object. By adopting the phenomenological research philosophy, researchers can thus have different results, even though their studies concern the same particular case.

1.3.2 Research type

In terms of research type, this thesis involves exploratory research. According to Saunder et al. (2009, p. 139), “the exploratory is a valuable means of finding what is happening; to seek new insights; to ask questions and to assess phenomena in a new light”. Therefore, it may provide only the explanation of a relationship while the interpretations of the causal relation are probably weak.

1.3.3 Research method

Several years ago, Abdulsomad (2003) pointed out that the processes of economic development in the second-tier newly industrializing countries (NICs), including Thailand, are complex. In order to gain a better understanding, researchers need to employ several methods to study the issues. Following this tradition, this research will combine elements of economic theory, statistics and economic history to investigate the problem. This approach

will be useful in understanding the recent dynamics of both the state and the middle classes in Thailand.

It is valid for this study to be categorized as a case study; this research not only chooses a specific place, Thailand, but also a particular period of time, that following the 1997 crisis, as the context of the study.

1.3.4 Data

In this paper, the nature of the research questions is of macro- rather than microanalysis. Therefore, the main sources of this paper are based on secondary data, which include previous literature and newspaper articles, as well as policy documents such as law and government announcements. Moreover, since the multimedia are well developed in this age of IT revolution, this research will exploit some of the advantages of these sources, especially the public lectures given by academics which are nowadays easy to access, even though they have never been formally published. In addition, when analysing the events of the recent period, these are inevitably going to be used as sources since scientific journals lack material regarding these occurrences.

The sources which are used in this research are not only in English but also in the Thai language. The Thai sources have both advantages and disadvantages at the same time and many readers and examiners of this thesis will probably experience some difficulties when wanting to know more about the Thai sources referred to in this research. However, as the study focus is the Thai case, the Thai sources can provide some information and analyses which English sources cannot offer. Thus, the best solution is to use both Thai and English sources to complement each other.

Chapter II: A review of the literature and theory

2.1 Introduction

In the academic world, there are numerous theories which are used to understand the political economy. Thus, a literature review is a crucial process which helps us to not only to understand the existing knowledge but also to bridge the gaps between the ideas. This is the major task of this chapter.

As with other fields in the social sciences, the theoretical aspects of the area of political economy are debatable and controversial. Although different theories perhaps share some common areas, they generally tend to emphasize the different variables to explain the relationship between economic politics, economics and other dynamics at work in society. These differences have led to a remarkable contrast in terms of the analysis, interpretation, assessment and prescriptions regarding these theories.

To answer the research questions, three important approaches are needed to enable a critical review: the neoclassical approach, the historical institutional approach, and the social conflict approach. The reason for choosing these three approaches is that they are not only grand theories regarding the study of South East Asian political economy (Rodan, Hewison & Robinson, 2006), but they also relate to the present research questions in many aspects. The purpose of this chapter is to understand a comprehensive picture of Thai political economy in the post-1997 crisis; thus, we need to combine these approaches.

2.2 Neoclassical political economics

The neoclassical approach to political economy applies the logic of the market to the political sphere. The main argument is that such an economic policy is determined by the “policy market”, in which the demand side and the supply side of economic policy interact. The political sphere is conceptualized as the market place in which politicians, political parties and bureaucrats negotiate and have an exchange with the interest groups and lobbies (Rodan, Hewison & Robinson, 2006). In the classical work *An Economic Theory of Democracy*, for example, Downs (1957) argues that in a democratic system the economic policy is the outcome of the interaction between the government and the voters. From Downs’ point of view, the government is the actor on the supply side which offers and provides a set economic policy, while the voters are the actors on the demand side. In this model, the voters are rational and try to maximize their utility by choosing the politicians or political parties who are expected to serve their preferred economic policy. In other words, the neoclassical

political economy simply applies the micro foundation of the rational actor model to the political sphere.

The later work on this issue expanded the analysis to include other actors on both the demand and the supply side. Bretton (1974 as cited in Migue, 1974), for instance, elaborates on the demand side of economic policy by explaining that citizens do not only participate in the policy market by voting through the election system; the demand side can also express itself in different forms, such as lobbying by interest groups, social movements and organizing private provision which provides non-private goods. Still, the actors on the demand side are *Homo economicus* (Economic Man) when choosing the method for interacting among themselves and with the demand side. In the same work, Bretton also explores the supply side by focusing on the role of politicians and the institutional environments in the political sphere.

Several researchers have developed a comprehensive analytical framework for studying the process of policy determination. Becker (1983) proposes the theory of competition among pressure groups for political influence. This paper focuses on the interest groups who demand subsidized policy in the US but this theory generally applies to other economic policies. The main argument is that an economic policy is the result of aggregated pressure from interest groups in society. As a traditional neoclassical economist, he assumes that interest groups in society are aiming to maximize their own utility. To maximize utility, they have to produce pressure to increase their political influence; if interest groups produce sufficient pressure, political equilibrium tends to favour their interests. Their efficiency in producing pressure depends on a number of variables, such as the size of the group, free rider control and the deadweight loss of policy itself. Becker analogizes the government, politicians and bureaucrats as the managers who are hired by the stakeholders and interest groups. In business administration, if a manager fails to fulfil the stakeholders' desires, he/she will be fired. In the political sphere, the administrative staff will be punished in the next election if they cannot provide what the efficient interest groups want.

Another study by Bernholtz (1977) argues that interest groups not only participate in and negotiate policy market but are also the crucial ingredients which generate the equilibrium in a political system. Compared to a disorganized group, they can form broad agreement on voting behaviour and so lead a stable and predictable election. In some cases, they are even able to supplant the power of political parties and the government.

On the other side of the policy market, the supply side, much of the literature has explored the issue. Niskagen (1975) proposes that the behaviour of bureaucrats and government also

shares the characteristic of economic agency in neoclassical economics. For the bureaucratic element, the major aim of their operation is to maximize the output and budget. Although each bureaucrat may have a different preference function, the differences will be united by the given reward structure. For the government, the analysis focuses on the behaviour of politicians, whose utility function mainly involves the election and maximizing the number of votes. However, political institutions, e.g. as a rule of decision making, are also a crucial constraint on such behaviour.

Anne Krugger argues that bureaucratic officers are the ordinary neoclassical economic agent. In general, the position of bureaucrats and government officers tend to require an above average educational level compared to other careers. This implies that the person who wants to work in an administrative office has to make a higher-than-average investment in human capital too. With regard to human capital theory, when people acquire a job, their rate of return should be at least equal to the cost which they invest. As Krugger points out, therefore, there are two levels of competition on the supply side: firstly, a substantial amount of highly-educated people will likely compete to gain government jobs; secondly, competing for rent takes place among public servants, “although the competitors usually do not perceive themselves as such” (Krugger, 1974, p. 302).

Similarly, Fiorina and Noll (1978) have analysed the growth of the unpopularity of bureaucracy, which is considered to be an ironic phenomenon in democratic society. To understand the main cause of excessive bureaucratization, as their model suggests, the political agents should be treated in the same way as economic agents (rational man). In other words, they use the simple model of utility-maximizing voters, vote-maximizing politicians and bureaucracy-maximizing agencies. This model is supported by some empirical evidence from the US politico-economic system and analogous styles of analysis can be found in many pieces of literatures (see, for example, Weingast, Shepsle & Johnsen, 1981).

2.2.1 The state and the middle class in the neoclassical political economy

In the neoclassical approach, it is clear that the state is the political and economic actor on the supply side of policy market. Generally, these actors refer to the high position of public servants, including politicians, legislators, political parties and bureaucrats. Although this analytical framework is not universal, it is the most common government institution (Fiorina & Noll, 1978). In addition, this approach has widely influenced the studies of governance in South East Asia in the early 1990s (Rodan, Hewison & Robinson, 2006). However, some scholars have modified the framework to apply to the specific context of the societies which have been studied. For example, Rangsang (2001) adds the group of power elites to the

analysis of the supply side of economic policy in Thailand. Moreover, Liddle (1992) combines the cultural factor with the tradition framework to understand the development policy in Indonesia.

Broadly speaking, the narrative of neoclassical economics strongly believes in the role of the market. The main logic is that an “invisible hand” tends to generate the most appropriate way of reallocating resources, and so the economy will be more efficient. In addition, as mentioned above, all of the political and economic actors in the framework are examples of *Homo economicus*, who always maximize their own utility as well as self-interest. In other words, neoclassical economists view the state as a predator rather than comprising benign institutions (Rodan, Hewison & Robinson, 1997) and so tend to deny the role of the state in economic activities and prefer the minimal state.

In relation to economic development issues, neoclassical economists argue that state interventions do not support economic development but rather create the problems; in short, “government failures are more severe than market failures” (Rasiah & Schmidt, 2010, p. 7). Precisely, there are two main arguments which neoclassical economists offer. Firstly, state intervention e.g. subsidies and high import tariffs on infant industries cannot promote efficient industries, since those industries will never compete at the international level and will become addicted to such protectionist measurements for their survival. Secondly, state interventions normally lead to rent-seeking behaviours; one could say that rent-seeking behaviour still exists, although the role of the state is minimal. However, extensive state interventions create the opportunity to seek rent on a substantial scale. Thus, the economy will perform below capacity because economic agents behave in unproductive ways, e.g. lobbying the government to allocate resources to them instead of enhancing their productivity. Finally, the economy will be underdeveloped (Onis, 1991).

Class analysis is not the traditional approach of neoclassical economists. Generally, there is no class in society because the market is perfect, both in terms of information and competition. In the area of political economy, this assumption seems to be the weak point of the theory, since it cannot address the significance of the power relation in a political and economic system. When using the market as a metaphor in the political area, it is assumed that economic actors have to have relatively equal in order to negotiate the policy as well as the political market.

The policy prescriptions of the neoclassical school also implicitly express an assumption about class in its theory. Besides the assumption of Economic Man, the recipe for a minimal state also assumes that a politically organized middle class is the majority group in society.

This type of middle class not only ideally commits to freedom from state control but their economic activities also practically require relative independence in order to operate.¹

However, there are some limitations to this approach for understanding the process of economic development. First of all, although the assumption of *Homo economicus* is useful to analyse an individual's behaviour at the micro level, this is not always the case. Rosentha (2010) argues that humans do not purely reflect the maximization of utility. Rather, they reflect the intermediate channel which adjusts the rules of the game, the institutions. This point is valid particularly when focusing on the case of Thailand, a country whose politics and power have played a crucial role in its economic sphere. For example, Kasian (2002) suggests that Thailand did not easily adopt the neoliberal reforms which the International Monetary Fund (IMF) suggested after the economic crisis 1997. Rather, due to its cultural politics, the Thai state selected only some of the reforms, while ignoring much of the policy package. Thus, the Thai version of neoliberal economic policy has been established (Kasian, 2007).

Furthermore, this assumption about the middle class becomes controversial in the context of the developing economies in Latin America and South East Asia because these countries obviously lack a middle class and the state has a relatively dominant role (Rodan, Hewison & Robinson, 1997). For example, Hewison (2006) argues that this theory could only be partly applied to the history of development in Thailand since the rise of the middle classes and their political struggle have been a major issue in Thailand's modern development, at least since the 1980s.

2.3 The historical institutionalist approach

In contrast to the neoclassical school, the historical institutionalist approach does not believe in analysis which is based on the rational choice of individuals. The main reason is that human interests are too complicated, and so the simply analogy of the marketplace in which individuals perform exchanges may not be sufficient to provide good understanding. As Dahl (1961 cited in Immergut 1998, p. 7) suggests, "analysis of individual preferences cannot fully explain collective decision, for in addition, we need to understand the mechanism by which individual decisions are aggregated and combined into collective action". Rather one should focus on the collective organizations and institutions which contain their own elements of history, rules, culture norms and ideas. In other words, for the historical institutionalist school

¹ This argument also relates to some studies of the value of the middle class in the area of morality and law, for example, McCloskey (2006) and Mixon (2010).

of thought, individuals do not behave in a way that is rational and calculating; instead they are self-reflective (Rodan et al., 2006).

Actually, there are many theories in the new institutionalist approach which share a similar foundation with that of historical institutionalism, for example rational theory and organizational theory. However, the most distinctive component of historical institutionalism is that it tends to give importance to the analysis of the relation between state and society in various spaces and historical times (Immegut, 1998). In terms of economic development, the historical institutionalist theorists tend to focus on the capacity of the state to introduce an effective policy to the country. More precisely, the state and its institutions in each country have their own characteristics, which have evolved historically. In other words, there are many types of institution, not only the liberal market, which can promote economic development.

Although ideas which emphasize the role of the state have existed for more than one hundred years, for example, the thoughts of Max Weber, the concept of state capacity was indeed a reflection of the rapid growth of East Asian economies since the 1960s. In late-industrializing economies such as Japan, Korea, Taiwan and Singapore, the state has played a crucial role in stimulating the process of industrialization by introducing a policy which could promote the huge investment of capital and enhance domestic producers to compete in the global market. To achieve this purpose, an economic policy is not the summation of individual preferences as the neoclassical approach suggests but the calculation of the state within historical and specific institutions which are defined by social culture and power (Rodan et al., 2006).

Aprichart (2002, 2008) proposes that a strong state refers to a state that has two specific characteristics. The first one is that it has a high degree of autonomy, which means the state has the capability to determine policy by itself although that policy will be against the interests of a powerful societal actor, such as the elites, politicians, large investors, transnational organizations and the middle classes. In other words, the state can balance the conflict of interests of the societal actors. The second characteristic of a strong state is to have a large capacity to enforce its policy in practice. Indeed, these two characteristics are complementarities. If a state has a high degree of autonomy to make policies but lacks the capacity to enforce them, these policies will be meaningless. Onis (1991) suggests that the coexistence of these two features is crucial. If the state has neither a high degree of autonomy nor a strong capability to cooperate with interest groups and endorse the practical policy, a situation in which specific interest groups dominate the state's policy goals to serve their own

interests will be likely to occur. In other words, these two components are necessary conditions for preventing rent seekers in the process of state intervention.

Johnson (1982) argues that the success of Japan during the post-World War II era was inevitable in order to deny the role of a strong Japanese state. Elite administrative staff in crucial bureaucratic offices such as the Ministry of Trade and Industry (MITI) have been relatively autonomous in launching policy, while the elected and legislative politicians have minor roles in the process of determining the macroeconomic goal. In his language, which is often quoted, "...the politicians reign and the state bureaucrats rule" (Johnson, 1982, p. 12).

We can also define the concept of a weak state by opposing this with the concept of a strong one. On this point, a weak state means a state that has a low level of either a degree of autonomy or capacity. Countries in which the powerful interests of society groups greatly influence economic policy could be considered to have a weak state.

In terms of policy recommendation, the orthodox economists and economic historians believe that the market cannot work perfectly and will fail and that the process of economic development requires the state to make such interventions. In other words, an underdeveloped economy is a result of market failure and the state follows the "right choice" in correcting it. Furthermore, economies usually develop dramatically if the state intervenes appropriately. However, some might conceptualize a developmental state or a strong state as being in a position between the market system and the centrally planned economic system. One of the most prominent scholars regarding this issue, Woo-Cumings (1999 cited in Bolesta, 2007), labels the developmental state as a rationally planned economy. Johnson has pointed out that the major goal of introducing the idea of a developmental state was to overcome the conflict of the Cold War and more precisely the conflict between two economic systems: the American and the Soviet. In terms of the history of economic thought, this idea was inspired by mercantilism, the belief that the state should significantly intervene in its economy (Johnson, 1999).

2.3.1 The state and the middle class in the historical institutionalist approach

In historical institutionalism, the state, obviously, has a very large role to play in the process of economic development. However, one issue which should be explored is the form the state takes.

In a similar way to the neoclassical approach, one could argue that the form of the state is implicitly expressed in terms of the groups of people who operate in the political sphere and bureaucratic agencies. However, they are not *Homo economicus* but the developmental elites. In general, a specific person is appointed to be the symbol of the overall developmental

elites, for example, President Lee Kwan Yew of Singapore, President Suharto of Indonesia and President Park Chung Hee of South Korea. Nevertheless, developmental elites broadly refer to the small groups of developmentally determined senior politicians and administrative officers who are “instrumental in establishing the developmental regime and its culture” (Leftwich, 1995, p. 405). These elites are always in the top political positions and have close links with high ranking bureaucracy in both military and civil offices. It should be noted that developmental elites are not one entity and that there are always tensions among them. In order to balance the conflict, the state has an idiosyncratic organizational logic through which the collective goal of the society or the nation, not private interests, could be pursued (Rodan et al., 2006). In other words, the state can act single-mindedly to promote economic development.

There are some other conditions which both allow and force the elites to act as developmental actors. For internal conditions, a society has, whether explicitly or implicitly, to reach the consensus that economic development is the most important goal and which the state must reach. Onis (1991), for example, suggests that after World War II, an East Asian state found it relatively easy to focus on economic growth and industrialization while ignoring the issue of equal distribution and social welfare, because at that time the populations in these economies were equally poor. Taking other examples, the political situation of a triumvirate, in which three powerful political groups compete with each other to access power, allowed the Thai state to be strong enough to reform its economic institutions in the 1960s (Apichart, 2002, 2007, 2008). In South Korea, the political conflict between political powers also significantly influenced the structural reform of the economy in the late 1970s (Moon, 1988 as cited in Leftwich, 1995). On the other hand, the international forces are also significant. External threats are one of the major factors which cause the emergence of a developmental state by encouraging a nationalistic ideology to embed in the state. Thus, the state elites have no choice but to promote long-term economic development in order to strengthen the power of the nation. In this manner, other developmental goals become less essential.

As mentioned above, a class analysis of a state and its institutions is rarely conducted, since the researchers mostly pay attention to the developmental elites. Generally, however, one could infer the position of the middle classes from the specific characteristics of the civil society in the model. Although the movements of civil society relate to various class formations, e.g. labour movements are more likely to relate to the working class while the

Chamber of Commerce is an organization of the bourgeoisie, the weakness of civil society suggests that, except for the elites, the other classes are rather fragile.

Leftwich (1995) generalizes the model of the developmental state in that a state in East and South East Asia usually exists in a context in which the civil societies are weak. Indeed, the lack of class formation is a precondition of the dominant role of the state in East Asia. For instance, in Korea, the relatively small proportion of both working and middle classes facilitated a situation in which the Korean state easily interfered with the economy (Amdens, 1985). For Marxist theorists, the small proportion of capitalist groups is a very good condition whereby the state and capitalist groups can become allied in economic development. In term of an alliance, however, the state is dominant over its industrial class. In this situation, the Korean capitalist groups dare not take the state's command lightly. As a result, the state could have relative autonomy and achieve its goals of promoting economic development (Chibber, 2003). In the later works of Chibber (2004, p. 2), he generalizes the argument that "the economic weaknesses of the model can in large measure be explained by the kind of political alliance that was required to support it; in particular, by the ways in which capitalists were able to impose limits on the scope of state power".

However, some scholars do not pay much attention to the numbers of the middle class in society. Moore (1966), proposes that the issue of the middle class and the state is not simply about the size of the middle classes but about the relationship between them and other actors. In relation to this proposal, Alavi (1972) argues that the states in the countries which used to be colonized usually have strong bureaucratic agencies. At the same time, the middle classes in these states are also powerful. When comparing these two, however, a state can take a dominant role with the middle classes in economic development. In other words, the capitalist classes are not weak, as the other hypothesis suggests, but they are relatively weak when compared with the state.

Nevertheless, the expressions above mainly discuss the role of the state and the middle class when the state is developmental or strong. However, in a weak state, the relation between the state and the middle classes is the opposite. For example, in some countries, such as India, Brazil and Turkey, in which the state is relatively weak and has failed to become a developmental state, the middle classes are more powerful than the state. In these countries, although the states and the elites have the commitment to become developmental actors, the industrialist classes behave in a way that is against government projects, especially those projects which reallocate resources from a high private but low public return sector to a sector that contributes a high public return but low profit for private firms (Chibber, 2004).

In summary, for the historical institutionalist approach, the relationships between the state and the middle class are various. Generally, the state and capitalist groups are allies but there are tensions between them. If the state can take over the role of the industrial classes, the state is considered to be strong and has the potential to be an effective developmental state. By contrast, if a state is weaker than its allies, this state is labelled as being weak and cannot be an effective developmental planner in the economy.

Undoubtedly, the historical institutionalist approach effectively explains the development process of the late-industrializing countries such as Korea and Japan in the 1960s. However, there are some doubts when it is applied to other contexts. Some scholars have questioned the suitability of a developmental state in a democratic regime since this approach heavily focuses on the power of the state and its small group of allies while ignoring the role of elected politicians (Onis, 1991; Pianmanakul, 2010). In a recent work, Johnson (1999) reconsiders this issue in his Japanese model and accepts that the legitimacy of a developmental state is derived from state's achievement and not assured in a democratic regime. In other words, the developmental state model may be not well-matched with a pluralistic society, i.e. a society in which the middle classes are the majority.² This point implies that the historical institutionalist approach is weak when analysing the recent context of the Thai political economy, which the middle classes have greatly improved both in terms of diversity and quantity.

2.4 Social conflict theory

Social conflict theory focuses on the conflict in both the social and political spheres between the various groups in society. According to this view, the state, the market and other institutions are the outcome of the specific power relationships in which they operate. Economic policy, which is introduced by the state, is normally changed when one class holds the power instead of the others. In many cases, the dynamics of the social classes, that is, one economic group replacing another, lead to structural changes in both politics and the economy (Chaudhry, 1994). In other words, the different but competing interests are the most important factors which generate the pathway for economic development.

Karl Marx and his followers, who believe that the form of the state is the outcome of class struggle in a society. Therefore, conventionally, the dynamics of the subordinate class and the ruling class should be examined. However, some recent literature has created the concept of examining organized interest groups, rather than classes, when analysing social conflict (see

² In relation to this issue, Onis (1991) is also concerned as to the long-term stability of a developmental state.

Truman, 1971). Similarly, Rangsan (2001) argues that to understand the comprehensive process of policy making, we have to access the demands of various societal forces, such as citizens, media, civil societies and highly-respected scholars. Therefore, in this view, neither the state nor the market is neutral but they are the instrumental institutions which dominant interest groups use to exploit and establish their advantages (Rodan et al., 1997, 2006).

In general, the preferences of individuals and groups in such a society tend to be various. Individuals and specific groups favour the set of economic institutions which serve their goals and interests rather than those which block and obstruct their benefits. In one such society, however, problems occur since in each society there is only one set of economic institutions which can persist. Thus, a conflict of interests over the choice of economic institutions always takes place in every society.

Acemoglu et al. (2005)³ argue that the determination of which set of both political and economic institutions persists in one society is made in the political sphere, in which political power is the ultimate force. However, there is a main difference between them. The current political power determines not only the economic institution in the current period but also the political institution in the future period.⁴ The term “current political power” includes both *de jure* and *de facto* political powers in the current period.⁵ While the first one is derived from the current political institution, the second is derived from the distribution of resources in the same period.

If such an interest group can take over the power in society, it will establish its favoured economic institutions even though these institutions are ineffective in promoting economic development. In other words, contrary to the neoclassical approach, institutions show rather the logic of power than the logic of efficiency.

Economic institutions not only determine economic performance; they also decide the distribution of the resources which affect the reallocation of *de facto* political power in the future. An interest group that gains more economic resources tends to have more *de facto* political power than those which gain less. Hence, ineffective institutions might persist even though they generate a poor outcome for economic development.

³ Trickily, one may categorize Acemoglu, Johnson and Robinson’s model as the new intuitionism because they focus heavily on the role of institutions. However, due to their analysis, it also makes sense to place them within the social conflict approach.

⁴ The political institution determines the structure of the political incentive for political actors to behave in the political sphere. On the other hand, they also draw the boundaries and limitations of political areas. For example, in a democratic regime, the “one man one vote” rule gives people in society equal political power in an election.

⁵ The *de facto* political power refers to power which individuals or groups can still use although they do not have *de jure* political power. It could also include the power to use violence, i.e. a military coup, as well as non-violent methods, i.e. lobbies to promote their own group’s political interests.

Acemoglu et al. (2005) use this analytical framework to understand the emergence of industrialization in Britain. From their point of view, British industrialization in the 18th century was the fruit of changes in the distribution of political power in the 17th century. In the Middle Ages, monarchs obtained both *de jure* and *de facto* political powers and used them to determine economic institutions in favour of the monarchs themselves and a few elite groups. As a result, there were few incentives to initiate economic activities. However, in the 17th century, the *de facto* political power of the merchants and the gentry had dramatically increased due to changes in the English land market and the expansion of the Atlantic trade. Therefore, these groups of people ruled out the old political elites and established new political and economic institutions. There are two points which should be stated. Firstly, to change and make the desired economic institutions exist in the long run, the changes of political institutions is inevitable. Secondly, the set of economic institutions which the middle classes require is the one that provides secure property rights and promotes commercial expansion.

The model from Acemoglu et al. (2005) suggests that secure property rights are the crucial institution which the middle classes need to establish their long-term benefits. However, this is not only the result of social conflict. Other economic institutions, such as law, policy, trade and financial regulation, are also taken into account. From the human capital perspective, for example, Eastery (2001) postulates that the society which has a relatively small middle class has a tendency to invest less in human capital because the dominant group is afraid that the increase in educated people will weaken its own power. Therefore, as the human capital literature suggests, the society cannot achieve any major performance in economic development.

Theorists may argue that the middle class has a specific preference set of both political institutions, i.e. a democratic regime, and economic institutions, i.e. liberal economic policy. Yet, this is not necessarily the case. The bourgeoisie would perhaps promote an illiberal economic regime or even an anti-democratic system if these establishments were on the same wavelength as their interests (Rodan et al., 2006; Englehart, 1993).

2.4.1 The state and the middle class in social conflict theory

Among the approaches which this paper has reviewed, the analysis of class is obviously undertaken in social conflict theory. As we can see, for example, the key implication from the framework outlined by Acemoglu et al. (2005) and Britain's experience is that in the process of economic institutional reform, political reform is inevitable. In addition, the middle classes are the major actors who establish both political and economic institutions to promote long-

term economic growth. Again, the question which should be addressed is what form the state will take. In general, this view suggests that the state and its institutions basically reflect the group or class that rules society. This point implies that the form of the state depends totally on the class or group which dominates the society. In economic terms, both economic policy and institutions mainly serve the interests of the ruling class. Thus, one could say that the ruling class was the state, or that the state was theirs (Chibbers, 2004).

From the point above, there is no definite relation between the state and the middle classes. If the middle class is the current group ruling a country, as in the explanation by Acemoglu et al. (2005), the state is the state of the middle class. However, the role of the middle class is different in a country ruled by a small group of elites. In this context, they have either to negotiate or fight to ensure their benefits in relation to the other classes.

2.5 The theoretical framework for analysing the Thai political economy in the post-1997 crisis

This chapter has reviewed the literature and theory of the political economy. Three grand theories, the neoclassical political economy approach, the historical institutionalist approach, and social conflict theory were critically assessed. Different aspects of each theory led to a different analysis and interpretation.

In the neoclassical approach, the relation between the state and the middle class is constant, with no need to pay much attention to class analysis. This aspect is considered as weak when applied to the Thai case. In the period of rapid changes in the socio-economic context, the relationship between the Thai state and the middle class is dynamic rather than constant (Anderson, 1977). Moreover, this approach tends to ignore the positive roles of the state in economic development. However, the strongest point of the neoclassical approach is still useful when analysing the rent-seeking behaviour of politicians and bureaucrats.

In the theory of developmental states, the weak points also relate to class analysis. Although there is some conflict between state and class, the conflicts lie in the relation between the developmental elites and their allies, while the middle class has a limited role to play. Nevertheless, this approach can complement the weak point of the neoclassical approach when analysing the positive role of the state, at least from a comparative perspective. Additionally, it helps us to understand the other characteristics of the politicians, in the developmental elites. To some extent, this perspective is well-matched with the case of Thaksin Shinawatra, a specific person who was appointed to be the symbol of the Thai developmental elites.

The social conflict approaches are strong in many aspects. Firstly, this analytical framework allows us to scrutinize directly not only the state but also the middle classes at the same time. Secondly, compared to both neoclassical and historical institutionalist theories, this approach can better capture the dynamics of the state and the other forces in the society. This advantage is particularly informative when analysing the case of Thailand after the 1997 crisis, which saw a period of dramatic changes. However, since the traditional analysis of this approach mainly deals with the changes in the regime within a very broad landscape, i.e. the transition from monarchy to democracy, it needs some other theoretical aspects to help in analysing the role of political and economic institutions. From this respect, both the neoclassical and historical institutionalist approaches are good choices.

Therefore, this thesis will combine and exploit the advantages of all three approaches. The historical institutionalist approach will be used to explore the impact of the East Asian economic crisis and the 1997 Constitution on the Thai state, which is related to the first research question.

Combined with the neoclassical approach, the historical institutionalist approach will also be exploited to investigate the behaviour of politicians and bureaucrats and examine how they determine and utilize political and economic institutions. In other words, the second question will be scrutinized.

The social conflict approach will be used to analyse the third question. Coming together with the neoclassical approach, it will scrutinize the effects of the economic outcomes of institutions on the Thai middle classes and the way in which the Thai middle classes reflect on this.

The answers to these questions will roughly predict and draw some recommendations for the medium-long term of the Thai political economy.

2.6 Conclusion

Generally, there are numerous theories and approaches in the study of political economy. However, the aim of this chapter is to review the three above-mentioned approaches critically. The main reasons are as follows: not only are they highly significant approaches which are used to study political economy, especially in South East Asia, they are also useful and relate to the research questions.

Based on both the strong and weak points of these three approaches, this paper has developed a theoretical framework to enable a comprehensive understanding of the role of the state and

the middle classes in Thailand in the post-1997 period. The general argument is that a combination of these approaches is required.

Chapter III: The 1997 Asian crisis and a new era for the Thai political economy

3.1 Introduction

As mentioned in the first chapter, this thesis is trying to explore the Thai political economy in terms of an academic explanation, focusing on the post-1997 crisis period. Before starting the analysis, however, some historical background should be provided. Hence, this chapter aims to shortly introduce modern Thai economic history before the period of 1997 to suggest that the new era of Thai political economy has already come.

This chapter will be divided into five main parts. Following the introduction to the economic crisis referred to above, the next part will briefly review the narrative regarding the Thai political economy; the third part will summarize the impact of the 1997 crisis from a macroeconomic point of view; the fourth part will review some of the interpretations of the crisis; and the final part offers a summary.

3.2 The political economy of Thailand before the 1997 crisis

During 1855-1950, the Thai economy showed few features of modern development. Economic growth had been almost zero for a century and the growth of income per capita was only 0.2% over this period (Somboon, 2009). The turning point came in 1950 when Thailand started to industrialize its economy.

In combination with anti-Chinese policy, Field Marshal Phiboon's government launched a nationalist economic policy to limit Chinese capitalists in key business sectors. At the same time, the state took direct action in economic activities by setting up state enterprises. By 1957, there were about 141 Thai state enterprises (Riggs, 1966), while there are only 66 state enterprises in the present day (Ministry of Finance, 2011). However, the economic performance was relatively poor in this period. The monopoly rights of state enterprises led to inefficient and unproductive behaviour. Some scholars consider this period to have been one of economic mismanagement, in which the outcome was an average of 3.8% of economic growth during the period 1950-1958 (Somchai, 2002).

Bureaucracy was one of the most dominant narratives of the political economy during the period above. Although studies of bureaucracy have been conducted by many scholars, the work of Riggs (1966) is the original regarding the Thai case. In Riggs' model, military and bureaucratic leaders were the most influential people in the society and so they had no commitment to protecting any other interests but their own. For Riggs, other interest groups, especially the capitalists, had very limited power to determine the economic policy and

institutions. As he noted, "...lacking any major center of power and policy-making outside the bureaucracy, a governmental elite must become the spokesman and instrument of the bureaucracy" (Riggs, 1966, p. 320). Therefore, bureaucracy was the dominant part of the state. As neoclassical theorists suggest, the bureaucrats not only had positions in the state enterprise to exploit rent. In relation to bureaucratic polity, there are three basic ways in which military and civilian bureaucrats can exploit the surplus from society. Firstly, by increasing their own salaries and benefits; secondly, through expansion of the state's activities in the economy (state capitalism) to seek rent from these activities; lastly, by indirectly controlling or participating in the private corporations by using their political power to favour these companies in exchange for economic benefit (bureaucratic capitalism) (Evers, 1987). In this regard, the line between public interest and private interest is unclear.

The significant change came when Field Marshal Sarit Thanarat organized a coup and seized power in 1957. The literature regarding Thai studies have thoroughly documented the connection between politics and economic development after Sarit seized power and reformed the state. Although military coups are not new in Thailand, the 1957 coup considerably changed the Thai political economy in a way which became more organized. Field Marshal Sarit claimed his legitimacy to rule by offering a social contract that promised to improve the living standards of the Thai people (Hewison, 2006).⁶ To achieve this objective, the state reformed itself to become more authoritarian. In terms of pure politics, the Sarit regime is labelled as absolutist, when considering that the authorities had unlimited power to order and even execute political opponents without due process (Kasian, 2005). However, this kind of regime positively affected the whole process of economic development, as Sarit could achieve reforms of the economic strategy due to the strength of his power. His government abolished the nationalist economy in which the state was directly involved in economic activities and turned to a regime in which private organizations played a crucial role. In following this strategy, the state mainly promoted the private sector and provided only the basic infrastructures. Sarit stated in the official announcement that "...The State will not create new industries...the state will not transfer private industrial establishments to state ownership..." (Muscat, 1966, p. 288).

To consider this in more detail, although Field Marshal Sarit used economic development to claim his legitimacy, as a traditional soldier he lacked knowledge in economics. Thus, he had

⁶ It should be noted that economic development was only one of the tools which Field Marshal Sarit used to claim his legitimacy. It is well known that he also used his relation with the monarchy as the other important factor.

to depend heavily on specialist technocrats.⁷ This characteristic became a tradition of Thai economic management. As Somboon (2009) suggests:

Thai politicians over 1950-1996 did not interfere much in macroeconomic policies. Politicians tended to be passive when it comes to managing board macroeconomic policies. Difficult jobs were given to the hands of technocrats from the Ministry of Finance and Bank of Thailand (p. 158).

The success of the economic reforms led to the outcome of state transformation; only if Field Marshal Sarit had reformed the state and concentrated political power in the centre, could the reorientation of economic policy have been achieved.⁸ The Thai state escaped from the condition of having many powerful political factions, to a one power monopoly. Although the regime was authoritarian, this was the first time that Thailand had had a clear economic development goal. Apichart (2008) interprets that that the Thai state was stronger than it had previously been. Even though it could not completely transform to a developmental state similar to that in other East Asian countries, the strength of the Thai state was enough to make significant changes in developmental policy.

The important actors who increased their roles in this period were the Sino-Thai capitalists, particularly Sino-Chinese bankers. While the state reduced its role in economic activities and promoted private investment instead, the bankers were the coordinators who provided capital to the industrialists, and most of the private firms' investment had been funded by commercial banks (Ammar, 2001). "Bankers' capitalism" is a theme which academics have used to describe the characteristics of the Thai political economy in almost the entire latter half of the 20th century.⁹

Thus, the Sarit regime was the first time that the state had been linked to society, although the proportion of people who were involved was rather small. Hewison (2003, 2004) has called this connection a social contract. In his view, the Thai state, oligarchy by military, promised to provide political stability and support the role of domestic capitalists in modernizing the economy. However, other lower classes had no role in this deal. They were involved in the macroeconomy under the assumption of a trickle-down effect; that is, the subordinate classes would gradually gain benefits from economic growth. Finally, the middle class could expand.

⁷ The other reason General Sarit selected technocrats is that technocrats are closely connected with the US government and could access the US aid funds (Sillicock, 1967).

⁸ Indeed, international factors, such as the role of the USA and international organizations, as well as the context of the Cold War, are also important for understanding the economic reform in this period (Uklist, 1983). However, this is beyond the focus of this paper.

⁹ Actually, it is Ammar Siamwala who created this term in his public lecture in 2003. Although this term was used in public lectures and not in published papers, it has become a popular phrase in studies of the Thai political economy (see, for example, Kasain, 2003; Apichart 2007, 2008).

Even though the trickle-down effect of economic growth did not benefit the whole society, only some small proportion of the Thai population, it generated a substantial new social force in society: the middle class. Anderson (1977) explores how rapid economic development from the 1960s opened up new opportunities and jobs for the Thai people. The number of executives and managers increased greatly during 1960-1970. Other middle-class jobs (categories A, F and I in Table 3.1) also improved in terms of numbers. In terms of cultural politics, the massive expansion of secondary and tertiary education provides good empirical evidence for middle class expansion. The proliferation of universities implies that the family became an important institution, linking social status, wealth and power in one generation and passing them to the next. This transformation is a specific feature of the formation of a middle class.

Table 3.1 Economically Active Population Aged 11 and Over Classified by Occupation, Comparing 1960 and 1970. (Anderson, 1977)

	1960	1970	% Change
Total	13,836,984	16,850,136	21.7
A. Professional, technical & related workers	173,960	284,104	63.3
B. Administrative, executive & managerial workers	26,191	246,591	941.5
C. Clerical workers	154,303	190,238	23.3
D. Sales workers	735,457	833,607	13.3
E. Farmers, fishermen, hunters, loggers, & related workers	11,332,489	13,217,416	16.6
F. Miners, quarrymen, & related workers	26,255	42,605	62.2
G. Workers in transport & communications occupations	144,610	225,204	55.7
H. Craftsmen, prod-process workers. & laborers not else-where classified	806,205	1,109,943	37.7
I. Service, sport & recreation workers	273,375	471,999	72.7
J. Unclassifiable	99,259	30,560	-59.2
K. New entrants to the work force	64,880	197,869	305.0

The emergence of this new class significantly affected the Thai political economy, as those in the middle classes were frustrated with their very limited political space under an authoritarian regime. This frustration led to the democracy movement and the uprising in October 1973. Although Thai politics was very unstable in the 1970s, the 1973 democracy

movement was the critical point which reduced the power of Thai bureaucratic polity, especially the role of the military in Thailand.

When Thailand started to develop its parliamentary system in the 1980s, a new problem arrived. This problem has been labelled “money politics”, as it refers to the situation in which provincial businesspeople easily rule parliament, using money as their main method. Each election is widely recognized as an opportunity for high investment in a political campaign and vote buying. As a result, businesspeople use their political power to seek rent for their own wealth and maintain their own political network.

The combination of bureaucratic polity and money politics ended in economic crisis in 1997; the worst crisis in modern Thai economic history.

3.3 The 1997 economic crisis: some economic indicators

Generally, scholars include Thailand as part of the “East Asian Economic Miracle”. The average annual economic growth was about 7.8%, which is a very impressive figure in relative with others countries in the same period. However, when the crisis took place in 1997, this became the most difficult time in modern Thai economic history, in that economic growth fell to a negative number (-0.54%). The effect of the crisis was much worse in 1998 when the national account stated that the growth rate was -10.56% (IMF, 2010).

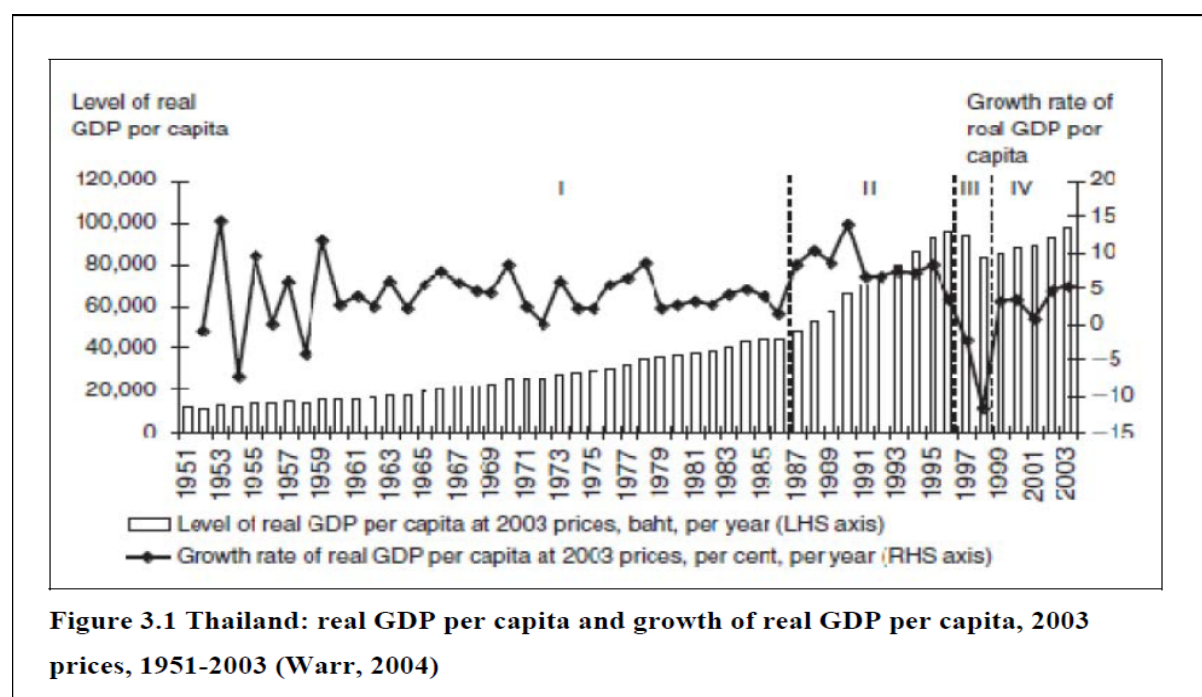


Figure 3.1 Thailand: real GDP per capita and growth of real GDP per capita, 2003 prices, 1951-2003 (Warr, 2004)

Table 3.2: Thailand: rate of growth of real GDP and GDP per capita, 1951-2003 (Warr, 2004)

<i>Period</i>	<i>Real GDP growth</i>	<i>Real GDP growth per capita</i>
1951 to 1986 (Phase I) Pre-boom	6.5	3.9
1987 to 1996 (Phase II) Boom	9.2	8.0
1997 to 1998 (Phase III) Crisis	-6.1	-7.1
1999 to 2003 (Phase IV) Post-crisis	4.0	3.3
Whole period 1951 to 2003	6.2	4.2

According to Figure 3.1 and Table 3.1, Warr (2004) calculates various economic indicators and roughly distinguishes the period of economic development into four subperiods. The pre-boom period, from the 1950s until the late 1980s, was the time in which the level of GDP per capita had shown a gradual increase, while the annual growth rate of real GDP was 6.5%. The second phase is the boom period (1986-1996), when the economic performance was extremely high; the annual average growth was 9.2%. When the crisis took place, however, the economy suddenly declined. Between 1997 and 1998, the average growth was negative, averaging -7.1% per year. After 1999, the post-crisis period, the data show that the economy had recovered, yet the growth rate (4.0%) is slower even compared to the pre-boom period.

The trend for the living standards of the Thai people reflects the macroeconomic performance. During 1950-1996, the GDP per capita increased by about 7 times but in 1997 and 1998, the Thais' living standards suddenly decreased. The level of GDP per capita in 1998 was 14% less when compared to 1996. Not until late 2003 did the average living standards of the Thai people again reach the level of 1996, although the economy has recovered since 1999 (Warr, 2004).

At the micro level, the impact of the crisis was even more serious: more than one quarter of Thai companies which were registered on the Thai stock market disappeared from the market. Moreover, about one quarter of the largest capitalist groups, 50 out of 220, collapsed. Two thirds of Thai entrepreneurs fell and two thirds of the Thai commercial banks changed owners and had to restructure. In the labour market, about 1 million people lost their jobs and about 3 million people's living conditions dropped below the poverty line (Kasian, 2011).

The East Asian crisis has not only affected the Thai economy but has also greatly transformed the Thai state and other political factors. With regard to simple and immediate changes, for instance, the crisis caused the elected government at that time, the government of General Chavarit Yonchaiyudh (November 1996-November 1997), to leave office, since the government was blamed for its failure to prevent the crisis. The next government, that of Chuan Leekpai's (November 1997-February 2001), was critiqued for completely failing to recover the economy and finally lost its position in the election in 2011. Next section will explore some interpretation of the crisis in more academic term.

3.4 The new era of political economy

In parallel with the serious damage caused, the crisis has fundamentally changed the Thai political economy in many respects. For example, the legacy of bureaucratic polity ended when bureaucratic officers, especially those from the strategic economic agencies - the Bank of Thailand, the Ministry of Finance, the National Economic and Social Development Board (NESDB) and the Fiscal Policy Office - dramatically lost credibility in relation to policy management. They were amongst the major targets who were asked to take responsibility for the macroeconomic management failure (Rangsan, 2004). Moreover, when Thaksin and the Thai Rak Thai (or "Thais love Thais") Party won the election in 2001, the new rules under the 1997 Constitution allow the Thaksin administration to take a dominant role over the bureaucratic elements. This was the first time a political party had significantly influenced developmental and economic policy in Thailand. In other words, a party-led system replaced bureaucratic polity during this period (Suehiro, 2005; Pianmannakul, 2010).

On the other hand, the public heavily criticized the money politics and politicians, e.g. the democrat government, when they followed the IMF's neoliberal economic policy and failed to recover the economy (Ammar & Somchai, 2007). This phenomenon stimulated the process of political reform and one of the outcomes was the new political institutions, the 1997 Constitution.

Hewison (2004) suggest that the economic crisis has broken down the traditional "social contract" in Thailand and that after the crisis a new social contract was created and embedded in Thai society. The changes in the social contract have been critically transforming the relationship between the state and the business sector, as well as that between the state and rural areas.

Bankers' capitalism also ended its legacy. Thai bankers were one of the groups who suffered heavily from the economic crisis. In 1998, non-performing loan accounts came to almost

50% of the total credit in the financial system. The commercial banks were afraid to expand their loan portfolios. The overall credit which was allocated by the banks had been contracting for three years. More importantly, they were still fearful, even though the economy was recovering and their balance sheets had improved (Pasuk & Baker, 2005). In other words, the Thai economy had to find a new mode of capital accumulation after the crisis (Apichart, 2008).

3.5 Conclusion

This chapter has mainly dealt with the narrative of the political economy in Thailand before the crisis in 1997. The main purpose of the chapter was to provide a background to the modern Thai political economy. This chapter also reviewed some of the interpretations of the crisis to strength the case of this thesis that the 1997 crisis was a great turning point which opened a new era for the Thai political economy. In parallel with these interpretations, the remaining part of this thesis will turn to its own analysis of the situation.

Chapter IV: The 1997 Constitution: the meta-political institution and its impacts

4.1 Introduction

In addition to the economic crisis of 1997, the introduction of the new Constitution in 1997 was also a crucial event in the Thai political economy for that year. The 1997 Constitution was launched on 11 October 1997. Even though the new Constitution and the economic crisis were actually coincidental, the economic crisis awakened Thai society to pay attention to political reform and question the old political system, which was known to be corrupt and ineffective. As Kittipong (n.d., p. 107) states, “the 1997 Constitution would not have passed the Parliament, had it not been that Thailand was hard hit by economic crisis during that same year”.

In relation to the issues of the Thai political economy, the 1997 Constitution is crucial in many aspects. In principle, its aim was to transform Thailand from a bureaucratic polity and an authoritarian regime to a system in which Thai citizens would have more political right to engage in political activities and have a better chance of determining their own destiny (Kittipong, n.d.). The other important goal was to solve the problems of money politics and corruption which are considered the fundamental harms in Thai society (Brown and Hewison, 2004). In line with these goals, the Constitution framework advocates transparent and accountable government. The other important element of the 1997 Constitution is that it is the first and only constitution to have been written through the democratic process and the participation of the majority of Thai citizens. Thus, this Constitution has been named “the People’s Constitution”.

In the language of Acemoglu et al. (2005), a constitution is a sort of political institution which is the source of *de jure* political power. Thus, the argument in this chapter is that this political institution significantly changed the rules of the Thai political economy. Combined with the impact of the economic crisis, it created conditions which allowed the Thai state to reform itself radically. To explore this argument, this chapter consists of four parts; the first part will discuss the ideology of the 1997 Constitution.

4.2 The 1997 Constitution and its ideology

Since the revolution in 1932 which transformed Thailand from an absolute monarchy into operating along constitutionalist lines, Thailand has had 18 constitutions issued.¹⁰ This figure well explains the chaos in Thai politics; on average, Thailand changes its ultimate establishment every 4.4 years.

Roughly speaking, the elements in every Thai constitution are the outcome of the competition between bureaucratic polity and democratic force. However, the former often wins these contests. The structure of power, or the *de jure* political power, which is provided in a Thai constitution usually give some favour to the bureaucrats. This superior position has directly affected the policy-making process, of course, including economic policy (Rangsan, 2001).

One of the traditional methods used to scrutinize the power of bureaucratic polity in a constitution is to consider the structure of the parliament. If the majority of a parliament's members have been elected or have been appointed through some other democratic process, a constitution is considered to be democratic. However, if most of the members of the parliament are appointed by an authoritarian regime, a constitution tends to have more elements of bureaucratic polity.

According to Figure 4.1 below, it is obvious that before the 1997 Constitution, Thailand had only one fully democratic constitution, which was the 1946 Constitution. However, the life of this constitution was only 1 year and 6 months. The other constitutions in the periods before 1997 are either semi-democratic, or reflect bureaucratic polity or an authoritarian bureaucratic polity. The picture is actually worse if we categorize the constitutions according to two groups: more democratic or more to do with bureaucratic polity. Rangsan (2001) suggests that before the 1997 Constitution there were only three constitutions, in 1946, 1951 and 1974, which provided greater *de jure* political power to the elected legislatures than the appointed legislatures. On the contrary, the other 12 constitutions provided political power to the appointed legislators more than the elected legislators. In short, the main feature of Thai constitutions before the period of 1997 is that they also had an element of bureaucratic polity, in the sense that the Members of Parliament who were appointed had more power than their elected counterparts.

¹⁰ This includes the current one, the 2007 Constitution.

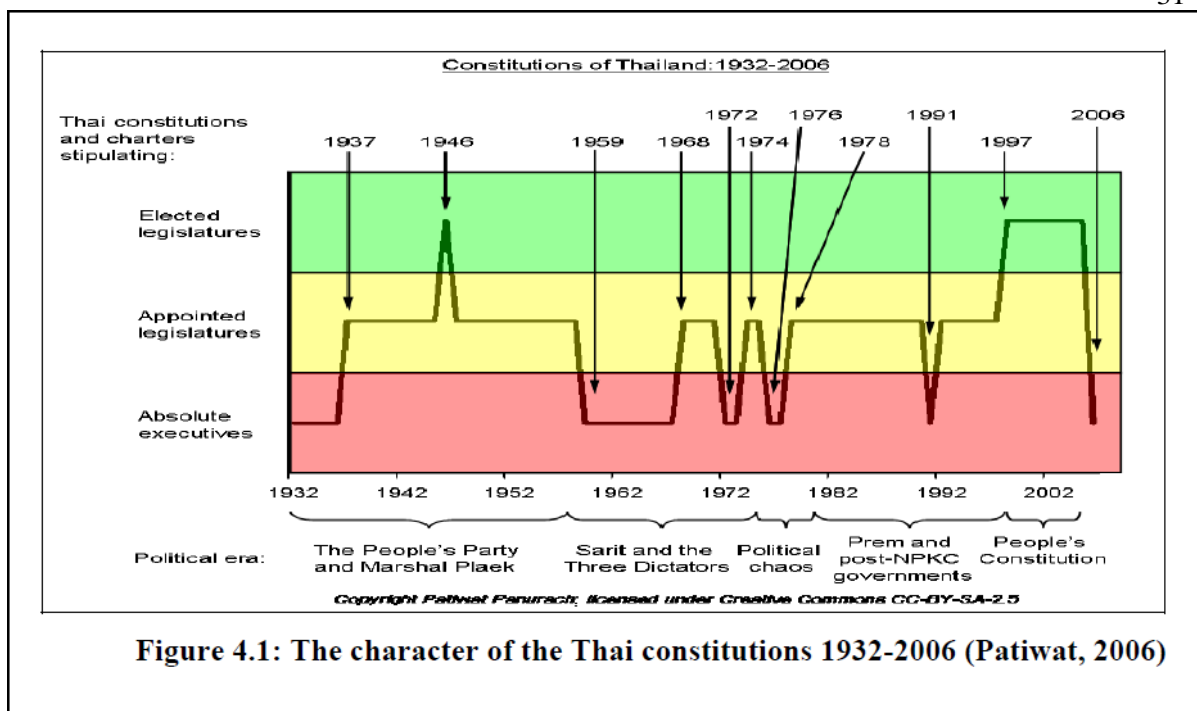


Figure 4.1: The character of the Thai constitutions 1932-2006 (Patiwat, 2006)

The problem of bureaucratic polity in a constitution is well-recognized in Thai society, particularly when the middle classes and other elements in civil society have increased their *de facto* political power. In such a long process, the attempt to solve this problem was made in the early 1990s, when the political reform movements gained momentum. The principle of the 1997 Constitution is the concrete feature of this effort. As mentioned elsewhere, one of the important issues of the political reform movement was to change Thailand from bureaucratic polity to a liberal democratic regime.

Another important problem that the 1997 Constitution aimed to solve was money politics. In Thailand, money politics is a fundamental problem, whereby elected politicians, especially those who are closely connected with provincial interest groups, have become the important actors in Thai politics. Some argue that "it was the provincial businesspeople who dominate the electoral politics" (Brown & Hewison, 2004, p. 4).

Given the great influence of bureaucratic polity, after the democratic movement in 1973 and the short period of political fluctuation, Thailand started to develop its parliamentary politics in the 1980s. In this period, Thailand experienced an unbalanced economic development, which showed rapid economic growth but high levels of inequality. This condition easily allowed the provincial businesspeople to use money politics as a tactic for ruling parliament. On the one hand, provincial business people are closely connected with the poor in rural areas as they provide economic resources and other benefits. On the other hand, they also support elected politicians during elections, or, in some cases, the businesspeople themselves

are the politicians. Each election is widely recognized as an opportunity for high investment in a political campaign and vote buying. The result is the use of political power to seek rent within an economic policy to maintain wealth as well as power (Brown and Hewison, 2004; Callahan, 2005a). Connors (1999) summarizes a critical review of Thai newspapers in the early 1990s as follows:

In the pages of newspapers such as *Matichon* and *Siam Rath* a contemporary critique of the new type of politics emerged: It went like this; capitalists were buying influence and taking over political parties. The buying of influence extended from the lowest level - the buying of a citizen's vote - to purchasing a support base in a political party to secure a Cabinet seat. Once there, the great expenditure incurred would be recouped by any (and mostly illegitimate) means. Money politics had also destabilized parliamentary politics, introducing warfare over lucrative cabinet posts. The emergence of a cabinet quota system for political parties who entered a governing coalition reduced administrative integrity as there was no central logic to policy implementation. Ministries became a series of personal fiefdoms (p. 204).

Money politics and its results are well-documented and have been discussed in a number of studies (Ockey, 1994; Callahan & McCargo, 1996; Callahan, 2005a, 2005b). When focusing on the outcome, corruption amongst politicians, particularly the administration teams, was obvious and common. This caused money politics to be widely acknowledged as a fundamental problem in Thailand. Some researchers have explored the way in which Thai civil society focuses too much on resolving the problem of money politics. As a result, other problems, such as rural poverty and inequality, are likely to be concealed (Callahan, 2005b). In relation to money politics, before the 1997 Constitution, the other problem of Thai politics was the instability of the elected government. Hicken (2006) points out that this problem lies in various weaknesses of the political party system in Thailand. Firstly, there are too many political parties in Thailand. As Table 4.1 shows, in the seven elections during 1983-1996, there were on average 15.3 parties competing in the election, while there are 12 parties which won seats in the parliament. There were, on average, 5.3 parties from 12 parties which formed the government coalition.

Secondly, the political parties in Thailand are not cohesive; this does not create a group in which like-minded politicians come to work together. Rather, the parties form a short-lived alliance of convenience and opportunism. Similarly, Apichart (2007, 2008) suggests that a political party is traditionally a loose combination of political factions. The leader of the

party is merely the leader of the richest faction in terms of either political or economic resources.¹¹ In other words, political parties were not the crucial units, but the factions were.

Table 4.1 Party data 1983-1996 (Hicken, 2006)

Party Data	
Average number of parties standing for election	15.3
Average number of parties capturing a seat in the House of Representatives	12.0
Average number of parties in the government coalition	5.3

When the above-mentioned two characteristics combine with money politics, the government tended to be short-lived and unstable and political factions easily changed their position if their interests were not served. The major task of the government leader was not to manage national policy but to balance the power and negotiate with the political factions whose leaders were usually members of the Cabinet, in order to sustain the coalition government. Thus, under this system, the government tended to have a short life and could not pursue a national policy as well as long-term project development. In other words, the weak political party system tended to generate a weak executive administration and ineffective governance. Clearly, the political reform movements reflect the failure of money politics and the wish to remove this type of politics from Thai society. As with bureaucratic polity, the elected politicians were asked to reform themselves. This sentiment is clearly expressed in the opinions of the drafters, such as Uthai Pimchaichon, President of the Constitution Drafting Assembly, who said the following: “Let’s behead a few politicians so our country can be better” (*Bangkok Post*, 1997, p. 3 as cited in Connors, 1999, p. 202). In a similar way, Kotom Ariya, the well-known democratic activist and former Election Commissioner, suggests that “one of the objectives of the present political reform is to stem vote buying. Many provisions of the Constitution were drafted having this problem in mind” (Election Commission of Thailand, 2001, p. 7 as cited in Callahan, 2005a, p. 97).

In conclusion, the main objective of the 1997 Constitution was to transform Thai politics in, at least, two aspects. Firstly, it aimed to remove the power of the bureaucratic polity in Thai politics which had been realized as a problem for a long time. Secondly, it was an attempt to

¹¹ It also makes sense to infer that the leader of a political faction is usually the richest person in the faction.

solve the problem of money politics, which had been considered as a new problem since parliamentary politics had developed in the 1980s. Rangsana (2002) conceptualizes the features of the idealist state of the Constitution as “White Politics”. In other words, the idealist state of the 1997 Constitution is a “neutral state” which has a high level of autonomy and the capability to determine policy by regulating the powerful societal actors (Apichart, 2008). Or, if we put this in a standard version of Western politics, the 1997 Constitution is trying to establish the middle class polity (Callahan, 2005a).¹²

Finally, it should be mentioned again that the 1997 Constitution and the 1997 economic crisis were coincidental. The 1997 Constitution was the outcome of the political reform movement in the early 1990s, while the economic crisis was an unexpected shock in the late 1990s. However, the crisis is a crucial factor which drove the process of ratification of the 1997 Constitution, as it awakened Thai society to recognize the poor qualities of the bureaucrats, politicians and the whole political system, which are perceived as the fundamental causes of the crisis.

4.3 The 1997 Constitution and its impact on the state

As the ultimate official institution, the 1997 Constitution covers a wide range of issues. Overall, there are 336 Articles, which include 12 major issues in Thai society. It is recognized as the longest constitution in the world. However, compared to previous constitutions, the major changes in the 1997 Constitution are the reform of the electoral system, good governance design and decentralization (McCargo, 2002; Rangsana, 2002; Hicken, 2006). However, in relation to the research questions, this paper will mainly focus on the electoral system.

4.3.1 Reforming the electoral system¹³

Generally, the electoral system in Thailand in the period before the 1997 Constitution used the bloc vote system combined with multi-seat constituencies, multiple votes and the plurality rule. The whole country, comprising 76 provinces, was divided into 142-156 subareas of multi-seat constituencies. There were usually two or three seats per area, depending on the size of the population. The voters could vote for as many candidates as there were seats in their constituency. For instance, voters in an area which had two seats could separately cast their votes for two candidates but could not cast two votes for one

¹² It is ironic that the reform agenda is also heavily supported by the elites. Conner (2002) argues that indeed the 1997 Constitution is an elite project, even though it is named the “People’s Constitution”.

¹³ Unless otherwise stated, the following discussion is mainly taken from Nicken (2006).

candidate. From this regard, voters could vote for candidates from different parties at the same time and parties could send as many of their candidates as they wanted to maximize their number of seats. There were also some special rules for parties and candidates. For example, the parties were required to send a minimum number of candidates nationwide. The candidates themselves could not campaign as independent candidates; they had to belong to a political party in order to take part in an election but there were no specific requirements in terms of time i.e., they could immediately become a candidate as soon as they became a member of the party.

The 1997 Constitution fundamentally changed the electoral rules. Under the new rules, for the House of Representatives election, the mixed number/two-tier system had been used instead of the bloc vote system. Overall, there were 500 seats in the House of the Representatives, which consisted of 100 seats elected from the party list, a single nationwide constituency, and 400 seats elected from single-seat constituencies. Thus, voters could cast two separate votes, one for a party and the other for a candidate in their single-seat constituency. The simple rule was that, for the party list, only the party which received votes of more than 5% in the party list would gain seats in the nationwide constituency. For the single-seat constituencies, only the candidate who received the highest number of votes would gain the seat.

In terms of important specific rules, the 1997 Constitution abolished the requirement for the party to run a minimum number of candidates. However, the parties had to separate the candidates into two lists: the party list and the single-seat constituency list. In other words, a candidate in the party list could not also be a candidate in the single-seat constituency list. For the candidates, the law still required them to belong to a party but there was now a restriction about the time. Candidates had to be a member of a political party for at least 90 days before the date of the election in order to have the right to run. This rule was designed to prevent the last minute switching of candidates by parties before the election, which had been a common phenomenon in the money politics system. In addition, there was a new and important rule: Cabinet Members could not be Members of Parliament at the same time; if Members of Parliament wished to be in the Cabinet, they would have to relinquish their seat in parliament.

Another important feature of the old electoral rules can be seen in the senate selection method. In the pre-reform period, constitutions usually allowed the appointed people to take a senate seat. As pointed out before, this reflected the character of the bureaucratic polity, since high-ranking bureaucrats and military personnel were always appointed senators.

However, the 1997 Constitution radically changed this rule. Indeed, this was the first time in Thai history in which senators were fully elected under the new rules.

Table 4.2: Important elements of the constitutions, comparing pre- and post-reform periods (Hicken, 2006)

	1978/1991 Constitutions	1997 Constitution
House of Representatives	<ul style="list-style-type: none"> •Multiseat constituencies (1-3 seats) •Bloc vote 	<ul style="list-style-type: none"> • Mixed-member system •400 single-seat constituencies •100 national party list seats
Senate	<ul style="list-style-type: none"> •Appointed 	<ul style="list-style-type: none"> •Elected using SNTV. Nonpartisan
Party switching	<ul style="list-style-type: none"> •Allowed 	<ul style="list-style-type: none"> •90-day membership requirement
Party restrictions	<ul style="list-style-type: none"> •Full team •25-50% of constituencies 	<ul style="list-style-type: none"> • 5% threshold for list tier
Superintendent institutions	<ul style="list-style-type: none"> •None 	<ul style="list-style-type: none"> •Several
Decentralization	<ul style="list-style-type: none"> •Limited 	<ul style="list-style-type: none"> •Mandated

4.3.2 The new electoral system and political parties

Broadly speaking, the rules of the electoral system in the 1997 Constitution tend to be biased towards large political parties (see the in-depth analysis by Rangsan, 2002). In particular, the party list rule which requires a party to have at least 5% of the votes to gain a seat. This rule regarding a minimum requirement not only limits the small parties but also gives some advantage to the larger parties because they will receive the additional seats which would have belonged to the smaller parties if there was no minimum requirement. For example, some economists have calculated that the most popular party in the 2001 election, the Thai Rak Thai (TRT) Party, would have lost 42 seats to the smaller parties which could not have reached the 5% requirement if the electoral system had been the pre-reform one.¹⁴ Moreover, this system supports the roles of the parties in the election, since the parties have to have their own policies to attract voters to vote for them in the nationwide constituencies (Apichart, 2007, 2008). In addition, the single-seat constituencies also make difficulties for the small

¹⁴ This calculation is made by Ammar Siamwala. However, Apichart (2008) refers to this in personal correspondence with Ammar and publicly writes about it in his research.

parties, since a candidate from a larger party usually has more advantages.¹⁵ Therefore, it is difficult for small parties to survive in this system.

The empirical evidence is shown in Table 4.3 below. Obviously, when comparing the post- and pre-reform systems, the effective number of political parties is smaller in the electoral system of the 1997 Constitution, particularly when considering this at the national level. During 1986-1996, there were on average 7.2 parties which were effective at the national level. Nevertheless, the number had reduced to 3.8 and 2.6 parties in the 2001 and 2005 elections, respectively.¹⁶

Table 4.3: The number of effective political parties, a comparison of pre- and post-reform periods (Hicken, 2006)

	1986-1996 Elections	2001 Election	2005 Election
Average ENP locally	3.2	2.7	2.0
ENP nationally	7.2	3.8	2.6

In principle, the system which supports the role of political parties has some advantages. Firstly, policy, particularly economic policy, has been an important weapon in political competition. Parties have to have their own policy to attract voters to choose them, at least in the party list system. As Ockey (2003) suggests, the support for a political party in rural areas now, to some degree, depends on the success of the party's policy. Secondly, it allows professionals and specialists to serve the administrative team, even if they do not have political resources. To complement other political campaigns, parties usually put the names of professionals and experts as candidates in the party list in order to attract popularity. This is the first time that political parties have tried to establish their own political brand name (Ransan, 2005). In other words, the political parties have become more cohesive, programmatic and nationally orientated (Hicken, 2006).¹⁷

¹⁵ It is true that in Thailand personal qualities, not party, are the most crucial factors which determine victory in the constituencies system. However, it is also true that people who have strong personal qualities are usually the candidates for the large parties.

¹⁶ The figure for the 2001 election is the better reference, since the 2005 election was held in a situation of political conflict, during which some political parties boycotted the election.

¹⁷ However, this does not imply that personal strategy and qualities are not important any more.

4.3.3 The new electoral system and the government

In relation to the size bias towards large political parties, the new electoral system under the 1997 Constitution favours strong government rather than weak. As mentioned above, this is because of bad experiences regarding unstable and short-lived governments in the pre-reform period.

Some sections of the 1997 Constitution significantly support not only strong government but also a strong Prime Minister. Firstly, under section 211, the government can easily announce its policy to parliament without a vote of censure. However, this rule is not a new one. Indeed, it has been the tradition of Thai parliaments since the 1980s (Rangsan, 2005).

Secondly, section 204 does not allow Cabinet Members to hold a seat in the parliament at the same time. If they want to serve in a position in the administration team, they have to relinquish their representative position. When this is combined with section 217, which indicates that “The King has the prerogative to remove a Minister from his or her office upon the advice of the Prime Minister” (the 1997 Constitution of Thailand), the power tends to be concentrated in the Prime Minister. To clarify, sections 204 and 217 imply that if Cabinet Members are expelled by the Prime Minister, they will immediately lose their post in the parliament. Hence, this rule is crucial because it improves the relative power of the Prime Minister while comparatively decreasing the power of both the political factions in the Prime Minister’s party and the coalition leaders’ parties (Apichart, 2007).

Thirdly, in the pre-reform period, many governments had fallen due to party switching. Under the 1997 Constitution, sections 107 and 116 effectively prevent this kind of behaviour. While section 107 requires people who want to run in the election to have been a member of the political party for at least 90 days, section 116 indicates that in the case of the Parliament being dissolved, the new election must be held within 60 days. As a result, the Prime Minister can dissolve parliament as a tactic for punishing those who switch parties i.e., by preventing them standing in the coming election. Although this tactic cannot completely prevent switching party behaviour, it is effective enough to stop a substantial amount of the behaviour which threatens the stability of the government.

Finally, under the rules of the 1997 Constitution, a vote of no confidence against the administrative team is rather difficult. Under section 185, a vote of no confidence against the Prime Minister requires at least 40% of the lower house to approve while section 186 sets the minimum at 20% for the lower house to approve a vote of no confidence against the Cabinet. Although there is no standard optimum figure, the requirements seem to be rather high when

considering the fact that the former Prime Minister Thaksin Shinawatarara, the only Prime Minister under these rules, ruled almost 50% of the lower House and never entered into the process of a vote of no confidence (Rangsan, 2005).

Although these rules tend to strengthen the power of the Prime Minister, they disarm the authority of the Cabinet at the same time. Rangsan (2005) argues that this condition may negatively affect the performance of the Cabinet in many respects. For example, the Cabinet may avoid conflict with the Prime Minister even if the conflict relates to the public interest. However, if we consider the overall picture, the new rules under the 1997 Constitution successfully generate a strong executive and strong government.

4.3.4 The new electoral system and bureaucratic polity

After the democratic movement in 1973, it is true that the power of bureaucratic polity has gradually decreased. However, due to its own legacy, it has never been destroyed through the Thai political economy. Rangsan (2001) argues that in the parliament, bureaucratic polity is clearly expressed in the form of appointed representatives and senators. In the pre-reform period, these appointed people were usually high-ranking bureaucrats and military personnel and had substantial power to approve, delay and cancel important policies and laws.

However, the picture completely changes in the post-reform period. The 1997 Constitution intends senators to be autonomous. Hence, the new law requires that a Member of the Senate must be elected, as are the representatives. This implies that high-ranking bureaucrats and military personnel no longer have any privileges. If they wish to have a role in parliament, they must run in the election and compete with other people.

4.4 Conclusion

For more than five decades, bureaucratic polity has been recognized as a major problem in the Thai political economy. Although the rise in democratic forces has gradually destroyed its influence, bureaucratic polity has never been completely deleted from Thai politics. Meanwhile, the development of parliamentary polity, which started in the early 1980s, has generated a new problem in the Thai economy: money politics. The 1997 Constitution was designed to solve these two fundamental evils. Even though the 1997 economic crisis was coincidental with the political movement which started in the early 1990s, it was a crucial stimulant that placed political reform as a priority on the agenda for Thai society.

Regarding to the first research question, to sum up, the East Asian Economic crisis affected the state and its institution in the sense that it open up the opportunity for the state to reform its self. Hope was deposited at the political reform and the 1997 Constitution. To establish

this “white politics” and a neutral state, the 1997 Constitution radically reformed a number of issues: the electoral system, good governance design and decentralization. The significance of these changes has been widely studied. This chapter mainly focused on the changes of in the electoral system and explored the implications of these changes for the state.

The new rules of the 1997 Constitution effectively prevent the causes of unstable government. More precisely, the new rules strengthen the power of the Prime Minister, not only in relation to his coalition political parties but also the political factions within the Prime Minister’s own party. Thus, the 1997 Constitution was the start of the first time in Thai history that the political institution can generate strong elected government.

In the language of historical institutionalism approach, the aim of the 1997 Constitution is to generate the strong state which has a high degree of autonomy and capability. State is designed in order to prevent the influent of powerful societal actors, especially bureaucrats and provincial interest groups. This condition will allow state to have a large capacity to enforce its policy in practice. Strong executive is the concrete outcome of these two features. Next chapter will explore this empirical evidence in the Thaksin’s government in combination with other theoretical approach to answer the second research question.

Chapter V: The rise of the Thaksin regime

5.1 Introduction

In the first election under the 1997 Constitution, Thaksin Shinawatra had a landslide victory in February 2001 and became the first elected Prime Minister to serve the full four years of his term in office. He was re-elected with more votes, compared with the 2001 election, in March 2005. However, his government's legacy ended in chaos when he was removed by the coup in September 2009.

Although Thaksin's period was relatively short when compared to the authoritarian regimes in the 1950s-1970s, he dramatically and considerably changed the whole of the Thai political economy and society. Under the rules of the 1997 Constitution, he was the strongest elected Prime Minister in Thai history. Various terms, e.g. the Thaksinocracy and the Thaksin Regime, have been invented to describe this characteristic. Some even argue that Thaksin's government was an absolutist regime (Kasian, 2006, 2007). Economists have also had a great deal of work to do regarding his time in office; not only was this time a period of economic recovery, but new and abundant economic institutions and policies were also established.

Hence, to understand the role of the state in the post-1997 crisis period, it is inevitable that we explore a number of the aspects of the Thaksin regime. This mission will be accomplished in this chapter, which has been organized into four sections: the next section will discuss the political power of the Thaksin regime; the third part will focus on the economic institutions; and the final section offers some conclusions.

5.2 The political power of the Thaksin regime

5.2.1 *De jure* political power

5.2.1.1 Government and the Cabinet

As Acemoglu et al. (2005) suggest, *de jure* political power is derived from the political institutions. Since Thailand has a form of democratic system, the source of *de jure* political power is the constitution.

Under the 1997 Constitution, Thaksin was the first Prime Minister to be elected legitimately. His party, the Thai Rak Thai Party (Thai Love Thai - TRT), was the most popular in the 2001 election. As previously discussed, the TRT gained advantages from the new electoral system because of the reformist constitution bias towards large parties rather than small ones. Thaksin and his administration was the most powerful elected government in Thai history. TRT won the first election with 11 million votes and gained 248 seats in the House of Representatives in 2001. At his peak in 2005, Thaksin won the second election with 19

million votes on the party list basis with an overall 347 seats or 70% of the House (see Tables 5.1 and 5.2).

Table 5.1 Thailand's general election results by party and region for January 2001
(Pasuk and Baker, 2004: 89)

Party	North	Northeast	South	Centre	Bangkok	Total	Party List	Grand Total
Thai Rak Thai	54	69	1	47	29	200	48	248
Democrat	16	6	48	19	8	97	31	128
Chart Thai	3	11	-	21	-	35	6	41
New Aspiration	1	19	5	3	-	28	8	36
Chart Pattana	2	16	-	4	-	22	7	29
Seritham	-	14	-	-	-	14	-	14
Ratsadorn	-	1	-	1	-	2	-	2
Social Action	-	1	-	-	-	1	-	1
Thin Thai	-	1	-	-	-	1	-	1
Total	76	138	54	95	37	400	100	500

Table 5.2 General election results by party and region for February 2005 (Thitinan, 2005)

Political Party	Bangkok	Central	Northeast	North	South	Total Constituency Seats	Party- list Seats	Grand Total of MPs
Thai Rak Thai	32	80	126	71	1	310	67	377
Democrat Party	4	7	2	5	52	70	26	96
Chart Thai	1	10	6	--	1	18	7	25
Mahachon	--	--	2	--	--	2	--	2
Total	37	97	136	76	54	400	100	500

In his first term, Thaksin was required to fashion an alliance with many other forces in order to form a government. Firstly, TRT formed a government with four other parties - the Chat Thai Party (CT), the New Aspiration Party (AP), the Chart Pattana Party (CP) and the Seritham Party (SP) - and assigned their leaders to the Cabinet. Secondly, Thaksin compromised with bureaucratic polity by inviting retired bureaucrats into his Cabinet. For example, he appointed the former Permanent Secretary for University Affairs, Dr Kasem Watanachai, to take care of the Ministry of Education. In addition, the former Director-General of Post and Telegraph, Mr Sombat Uthaisane, was assigned Deputy Minister of the

Interior. Pianmanakul (2010) argues that the TRT Government represented a mixed alliance between old-style politicians, bureaucrats and Thaksin's own networks.

Due to the rules of the 1997 Constitution, which empowers the Prime Minister, political power was highly concentrated in Thaksin himself. He almost completely dominated his Cabinet and Thaksin and his people still controlled the more important strategic ministries. For example, his senior in the Royal Police Cadet Academy and one of the founders of TRT, Purachai Piumsombun, served as Minister of the Interior; Thaksin's tax advisor, Suwan Valaisathian, took care of the Ministry of Commerce; and Somkid Jatusripitak, one of the TRT founders, controlled the Ministry of Finance.

Furthermore, the way in which Thaksin used his power implicitly indicates how powerful he was. In the first term, Thaksin reshuffled his Cabinet on average every four months. Overall, he reshuffled nine times, resulting in 10 administrative teams. While the 1997 Constitution limits the number of Cabinet Ministers to 36 (including the Prime Minister), Thaksin's Cabinet at one time contained 56 individuals. Furthermore, five out of the nine Cabinet reorganizations occurred arbitrarily to reward or punish his followers, rather than to improve the performance of the Cabinet.

Table 5.3: The length of terms of the Cabinets during Thaksin's first term, 2001-2005 (adapted from Rangsan, 2003)

The Cabinet Team	Date appointed	Date changed	Length of time
1	17 February 2001	14 June 2001	3 Months 26 Days
2	14 June 2001	9 October 2001	3 Months 26 Days
3	9 October 2001	5 March 2002	4 Months 27 Days
4	5 March 2002	3 October 2002	6 Months 29 Days
5	3 October 2002	8 February 2003	4 Months 6 Days
6	8 February 2003	8 November 2003	9 Months
7	8 November 2003	10 March 2004	4 Months 2 Days
8	10 March 2004	30 June 2004	3 Months 20 Days
9	30 June 2004	6 October 2004	3 Months 6 Days
10	6 October 2004	5 February 2005	4 Months
Average life of the Cabinets			4 Months 23 Days

5.2.1.2 Bureaucrat reform¹⁸

To be fair to the other Thai governments, projects involving bureaucratic reform have been attempted by many of them. Before Thaksin, there were at least 23 Thai governments which

¹⁸ Unless otherwise stated, this part is mainly summarized from Apichart (2007, 2008), Painter (2005) and Arissara (2010).

tried to reform the ineffective bureaucratic system. However, only the TRT Government was successful and could show tangible results. Thaksin directly controlled the reform process by setting up a reform agency: the Office of the Public Sector Commission (OPSC). This agency was not only directly controlled by the Prime Minister's Office, but not having any bureaucrats was also the key aim in the reform process. The result of the reform has been the enactment of the Bureaucratic Restructuring Act and the National Administration Act, which were approved by parliament on 3 October 2002.

Under the new Act, the bureaucratic structure has been changed extensively. The number of ministries increased from 14 to 20, while one public body was divided, based on their similarities of responsibilities, into 162 departments. In another break with tradition, the government approved the action plan proposed by the OPSC in 2003. This plan allows additional bureaucrats to serve in high-ranking positions in bureaucratic agencies, such as that concerned with permanent security. Moreover, Thaksin also reformed the interior and international management style by adapting the concept of the Chief Executive Officer (CEO) to fit the provincial governors and ambassadors. Under this management system, both provincial governors and ambassadors act as the Prime Minister's assistants. On the one hand, they are empowered to control bureaucratic officers in their areas; on the other, they are directly accountable to the Prime Minister. These new rules suggest that the government has improved the degree of the political control of the bureaucrats.

In practice, Thaksin appointed, promoted and transferred his people into senior positions, both civil and military. McCargo and Ukrist (2005) investigates how, by 2004, there were 38 high-ranking officials who were closely connected with Thaksin, in both the military and the police. Most of these people were his friends from Class 10 of the Armed Forces Academies Preparatory School. Moreover, Thaksin went so far as to appoint his cousin as the Chief Commander of the Army. Another outcome of this reform was that some of the bureaucrats attached themselves to the TRT to secure their power and favour (Pasuk & Baker, 2004).

War and Bhanupong (1996) argue that bureaucratic authority still remained in the area of policy-making processes in the period before the 1997 crisis. However, the bureaucratic reform under the TRT Government has fundamentally changed this picture. There were three main features under the new rules. Firstly, Thaksin appointed one of his people to be the head of each of the strategic agencies. For example, Pansak Winyarat, Thaksin's chief advisor, was assigned to be the Chairman of the NESDB. In the case of the Bank of Thailand (BoT), Thaksin removed Chatu-Mongkol Sonakul from the post of Governor and installed

Pridiyathorn Devakula instead, after the former was in conflict with him over monetary policy.¹⁹

Secondly, in general, Thaksin assigned, Somkid Jatusripitak, the Minister of Finance to take care of these strategic agencies. In addition, a special Economic Policy Team was assembled to help Somkid in the policy-making process. The key men in this team were well-known scholars and Thaksin's colleagues in the business world, e.g. Professor Sanvien Intaravichai from Thammasat University; Mr Thanin Chiaravanont, the owner of the largest agricultural company and one of the top ten richest people in Thailand; and Mr Bunyasit Chokwattana, the CEO of the Sahapat Group, which is the largest wholesale and retail business group in Thailand.

Finally, Thaksin established the TRT Economic Policy Team in parallel with Somkid's team and appointed Pansak Winyarat as leader of this team. This team played a crucial role in the process of economic policy making. They not only formulated but also monitored the overall economic policy of the government. This fact implies that the Prime Minister's Office had already taken over the role of the MOF and the NESDB as the centre of policy making in Thailand. Thaksin himself stated in his speeches many times that "henceforth, the administrative team will make the main policy while the duties of bureaucrats are only to follow and operate" (Aprichart, 2008, p. 120). Suehero (2005) concludes that the crucial outcome of the policy-making reform is the power consolidation of the Prime Minister. In other words: "Thaksin apparently aimed to replace bureaucratic polity by prime minister-led politics" (Suehero, 2005, p. 14). The sketchy picture of the policy-making structure of the Thaksin Government is shown in Figure 5.1.

¹⁹ However, Thaksin could not totally control Pridiyathorn because the BoT has its own unique traditions and institutions and is relatively independent from politics.

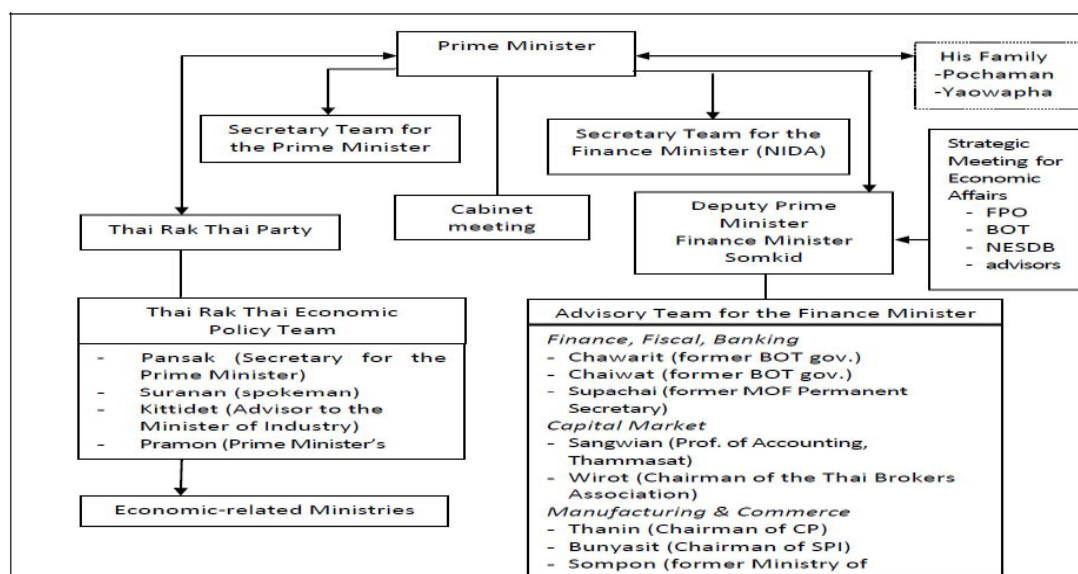


Figure 5.1: The structure of policy-making in the Thaksin Government (Suehero, 2005)

The other important reform by the TRT Government was the restructuring of the budget allocation. In the pre-reform period, most of the government budget was allocated on the basis of the importance of the projects and the ministries. However, Thaksin introduced a new system, the so-called Strategic Performance Based Budgeting System, which gave more power to the Prime Minister to allocate the budget. With this power, the TRT Government notably improved the budget of the Central Fund, while reducing the budget which was allocated to the ministries' line. Table 5.4 demonstrates that the TRT almost doubled the budget in terms of the proportion of the overall budget of the Central Fund, from 9.6% in 2001 to 18% in 2002. Although the figure dropped slightly in 2003, it reached a peak at 25.9% then dropped to 16.7% in 2004 and 2005, respectively. These figures were relatively high when compared with the 1996-2001 period, which were roughly 9-11%. In contrast, the budgets allocated to the ministries dramatically decreased over the period of the TRT Government.

Table 5.4: The Central Fund of the Thaksin Government for 2001-2005 (adapted from Rangsan, 2004; Suehiro, 2007)

Year*	Overall budget (millions of Baht)	Central Fund (millions of Baht)	Central Fund/overall budget (%)	Ministries budget/overall budget (%)
1996	843,200	89,379	10.6	84.4
1997	925,500	86,071	9.3	85.1
1998	830,000	78,850	9.5	84.2
1999	825,000	76,725	9.3	80.3
2000	860,000	76,540	8.9	78.6
2001	910,000	86,912	9.6	77.4
2002	1,023,000	183,841	18.0	67.6
2003	999,900	147,634	14.8	69.1
2004	1,028,000	265,826	25.9	62.8
2005	1,200,000	200,190	16.7	65.6

* The government budget in 2001 was allocated by the previous government, the Chuan Government

The Central Fund was the strategic fund of the TRT Government. It allowed the Prime Minister to spend easily without the parliament approving, which was different from the ministries' projects. Therefore, this fund was directly allocated to the important projects which the TRT announced in its electoral campaign, for instance, the village funds and the provincial cluster strategy (Suehiro, 2007).

In summary, Thaksin increased his *de jure* political power by reforming the bureaucratic system. This bureaucratic reform was the largest transformation of the bureaucratic system since King Rama V radically reformed and modernized Siam in the mid-19th century. Impressively and interestingly, Thaksin achieved this only a few years after he gained power.

5.2.2 *De facto* political power

5.2.2.1 The source of Thaksin's *de facto* political power²⁰

To understand the *de facto* political power of Thaksin and his cronies, according to the analytical framework, the resources distribution before the TRT Government needs to be discussed briefly.

As mentioned previously, the impressive economic performance since the 1960s caused the expansion of the middle class in Thailand. Given the importance of banker capitalism, the new middle-class economy is generally based on the real sector rather than the financial. This new sector includes telecommunications, industry, entertainment and media, and a range of other services (Brown & Hewison, 2004). Thaksin is one of the new middle class, who has accumulated his *de facto* political power since the 1990s when he succeeded in his telecommunications empire, became one of the wealthiest men in Thailand and started his political career in 1994.²¹ The great turning point was the East Asian economic crisis of 1997. Although most Thai businesses suffered heavily as a result of the crisis, Shinawatra's businesses are the few success stories of local survivors. Ukrist (1998) shows that there were only two out of 11 telecommunication companies which still gained a profit in the stock exchange in the first nine months of 1997. One, and also the highest, was the Thaksin's Company, with profits of about USD 96 million, while the other was the Jasmin Group, whose owner, Adisai Potharamik, later became a Member of the Cabinet in the TRT Government.

As a survivor, Thaksin's *de facto* political power was comparatively strong. Then, he planned to enter fully into the political sphere by founding the TRT Party in 1998. Pasuk and Baker (2008) state the importance of politics in Thaksin's businesses, in that the Shin Corporation – the largest of Shinawatra's businesses – could continually enjoy a huge rent during the crisis period since it is monopolistic and its interests were defended by its owner, who had expanded his political role.

5.2.2.2 The TRT Government and other independent institutions: some evidence of *de facto* political power

²⁰ The success of Thaksin in business and in entering politics is well and vastly documented (see Basuk and Baker, 2004; Ukrist, 1998; McCargo & Ukrist, 2005). This part of the thesis merely discusses some of the important points briefly.

²¹ Thaksin served as Minister of Foreign Affairs in the Chuan Government; however, this was only for a short period of time.

The simplest form of *de facto* political power is brute force. “A particular group will have considerable political power when it has armies and guns to kill other groups when policies do not go its way” (Acemoglu & Robinson, 2006a, p. 21). Fortunately, *de facto* political power also includes so-called soft methods, such as negotiating, lobbying and bribery. Hence, it is very difficult to evaluate *de facto* political power because the concept itself is rather comprehensive. However, since Thaksin is a businessman and politician, focusing on the softer methods is more appropriate than examining the use of brute force.

Under the rules of the 1997 Constitution, the *de jure* political power of the Prime Minister is quite strong in relative Cabinet Ministers and representatives in the House of Parliament. Nevertheless, this does not mean that the 1997 Constitution provides unlimited political power for the Prime Minister. Other constitutional institutions are designed to check and balance the power of the Prime Minister (see Connors, 1999; Pasuk, 2001; Ransan, 2005).

Due to his *de facto* political power, however, Thaksin had control over other constitutional organizations. Thaksin has been heavily criticized by civil society for monopolizing politics. The arguments generally concern his bribery and lobbying to buy other politicians and politicize senators as well as other independent institutions (Thitinan, 2005). Since there are a number of cases in this issue, this paper will explore only some of the larger ones, which are significant in indicating the *de facto* political power of Thaksin and his allies.

One of the most obvious cases is the method which the TRT used to increase its number of seats in the House of Representatives. Thaksin used an external growth tactic to sustain and support his political power by merging and acquiring smaller parties into the TRT one by one. In fact, the TRT merged with the SP in September 2001, the KWT in early 2002 and finally the CP in September 2004. As a result, the TRT had a total of 328 seats in the House. This was a sufficient number to block a vote of no confidence against Thaksin as Prime Minister, since the 1997 Constitution requires at least 40% of the House to start the process.

As explored in the previous sector, the external growth tactic was effective because the new electoral system prefers large parties to small ones. However, the new electoral rules only support the tactic; they are not sufficient to encourage the small parties to merge. Thus, other methods are required to complement the new rules. For example, the newspaper stated that the TRT had to spend about 30 million Baht per head (Kom Chad Luk, 2007). Similarly, Ransan (2005) states that the TRT had to expend about 100,000 Baht monthly per head on their politicians in order to stabilize the party. Money was not the only soft method; Jermsak (2010) suggests that some politicians joined the TRT because they had an illegal individual status and were threatened with oppression by the TRT government.

The other case concerns the upper house. Under the 1997 Constitution, a senator must be elected and cannot be a member of a political party. However, many senators obviously had a personal connection to the political parties, especially the TRT. For example, Suchon Chaleekrua, who was elected as the Senate Speaker, is a relative of Thaksin's wife. It was widely accepted that Suchon was elected because the TRT paid and lobbied other senators to support him. Although it is difficult to find concrete evidence for this case, some witnesses were still available. For example, Jernsal Pinthong and Nipon Visithyuthisart, Senators at that time, seriously criticized the lack of transparency of the election. Later, this case was not only part of the reason for the anti-Thaksin movement; the Constitution Jury also used it as a case for disbanding the TRT in 2007.²²

The implication of the two cases mentioned above is that although the 1997 Constitution does not provide power for Thaksin to control the political market and the Senate House, he still used other methods - bribery, threats and lobbying - to take them over. In other words, Thaksin was strong in term of both *de jure* and *de facto* political power.

5.3 Economic institutions and economic performance under Thaksin

Any evaluation of economic performance under Thaksin is a controversial and debatable issue. Since there are many aspects to the economic institutions and economic policy established by Thaksin, sometimes called "Thaksinomics", the evaluation would be different depending on which feature is assessed. For example, in terms of the macroeconomy, Ammar (2003) argues that the TRT was successful in recovering the macroeconomy since the economic growth during the TRT period was comparatively high in relation to other periods following crises. In this respect, he values Thaksin's populist projects, which effectively promoted domestic consumption. In contrast, Warr (2010) disagrees with this conclusion and suggests that from a regional perspective Thailand's rate of recovery was moderate; higher only than that of Indonesia, while lower than all its other neighbours. For him, the problem lies in the region-wide decline in investor confidence and says nothing about the country's specific causes. In other examples, the debate concerns the success and failure of populist projects. Patana (2010), for instance, explores both the positive and negative sides of three main populist projects: the healthcare scheme, village funds and the "One Tambon One Product" (OTOP) approach (a *tambon* being a district). The evaluation of these projects

²² However, it makes sense to argue that the Constitution Jury was also highly politicized after the coup in 2006.

heavily depends on whether the policy assessments are carried out on a short-term or long-term basis.

However, since the TRT Government was mainly a product of the 1997 Constitution and partly the East Asian economic crisis, this thesis suggests investigating the economic institutions and performance based on these regards. In other words, the evaluation should be based according to the criteria of the ideology of the 1997 Constitution.

Thaksin and the TRT offered a new policy package to Thai society. Sometimes, these new patterns of economic institutions and policies are called “Thaksinomics”. According to Pasuk and Baker (2004, p. 100), “Thaksinomic is a shift toward the ‘developmentalist’ view that in catching-up economies, government has to play a positive role in protecting and promoting firms and sectors to overcome the disadvantages of competing against a more advanced economy”. Consistent with this argument is Apichart’s (2007) highlighting of the main features of the TRT’s policy as a state-led approach and interventionism.

Among all the interventionist policies, the most obvious one is probably the populism policy. Thaksin stimulated the economy by spending on many populist projects, such as the 30 Baht healthcare scheme, a cheap loans programme (the village funds) and agrarian debt relief.²³ The TRT’s populism policy was well-matched with the Thai socio-economic context after the 1997 crisis for two reasons: firstly, most of the Thai people, including capitalists, white and blue collar urban areas, and farmers in the rural areas, suffered terribly from the crisis and called for concrete help from the government (Ammar & Somchai, 2007; Pasuk & Baker, 2008).

Secondly, the state was also active in promoting competitiveness through its industrial policy. Lauridsen (2009) suggests that Thaksin was more concerned about the international competitiveness of industries at both the meso and micro level than the previous Prime Minister. He initiated the formulation and implementation of an industrial policy to upgrade competitiveness based on a knowledge-based economy. In this respect, he tried to establish a systematic approach; for instance, world class professionals were hired as consultants. The government also chose winners amongst the strategic and potential sectors, such as tourism, fashion, food, computer graphics and automobiles (Pasuk & Baker, 2004). In addition, many schemes which promoted local and small entrepreneurs were introduced, e.g. the OTOP

²³ For a brief review of populist projects see Looney (2003).

project, which was based on the assumption that specialization in a single product would provide opportunities for localities to compete in the national or world market. Venture capital funds were also established and cheap loans were provided to local small and medium enterprises (SMEs) to upgrade their capacities. Apichart and Duanmanee (2005) argue that all of these schemes were designed to be the new sources of growth for Thailand.

The role of the state was also obvious in the process of credit allocation. Pasuk and Baker (2004) state that in the early part of his term Thaksin hoped that the private bankers and the stock market would take the role of credit allocation. However, due to the economic crisis, Thaksin failed to push the bankers to extend credit, while the stock market still performed poorly. Then the TRT Government chose to bypass these roles. Thaksin assigned one of his own people, Viroj Nualkae, as the Manager of the Krung Thai Bank, one of the largest state banks. After that, he asked the Krung Thai Bank (as well as other state banks) to expand their credit. The state financial institutions' share of the credit significantly increased from 27% in 2000 to 35% in 2003. The role of the state bank was more notable when considering that they expanded credit by 112% in 2002 and 96% in 2003, while other commercial banks accounted for only 75% of the net increase in credit in 2002 and even decreasing to 19% in 2003. Unsurprisingly, the Krung Thai Bank played a crucial role in this process, e.g. about 80% of the total credit allocation in 2002 was provided by the Krung Thai Bank.

Consistent with the historical institutionalist approach, as already mentioned, the 1997 Constitution designed a strong state which, on the one hand, would have the autonomy and capabilities to launch a new economic policy; on the other hand, the state has to have the capability to put such a policy into practice. For the first characteristic, it was obvious that Thaksin succeeded in launching a number of public policies. Some scholars have conducted an in-depth investigation of the policy-making process from a historical perspective and concluded that the TRT Government represented the first time in Thai economic history that a political party had orientated a national development policy.

For the second characteristic, the issue is less clear. Lausiden (2004) argues that the failure of the government to implement an industrial policy is a major cause which explains why Thai industry missed opportunities to upgrade itself in the 1990s. At the end of his article, Lausiden hopes that institutional change under Thaksin, i.e. the bureaucratic reform, would help to solve the problem. Recently, however, he has reevaluated his expectations and found that the result has been a mixed record of success, vision and systematic thinking with

increased industry relevance, and failure, delays and inconsistencies. From his point of view, this was a “mixed record that did not qualify as an effective industrial upgrading policy comparable to those found in the Asian NICs at a corresponding stage of development” (Lausiden, 2009, p. 249).

However, it is fair to argue that the state under Thaksin was relatively strong in the context of Thai economic history, especially regarding the state under the elected government. Although it was not as strong as the states in other East Asian countries, it was strong enough to, at least, formulate its own development policy.

5.4 Towards developmentalist elites and rent seeking

As argued from the historical institutionalist perspective, Thaksin shifted relatively towards the developmentalist elites. He became a developmentalist symbol, similar to President Lee Kuan Yew of Singapore (McCargo, 2005). However, rent seeking is also considered as the other main part of the activities of Thaksin and his cronies.

Rangsan (2005) exploits the neoclassical political economy approach and suggests that it is better to understand Thaksin and the TRT as an economic man which always maximize their utilities because, with their background as businessmen, they would never have introduced any policy which eroded their business interests, especially when considering that their major business originated from the government concession. Ukrist (2005) argues that the main reason why Thaksin and his allies entered politics was because they wanted to reduce the risk for their businesses, which were naturally high risk and demanded a great deal of capital investment.

As Thaksin was a politician, the economic institutions under him were a combination of private interest and vote-gain maximization strategies. To maximize private interest, the TRT mixed neoliberal policy, such as privatization and liberalization, with nationalist schemes which were economic, statist and protectionist. The criteria for such policies were whether they gained advantages or not (Rangsan, 2005). Changing regulatory law in favour of Shinawatra’s businesses was also a common tactic. For instance, the new regulatory law for telecommunications established by the TRT was critiqued for favouring the existing company in the market - Shincorp - while preventing new competitors entering the market. Another example occurred when Shincorp took over the television station ITV.²⁴ After Shincorp took over, the licence fee was cut, and the limitation on entertainment programmes during prime

²⁴ ITV was the only independent channel in Thailand at that time. It was originally established because of the political crisis in 1992.

time was changed from 30% to 50%. These changes brought a sudden benefit to the owner of ITV of at least 17 billion Baht.²⁵

Rent-seeking behaviours were also seen in the agricultural policy. Although Thaksin massively changed some of the measures of the agricultural policy, such as agricultural price guarantees and government auctions, which had been the main method for politicians to seek rent for a long time, these changes merely redistributed the rent in favour of the politicians and those enjoying their patronage. Nipon (2009) conducted in-depth research on this issue and has found that Thailand on average lost 35 billion Baht per year during the period of the TRT Government.

Let us now turn to the vote maximization strategy, a populist project which was heavily criticized as a method for enhancing the popularity of the TRT in rural areas. It is true that some of the populist projects, such as the 30 Baht healthcare scheme, had greatly benefited poor people in both urban and rural areas. However, the projects could probably not have been sustained in the long run. The main reason is that Thaksin considered his popularity as the first priority, while tending to ignore other conditions such as tax reform, demographic factors and target groups. In other words, TRT populist projects were usually poorly designed and researched (Ammar & Somchai, 2007).

Although populist projects have not been supported by many economists, the perspectives of the voters are different. Many studies confirm that the populist projects, especially the healthcare scheme, are one of the decisive factors for voters (Walker, 2008). Moreover, Engvall (2009) has empirically tested the cause of political polarization in Thailand and finds that populist policies, i.e. the healthcare scheme and cheap loans (the village fund), are the major driving force for political polarization between the pro- and anti-Thaksin groups in recent years.

The other important aim of the 1997 Constitution was to promote good governance and fight corruption in Thailand. Many mechanisms are designed to check and balance the power of the strong executives, especially the Prime Minister. However, such mechanisms were likely to fail, as most of the independent constitutional institutions, especially the National Counter Corruption Commission (NCCC), were highly politicized and in disarray (Thitinan, 2003). This is because Thaksin's *de facto* political power had also expanded hugely during this period, as previously highlighted.

5.5 Conclusion

²⁵ The details of these cases are well documented in Pasuk and Baker (2004, Chapter 7). Other rent-seeking behaviours by Thaksin's cronies are also explored by Nelson (2006).

This chapter utilized Thaksin and the TRT Government as an empirical case to support the analysis of political institutions in the previous chapter. As explored here, the TRT Government enjoyed strong political power, which was derived from *de jure* political power. Due to this authority, the government started to reform the state and its institution in many aspects. The most important one was bureaucratic reform.

According to Acemoglu et al. (2005), in order to understand how economic growth was established, *de facto* political power needs to be explored. This chapter argued that Thaksin and his allies obtained both *de jure* and *de facto* political power and took control of other spheres of political power which are not determined by the political institutions. Thaksin could effectively expand his *de facto* political power through bribery, threats and lobbying due to his abundant political and economic resources.

Regarding the second research question (i.e. Under the new political institutions, how does the state determine its economic institutions and what are the economic outcomes of these institutions?), there are two perspectives which help us to understand the economic institutions and economic performance in the Thaksin period. In line with the historical institutionalist approach, the Thai state was relatively strong compared to its historical context. The state had shifted towards being developmentalist, although it was still far from the original model of strong state in East Asian countries. Some economists believe that shift was the “right direction” in which to move to promote economic development (Apichart, 2007).

As the neoclassical approach would suggest, however, the high level of state intervention also generated the rent-seeking behaviour. Thaksin and his cronies combined economic policy, through which they gained advantages, with populist policy, which enhanced Thaksin’s popularity in the rural areas. Therefore, corruption and conflicts of interest were concern in the Thaksin period. This was partly because Thaksin’s *de facto* political power eroded the forces of checks and balances which had also been designed by the 1997 Constitution.

One important aspect of economic institutions is the distribution of the resources. This chapter partly touched on the issue when exploring the rent-seeking behaviour of the TRT Government. A more comprehensive picture will be discussed in the next chapter.

Chapter VI: Resource distribution after the 1997 crisis: the battles of the middle classes

6.1 Introduction

On 19 September 2006, the end of Thaksin and the TRT Government arrived. Although Thaksin had obtained both *de jure* and *de facto* political power, the regime was destroyed by the simplest but also the most powerful forms of *de facto* political power: guns and tanks. The coup also brought the end of the 1997 Constitution.

In a political manner, the coup and the political chaos generally relates to the role of royalist elites, the military and the monarch. For example, Thongchai (2006) implicitly argues that the coup was the response of the Thai elites who were afraid that Thaksin would become a kingmaker. Similarly, Kasian (2007) directly states that the 2006 coup was indeed the coup for the monarch. Another view states that the essence of the coup was the counteraction of the royalist elites and bureaucratic polity to state reform under Thaksin (Apichart, 2007; Suehiro, 2007). More importantly, however, the middle class also played a crucial role in this process. As Pasuk and Baker (2008) have pointed out, the military would never have succeeded in throwing out the elect if the rich and the middle class had not supported the coup.

Unlike the previous period, the middle-class consensus could not stabilize the political condition at that time. After the coup, political polarization ran deeper in Thailand. Roughly, the polarization concerns the conflict between the rich urban and the poor rural areas. Traditional discourse suggests that the poor usually lack information and are easily bought by politicians, while the rich are well-educated and they know how politics should be conducted. However, recently, several scholars have pointed out that the picture has already changed. For example, Keyese (2010) exploits ethnographic and longitudinal research to find that nowadays the poor are no longer the villagers; they have developed to become more cosmopolitan since the 1980s. Similarly, Engvall (2009) suggests that the driving force for political polarization in Thailand is the different preferences for economic policy among voters, while the level of education is a poor variable for explaining political behaviour. In line with this argument, anthropologists find that policy was the decisive factor for voters in the rural areas when voting for a candidate (Walker, 2008).

While generally agreeing with the interpretations above, this thesis intends to stress critically the interpretation by Pasuk and Baker (2008), Engvall (2009) and Walker (2008). The argument is that the distribution of resources was the decisive factor which changed the dynamics of the *de facto* political power and finally had a direct impact on the political institutions.

To explore the above argument, this chapter will be divided into six main parts. The next part will identify the group which was taking a major part in the conflict; the third part will investigate the pattern of the distribution of resources since the post-1997 crisis, especially under the TRT Government; the fourth part will analyse the political crisis; the fifth section will briefly comment on the overall impact on long-term economic growth; and the final part offers a summary.

6.2 Identifying the middle classes²⁶

Banjaree and Duflo (2008) argue that developing countries have their own socio-economic contexts, which are different from those of the developed world. Hence, Banjaree and Duflo have used household income data from 13 developing countries from all the regions in the world to define the group of the middle classes. According to them, in developing countries the middle classes could be identified into two groups: the upper-middle class, who usually live in the urban areas, and the lower-middle class, who usually live in the rural regions. They are called middle class because their living standards are higher than the poverty line.

The patterns of consumption - food, education, entertainment, investment in education, health care, etc. - of the two groups of the middle class are quite similar. However, the major differences between them reflect earning and living. The upper-middle class averagely has a higher income than its lower counterpart. Although both of them are less likely to depend on the agricultural sector, those in the urban middle class tend to have more secure jobs, which are normally salaried or involve relatively larger entrepreneurial activities, than those in rural areas, who usually have short-term contracts and informal work or relatively smaller entrepreneurial pursuits such as selling groceries and running telephone booths. The upper-middle class also has easier access to credit, good education and health care, while the opportunities for those in the lower-middle class are quite limited.

6.3 The redistribution of resources during the post-crisis period

6.3.1 The upper-middle class

Although people who do not like Thaksin come from various groups, most of them are from the urban middle class (Ockey, 2007; Pye, 2008). Corresponding to the definitions above, one study finds that, on average, these people are salarymen/women, professionals and business owners (Apichart, 2010).

²⁶ This part is very much influenced by Nidhi (2008a, 2008b, 2008c, 2008d).

As mentioned previously, the 1997 economic crisis was the most harmful event in Thai economic history. However, for the upper-middle class, the crisis was more than an economic outcome; they had realized the “dark side” of globalization and questioned the neoliberal projects. As a result, a nationalist ideology had spread throughout the middle class (Kasian, 2006). This is part of the explanation for the upper-middle class supporting the TRT in the early period of the TRT Government, since some of the policies were based on a sense of nationalist shame.

The redistribution of resources was not friendly to the upper-middle class in the post-economic crisis. Although economic recovery had improved the upper-middle class in absolute terms, they lost their relative benefits in the economic distribution to capital owners. For example, the economic rent (from land, machinery, etc.) which was the main source of income for the upper-middle class, only very slightly increased after a dramatic fall in the crisis period. In fact, the proportion of economic rent per GDP was only 7% in 2003 compared to 24% in 1998 (Nidhi, 2010).

In contrast, the increase in the proportion of corporate tax from 6% in 1998 to 13% in 2009 implies that the rate of return on capital exponentially increased in the last decade. In the same period, moreover, the wage-rent ratio decreased about 14%.²⁷

It is arguable that the increase in capital also implies an improvement for those in the upper-middle class because some members of the upper-middle class are capital owners, i.e. the small and medium entrepreneurs. In this respect, the upper-middle classes were not the losers but the winners (Banyong, 2009).

It is true that, as capital owners, the upper-middle class gained some benefits. However, this is in absolute terms. In reality, their benefit was relatively small because income in the business sectors has become extremely concentrated after the economic crisis. According to Table 6.1, for 2005 the top 10% of highest revenue companies share about 85.61% of the total revenue in the business sectors, while the rest (90%) share only 14.39% of the revenue, of which 80% of middle-income companies share about 14.18% and the bottom 10% has 0.001%. The distribution amongst firms has become worse over time. In 2007, the top 10% of firms held 89.02% of the income for the business sector, while the share for the remaining 90% of firms was only 10.98%.

In terms of revenue growth, the top 10% firms’ performance was also impressive. In 2006, their revenue growth was 12%, while the 80% middle-income firms and the 10% at the

²⁷ The law data are from Prachachart Turakij (2010) but the calculation was carried out by the author.

bottom show 3.77% and 3.37%, respectively. In 2007, only the top 10% of companies has a positive growth rate (5.27%), while the growth for both the 80% middle and 10% bottom companies has contracted (-16.30% and 15.83%). Theoretically, the concentration of income is closely related to a high power of monopoly, which is derived from two sources: efficiency and politics. In the Thai case, Duenden (2009) blames politics rather than prizing efficiency, especially under the TRT Government, with which the Office of the Trade Competition Commission (OTCC), big business owners and government officers were closely connected. In turn, the high power of monopoly negatively affected the wage-rent ratio. Piriya (2005) scrutinizes the relation between nominal wage, labour productivity and a firm's mark up, then concludes that monopolistic Thai firms usually mark up their price and pass the profits as capital rather than wages.

Although it is difficult to prove decisively that the unfavourable conditions for the upper-middle class were caused by the TRT Government, the upper-middle class has perceived it in that way (Apichart, 2010). This is not only because of Thaksin's rent-seeking behaviour but also because the TRT concentrated heavily on populist policy. The upper-middle class had easy access to credit, good education and the healthcare system. They therefore gained less from the populist policy and criticized those policies for wasting public resources which were taxed from their income.

Table 6.1: The income of companies in Thailand for 2005-2007 (Duenden, 2009)

Proportion of Revenue (percent)			
Year	2005	2006	2007
Total	100.00	100.00	100.00
Top 10%	85.61	86.63	89.07
Middle 80%	14.38	13.36	10.92
Bottom 10%	0.0101	0.0080	0.0070
Top 10%/Bottom 10%	8,443	10,800	12,734
Annual Revenue Growth (percent)			
Total	17.18	11.64	2.39
Top 10%	-	12.96	5.27
Middle 80%	-	3.77	-16.30
Bottom 10%	-	3.37	-15.83

6.3.2 The lower-middle class

The rapid economic development since the 1960s not only created the middle class, as mentioned in Chapter II, but also affected the structural economic changes in rural agricultural society, especially in the poorest agricultural areas in the North and Northeast regions. The economic boom since the 1980s has accelerated this structural change process. The industrializing process has attracted young workers to migrate from the agricultural sector. Some of them sought higher paid jobs while some opted for education. During 1980-2000, there were at least 4.6 million young workers who left the rural agricultural sector (Baker, 2000; Ammar, 2004).

However, those who migrated from the agricultural sector have not been completely cut off from their original roots. Some of them became seasonal agricultural workers who rotate between city and village while others have permanently moved to the more modern sectors but still remit their income back to their families in the rural agricultural areas. Pasuk and Baker (2008) suggest calling this group the informal mass, as nowadays they account for about two thirds of the population of Thailand. They were also the main supporters of Thaksin and the TRT. As their name implies, the informal masses usually work in informal sectors, which involves insecure work. Credit constraints are one of their major problems due to their relatively low status and income. Moreover, health and education are relatively expensive for them. In Banjaree and Duflo's (2008) words, they are the lower-middle class, while their lives are still vulnerable.

Several studies have already mentioned that the TRT populist policy – the healthcare scheme, cheap loans, educational welfare, etc. – were highly appropriate responses to demands (Engvall, 2009; Apichart, 2010; Pasuk & Baker, 2008). This thesis totally agrees with this, while wanting to provide some indicators to support the argument. Warr (2010) argues that it is a mistake to believe that Thaksin was good for the rural poor. According to him, the poverty-reducing power of the growth under Thaksin was not much different from that of other periods; indeed, it was less than the Thai historical standard (see Table 6.2).

Table 6.2: Thailand's poverty incidence and growth for 1998-2004 (Warr, 2010, p. 170)

Period	Annual reduction in aggregate poverty incidence (per cent of population per year)	Annual rate of real GDP growth (per cent per year)	Aggregate poverty reduction per unit of real GDP growth	Rural poverty reduction per unit of real GDP growth
1988-1996	3.5	9.2	0.380	0.429
1996-2000	-1.1	-2.9	0.372	0.491
2000-2002	2.9	3.4	0.853	0.1073
2002-2004	2.1	6.6	0.318	0.409
1988-2004	2.1	6.1	0.344	0.289

However, Warr is mistaken when he looks at the poverty reduction because, as mentioned, the people who gained from Thaksin were the relatively poor. Hence, an inequality indicator should provide a better picture. According to Table 6.3, the difference in the proportions of income between the 20% richest and the 20% poorest in Thailand significantly decreased from 13-fold to 12.1-fold during the TRT Government period. If we simply assume that the informal masses account for two thirds of the Thai population, they will belong to the three bottom groups. Obviously, all of these three groups were better off. During 2001-2005, the third-richest group had increased its share of income from 11.5% to 12.4%, while the fourth richest and the poorest groups shares increased from 7.8% to 8.0% and 4.2% to 2.5%, respectively. Although in the last year of Thaksin's office all of these three groups saw their income share significantly drop, they could blame this on the political crisis and the coup.²⁸

²⁸ Interestingly, the data also support the analysis for the upper-middle classes, although the income share of the urban middle class (the second richest and some of the richest group) was rather constant in the Thaksin period. However, as mentioned, they lost in relative terms since most of the income favoured capital rather than labour. Also, among capital owners, the benefit was highly concentrated on large firms rather than medium and small ones.

Table 6.3: Proportion of income in Thailand (per cent) for 1986-2006 (Ammar, 2007)

Income group	Year												
	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Richest 20%	55.9	54.4	57.0	59.0	57.2	56.5	56.1	58.2	57.5	55.2	55.9	54.9	56.5
Group 4	20.0	20.6	19.5	18.9	19.7	19.9	19.8	19.3	19.8	20.5	20.1	20.2	20.1
Group 3	12.1	12.4	11.7	11.1	11.7	11.8	12.0	11.4	11.5	12.2	12.1	12.4	12.2
Group 2	7.7	8.0	7.5	7.1	7.4	7.6	7.8	7.2	7.3	7.8	7.7	8.0	7.7
Poorest 20%	4.4	4.6	4.3	4.0	4.1	4.2	4.3	3.9	3.9	4.2	4.2	4.5	3.5
Richest/Poorest	12.8	11.9	13.3	14.9	14.1	13.5	13.1	15.0	14.5	13.0	13.2	12.1	15.9

According to Table 6.4, the Northeast and North per capita annual income rose by 47.49% and 56.35%, respectively, during 2001 to 2006, which was higher than the national average (46.54%). Compared to the previous government, the TRT could claim credit for this. During 1995-2000, the income per capita in both these regions increased by 6.85% and 3.98% respectively, which was lower than the national level (12.24%).

Although income per capita in all of the regions, except Bangkok, also rose higher than the national average during 2001-2006, the increase in both the North and Northeast regions was significant because historically they had been ignored. It should be noted that the South region is special in Thai politics since South people strictly follow the Democrat Party (DP). Due to the evidence above, it is reasonable to argue that the lower-middle class, especially in the North and Northeast regions, gained relatively under the distribution of resources under Thaksin.

Table 6.4: Household income by region for 1995-2006 (NESDB; the percentage changes have been calculated by the author)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	% (1995 - 2000)	% (2001 - 2006)	% (1995 - 2000)
Total	70,474	76,847	78,093	75,594	75,026	79,098	81,915	86,322	92,960	101,086	109,563	120,037	12.24	46.54	70.33
Northeast	23,940	26,228	26,952	26,474	24,153	24,861	24,742	26,795	29,298	31,347	32,699	36,492	3.85	47.49	52.43
North	35,054	39,331	39,994	40,588	37,287	37,501	37,925	41,801	45,687	48,744	52,982	59,294	6.98	56.35	69.15
South	54,587	58,138	58,720	60,593	54,984	56,193	55,703	60,864	66,848	75,031	80,579	90,697	2.94	62.82	66.15
East	128,170	144,660	154,236	149,826	137,698	151,437	162,443	179,695	201,103	221,510	255,523	290,837	18.15	79.04	126.92
West	53,847	58,973	28,830	57,846	57,206	58,202	61,143	66,322	70,825	76,236	81,819	90,273	8.09	47.64	67.65
Central	81,781	95,356	98,820	101,474	100,303	114,193	116,180	125,841	143,254	155,584	165,141	181,933	39.63	56.60	122.46
Bangkok	200,874	213,775	213,556	197,990	212,364	225,171	232,786	232,919	240,838	258,581	275,366	289,715	12.10	24.46	44.23

6.4 The battles of the middle classes

The end of peasant society and the emergence of the upper-middle class significantly changed the way in which the latter engaged in politics. Some of them started to realize that national politics directly affected their lives and, in turn, that it would be necessary to use politics to solve their problems (Nidhi, 2010). However, they could not exploit their comparative advantages as the majority who had determined the result of the election because the previous political institutions could not promote strong government. Moreover, they were also weak in terms of *de facto* political power since economic institutions favour and are biased towards the urban and modern sectors rather than the rural and agricultural.

On the other hand, the urban middle class was comparatively powerful. Although they were the minority who had less *de jure* political power, they were relatively powerful in terms of *de facto* political power as an outcome of the rapid economic growth since the 1960s. They could lobby and pressure the government through the media, academics and economists (Rangsan, 2001). In this respect, Anek (1996) generates *A Tale of Democracies* theory – the rural poor established the government while the urban middle class controlled and abolished it – which is a powerful explanation of the politics over two decades.

However, under the reformed political institutions, the lower-middle class could utilize its comparative advantage through sheer number. It was the first time in Thai history in which relatively poor people could exploit their political power to determine that the economic institutions favour their economic interests. Although the lower-middle class gained only marginally, it was enough to strength their *de facto* political power. Acemoglu and Robinson (2006b) suggest that people might expect their policy to be favoured in the future if they once have sufficient political power to place pressure on the regime. Applying it in this case would show the following: the Thai lower-middle class realized that their *de jure* political power (as voters) was strong enough to determine their economic interests; thus, they became united in terms of Thaksin supporters. This fact implies that they had more power to place pressure upon other forces in society since they are large in number.

In contrast, the urban middle classes were the relative losers. On the one hand, they lost through the distribution of resources after the economic crisis. On the other hand, their *de facto* political power has been decreased relative to the power of Thaksin and his cronies, as explored in Chapter V, and that of the lower-middle class mentioned above. The decline in their *de facto* political power has been found implicitly in Thaksin's behaviour, such as ignoring the media and academic critiques. Finally, the upper-middle class turned to support the most powerful *de facto* political power, the military guns and tanks, in order to eliminate the previous political institution and set up a new one.

As this thesis argues, the main driving force of the political conflict lies in the distribution of resources in the post-crisis period, especially the Thaksin period. On the one hand, economic benefits were highly concentrated on large-scale capitalism and its allies: the lower-middle classes. On the other hand, the upper-middle class seems to have been the relative loser in this game. However, the problem could easily have been solved by simply reallocating the resource. As Engvall (2009, p. 1) suggests, "neither reversals of institutional changes nor policy reversals are effective for stopping negative cycles of increased polarization".

The "real problem" of the conflict indeed relates to *the commitment problem* (Acemoglu et al., 2005). The main stage of the battle is in the political sphere since the promises of the existing regime to redistribute resources in the future are not guaranteed for both groups. On the one hand, the 2007 Constitution, which was designed to prevent people like Thaksin gaining too much power (Kasian, 2007), is not fully creditable for future lower-middle class benefits. On the other hand, it is the only way to sustain a regime which provides the upper-middle class with its privileges. Therefore, a compromise is very difficult to achieve in the current situation.

6.5 Implications for long-term economic development

Several studies have already explored the impact of political crisis on economic growth. There is the consensus that the Thai economy has not been healthy since the crisis: foreign investment has stalled, the tourist sector has been weak, there is insufficient domestic demand, as well as unclear and even faux economic policies (Bhanupong, 2010; Robinson, 2010; Warr, 2010).

All of the above, this thesis blames on poor institutions. As intuitionists suggest, institutions such as the rule of law, good governance, conflict management, strong government and bureaucratic capacity greatly affect the overall economic performance. Although the 1997 Constitution provided some of these, it failed to provide many others.

Inspired by the idea provided by Acemoglu et al. (2006c), this thesis would suggest new political reform. However, to avoid the pitfalls of institutional reform, Thai society should be concerned with the dynamics of the middle classes. The desired regime should provide not only an effective state, but also equality among the social classes.

6.6 Conclusion

In relation to the third research question (How do the middle classes respond to these outcomes and what are the implications for institutions and long-term economic growth?), this chapter has exploited social conflict theory to analyse the reactions of the middle classes to the state under the Thaksin regime. The main argument is that the economic institutions under Thaksin could not serve the interests of the old powerful groups while benefiting the newly-emerging middle class in society. Finally, this conflict has become the worst political crisis in modern Thai history. The thesis also suggests that the problem will be extremely difficult to solve if the dynamics of the Thai middle classes are still ignored.

At the end of this chapter, this thesis now suggests that new reforms are needed to provide a new set of political and economic institutions which will balance effectiveness and equality in Thai society.

Chapter VII: Conclusion and recommendations

7.1 Conclusion

The aim of this thesis is to explore the role of the state and the middle class and their impact on economic performance in the context of Thailand, specifically in the period after the 1997 economic crisis. In a nutshell, Thailand had rapidly modernized its economy since the 1960s and had become a part of the “East Asian Miracle”, although poor institutions, bureaucratic polity and money politics were also established. However, this miracle ended in 1997 when the East Asian economic crisis occurred.

Undoubtedly, the 1997 economic crisis has negatively affected Thai society in various ways. Most Thai people, whether capitalists, bankers, white- or blue-collar workers or farmers, suffered heavily as a result of this crisis. Besides the economic aspects, the economic crisis also significantly influenced the political factors. Amongst others, one of the crucial outcomes has been the reform of political rule and the 1997 Constitution. This thesis has examined the significance of these changes and firstly asked the questions the “What are the impacts of the economic crisis and the 1997 Constitution on the state and its institutions?”

Corresponding with the question above, this thesis has found that the East Asian economic crisis affected the state and its institution in the sense that it opened up the opportunity for the state to reform itself; the result was the 1997 Constitution. In line with the historical institutionalist approach, this reforming constitution was designed to generate a strong and effective state, which would have the autonomy and capability to function even though it was working against powerful societal actors, especially provincial politicians, interest groups and bureaucratic polity. As a result, strong executives are desired and Thaksin and the TRT Government was the concrete picture of this intention.

Theoretically, political power is the decisive force which determines economic institutions. Therefore, two questions should be focused upon: how does the state determine its economic institutions and what are the economic outcomes of these institutions? Using Thaksin and the TRT Government as its case, this thesis suggests that the results were mixed. On the one hand, from the historical institutionalist approach perspective, it generated a relatively strong and effective state which was able to establish new economic developments, although it was not as strong as the original model suggests. Thaksin and the TRT Government had shifted towards being developmentalist in many respects, i.e. the state intervened extensively through populist projects, credit allocation, and industrial policy.

On the other hand, the theory of neoclassical political economy has been proved, since a high degree of state intervention tends to encourage rent-seeking behaviour. In this respect,

Thaksin and his cronies combined economic policy, from which they gained advantages, with populist policy, which enhanced Thaksin's popularity in the rural areas. It should be stated that Thaksin could easily seek rent because his *de facto* political power had increased over the period of his time in power. The independent constitutional institutions were under his control, even though he had no *de jure* political power to do this.

The last question of this thesis concerns the distribution of resources. In line with some previous research, this thesis argues that nowadays the majority of Thai people could be roughly categorized into two groups: the upper-middle classes and the lower-middle classes. They tend to have different sets of preferences for economic institutions due to their different socio-economic conditions.

The economic institutions under Thaksin and the TRT Government favoured only their own interests and those of their supporters, the lower-middle class, while ignoring the upper-middle class. As the social conflict approach suggests, since any conflicts of interest have to be negotiated in the political sphere, the redistribution of resources led to conflict and finally to the current political crisis in Thailand.

Poor institutions cannot generate strong economic performance. Thus, there is the need to reform the political institutions based on the dynamics of the Thai middle classes in order to establish a new set of institutions which could provide effectiveness and equality in terms of both political and economic resources.

7.2 The implications of the thesis

There are at least three implications regarding this study. Firstly, it explored how political institutions affect economic institutions and economic performance and how these relate to each other in the Thai case. Secondly, regarding the controversy among theoretical approaches, this thesis shows that, as with similar topics, the use of various theoretical approaches can help us to gain a more comprehensive picture, if we are aware of their strong and weak points and carefully apply them. Finally, although the main arguments of this thesis are not completely original in the context of Thai study, some empirical parts support the existing argument well.

7.3 Limitations and suggestions for further work

There are three main limitations of this work. Firstly, this thesis is limited to theoretical approaches. Hence, it is possible to ignore some other significant explanatory variables such as civil society and international factors. The period scoped for this study is also rather short, thus, a very long-term perspective may be lacking. Finally, this thesis partly emphasizes fresh

events, especially the political crisis. The analytical process is, therefore, likely to be incomplete due to many unknown factors.

In turn, the limitations above provide some recommendations for future research. In the future, other theoretical aspects should be considered to bridge the gap. Moreover, the scope of the time period should be expanded and comparative studies carried out. Lastly, when the crisis in Thailand has been solved, re-evaluation and interpretation will be necessary.

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