ABSTRACT

Over the last half century, Thailand has been one of the fastest growing developing countries. This article reviews the causes of that growth. It deals both with the immediate factors, in a growth accounting framework, and with the underlying social and political factors. The author reaches the conclusion that a dynamic entrepreneurial class together with a supportive state were the key elements in Thailand’s rapid and efficient accumulation of production factors. Although in this respect Thailand is similar to a small number of other East Asian countries, the Thai case also has a number of unique characteristics.

INTRODUCTION: THE THAI MIRACLE

Despite the severe crisis that hit the country in 1997, the second half of the twentieth century was an exceptionally successful period for the Thai economy. Between 1950 and 2000 the average annual growth rate of real GDP was 6.6 per cent, resulting in a twenty-fold increase in total output and a seven-fold increase in per capita GDP (see Table 1). Other development indicators also suggest a significant improvement: life expectancy at birth increased from below fifty in the early 1950s to sixty-eight at the beginning of the new century. Infant mortality decreased from 103 per 1000 births in 1960 to 26 per 1000 in 1995/96. Primary school enrolment ratios, already high in the 1950s, increased further to the point of universal primary education, while secondary and tertiary enrolment ratios increased substantially (Koo, 1998; Lubeck, 1998; World Bank, 2000a).

This excellent performance is remarkable because it came so suddenly and so unexpectedly, and because it was so much better than that of other developing countries. There had been very little growth in the century preceding 1950: over the period 1870–1950 Asian countries, with the exception of Japan, saw hardly any improvement in the GDP per capita (Tipton, 1998: 12). For Thailand, the growth rate of per capita income over that period averaged just 0.2 per cent per year — a modest growth over the period 1870–1913 was followed by stagnation in the subsequent years (Manarungsan, 1989).
For other Asian countries it could be argued that colonialism prevented development, but Thailand remained independent. Ingram (1971) explains the stagnation over this period in terms of the lack of investment incentives. The entrepreneurial class consisted of European and Chinese merchants who exported their profits rather than investing them domestically; throughout this period, Thailand ran a trade surplus to finance the profit transmissions. The international treaties that bound Thailand into the regional colonial economy prohibited the high import duties that could have created a market for domestic industry; it also limited government revenue, resulting in under-investment in infrastructure. Furthermore, it was difficult to find cheap urban labour as the availability of new lands enabled the Thai people to stay in the rural areas; urban labour demand had to be satisfied by the immigration of Chinese workers. It was only after the European trading houses had closed down during the Second World War, and after local Chinese merchants were cut off from the fatherland after the communist victory in 1949, that an entrepreneurial class emerged which was willing to invest in Thailand.

The growth was also unexpected. In the 1950s and 1960s most observers were rather gloomy about Asian development prospects. In 1968 Myrdal published his large and rather pessimistically-entitled study, *The Asian Drama* (Myrdal, 1968). In those years it was believed that Asia lacked the factors necessary for growth. Most countries were poorly endowed with natural resources, their labour forces were not well educated, and capital was scarce so that modern technology remained beyond reach. Traditional attitudes were also considered an obstacle for modern development (Tipton, 1998: Ch. 10). All of these assumptions turned out to be mistaken: natural resources were far less important to growth than had been assumed, shortcomings in education were overcome, and a rapid capital accumulation took place, financed by high domestic savings and by foreign funds. Attitudes turned out to be far less traditional, or far less rigid, than assumed.

Thai growth was also remarkable in that it was so much better than that of the developing world as a whole. Over the period 1961–91 the growth rate of real GDP was 7.5 per cent per year for Thailand, against an average of 4.9 per cent for all developing countries (Jansen, 1997: 8). Over the second half of the twentieth century in Asia only Japan, Korea, Taiwan, China and

### Table 1. Main Economic Indicators

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<tr>
<td>Growth rate real GDP</td>
<td>5.4</td>
<td>8.0</td>
<td>7.1</td>
<td>7.3</td>
<td>8.5</td>
<td>-2.4</td>
</tr>
<tr>
<td>Savings/GDP ratio</td>
<td>11.5</td>
<td>20.6</td>
<td>21.8</td>
<td>25.1</td>
<td>34.1</td>
<td>31.0</td>
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<tr>
<td>Investment/GDP ratio</td>
<td>13.6</td>
<td>20.8</td>
<td>23.8</td>
<td>28.6</td>
<td>40.7</td>
<td>24.3</td>
</tr>
<tr>
<td>Inflation rate</td>
<td>5.1</td>
<td>2.2</td>
<td>8.0</td>
<td>5.8</td>
<td>5.1</td>
<td>4.7</td>
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*Source: Ingram (1971: 222); data from NESDB and Bank of Thailand.*
Singapore had higher growth rates than Thailand (Jansen, 1997: 8; Tipton, 1998: 12). So, although remarkable, the Thai performance was not unique. A small number of other Asian countries show a similar, or even better, long-term record. Thailand is thus part of a small elite of mainly East Asian countries.

This performance, and particularly the growth boom since 1987 when Thailand was the fastest growing economy in the world, drew attention which has resulted in a large number of books.¹ These books provide varying perspectives on economic development in Thailand, each emphasizing different aspects of development or different factors underlying the economic performance. This article aims to pull the arguments together and to review the roots of the Thai miracle.

The article is organized as follows. The next section looks into the mechanisms of growth. Detailed growth accounting has suggested that East Asian growth has been due more to a rapid increase of inputs of production factors than to increases in productivity. That observation does not take away the miracle — how did East Asia manage to rapidly and efficiently accumulate while other developing countries failed to do so? — but it does raise the question about the sustainability of such growth in the face of diminishing returns. Nonetheless, this article reaches the conclusion that productivity growth was substantial in East Asia, and certainly in Thailand. Since the growth accounting approach is too superficial to say much about the factors that underlie growth, the subsequent section reviews the social and political environment in which Thai growth has taken place and concludes that factors like entrepreneurship and the interaction between entrepreneurs and the state are crucial to the understanding of the economic outcomes. This is followed by a discussion of the benefits and the cost of rapid development and their distribution over the various groups in society. For many it appeared that the Thai miracle came to an end in July 1997 when the collapse of the Thai baht gave the start to the Asian Crisis. The final section of the article briefly analyses whether this crisis is just a hiccup in the growth process or whether it is the end of a period.

**SOURCES OF GROWTH: SCRATCHING THE SURFACE**

A first approach to the explanation of growth uses growth accounting based on the production function. According to the production function changes in output are determined by changes in the quantity or quality of production

factors (labour, capital) and changes in the efficiency with which these production factors are used (or total factor productivity, TFP). TFP growth is caused by two elements: (a) technical progress, i.e. the introduction of more productive technologies, and (b) the change in the efficiency of input use (see World Bank, 1993). An increase in efficiency can result, for instance, when production factors shift from less productive sectors (such as agriculture) to more productive sectors (such as industry).

The publication of two papers by Young (1994, 1995) led to an intensive debate about the sources of growth in East Asia. Young argued that high growth was not so much due to increased productivity but rather to a rapid accumulation of production factors. In a detailed study of the four newly industrializing countries (NICS — Taiwan, Hong Kong, Korea, Singapore), Young showed that TFP growth made only a small contribution to total growth. In Singapore, especially, TFP growth had been around zero (Young, 1995). Another paper, covering a wider sample of countries but using simpler methods, produced similar findings (Young, 1994). The contribution of TFP to growth in East Asian countries over the period 1960–85 varied from 2.5 per cent in Hong Kong to 0.1 per cent in Singapore (ibid.). The message is thus that East Asian growth is due to the rapid growth of inputs: (a) population growth in East Asia is declining rapidly but labour force participation has increased sharply, thus increasing labour inputs; (b) the quality of labour has increased as a result of high investment in education; (c) high rates of saving have enabled a rapid accumulation of capital. These contributions explain most of the growth that occurred; the contributions of technical progress and increased efficiency have been limited.

Collins and Bosworth (1996) make a similar growth accounting study for East Asia and their results largely confirm the findings of Young. According to their calculations, the contribution of TFP growth to annual growth over the period 1960–94 ranges from highs of 2.6 per cent for China and 2.0 per cent for Taiwan, to a low of −0.4 per cent for the Philippines. Their result for Singapore, at 1.5 per cent, is considerably higher than that of Young (1995). Sarel (1997) analyses growth in the ASEAN countries, and reaches estimates of TFP growth ranging from 2.23 per cent for Singapore to −0.78 per cent for the Philippines. The World Bank (1993) also tends to find higher estimates for TFP growth in East Asia. The different outcomes of these various studies can be attributed to differences in the period covered, differences in data sources, and differences in methods used.

The results of the studies of Young have been used to argue that East Asian growth is not sustainable. As growth is mainly based on factor accumulation, it will — at some stage — inevitably run into diminishing returns

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2. As mentioned above, TFP growth is caused by two elements: (a) technical progress, i.e. the introduction of more productive technologies, and (b) the change in the efficiency of input use. The former cannot be negative, but the latter can (see World Bank, 1993).
and will then decline (Krugman, 1994). However, this view may be too pessimistic. First, TFP growth does exist and makes an important contribution to East Asian growth. For the East Asian countries included in Young (1994), TFP growth accounts for about 30 to 50 per cent of total growth of output per worker, with the exception of Singapore where it contributes only 2 per cent. In the sample of Collins and Bosworth the contribution of TFP growth ranges between 24 per cent and 36 per cent of total growth of output per worker, with the exception of the Philippines where TFP growth is negative. Second, it should also be noted that TFP growth in East Asia is significantly higher than in other regions of the developing world. Collins and Bosworth (1996) calculate an average TFP growth of 1.1 per cent per year for East Asia, against 0.8 per cent for South Asia, 0.2 per cent for Latin America, –0.3 per cent for the Middle East, and –0.6 per cent for Africa. It would thus seem justified to conclude that TFP growth in East Asia, both in relative and in comparative terms, has been substantial. Third, the East Asian countries are late developers. A significant part of the improvement in productivity arises from the introduction of already existing technologies and best practices. In view of the very large gap in the level of productivity between advanced countries and most of East Asia, there is still a lot of catching up to do.

Nelson and Pack (1997) propose another way of measuring the relative performance of the East Asian countries. They estimate a Barro-type growth equation (see Barro, 1991) for a large sample of countries. In this equation growth of per capita GDP is explained by (a) initial GDP relative to the USA, (b) initial primary school enrolment ratio, (c) population growth, and (d) the average investment/GDP ratio over the period. This method does not require any assumptions about the underlying production function. The estimated equation, reflecting the average experience in a large group of countries, can be used to predict growth for each country, and this predicted growth can then be compared to the actual growth that took place. Nelson and Pack (1997) find that actual growth rates of Korea and Taiwan substantially exceeded the predicted values. The World Bank (1993) does a similar exercise and finds that for Hong Kong, Indonesia, Japan, Korea, Malaysia, Taiwan, Singapore and Thailand actual growth was substantially higher than that predicted from the cross-country growth equation. The 1960–85 per capita growth predicted for Thailand on the basis of the cross-country regression equation was 2.51 per cent per year, but actual growth over the period stood at 3.82 per cent (see World Bank, 1993: Table 1.9).

Table 2 summarizes the findings of growth accounting studies for Thailand. The various studies measure different concepts of growth. Tinakorn and Sussangkarn (1996 and 1998) study growth of total output, Sarel (1997) growth of output per capita, and Young (1994) and Collins and Bosworth (1996) growth of output per worker. The sources of growth are capital accumulation, increased employment of labour, the increased quality of the
labour input, and TFP growth. The various studies show that productivity growth made a considerable contribution to the growth of output per worker; the estimates range from around 20 per cent to around 50 per cent of total growth per worker.

In the East Asian comparative perspective the contribution of TFP to growth is relatively large for Thailand. Of the seven East Asian countries covered in Young (1994) Thailand ranked second with respect to the contribution made by TFP to growth per worker over the period 1970–85; among the seven countries covered in Collins and Bosworth (1996) over the period 1960–94, Thailand ranked third. As mentioned above TFP growth comes from improved technology and higher efficiency. The strong contribution of TFP growth can be explained by the relatively high efficiency of the Thai economy. Thailand is a fairly large economy, with a relatively small and non-interventionist government, as well as being a very open economy with relatively low levels of protection. As a result, competition is strong, which forces firms to be efficient. The TFP growth also reflects the technological catching up that has taken place. As Thailand lacks indigenous technology generating capabilities, the introduction of new technologies is carried out by foreign investors or through the importation of capital goods.

Table 2 shows that in all studies, capital accumulation makes the greatest contribution to growth. Table 1 shows that the investment ratio increased sharply from a low level in the 1950s to very high levels in the late 1980s and 1990s. Domestic savings have, in general, followed the investment trends. In the 1950s, 1960s and 1970s savings were dominated by household savings, but since the mid-1980s corporate savings (and government savings) have become more important. This reflects the progress of corporatization of the economy: the role of the small household-based firms, which are the main

<table>
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<tr>
<th>Study</th>
<th>Period</th>
<th>Growth Concept</th>
<th>Growth Rate</th>
<th>Capital Accumulation</th>
<th>Labour Input</th>
<th>Quality of Labour</th>
<th>TFP Growth</th>
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<tbody>
<tr>
<td>Young (1994)</td>
<td>1970–85</td>
<td>Output per worker</td>
<td>3.7</td>
<td>1.8</td>
<td>1.9</td>
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<tr>
<td>Collins and Bosworth (1996)</td>
<td>1960–94</td>
<td>Output per worker</td>
<td>5.0</td>
<td>2.7</td>
<td>0.4</td>
<td>1.8</td>
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<td>Sarel (1997)</td>
<td>1979–96</td>
<td>Output per capita</td>
<td>5.24</td>
<td>2.13</td>
<td>1.09</td>
<td>–</td>
<td>2.03</td>
</tr>
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<td>Tinakorn and Sussangkarn (1996)</td>
<td>1978–90</td>
<td>Output</td>
<td>7.6</td>
<td>2.9</td>
<td>2.0</td>
<td>1.5</td>
<td>1.2</td>
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<tr>
<td>Tinakorn and Sussangkarn (1998)</td>
<td>1981–95</td>
<td>Output</td>
<td>8.12</td>
<td>5.04</td>
<td>0.96</td>
<td>0.84</td>
<td>1.27</td>
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source of household savings, is diminishing while that of the larger corporations is increasing.

Over the fifty years under discussion here, there were two periods when investment significantly outran domestic savings — 1979–84 and 1989–96. In these periods large inflows of foreign capital helped to push up investment rates and, initially, also growth. But both periods ended in crisis. In the 1980s the crisis was not too serious, just a growth recession, but after 1997 there was a severe contraction of the economy (see Jansen, 1997, 2000).

Throughout the period foreign investment has made a contribution to capital formation in Thailand, although at a lower rate than in other ASEAN countries such as Malaysia or Indonesia (see Dixon, 1999: 129). In the early 1980s the stock of inward DFI in Thailand was equivalent to 4.9 per cent of GDP, against 29.6 per cent in Malaysia, 10.9 per cent in Indonesia and 7.7 per cent in the Philippines (Dunning and Cantwell, 1987). After 1986, however, there was a sharp increase in the DFI inflows. The investment figures may underestimate the importance of foreign capital, first of all because they ignore the re-investment of profits and the debt-financing by foreign firms, but also because they do not reflect the technology and efficiency that multinationals bring to a country. Of the largest 1000 firms in 1980 (ranked by sales), just over a quarter (278) had a foreign involvement, but these firms accounted for 51 per cent of total sales of the 1000 firms (Tambunlertchai, 1993: 136).

The growth of the labour force is another important source of growth (see Table 2). The total labour force increased from 13.5 million in 1960 to over 33 million in the late 1990s. It is remarkable that, whereas the share of agriculture in GDP declined from around 50 per cent in the 1950s to around 10 per cent in the 1990s, the share of agriculture in employment only fell from over 80 per cent in the 1950s to around 60 per cent in the 1990s. Dixon (1999: 19) gives a table with data for eleven Asian countries: Thailand’s share of agriculture in GDP is the second lowest, but the share of agriculture in employment is the second highest. Even if one takes into account possible misreporting, the agricultural labour force remains exceptionally large. This reflects the low productivity in agriculture (see below) but also suggests that the rural areas operate as an employment sink.

The large agricultural labour force also helps to explain the very high labour force participation of women: over the years the female participation ratio has been over 70 per cent (Tipton, 1998: 349). Even in municipal areas the ratio is over 50 per cent (Bauer et al., 1993: 86). The female participation ratio in Thailand is exceptionally high — in East Asia, only China has a comparable ratio while all other countries have much lower ones (Cheng and Hsiung, 1998: 115; Tipton, 1998: 349). Some of the most dynamic sectors in the economy (textile and garments, electronics, tourism) depend heavily on female labour.

Female participation in the labour force was facilitated by the very rapid demographic transition that took place in Thailand. The crude birth rate
declined from forty-six in the early 1950s to nineteen in the late 1990s, the crude death rate from nineteen to six (Dixon, 1999: 18; Koo, 1998: 236–7). With these rapid changes Thailand now has one of the lowest rates of population growth in Asia. Another effect of the demographic transition is the sharp decline in the dependency ratio: the share of the population in the age groups 0–14 and 60+ in total population declined from around 50 per cent in the 1950s and 1960s to around 35 per cent in the late 1990s (Koo, 1998).

Many studies correct the labour input for improvements in the quality of labour. Through improvements in health, education and experience the quality of the labour force increases. These investments in human capital are also a form of input into the production process (making labour more productive) and are thus a source of growth (see Table 2). Sarel (1997) does not make this correction. He offers two arguments. First, not all education is investment. Education is also undertaken for the satisfaction that it offers (consumption) and the educational system may be more a selection device, selecting smart people, than an investment device, making people smart. The second argument is that TFP growth measures increases in technology, efficiency, knowledge, skills. Taking the knowledge and skill part out of this would underestimate TFP growth. To put it simply: if you buy sophisticated machines and patents but do not train and educate the workers, the machines cannot be very productive. Similarly, though, if you educate the labour force but do not give them machines and technologies to work with, the returns on education will be negligible. The new technologies, in the form of new machines and new knowledge, can only be effectively utilized when it is complemented with an educated labour force. Thus, TFP growth and the growth of the quality of labour are difficult to separate.

The quality of the labour force can be measured by its educational attainments. The expansion of primary education had already started in the 1960s; from then on it accelerated, and by the 1980s primary education was almost universal. The share of the labour force with more than primary education increased from 5.6 per cent in 1972 to 12.2 per cent in 1984 (Sussangkarn, 1993: 374). However, secondary school enrolment ratios remain low in Thailand. In 1986 the secondary enrolment ratio stood at 29 per cent of the relevant age group, compared to ratios of more than 60 per cent for countries like Malaysia, Philippines and Singapore (Khoman, 1993; Koo, 1998: 255). The main reason is that a large share of the population live in rural areas, where it is costly to provide secondary education. Parents face the high cost of education which, together with the long distance to school, the low quality of education and the lack of relevance of the curriculum, discourages participation, particularly in rural areas (Khoman, 1993). The ability to pay is a significant determinant of the access of children to good quality schools. In this way education has become a major channel by which existing income differences are confirmed and deepened.

During the boom years Thailand found that it lacked the educated workforce necessary for the new types of activities. From 1991 the government
launched programmes to increase secondary schooling and to expand university education, including allowing private universities to open (Phongphaichit and Baker, 1998). The programmes met with some success: in 1997–98, the enrolment ratio at lower secondary level had increased to 72 per cent and at higher secondary and vocational education to 47 per cent (World Bank, 2000b). Even at those levels, however, ratios are still below those of comparable Asian countries.

The growth accounting exercises reported in Table 2 look at the input of labour and capital, but land as a production factor is ignored. It may be justified to do this for most countries where the land area is fixed, but to do so for Thailand misses an important aspect of Thai growth. Since the opening of the economy in the mid-nineteenth century, growth in Thailand was the result of an increasing population taking available new land under cultivation, mainly for the growth of paddy. Between 1850 and 1950 the population increased from 5.2 million to 19.8 million and the area under cultivation increased from around 800,000 ha to over 5 million ha. In 1950, between 80 per cent and 90 per cent of this area was used to grow paddy (Manarungsan, 1989).

After 1950, the cultivated area continued to increase to about 20 million ha in the early 1990s, of which just above 50 per cent was used for paddy (Phongphaichit and Baker, 1995: 53). This diversification away from paddy is an important aspect of agricultural growth after 1950. Many new crops were introduced, reducing the vulnerability of the economy to the ups and downs of the rice market. Importantly, crops were introduced that could be grown on the drier uplands, thus creating income earning opportunities in more remote and poor regions of the country. There are indications that this process of expansion is coming to its end: it is increasingly difficult to find new land suitable for cultivation, not least because there is a growing concern for the remaining forest cover.

The extensive nature of agricultural growth has had a number of important effects on the pattern of development in Thailand. The availability of new land, first of all, allowed people to stay in the rural areas. This helps to explain the unusually high proportion of the labour force active in agriculture that was noted above. Thailand is one of the least urbanized countries in the world (Dixon, 1999: 20; Warr and Nidhiprabha, 1996: 32).

The availability of new land also implied that agricultural output could grow without much investment. The government invested in irrigation and roads, but irrigation remained limited: of the 20 million ha of cultivated land in the 1990s only 4.6 million ha were under irrigation (Dixon, 1999: 163). Furthermore, many irrigation schemes were not effective because they were poorly maintained or because the water was used for urban/industrial uses rather than irrigation. Since investment in agriculture remained limited, funds were available for investment in other sectors. In fact, the agricultural sector, particularly rice production, was taxed to extract a surplus that could
be used for investment elsewhere in the economy (Dixon, 1999; Siamwalla et al., 1993).

One of the consequences of this relatively low investment in agriculture was that yields remained rather low. In 1950, rice yields (kg/ha) were comparable to those in other Southeast Asian countries, but they have lagged behind since (Dixon, 1999: 155). Yields on other crops have grown only slowly and are lower than elsewhere in Southeast Asia (ibid.). Compared to other Asian countries, the proportions of land under irrigation and used for high-yielding varieties are relatively small and fertilizer use limited (Douglas, 1984; Osotsapa, 1987; Wong, 1979). On the other hand, Thailand has experienced a faster increase in acreage than these other countries (Osotsapa, 1987).

SOURCES OF GROWTH: DIGGING DEEPER

The previous section explained the mechanisms of growth. Success for East Asia and for Thailand, relative to other developing countries, lay in the fact that the accumulation of physical and human capital was much more rapid, and that productivity growth was much higher (Collins and Bosworth, 1996: Table 7). But the real question is why factor accumulation was so much more rapid and productive than in other countries. The story so far still misses the main actor — the entrepreneur who brings the production factors together to produce goods or services for which s/he expects there will be a market. Entrepreneurial activity is characterized by uncertainty and entrepreneurs are only willing to undertake the risk if they feel confident that conditions are favourable. Government policies are instrumental in creating such favourable conditions. The ‘secret’ of the East Asian success stories is that they found an effective way of interaction and co-operation between business and the state (Haggard, 1998).

Studying the experience of the successful East Asian countries has led to two conclusions. The first is that there is no ‘East Asian miracle’, rather there are several, different, stories of East Asian countries, each of which had its own path to success. But — and this is the second conclusion — these cases had a number of elements in common (Rowen, 1998; Tipton, 1998; World Bank, 1993):

1. Economic success driven by dynamic private entrepreneurs: whatever the role of the state — and there were wide differences between countries in the extent of state intervention — the state played that role by interacting with private firms. The dynamism of business groups is also reflected in the high level of domestic savings. It should be noted that high savings are as much the result of high growth as a cause of it. Most of the savings are the profits of corporations and of household businesses: as firms do well in the growing economy, their profits rise.
Rapid financial development has provided mechanisms to channel savings to the most productive uses (but also resulted in high debt-equity ratios which brought insolvency to many firms during the Asian crisis).

2. Stable macroeconomic conditions: people are only willing to save and invest when the macroeconomic environment is stable. East Asian governments managed, in general, to keep inflation low and exchange rates stable.

3. Openness: growth in developing countries is import-intensive. Industrialization requires the importation of machines and technology; agricultural growth requires the import of inputs in the form of seeds, fertilizer and pesticides, and agricultural equipment; rising incomes create demand for imported consumer goods. East Asian growth was, to a considerable extent, driven by exports which generated the foreign exchange earnings to pay for these imports and so avoid foreign exchange shortages. There was also a considerable openness to capital flows. East Asian countries differed in the extent to which they depended on direct foreign investment, but all of them received aid, particularly in the earlier periods, and borrowed abroad to add to investment funds.

4. Investment in human capital: growth creates employment opportunities, but these can only be utilized productively if the labour force has some minimum standard of human capital (education and health).

Since these points are relevant to understanding the Thai experience, it is worth examining them more closely.

**Entrepreneurs and the Role of the State**

Entrepreneurial talent in Thailand was concentrated in the Chinese community. Bringing few possessions, these people had come to Thailand from poor regions of China. Given the availability of land, the majority of the Thai were unwilling to come to the city to work for low wages: it was left to the Chinese immigrants to form the urban workforce. Over time, some developed into shopkeepers and traders and gradually they came to dominate domestic and international trade. The Chinese traders were an important element in the expansion of the rice economy before 1950. Many were engaged as tax farmers for the government. Over the same period, a small number of Chinese families emerged that dominated the rice trade and went on to become the major corporate dynasties of Thailand (Phongphaichit and Baker, 1995). The Chinese traders were part of close networks, within and outside Thailand, usually based on language group or region of origin in China. These networks were very important in the organization of international trade and international investment.
Thailand is unusual among developing countries in that it was never a colony; nonetheless, the country was strongly affected by the colonial experience. The pressures of colonial powers in neighbouring countries forced Thailand to sharply delineate its previously diffuse borders and to develop a centralized bureaucracy to control the land within them (Winichakul, 1994). Moreover, treaties with the colonial powers forced Thailand to open up to international trade and put limitations on the types and rates of taxes that were acceptable. These treaties severely constrained the ability of the Thai state to raise taxes or to develop local industry.

The political system that emerged was relatively simple. The elite, composed of King, court and bureaucrats, ruled the peasants. The Chinese, who constituted the urban merchant and working class, were allowed to get on with their work but not to organize politically. The focus of the elite was on the control of the people and the defence of the country’s independence rather than on economic development.

The 1932 Revolution represented a significant turning point, replacing the absolute monarchy with a constitutional one (Hewison, 1997). This was a struggle within the elite, involving elements opposed to the absolute and highly personalized monarchy, and unhappy with the policies that were undertaken to combat the Great Depression. The leaders of the 1932 Revolution stated that one of their objectives was to advance the welfare of the people and debates emerged on how that could best be done. In 1933 one of the leaders, Pridi Banomyong, published a plan for a National Economic Policy that contained many radical proposals for economic and social reform that would substantially increase the role of the state in the economy (Banomyong, 1999). Conservative forces made sure that few of these plans materialized. The 1932 Revolution was strongly nationalist and concerns were expressed about the Chinese domination of the economy. The Chinese were banned from some occupations, Chinese schools were curtailed and state enterprises were established to compete with Chinese business. These measures were not, however, sufficient to put an end to Chinese business — not least because Chinese businessmen could ‘buy’ support from high officials to continue their business (Kunio, 1994).

By the late 1950s this nationalist development model was abandoned, largely because many of the state enterprises were inefficient and running at a loss, and did not bring the rapid development that the political leaders were hoping for, in view of the communist threat in the region. There was also substantial external pressure from the World Bank and from the USA, Thailand’s major ally and source of aid (Kunio, 1994). State enterprises were disbanded or privatized with only a relatively small number remaining, mainly in the areas of public utilities and public transport.

The political system that emerged consisted of the military holding political power, the bureaucracy running the country, and private business running the economy. The accommodation found between the business class and the state elite gave (Chinese) business groups a free hand in running
their business in exchange for perks for the state elite. The state provided sound macroeconomic policies, investment in education and infrastructure, control of labour and low prices of food and thus created the favourable conditions for private business to invest and expand.

The democratic interlude of 1973–76 opened up this political system. It was a restless period in which student groups, trade unions and farmers’ groups were actively fighting for their interests. This attack on the capitalist system was dealt with by forceful repression which came to its height in the bloodbath of October 1976 when the military took power again. But this period is important because it changed the relationship between the state elite and private business. In the 1973–76 period, political parties had emerged and after 1976 the practice of regular elections was continued. The governments that were formed after elections were coalitions of military/bureaucratic forces and political parties. However, Thai democracy is far from pluriform: elections are dominated by money and political parties represent business interests. These political shifts implied that the state-business interaction moved from the corporate backroom to the political arena. Private business acquired greater influence in policy-making, which became more of a distributive game (Hewison, 1997).

A further shift came in 1988 when, for the first time, a government took office composed entirely of elected politicians without the traditional representation of the military and bureaucratic elite. The military coups of 1991 and 1992 tried to restore the old order but their failure seems to signal the end of an era. Political power has shifted to political parties representing business interests.

Phongphaichit and Baker (1997) distinguish ‘metropolitan’ business and ‘provincial’ business. The metropolitan business groups are made up of large corporations in and around Bangkok, engaged in manufacturing for export or the domestic market or in the financial sector. They are exposed to international competition and to international investment and require a stable and rational management of the economy. Provincial business emerged from positions of power in provincial towns and often involves the construction industry. Provincial business is more focused on patronage, short-term profits, and capturing rent incomes. In the 1990s provincial business came to dominate the political parties as their provincial power base gave them control over rural voters.

Pei (1998) describes this process of political change as ‘authoritarian institutionalization’, that is, the gradual emergence of modern political institutions exercising formal and informal constraints through dominant parties, semi-open electoral processes and a legal system that acquires a measure of autonomy. This process would help to increase political stability. Phongphaichit and Baker (1998) note the emergence of civil society as a growing constraint on selfish politicians. However, it would seem that Thailand is still far away from being a participatory democracy. The labour and farmers’ groups that played a role in the 1973–76 period were met with
brutal repression, including the murder of their leaders, and so far no other organized political groups have emerged to speak for the interests of these important segments of the population.

In fact, the coalition between the state and the capitalist class has been very successful in the control of labour. Thailand has a long history of labour repression. The 1975 Labour Relations Law seemed to bring improvement, but its implementation has been stilted and it has been of little benefit to workers (Brown, 1997). Unger (1998) links the absence of effective trade unions to the lack of social capital, but unwilling employers and a repressive government have much to do with it. There is a legal minimum wage but this is irregularly revised and very poorly enforced — some studies suggest that less than one third of firms, covering about half of all unskilled workers, adhere to the minimum wage (Warr and Nidhiprabha, 1996: 87). One compensating factor is the government’s policy of taxing rice: by keeping the local price of rice (the main staple food), low, it has kept the urban cost of living under control.

During the boom of the 1990s the tight labour market exerted an upward pressure on wages. This has led Dixon (1999) to observe that at the end of the 1990s, Thai industry faces the problem that its labour costs are too high for labour-intensive industries but its skill levels are too low for skill-intensive industries.

The East Asian success story has led to an extensive debate on the role of the state in development. Although there is some disagreement on the precise role of the Thai state it is clear that, in the East Asian comparative perspective, the Thai state has been one of the least interventionist. The government sector is relatively small: for the period 1970–97, the ratio of total government expenditure to GDP stood at an average of only 16.4 per cent, low by East Asian standards. This lack of interventionist tendencies is ascribed by some to history. As noted above, treaties that Thailand was forced to sign in the mid-nineteenth century constrained the economic powers of the state by laying down rules for trade and taxes. Free trade was imposed and low ceilings were fixed for export and import duties and other taxes, making it hard for the Thai government to increase its revenues (Ingram, 1971). Moreover, the government was reluctant to borrow abroad or to let international reserves get too low for fear that financial instability would invite foreign intervention.

The result was a government sector that was limited in size, hesitant about investing heavily in the economy, and very cautious in its financial policies, keeping inflation low and the exchange rate stable. Government current spending was mainly on the royal household and on defence, while capital spending concentrated on railways, which should facilitate control over and defence of the territory, and on irrigation. Many investment plans were shelved for lack of funds (Ingram, 1971). This tradition of a small, passive and cautious government continued to influence thinking about the appropriate role of the state after 1950.
Unger (1998) offers another interpretation. He observes the lack of social capital in Thailand and notes that:

...relative absence of cohesive groups within the Thai polity worked against policy deliberations, consensus formation, and the mobilization of broad political support. Cohesive groups within which individuals can reach compromises and foster shared understandings of common problems constitute what social scientists call ‘social capital’. The paucity of social capital in Thailand had the effect of weakening efforts by Thais to cooperate in pursuit of shared goals. (Unger, 1998: 2)

This helps to explain the choice for a market-oriented development strategy rather than one based on state intervention. The state is weak because the society in which it is embedded is atomized. Unger concludes that a weak and fragmented bureaucracy could not control the private sector. There was no political elite with a unified view on the development strategy and no social pressure for redistributive policies. This resulted in only limited government interventions so that the private sector could go its own way and develop along the lines of Thailand’s comparative advantage.

To substantiate his argument for the lack of social capital, Unger (1998) refers to anthropological studies that comment on the individualism of the Thai, on the relative absence of associative structures or regular groups and on the importance of clientism rather than horizontal organizations. These attitudes are reflected in the dominance of relatively small firms, often part of a group around one family, but with relatively few and often ineffective inter-firm organizations like trade unions and farmers’ co-operatives, and in weak co-ordination amongst state agencies. It should be noted, however, that the anthropological studies that Unger refers to are not undisputed. There are other studies that argue that Thai (rural) society has structure and has the ability to cope with and strive for social and economic change (Klausner, 1987; Mulder, 1979; Potter, 1976). Moreover, the Chinese business groups in Thailand are highly organized based on common language or area of origin in China. Obviously, social capital is not a static concept, it can and does change. For instance, a number of business associations have emerged (such as Thai Bankers Association, Federation of Thai Industries, Thai Textile Manufacturing Association) to represent sectoral interests in discussions with the government. Since the 1970s a large number of NGOs have also emerged to represent various common interests.

Phongpaichit and Baker (1998) present another perspective on the role of the Thai state. Behind the rapid growth of the Thai economy, they argue,
are dynamic Chinese businessmen and the rapid integration of Thailand in the regional and global economy, but also a cautious but determined state. Rather than being passive, the state made economic development a crusade and it created the institutional structures for it. Development was considered necessary to deal with the communist threat — communist groups were winning in neighbouring countries and there was communist insurgency in various parts of Thailand. In other East Asian countries a similar threat pushed governments to actively seek economic advancement (Campos and Root, 1996).

To steer the development process a number of offices were created in 1959: the National Economic and Social Development Board (NESDB), the Board of Investment (BoI) and the Budget Bureau. In 1961 the first development plans were published. Phongphaichit and Baker (1998) argue that the development strategy had a stronger focus on agriculture than in many other developing countries. Intensive state investment in roads opened up all parts of the country to commercial farming and investment in irrigation expanded the irrigated area. The taxation of rice helped to bring about the diversification into other export crops. Banks were obliged to reserve a part of their credit for agricultural/rural activities, which ensured the availability of private sector funds to invest in agriculture and agro-business. The industrial policies of the Thai government were far less structured and tariffs remained comparatively low. Tariff structures were haphazard, not the reflection of a coherent industrial policy.

Thus, Phongphaichit and Baker’s denial of the passivity of the Thai government is based more on its agricultural policy than its industrial policy. Even in the agricultural sector, one of the main elements of state intervention was the traditional government task of providing infrastructure. The Thai state never engaged in detailed sectoral policies — it just set overall conditions and let the private sector decide on the details.

Macroeconomic Stability

An aspect of government policy that has had a significant impact on development is the government’s concern for macroeconomic stability. Warr and Nidhiprabha (1996) see this as the main factor underlying Thai economic success. The priority for maintaining macroeconomic stability has historical roots in the colonial period, when the Thai state feared that financial instability might invite external intervention. Hence, very cautious fiscal and monetary policies ensured that international reserves remained high, inflation low and the exchange rate stable. In the period after 1950 political leaders remained concerned about stability. The experience of disruptive high inflation during the Japanese occupation had deepened this concern, as did the example of China where the communists won from the nationalists who could not control inflation. The control of inflation was
also in the interest of the bureaucracy whose fixed nominal income would suffer from inflation (Warr and Nidhiprabha, 1996).

Structures were created to insulate macroeconomic policy-making from the political process by giving it into the hand of independent technocrats. The main institutions involved were the Budget Bureau within the Prime Minister’s Office, the Office of Fiscal Policy in the Ministry of Finance, the Bank of Thailand and the NESDB. These institutions were staffed with well-educated technocrats and were given a high degree of independence. The budget law strictly regulated the budget process. The Budget Bureau, in consultation with the Office of Fiscal Policy, the Bank of Thailand and the NESDB, would set ceilings for budget expenditures in line with expected revenue and politicians could not change these ceilings (Root, 1998; Warr and Nidhiprabha, 1996). The Bank of Thailand was given a great degree of autonomy in deciding on monetary policy. The fact that it had a series of competent and respected governors further increased its autonomy and reputation. In particular Puey Ungpakorn, Governor from 1959 to 1971, worked to establish the independence and reputation of the central bank. On the whole these arrangements have helped to ensure macroeconomic stability: as can be seen from Table 1 above, inflation rates over the period 1950–99 hovered around an average of about 5 per cent per year.

Recently, however, the existing arrangements have not worked so well. Under the democratically-elected governments since 1988 the independence of the bureaucracy and of the economic technocrats has been reduced. The quality of the economic agencies is said to have fallen as, during the boom years, its best staff were lured to the private sector. The NESDB is sidelined in major government investment decisions. It is argued that increased political interference at the Bank of Thailand is one of the factors behind the Bank’s loss of control over the financial system which led to the financial crisis of 1997 (Phongphaichit and Baker, 1998).

Openness

As argued above, the trade treaties that Thailand was forced to sign in the middle of the nineteenth century integrated the country into the regional colonial economy. The role of Thailand in that system was to export rice to feed workers in the colonies. The enforced low import duties opened the Thai market for imports from the colonial powers while free trade made the development of local industry virtually impossible. In fact, many household craft activities were killed by cheap imports (Nartsupha and Prasartset, 1981). Under these conditions, exports became the main source of growth. This experience probably conditioned policy ideas after the colonial period. Phongphaichit and Baker (1998: 62) claim that ‘at the heart of Thailand’s economic policy making there is one long term constant. The policy makers believe that Thailand must grow through trade’. From the late 1950s this
strategy focused on agricultural exports which the government supported by investing in rural infrastructure and irrigation. The rapid diversification in agriculture created many opportunities for processing industries. These export-oriented, natural resource based industries made an important contribution during the early phase of industrialization (see Jansen, 1997: 29). The fact that a significant part of the emerging industrial sector was export-oriented may have helped to keep protectionist tendencies under control.

Industries producing for the domestic market did receive protection, but there was no systematic industrialization strategy and the level of tariffs remained comparatively low. Changes in tariffs were driven more by revenue needs than by changes in industrial policy. Gradually, in the 1980s, the BoI shifted investment incentives towards the export industries, but the big boost for industrial exports came after the mid-1980s when the appreciation of the Japanese yen led to an investment boom of Japanese export industries in Thailand. The trade liberalization in the form of significant reductions of import tariffs came only after that boom, in the 1990s (Jansen, 1997).

Physical and Social Infrastructure

The record of the Thai state in the provision of physical and social infrastructure is not impressive. Investments in ports, roads, transport systems and communications have not kept up with the pace of economic growth (Dixon, 1999). The results are clear. Attempts by the BoI to decentralize industries away from the Bangkok area through incentives failed because firms were not willing to re-locate to regions with inadequate infrastructure. The congestion of Bangkok is world famous. The history of the various plans for mass transport schemes in the city is almost farcical, with plans being discussed and discussed again, contracts being negotiated, annulled and re-negotiated as governments changed and new rent-seeking ministers took over.

The social infrastructure is also far from adequate. As early as the 1890s the government had plans for mass education to impose Thai culture, language and identity on all regions of the country, but lack of resources prevented the spread of primary education to the villages. The project was taken up again in the 1960s, when the fear of communist insurgency increased the need to control the villages. This time it was completed successfully, so that by the 1980s primary education was almost universal (Phongphaichit and Baker, 1998). However, secondary education participation rates are far below regional averages, and below the standards required for a country of Thailand’s level of development. Secondary education, and in particular vocational education, is essential for the development of the modern sector of the economy. Tertiary education enrolment rates are well in line with those of other countries in the region. Thailand thus has an unbalanced educational structure with universal primary education, under-
developed secondary education and well developed tertiary education. This pattern is understandable from a political standpoint: mass education at the primary level extends government control and helps to instil a national identity, and good university education is necessary for the children of the elite. Economically, however, the pattern makes no sense, as Thailand discovered during the growth boom when skilled workers were in short supply. The recent spurt in secondary enrolments are an answer to that need.

The Thai government has also been very reluctant to engage in research and development activities (R&D). Expenditure on R&D, as a percentage of GDP, was the lowest in the Pacific region: in the early 1990s Japan spent 2.92 per cent of GDP on R&D, Korea 2.33 per cent, Taiwan 1.82 per cent, Malaysia 0.37 per cent, and Indonesia 0.26 per cent, while Thailand spent only 0.16 per cent (Barker and Goto, 1998). This percentage includes R&D activities of government, universities and business.

The record shows that, on the whole, the Thai state has been successful in stimulating development. The relatively good performance of the military/bureaucratic elite has been ascribed to a number of factors. The first of these is the ruling class tradition: the elite has been running Thailand for a long time and has a sense of pride at being a good ruler. Moreover, the urgent need for economic development to stem social unrest, particularly in the period when the communist threat was real, motivated the elite. Kunio (1994) emphasizes that the military ruled as an institution, not as individual leaders (as in, for example, Indonesia); the frequent personnel changes at the top prevented the creation of personal empires.

These factors seem to have limited the predatory behaviour that was exhibited by the rulers of some other countries. In discussing the role of the state, a dichotomy is often invoked between the predatory state and the development state. The Thai experience would suggest it is not that simple. The Thai state has significant predatory or corrupt aspects, but either its rulers were not so greedy as elsewhere (Kunio, 1994) or the process included more give and take, with bribes being paid in exchange for policy measures that were required for business to prosper (Root, 1998). It seems that in the 1990s some of these control mechanisms were lost.

THE BENEFITS OF GROWTH

With rapid economic growth, poverty has fallen dramatically. Available statistics suggest that in the middle of the 1970s around 30 per cent of the population lived below the poverty line; by the 1990s that figure had fallen to slightly over 10 per cent (see Table 3). These figures imply that the absolute number of poor people has fallen substantially over the last twenty-five years, very roughly from around 12 million to less than 8 million.

Poverty is a rural phenomenon, with over 90 per cent of the poor living in rural areas. Poverty was, and is, concentrated in the northern, northeastern
and southern regions of the country. Although these regions have grown more slowly than the national average, poverty incidence in each of them has still fallen sharply. In the poorest region, the northeast, poverty incidence fell from 45 per cent in 1975 to 16 per cent in 1994 (Dixon, 1999: 217). The main reasons for this trend are probably the diversification in agriculture which introduced crops that could be grown on the uplands of the northeast (such as cassava), and the fact that, with increased employment opportunities in the centre, remittances have become an important income source in the villages.

Since the majority of the poor are rural and predominantly engaged in agriculture, poverty incidence is highly sensitive to the movement of crop prices and to other shocks to agriculture, such as flooding or drought. For instance, there was an increase in poverty between 1981 and 1986 due to the low commodity prices and droughts in the 1980s. The increase in 1998 is mainly due to the decline in remittances as household members lost their urban jobs during the crisis.

The significant decline in poverty incidence shows that the gains from growth have been widespread, but they have not been evenly distributed: although the poor gained, the better-off gained more and income distribution became more unequal (see Table 3). It has been argued that growth in East Asia has been accompanied by a relatively high degree of equality. Rowen (1998) argues that behind this income equality lies a relatively equal distribution of wealth (in some countries after land reform), the emphasis on universal primary education, and outward-oriented policies which created employment opportunities. These factors have created a relatively equal distribution of primary incomes; most countries have not engaged in active

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**Table 3. Poverty and Inequality Indicators**

<table>
<thead>
<tr>
<th>Year</th>
<th>Poverty Incidence (%)</th>
<th>Gini Coefficient</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Old Poverty Line</td>
<td>Revised Poverty Line</td>
</tr>
<tr>
<td>1962/3</td>
<td>0.414</td>
<td></td>
</tr>
<tr>
<td>1968/9</td>
<td>0.429</td>
<td></td>
</tr>
<tr>
<td>1975/6</td>
<td>30.0</td>
<td>0.426</td>
</tr>
<tr>
<td>1980/1</td>
<td>23.0</td>
<td>0.453</td>
</tr>
<tr>
<td>1985/6</td>
<td>29.5</td>
<td>0.500</td>
</tr>
<tr>
<td>1988/9</td>
<td>23.7</td>
<td>29.9</td>
</tr>
<tr>
<td>1990</td>
<td>18.0</td>
<td>23.5</td>
</tr>
<tr>
<td>1992</td>
<td>13.1</td>
<td>23.1</td>
</tr>
<tr>
<td>1994</td>
<td>9.6</td>
<td>14.3</td>
</tr>
<tr>
<td>1996</td>
<td></td>
<td>11.4</td>
</tr>
<tr>
<td>1998</td>
<td></td>
<td>13.0</td>
</tr>
</tbody>
</table>

*Sources: Based on Socio-Economic Surveys of the National Statistical Office, reported in Dixon (1999: 217–18), Krongkaew (1993: 415), World Bank (2000c).*
re-distribution policies (ibid.). Campos and Root (1996) argue that political leaders in the successful East Asian countries understood that development required the participation of different sections of the population. External pressures, particularly the threat of communism either from neighbouring countries or from local insurgency, induced the leaders to pay attention to the needs of the lower classes in society. This was done partly through land reform and investment in rural education and rural infrastructure. As a result, income inequality declined in most of the successful East Asian countries (Campos and Root, 1996: 9). It is thus noteworthy that, within that group of countries, Thailand has the highest level of inequality and is the only country in which inequality increased over the period 1965/70 to 1981/90. Why does Thailand not fit the regional pattern?

Thailand never had a land reform like Japan, Korea and Taiwan, but the availability of new land implied that tenancy was limited and land distribution fairly even. More than 80 per cent of the land is owner-occupied (Dixon, 1999: 184; Phongphaichit and Baker, 1995: 42), but in many cases the title to the land is unclear which makes it impossible to use land as collateral for loans and thus limits the access to investment funds. Renting land is most common in the Central region, the commercially most advanced agricultural area. Now that the land frontier is closing, the concentration of land holdings may increase.

As noted above, the easy growth of agriculture through the expansion of area and the low level of investment in agriculture have meant that productivity is unimpressive. Yields per hectare are low compared to those in other countries and have grown only slowly; labour productivity has also lagged behind. The Value Added per worker in agriculture (at constant prices) increased from baht 2,600 in 1960 to 5,900 in 1991, while for the total economy Value Added per worker increased from baht 5,200 to 23,800 over the same period (Jansen, 1997: 36). Thus in 1960 the Value Added per worker in agriculture was equivalent to 50 per cent of the national average, but by 1991 that had slipped to only 25 per cent. With such a large proportion of the labour force still dependent on agriculture for income, these trends have a strong negative impact on income distribution.

Government policies have not helped. Through taxation and price interventions crop prices were generally kept below world market levels and the export-oriented agricultural sector also suffered from the protection given to the industrial sector (Dixon, 1999: 145). These policies started to ease in the 1980s. Any full assessment of the impact of policies would also have to look at other government interventions, such as the investment in rural roads and irrigation and subsidized credit for agriculture.

Although agricultural incomes lagged behind the national average, within agriculture there has been a rapid process of change — commercialization, diversification and stratification — leading to substantial changes in the rural income distribution. Douglas (1984) provided a rough breakdown of agricultural classes in the Central Plain: about 30 per cent of the households
are landlords and commercial farmers, another 40 per cent are middle
farmers who have enough land to be self-sufficient, but who are not wealthy
enough to risk innovation. The remaining 30 per cent consists of marginal
farmers and landless labourers. Phongphaichit (1982) studied three villages
in different regions: in the most advanced Central Region village, the top
10 per cent of households controlled 40 per cent of village income. Hirsch
(1990) studied two villages on the border between the Central and Northern
Regions and found that, once they were opened to the market, a rapid
process of stratification took place. The move away from subsistence to
production for the market implied a shift from reliance on local resources
to purchased inputs. The increased role of capital in production and the
increased availability of non-farm income opportunities separated the house-
holds into those with and those without access to funds, entrepreneurial
talent and connections.

As noted above, urban labour market policies have tried to keep workers
docile and wages low. With rapid growth, employment opportunities were
created and real earnings in the manufacturing sector increased, albeit by
less than in most other successful East Asian countries (Campos and Root,
1996: 20). Wages increased further in the 1990s when the boom led to a tight
labour market (Phongphaichit and Baker, 1998: 139).

As in other East Asian economies, the spread of universal primary
education will have had a positive impact on incomes at the bottom of the
income distribution, but incomes at the top rose faster. Campos and Root
(1996) observe that the relative neglect of secondary education may have
increased income inequality. The demand for skilled labour could not be
satisfied, leading to high wages for skilled workers and a wide gap between
wages for skilled and unskilled workers. Moreover, the scarcity of skilled
workers may have induced a shift to more capital-intensive technologies,
reducing employment creation.

The particular pattern of development of Thailand, with a large share of
the population remaining in rural areas and industrial activities strongly
concentrated around Bangkok, gives rise to very sharp differences in regional
income distribution. In 1993 the average per capita GDP in the Bangkok
area was 348 per cent of the national average, against 78 per cent for the
Central Region, 60 per cent for the South, 48 per cent for the North, and
31 per cent for the Northeast. This represents an increase in differences since
1960, especially between Bangkok and the regions. For instance, in 1960
income in the South was still 126 per cent of the national average and in the
Northeast 54 per cent (Dixon, 1999: 215).

The relative stagnation of agriculture and the regional concentration of
industrial activities are probably the main reasons behind the large and
growing inequality in Thailand. Dixon (1999) considers this sectorally and
spatially uneven pattern a main characteristic, and problem, of Thai develop-
ment, resulting in a sharply unequal distribution of income. It is related to
many of the shortcomings of Thai development, such as the inadequacy of
infrastructure, the shortage of skilled labour, the congestion and pollution — all of which make it questionable whether Thai development is sustainable in the longer run. Government policies have not been effective in dealing with these problems and many policies may actually have been regressive. The fiscal incidence is probably regressive rather than progressive and, until recently, policies with respect to agriculture taxed the sector rather than supported it.

The rapid growth of the Thai economy has had considerable costs: one that has drawn attention is the cost to the environment. Commensurate with the expansion of agricultural area has been the loss of forest cover. This has led to a loss of biodiversity, to increasingly frequent floods and droughts, and to soil erosion and river siltation (Bello et al., 1998; Rigg, 1995). After a devastating landslide in 1988, the government banned further logging, but illegal felling of trees is still going on. The traffic congestion and air pollution of Bangkok are legendary, but are part of a wider problem of pollution of water and land which presents serious threats to health. Pollution standards are outdated and poorly enforced. It has even been suggested that the loose environmental controls attract foreign investors who face stricter controls at home (Bello et al., 1998).

CONCLUSION: THE VANISHING SMILE

In July 1997 the Asian crisis broke in Thailand and led to a severe contraction of the economy. At the time of writing (late 2000), output is still below its 1996 level and recovery is hesitant. Some have argued that the breakdown is due to long-standing and structural weaknesses of the economy such as overleveraged companies, poorly managed and poorly supervised financial institutions, using personal contacts rather than rational calculation as a basis for doing business, and corrupt government. Only when these problems are removed, which will take a long time, can growth resume. Others argue that the crisis brings to an end a pattern of growth that was clearly unsustainable as it was based on excessive exploitation of natural and human resources and the environment (Bello et al., 1998).

However, such interpretations may be too dramatic. It is not immediately obvious that an economy which was able to grow rapidly for half a century, and which was the fastest growing economy in the world in the period before 1996, had been suffering from fatal structural weaknesses for all that time. A simpler interpretation of the crisis sees it as part of the normal cyclical pattern of growth, where the unusual depth of the recession is to be explained from policy mistakes and the instability of international finance. The policy mistake was that, when international capital mobility increased with financial liberalization in the early 1990s, monetary and exchange rate policy were not adjusted to deal with the new situation. As a result the
exchange rate became overvalued and exports suffered. Under these conditions the market started to anticipate a devaluation and speculators started to withdraw funds from the economy. When the currency was finally devalued in July 1997 the outflow of funds became a deluge, which had a severe impact on the exchange rate. This led to the collapse of firms and financial institutions with a significant exposure to foreign exchange debt (Jansen, 2000). Under this interpretation, the crisis will lead to a shake-out of firms and financial institutions but, once the debts are cleared, growth could resume.

This article has looked at the complex set of factors underlying the long-term growth performance of Thailand. The growth that has occurred is the outcome of the interaction of these factors and it is difficult to separate one or even a few major determinants of growth. The factors that played a role in the growth process over the last fifty years have been, and are, subject to change and with them the speed and the pattern of growth may change.

Thai economic growth has been driven by a dynamic entrepreneurial class and a pro-business state. Unlike some other Southeast Asian countries, the Chinese business community faced few constraints on their activities and no discrimination. In fact, today Chinese families are strongly assimilated and are fully integrated in Thai society. As Thailand remained independent it did not have to go through the independence struggle and the nation (re-)building process that was so disruptive in some other Asian countries. Thailand enjoyed an unusual political stability, despite the large number of coups and changes of government. Governments changed but the government programme and policy agenda remained the same.

To a large extent, the factors behind rapid growth in Thailand are the same as those which applied in other successful East Asian countries: a high level of savings, investment in education, macroeconomic stability, export orientation, business-friendly government. What makes Thailand special in this group is the absence of the colonial experience, the availability of new land, the relatively non-interventionist government, and the very rapid demographic transition.

The factors underlying Thailand’s growth performance will change in years to come. The land frontier has been reached and future growth of agricultural output can no longer come from the extension of the acreage. This implies that agricultural growth will have to depend on productivity-enhancing investment. The social impact of the closure of the land frontier may well prove more important: as villagers can no longer find new land they will have to seek other employment opportunities. As scarcity increases, the struggle for natural resources will intensify, for instance between those who want to defend the forest, those who want to clear it for land to cultivate, or those who want to ‘reforest’ it with eucalyptus trees; or between those who want to use available water for irrigation and those who want it for urban uses or electricity generation. Reports of such conflicts can be found on an almost daily basis in Thai newspapers. The demographic
transition will also reach its end. Population growth rates are still falling but the dependency burden will start to rise as the average age increases and the problem of a ‘grey ing’ population sets in.

In the 1990s it seems that an end has also come to the competence in macroeconomic management. The political transition to democratically-elected government reduced the independence of the economic technocrats with dire consequences for the stability of the financial system. In particular the reputation of the central bank, a core institution in the macroeconomic policy system, has been severely tarnished and the successful system of monetary policy has been undermined. Throughout the period of rapid growth Thailand adhered to a policy regime of fixed exchange rates: since 1997 the exchange rate has been floating. The Bank of Thailand is working hard to restore its reputation and to ensure its independence from political intervention. As part of this attempt it has now adopted inflation targeting as its monetary policy regime, hoping that the setting of an explicit inflation target and the transparency of the policy-making process will insulate monetary policy from politics.

In a sense, economic growth has been based on the submission and repression of interests of lower income groups, particularly farmers and workers. The political process does not allow their interests to be represented as political parties are dominated by business interests and elections are determined by money and vote buying. However, other forms of organized representation of interest are emerging: NGOs and ad hoc protest groups are not only increasing in number, but are becoming more vocal in protesting decisions that go against their interests.

An obstacle to future growth could be that the modern economy is increasingly technology driven, at present particularly by information technology. With its poor record on secondary and technical schooling and the absence of any serious R&D activities, Thailand seems poorly placed to participate in this new wave.

A number of factors that contributed to rapid growth in Thailand are thus likely to change in the years ahead. This may imply that future growth will be less rapid; it will certainly imply that the pattern of future growth will be different, possibly with more contestation over scarce resources and over the distribution of the gains from growth.

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