✓ Neo-liberalism and State Reorientation: A Case of Thailand

Amornsak Kitthananan*

The neo-liberal discourse of global institutions is a dominant theme of academic analysis of the state, governance and the policy process in the West. However, in some developing countries of East Asia, states have followed a different path from that prescribed by global institutions and neo-liberal orthodoxy. This article uses a recent development in Thailand as a case study. It firstly discusses the domination of neo-liberal development agenda advocated by the international institutions and how this has effected development trajectory in Thailand. It then analyses the way this development linked to the 1997 financial crisis and its aftermath. The article describes and explains how the state has reoriented itself to suit the new condition. It ends with a discussion around the theme of the role of state in development.

1. Introduction

The neo-liberal discourse of global institutions is extremely influential in the West, and a dominant theme of academic analysis of the state, governance and the policy process. However, in some developing countries of East Asia, the intervention of global institutions has been on a large scale yet states have followed a different path from that prescribed by global institutions and neo-liberal orthodoxy. This article addresses (on) this issue and uses the recent developments in Thailand as a case study. The article firstly discusses the domination of neo-liberal development agenda advocated by the international institutions and how this has effected development trajectory in Thailand. The role of international institutions and the types of interventions they have been making are considered. This

* School for Policy Studies, University of Bristol, England

article then analyses the way this development linked to the 1997 financial crisis and how the Thai state has responded. It ends with a discussion around the theme of the role of state in development.

2. Neo-liberalism, Role Of State And Public Policy

It has been over three decades since neo-liberal ideas began to replace the Keynesian orthodoxy, firstly within the Western governments, then have been accepted as a main policy prescription of the international development agencies, and later been transferred into the policy-making of developing countries. Such ideas have established themselves at the heart of the transformation processes that have shaken the primacy of the state in Western industrialised economies. In 1980s, started in UK and USA, the neo-liberal economic policies persuaded many western governments to turn away from statist and redistributive concerns in favour of ideas and policies that emphasised the role of free markets, a reduced role for the state in development, and the promotion of liberal trade and foreign investment policies. In 1990s, we saw the rapid ascendance of neo-liberal regimes in several advanced and developing economies though the promotion of international aid agencies. State and its *modus operandi* became defining not as the solution, but rather as a chief source of several problems in society, and most distinctly poor economic performance (Savoie, 1994). As a consequence, pre-existing Keynesian-welfare strategies for economic management and generalised prosperity have been systematically dismantled as much in the social realm as in the economic.

The basic policy package through which the neo-liberal project had been implemented, often known as the *Washington Consensus* (WC), has been characterised as follows (Standing, 2002): trade liberalisation; financial market liberalisation; foreign capital liberalization (eliminating barriers to foreign direct investment); privatisation of production; deregulation of legal framework; secure property rights; unified and competitive exchange rates; diminished public spending (fiscal discipline); tax reform (broadening the tax base, cutting marginal tax rates, less progressive tax); a social safety net (narrowly targeted, selective transfer for the needy); and flexible labour markets. From these policy discourses, it seems to be necessary for neo-liberals to deploy state power and public authority in pursuit of the superiority of markets, and of individualised and privatised economic relations. This primacy of economic liberalisation and free market explicitly rejected the ideas of the 1960s and 1970s which saw a key role for the state in planning, redistribution and the provision of basic human needs (Leftwich, 2000).

This view were absorbed, elaborated, and reproduced within the international organisations-like the International Monetary Fund (IMF) and World Bank (WB). The ideas were translated into the policy course called *Structural Adjustment Lending* (SAL). SAL is the generic term used to describe a package of economic and institutional measures which the IMF, WB and many individual western aid donors sought to enforce developing countries to adopt during the late 1980s and 1990s in return for a new wave of policy-oriented loans (Mosley et al., 1991). It aimed at ending import substitution manufacturing regimes, embracing free market solutions, privatising state enterprises and imposing fiscal austerity (World Bank 1981; Williamson, 1990). The general pattern of SAL packages usually involved two main stages, *stabilisation and adjustment*, often deployed by the IMF and WB, working in conjunction (Leftwich, 2000). Stabilisation normally meant immediate devaluation and often quite drastic public-expenditures cuts. Adjustment followed and sought to transform economic structures and institutions through varying doses of deregulation, privatisation, dismantling or diminishing allegedly over-sized and rambling public bureaucracies, reducing subsidies and encouraging realistic prices to emerge as a stimulus to greater productivity, especially exports (Nelson, 1990). SAL entailed the set of ideas of economic freedom, free markets, private-sector initiatives and the cutting away of regulations aiming to provide conditions and incentives for unleashing entrepreneurial energies. In other words, SAL intended to wreck the dominant post-war state-led and state-planned development paradigm, and overcome the problems of developmental stagnation by promoting open and free competitive market economies that are supervised by minimal states.

Most of development assistance was increasingly tied to SAL packages designed to enforce these market reforms. SAL reached almost a quarter of the Bank's lending by the end of the 1980s and it sought to provide the incentives and the means for re-structuring developing countries around such principles (Mosley and Toye, 1988). Neo-liberal ideas sharply framed the development policies and goals of the developing nations through the Bank's convention (World Bank, 1981; Toyle, 1994). This means neo-liberalism became globalised by the international development agencies whose work beyond national boundaries. As Deacon *et al.* (1997) argue that the public policy of a country or locality is no longer wholly shaped by the politics of the national government. It is increasingly shaped by the implicit and explicit social policies of numerous supranational agencies: ranging from global institutions, through supranational bodies, to supranational non-government agencies. These international organisations (such as the WB, UN, or IMF) have done more than contribute to discussions about domestic public policy - they have played an active role in social regulation and provision both directly and indirectly. Their interventions have been done via, for example the structural adjustment funds (such as the EU, WB), various social development assistance programmes (such as the UNDP, IMF), or standard setting (such as the ILO, WHO).

However, WC and SAL are not too far from criticism. Manors (1995) critically argues that the policy prescriptions of the IMF or WB are too standardised and enforced without due consideration for local institutional variations. Neo-liberalism assumes too much on cultural, social, historical, and political homogeneity among the less developed countries: it tends to believe that the policy prescriptions will produce roughly similar results in all Third World settings. It tends to overlook the enormous variations that exist among the states of Asia, Africa and Latin America-variations that are so marked that they inspire doubts about the universal efficacy of any single economic strategy. The broad array of variation ranges from the differences in regime, institutional arrangement, state-society relations, to the historical development of state power. Particularly, the neo-liberals greatly underestimate the complexities within and the variations among political regimes in the less developed countries. They usually ignore elements of the political process that are downright fundamental to a grasp of events in less-developed countries. They scarcely recognise that a single state or regime can play varied roles at the same time. For example, the independent India state had played three broad roles[1] at the same time, but the neo-liberal approach cannot accommodate these complexities (Nandy, 1982 quoted in Manor, 1995). The neo-liberals' distaste for state intervention often causes them to overlook a great deal of evidence of mutually supportive relations between states and markets. Several cases of Japan, South Korea, Taiwan, Scandinavia, the state had commonly played an important role as protector and enabler of private sector development (Weiss, 1998). This crucial point tends to be missed amid the neo-liberals' over reaction against the state.

Further, in reality, markets are not naturally occurring phenomena or spontaneously actualised. SAL programmes usually assume that governments in developing countries possess the administrative capacity to implement complex sets of changes but in fact many governments, especially those in Africa, lack these capabilities (Kahler, 1990; Callaghy, 1989). Globalisation of neo-liberalism neither produces unitary outcomes nor does it erase local and national differences in government policy. It would be a mistake

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[1] Firstly, the India state was a relatively neutral arena within which relationships between various social groups were constantly renegotiated. Secondly, it played the role of protector, a guarantor that the sensibilities of the vast array of subcultures in this heterogeneous society will not be unduly disrupted. Thirdly, it also had acted as a liberator, mitigating or removing certain injustices.

to imagine that neo-liberalism is being projected in an unmediated form. Although the intervention of global institutions has been on a large scale, states have followed a different path from that prescribed by global institutions and neo-liberal orthodoxy. Tickell and Peck (2003) argue that it would be quite wrong to anticipate a process of simple convergence towards a singular neo-liberal state form, reproduced transnationally. The outcomes of neo-liberalisation are politically negotiated and mediated at the national level. They are not based on 'unmediated market hegemony, cultural homogenisation, or institutional convergence' (p. 164); rather the outcomes are resulted in an array of politically mediated forms of integration into a complex and changing global economic system. The authors argue that:

> ... there are no 'pure' markets, only markets shaped by different configurations of legal frameworks, social conventions, power relations, institutional forces and such like... there is no 'pure' form of neo-liberalism, only a range of historically and geographically specific manifestations of neo-liberalisation-as-process... (there are) a range of nationally and locally specific and qualitatively differentiated forms of neo-liberalism. So the process of neo-liberalisation has exhibited a *qualitatively* different form, say the Scandinavian welfare states and the Asian developmental states, in which neo-liberalised elements have been grafted onto quite distinctive state structures. (p.165)

Therefore, neo-liberalism requires qualitatively different, not less, state action (O'Neill, 1997). The practice of neo-liberalism had little to do with laissez-faire deregulation but instead ùis associated with the extensive deconstruction and reconstruction of institutions, often in the name of or in the image of ùmarketû (Tickell and Peck, 2003: 168). The studies of globalisation of neo-liberalism need to broaden their enquiry, to take the dimensions of the political process that have been under-studied. This article addresses this issue by considering how neo-liberalism has effected development trajectory in Thailand, its link to the 1997 financial crisis, and how the Thai state has responded.

3. Neo-liberalism And Thailand's Development Trajectory

The era of development in the Thai context began in 1959, following the World Bank's report that advocated a systematic, state-led programme of economic development using the National Economic Development Board (NEDB, later becoming NESDB which the additional S for Social) as a central planning agency and a series of national development plans as an instrument (World Bank, 1959). The World Bank's advice laid the foundation of Thailand's (economic) development policy on growth strategy since then. Development policy based on industrialisation in Thailand began with import-substitution strategy in the 1960s. Basically, the government implemented policies to protect the infant industries to tap the resulting domestic demand. This strategy was clearly represented in the first National Development Plan in (1961-66) up until the fourth Plan (1977-1981). The plans used the Soviet-style central state planning coinciding with a US aid programme, primarily designed to make Thailand a defensive wall against the tide of Indochinese communism. This trajectory of development strengthened the role and power of state in development planning process. While Thailand's economy had grown more prosperous in 1970s, the influence of the WB became lessened (Pasuk and Baker, 2002). Although Thailand, in this era, lacked the 'strong state' and guided industrial policy that characterised the 'development states' in East Asia, the state, particularly the bureaucracy, still played a pivotal role and committed to promoting economic development (Christensen *et al.*, 1993). However, the economic development strategy change in the mid-1980s towards export-oriented strategy could be considered as the turning point. It moved Thailand to be fully engaged with the pace of globalised neo-liberalism.

Although calls for the promotion of export promotion manufacturing were made in the late 1960s, it was not fully until the mid-1980s that the export-oriented strategy was established and was to remain the dominant strategy until late 1990s (Hewison, 2001). The oil crisis in 1979-1980 put Thailand back to ask assistance from the WB again (Pasuk and Baker, 2002). Thailand had to borrow $542 million from the Bank to cover the deterioration in the balance of payments. Further, in 1981-83, Thailand borrowed $325 million from the Bank and drew another $610 million from IMF standby credits. The early 1980s saw a major flurry of the Bank's role, including a major role in the formulation of the fifth Plan. The Bank extended loans to Thailand under its structural adjustment programme. The loans were conditional on reforms in fiscal policy, tariffs, investment incentives, and institutional arrangements designed to reorientate Thai economy towards export-oriented strategy. The new economic orthodoxy argued for market liberalisation which would remove constraints on growth built into the earlier model of state-led and state-protected development. Although the Bank worked with Thai technocrats to plan the transition to an export-oriented strategy (World Bank, 1983), the model had not been fully implemented until 1984-when the recession and first financial crisis hit Thailand and the baht was devalued.

The shift from import-substitution industrialisation to export-oriented industrialisation was accompanied by a move away from regulated to deregulated, and also from state-dominated to market-oriented economies in 1990s. In order for a country to capitalise on its comparative advantage, markets needed to be allowed to work efficiently in order to provide correct price signals that would guide the allocation of scarce resources towards areas in which a country does have a high level of international competitiveness. This involved dismantling trade barriers, financial market liberalisation, removing distortions in the price system, and making labour markets more competitive (Pasuk and Baker, 2002; Tan, 2000). During this period, most technocrats and businessmen believed that Thailand should be a relatively open economy and went along with the neo-liberal agenda. Businessmen appreciated that this openness provides access to technology and capital. The Joint Public and Private Consultative Committee (JPPCC), headed by the Prime Minister, came into existence in this period. Through the JPPCC, business pressed for a change in governmental over-regulation (Anek, 1992). Technocrats had believed that increasing openness was needed to force Thai companies to become more competitive, efficient, and to break down old monopolies. In 1988, NESDB relieved its role from a supervisor for all major government projects. In the sixth Plan announced that '... to transform the role of the public sector...into that of planner, supporter and facilitator of private sector participation. The government will withdraw from activities which can be carried out better and more effectively by the private sector and will allow more privatisation...' (Muscat, 1994: 262). By the late 1980s, Thailand had deepened internationalisation through foreign direct investment (FDI), export promotion and diversification, and tight budget, monetary, and fiscal discipline. By early 1990s, controls on interest rates and capital accounts were removed, leading to increased competition, internationalisation, and heavy dependence on foreign capital inflows (Hamilton-Hart, 2000).

This development was followed by the economic 'boom' that emerged from the late 1980s. The rate of real GDP growth rose to 13.3 per cent in 1988 and maintained double-digit rates until the end of the decade. Between the two decades of economic development, GDP growth expanded to 7.6 per cent annually (Jansen, 1997). Thailand's spectacular development performance, especially in economic progress, until the mid-1990s had been praised as one of the 'High Performing Asian Economies' (World Bank, 1993). Many analysis may differ in their explanations for Thailand's success, but all would agree, at the time, that globalisation-in terms of increasing exposure to regional and global markets and capital-played a significant role in this success. Thailand was seen as a case where the Bank's neo-liberal orthodoxy had been accepted and economic growth had been claimed as the result (World Bank, 1993).

One principle of neo-liberal doctrine is financial liberalisation. The WB and IMF rationalised that mobility of capital-by financial deregulation and elimination of capital controls-would maximise welfare benefits on a global scale. The Bank advised Thailand to develop its financial system by making the baht freely convertible, developing the stock market, and opening up banking to free competition. This idea was echoed inside Thailand by many economists and technocrats who later became influential in policy-making positions (Pasuk and Baker, 2000). During 1991-1995, governments pursued the path of financial liberalisation: the baht was made freely convertible, restrictions to foreign exchange removed, tariffs reduced, taxes reformed, and banks were allowed to manage a broader range of financial instruments (Pasuk and Baker, 2002). In 1993, the Bangkok International Banking Facility (BIBF) was established to enable offshore banks to lend into the market. Liberalisation aimed to give more flexibility to financial institutions in coping with economic globalisation, and develop Thailand to serve as a regional financial centre.

The liberalisation process opened up the financial market of short-term money though the multiplication of domestic credit institutions, and gave domestic borrowers direct access to overseas financial markets. Alas, large capital inflows delivered unexpected consequences. The flood of money impelled financial firms to behave in a riskier fashion. Much of the finance was poorly planned and invested redundantly, rising over-capacity in certain sectors and blowing up bubbles in property markets. The WB and IMF warned that a pegged exchange rate was incompatible with an open capital account, but the Bank of Thailand believed that the pegged exchange rate was a key component of Thai's successful economic growth. However, export growth began to falter and the current account deficit started to reach 7.1 per cent in 1995. This sign signaled to international financial speculators to attack the baht. The policymakers failed to manage the macro economic policy and they compounded the crisis by sacrificing financial reserves in a futile defence of the currency value from the hedge funds. The devaluation on the 2nd July 1997 marked as the end of the boom and the beginning of the 'burst' period. The period of boom was intensely stopped with the clash-landing 1997 economic crisis[2]. Neo-liberalism leaded Thailand into the most severe crisis she had ever experienced in history. The crisis has been linked to the liberalisation policies which the Bank and IMF have urged countries to adopt (Warr, 1999).

4. Crisis, International Agencies, And Its Aftermath

After the crisis, the IMF became the most influential international organisation that was able to shape Thailand's policy agenda. With the foreign reserves exhausted by mid-1997, Chaovalit's government was forced to call on the help of the IMF and received the IMF package.[3] Agreeing to IMF conditions for a rescue loan of $17 billion, the policy package consisted of a macro plan adapted from the IMF's long record of bailouts in Latin America: raised taxes (value added tax from 7 to 10 percent); cut government spending by 20 per cent; implemented tight money policy and high interest rates; increased access for foreign investors, starting with banking sector; privatisation of key sectors, including energy, transportation, utilities, and communications; legal reforms on bankruptcy and foreclosure; and enhanced transparency in many ways. The neo-lib-

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[2] Details and debates about the development and assumptions of the crisis from different perspectives have been extensively discussed elsewhere: see Ammar (2005); Apichat (2002); Bello *et al.* (1998); Bhanupong (1999); Hewison (2000, 2001); Hill (1999); Jomo (1998); MacIntyre (1999); Nussara (1998); Ouatara (1998), Pasuk and Baker (2000); Warr (1999).

[3] Full account of the story during the crisis and its aftermath, and the policy package adopted during the period, see Pasuk and Baker (2000) in chapter 3; and Pasuk and Baker (2002) in chapter 5.

erals argued that the crisis, in Thailand and later spreading out in Asia, stemmed from an 'Asian model' of development in which the government directed the economy to deliver high growth in the short run, but resulted in over-protected and uncompetitive industries, crony links between politics and business, weak legal systems, and corruption (for example Krugman, 1998; Ouatara, 1998). In the condition when the urban people' lost their faith in the government's ability to manage the crisis, the IMF faced very little resistance on its policy package. The IMF then aggressively furthered its plan to restructure economies on a free market neo-liberal model.

Following in November 1997, the government was dissolved, Chuan Leekpai of Democrat Party (DP) took over the administration and formed the new coalition government. DP's government further addressed IMF commitments, advancing banking and financial institutional reform, corporate and debt restructuring, promoting FDI and of exports, agricultural reform, sharply reduced defense budgets, and institutional contraction of the military. Chuan himself emphasised commitment to the free market strategy as he addressed:

> Economically, we have no choice but to be more responsive to market conditions and trends, especially given today's world of rapid globalisation. We have to ensure that our economies are competitive, with sound macro-economic policies, with professional and accountable public and private sectors, and with internationally accepted regulatory and supervisory framework...[4]

Key neo-liberal development paradigm during the Chuan's government had the following three characteristics (Choi, 2004). Firstly, the government embraced globalisation and its concomitants such as liberalisation, smaller government, and free market. It

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[4] Speech given at the World Economic Forum meeting in Singapore on 18 October, 1999, reported in *Bangkok Post*, 19 October, 1999

believed that the prime source of crisis-recovery finance should come from foreign investment, and it also considered exports as the prime engine of economic recovery. It aspired to dismantle the pre-crisis model in which the state, under the control of corrupt politicians, played a key role in the economy together with some Chinese-Thai family-owned conglomerates that controlled the economy from banking though manufacturing to services. Secondly, the government preferred market-driven corporate and banking restructuring in which the government's direct intervention remained minimal. The government's primary role was defined as providing regulatory and other legal-institutional frameworks for the market. For example, government rejected any idea of creating a national or centralised asset management corporation that would nationalise non-performing loans (NPLs). It instead encouraged banks to look after their own private asset management companies, even though the NPLs of already closed banks and finance companies were inevitably transferred to a government-supported asset management company. Thirdly, embracing a trickle-down theory, the government focused its policies on strengthening the modern economy sector, especially the financial sector, as opposed to agriculture. It was willing to spend billions of baht to buttress up the fragile banking system, but it was hesitate to provide subsidies for the rural economy. In sum the government's neo-liberal development regime pursued an outward-oriented, foreign capital-funded, export-driven, and modern-sector-based growth regime, with the agriculture and pubic sector playing marginal role. Thailand played an internationally recognised 'model student' of neo-liberalism after receiving emergency rescue loans from the IMF during the 1997 crisis. IMF-sponsored neo-liberalism had not yet encountered any serious challenge from policymakers in Thailand.

However, the underlying causes were very different in Thailand than Latin America, and finally the plan did not work with the Thai case, the aftermath raised extensive social consequences. Short-term capital began to flood away, financial sector shrunk, domestic consumption seriously declined. The GDP growth dropped from 5.9 per cent in 1996 to -1.4 in 1997 and -10.5 in 1998. The total number of school dropouts rose from 510,400 in 1996 to 546, 891 in 1997 and reached 676,221 in 1998. Another important aftermath of the IMF's package was the destruction of many established conglomerates during the boom and many were transferred to foreign ownership. Brimble and Sherman (1999) tracked 130 acquisition deals by foreign capital between October 1997 and May 1999 and found that the foreign ownership of Thai companies had increased significantly, especially in finance, export industries and retail. The result of the IMF package appeared to gain resistance from domestic businesses, workers and farmers. Business leaders mounted a broader attack on the IMF programme for concentrating too much on fiscal discipline, external stability, and financial restructuring while paying no attention to the real economy. Many businessmen felt the IMF package represented a major change in the role of state as the government lost its policy autonomy by promoting the 'selling' of domestic businesses to foreigners at cheap prices under the instruction of the IMF. Some even argued that the IMF strategy was designed to decimate local firms and create fire sale conditions for foreigners (Ammar, 1997), or even slating the IMF and its US patron as 'imperialist' and 'neocolonial' (Phitthaya, 1997, 1998). In May-June 1998, businessmen and some academics proposed Thailand should declare a debt moratorium from the external debtors to give domestic firms a breath to recover. Farmers' organisations also assembled in front of Government House to call for agricultural debt relief (Bangkok Post, 25 May, 1998). Twenty thousand farmers rallied in Khon Kaen to demand a five-year debt moratorium on agriculture debt. Social activists argued that the strategy of the IMF and government was helping the rich at the expense of the poor. They backed the calls of debt moratorium for rural debt relief. Activists accused the government of bailing out the rich at the expense of the poor. The main theme of rhetoric was the government had been too obedient to the IMF, too accommodating to foreigners, and too negligent of the country's interests. Business nationalism and rural populism was about to start.

Ji (2002) noted that during the early part of the crisis a growing number of publications on 'saving the country from the crisis' had been released. These publications were written by left-of-centre academics and political commentators who regarded the 1997 crisis as a serious threat to national independence. The most notable books were those in The *Witthithat* Project which directly went against globalisation (Reynolds, 2002). The cause of the crisis was attributed to globalisation, which was understood by these commentators as the expansion and penetration of Western multinational companies into the economies of Southeast Asia (Phitthaya, 1998). Another apparent cause was the imperialist designs of the G7 powers, especially the US, in attempt to put the Asian Tigers under the yoke of economic colonialism (Yuk, 1998). There was also a proposal to use Keynesian-style economics. Bello *et al.* (1998) proposed that it was the state that should increase public expenditure in order to stimulate consumption. However, the left nationalists favour a more NGO-oriented application of Keynesian economics than the government. Other more cautious proposals by the left nationalists include focusing mainly on production for the domestic market and using domestic savings instead of foreign investment (Kanya, 1997). In terms of their political impact, left nationalist ideas were the main opposition-current within Thai society at that time. Noteworthy, these left nationalist ideas actually serve the interests of smaller-scale Thai capitalists who are faced with cutthroat competition from world capitalism (Ji, 2002). It also should be noted that a new political party-the Thai Rak Thai (TRT)-was formed at this period with a campaign designed to appeal to the nationalist sentiment to local business and the farmers' resentment that their interests were being sacrificed for the sake of financial sector recovery.

DP's government showed attempts to modify the macro plan to regain the role of state in crisis recovery. In May 1998, the major policy change was to implement expansionary fiscal policy: allow a budget deficit of 3-5 per cent of GDP in 1998-99. Deflationary stringency had been reversed into a policy of mild Keynesian stimulus. Monetary policy was changed to reduce interest rates. The government claimed to be fighting with the IMF to allow fiscal expansion and lower interest rates (The Nation, 6 June 1998). Plans to liberalise an internationalisation of the financial sector were rolled back in favour of a balance between foreign, state, and domestic business. The social impact of the crisis was highlighted and demanded the state to take role in alleviation. The student loan programme was issued to target 650,000 students at a cost of 20 billion baht in fiscal year 1998-99. Further a job creation scheme was to fund the 200,000 temporary jobs in the public sector earmarked for new graduates. In late 1998, Japan announced the $30 billion Miyazawa Scheme for promoting recovery of Asia. It seemed that the scheme aimed to take the initiative in crisis away from the US and IMF, and to balance the power of Japan and the west in Southeast Asia. Although the Miyazawa scheme envisaged to be used in many different ways, the scheme for Thailand announced in March 1999 with a very definite focus on providing a fiscal stimulus and alleviating social stress. The scheme contributed to 53 billion baht for stimulus spending. It was designed to pump money into the local economies on grounds this would bring about the most rapid multiplier effect through increased consumption (Bangkok Post, 1 April, 1999). The design of the scheme was a repeat of the 'tambon scheme' launched in 1975 by Kukrit Pramoj's government.[5] In August 1999, a further stimulus package for the real sector was announced though the MITI-influenced industrial plans.

The 1997 Asian crisis was the most recent example of the risks of globalisation and neo-liberalism. Thailand, which had

[5] This scheme was more politically than economically motivated. The Social Action Party which devised it doubled its seats at the following election after campaigning on a platform of extending the scheme (Morell and Chai-Anan, 1981).

experienced spectacular growth rates in the 1980s to early 1990s financed primarily by short-term foreign portfolio investment and foreign loans, was reduced to poverty when these funds were suddenly withdrawn in the latter half of 1997. The crisis brought domestic discontent to neo-liberalism, a loss and attempt to regain power of the state, and the inauguration of new TRT party that built itself on the populist and nationalist platform. This saw a revival of neo-dependency approaches which related to populist and nationalist political strategies (Rodan *et al.*, 2001).

5. New Government And State Reorientation

On 6 January 2001, TRT-established by Thaksin Shinawatra-received a landslide victory on a populist platform of economic growth and rural development. This was the first time that one party won a majority in the House of Representatives. The party was consolidated even further by the merger with some lesser political parties, making it one of Thailand's strongest democratically-elected governments ever. TRT enjoys an absolute majority in the Lower House, controlling 365 of 500 seats.

TRT triumphed in the election on a populist economic rhetoric that tapped anti-foreign sentiment. As the economy continued to languish and the recovery programme of IMF encouraged more foreign ownership of Thai companies, hostility to neo-liberalism and globalisation had grown. With the sentiments of nationalism at that moment-domestic capitalists resented the 'sell-off' of Thai businesses and resources to foreign interests; Thais felt humiliated at Thailand's bowing before the IMF and Western interests; the previous government's neo-liberal policies were unable to reflate the economy or save local businesses-Thaksin built his electoral triumph on promises to the rural poor, the disaffected middle class, and domestic capitalists though his labelled nationalist and populist policy (Baker, 2005; Rodan *et al.*, 2001; Pasuk and Baker, 2004)[6]. In other words, TRT campaigned on its new policy based on pro-poor, pro-rural, and pro-Thailand policy. As the policies demand aggressive role of the state, state regains its power in the developmental process. In addition to the new policy agenda, Thaksin has brought new styles of management that reshapes that role of the state in development as well.

In view of the impact of 1997 crisis, the government claimed that it found the necessity to devise a strategy of development best suited to the country and the international environment. Pansak (2003), the chief policy advisor to the PM, argues that Thailand needs to develop new strategies to face the process of globalisation and the related risks amidst the changing globalised world. Government perceives that the real problem of the 1997 crisis was that the previous government were duplicating the neo-liberal economic model and production paradigm of the West while ignoring the country's own strength and the potential ability of their culture and resources to produce their own development pathway. Neo-liberal initiatives caused the country's economic growth to depend too heavily on external influences; making the country too vulnerable to volatility of the global market place and other forces beyond her control. Government has to, therefore, embark upon the policy paradigm called a **dual track plus** development policy-a two-pronged approach that aims to promote exports and foreign direct investment in parallel with enhancing domestic consumption. The first track emphasises mass manufacturing stemming mainly from FDI while the second track employs a neo-Keynesian policy paradigm that emphasises on strengthening the domestic economy and the grassroots of the

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[6] The name of the party, Thai Rak Thai (means 'Thais love Thais'), does convey a nationalist favour itself. Thaksin himself also made several references to the book entitled 'Spirit of Capitalism' by Greenfield (2001) which argues that periods of rapid growth that convert backward into advanced economies are characterised by surges of nationalism.

country. The distinctive feature of this initiative, often dubbed *Thaksinomics*, is the emphasis on the second track in a manner that gradual shifts the Thai economy from export dependence to greater reliance on the more controllable domestic economy (Looney, 2004; Pasuk, 2004). Some authors comment that TRT ideology is inward-looking in that it insists that solutions to Thailand's problems must be sought from within the country (Warr, 2005). The details of the policy package were based on an unprecedented platform of specific policy pledges to promote domestic-led growth from the grassroots upward. Urgent policies that the government delivered to the National Assembly on 26 February 2001 (Thaksin, 2001) included:

• **Three-year debt moratorium:** government granted a grace period for both interest and principle payments for 3 years for individual small farmers to relieve their debt burden, as part of a comprehensive reform of the traditional farm economy to be more viable and self sustaining in the long term.

• **Million-baht Village and Urban Revolving Fund (VURF):** government established the VURF, funded with one million baht to each village across the country, as a loan facility available for individuals and households of each community to borrow for local investment and supplementary vocations. It aimed to promote local communities' capacity building of fund management; to stimulate grassroots economy; and to empower rural and urban communities.

• **Universal health care with a low 30-baht charge for treatment at public hospitals:** government provided a universal health insurance programme with a view to reducing the overall cost to the country and the people in acquiring healthcare capping each hospital visit at 30 baht. Government claimed that all Thai people are guaranteed equal access to a nationally acceptable standard of health care.

• **People's Bank:** government established a People's Bank to ensure better and improved access to banking facilities and resources for low income citizens to enhance their capacity to increasing their income from self employment; and thus reduced their dependence on unorganised and punitive money market sources.

• **One Tambon (Sub-district) One Product project (OTOP):** Concurrently with the Village and Urban Revolving Fund, government promoted the OTOP project to enable each community to develop and market its own local product or products based on traditional indigenous expertise and local know-how. Government provided additional assistance in terms of appropriate modern technology and new management techniques to market, such local products from the village to domestic and international outlets through a national or international retail network or through e-commerce.

• **The Bank for Small- and Medium-sized Enterprise (SMEs Bank):** this policy based on the collapse of conglomerates and the destruction of government-protected monopolies created a more open space for the growth of a new wave of SMEs. SMEs Bank worked to promote these groups of companies by encouraging them to concentrate on activities in which Thailand has some competitive advantage, following the Tuscan-Italian model, to reach certain market niches with high adjustment capacity.

• **The Thai Asset Management Corporation (TAMC):** the objective of the TAMC was to restructure the financial positions of debtors to improve their business viability. NPLs were transferred from Thai banks to this centralised body which coordinated the restructuring of the loans. TMAC was planned to expedite the restructuring of bad debts as it had special legal powers allowing it to bypass the normal court system. TAMC used 10-year bonds to purchase loans from financial institutions at book value.

Foreign-owned creditors banks were to be ineligible for participation. More than 75% of purchased NPLs were due to come from government-affiliated institutions. As noted, DP's government had resisted this step.

In pursuit of these policies, most of them concerned with domestic market revitalisation, the state needed to take a more active role than before, especially in credit allocation to boost domestic market and supporting domestic firms to revive. Several of these urgent policies were financed by unused reserves of credit in the state banking system. The government employed 'quasi-fiscal' measures (Pasuk, 2004, 2004b). The Government Saving Bank (GSB) were mobilised for VURF while the People's Bank was set up by creating another window into the GSB. The Bank of Agriculture and Agricultural Cooperatives (BAAC) financed the three-year debt moratorium policy and government widened the scope of BAAC to provide credits for village communities, local administrative organisations, and cooperatives. Further the Government Housing Bank and GSB provided credit for real estate companies and their clients to boost the real estate market. Small and Medium Enterprise Development Bank was set up while several government banks were also directed to provide credit for SMEs, for example BAAC, GSB, Export-Import Bank of Thailand, Industrial Finance Corporation of Thailand, and Small Industry Credit Guarantee Corporation. The rest of the above urgent policies were financed by the annual fiscal budget. In addition, the government also pressed the Krung Thai Bank (it is a state bank as well) to be more expansive in their lending policy to compensate for the other commercial banks. For another policy track, the government emphasised on the nation's competitiveness. By mid 2002, core industries that government believed to be a competitive niche of Thailand were identified: tourism, fashion, food, health and medical care, computer graphics, agri-processing, and automobiles. Following, the Board of Investment revised its operations to target the new priority sectors. (Bangkok Post, 21

December 2002).

Bureaucratic reform has been achieved to strengthen the role of the state. The beginning of October of 2002, we saw a passage of the Bureaucratic Restructuring and the National Administration Acts which were billed as Thailand's biggest bureaucratic shakeup in more than a century. The blueprint for overhauling Thailand's large and often unwieldy bureaucracy was finally signed by the king and gazetted in the Royal Register on October 2-the bill then became law. Six new ministries, as well several departments, came into being: namely the Ministry of Information and Communications Technology; Ministry of Energy; Ministry of National Resources and the Environment; Ministry of Tourism and Sports; Ministry of Social Development and Human Security; and Ministry of Religion and Cultural Affairs. A large number of senior appointments, promotions and transfers had been made. A new structure of ministries and departments was claimed to be an initiative agenda-based structure with the establishment of these ministries. Through these structural reforms, the government argued for more effective implemention of the various policy initiatives that formed the basis of its election platform.

Despite the fact that the reform proposals were clothed in fashionable language under new brand names of governance (such as smaller government that does less, facilitator not direct service providers, accountability, transparency and openness, flexible organisations, performance measurement and standards), Bidhaya (2002) critically argued that the reform brought about 'more government, not governnace': the consolidation of power into the hand of the state (both the elected officials and bureaucrats). The reform resulted in a bigger government that does more, not less. Politicians pushed for reform proposals that enhance their authoritative power through domain expansion. Bigger bureaucracy means more government is needed. He said 'new bureaucratic positions and organisations must be created, administrative laws and regulations adjusted, and more administrative budget must be allocated' (p. 7). Further the domain expansion widened the legal authority of the bureaucracy. The new ministries took over new niches in public affairs and it means the expansion role of state in managing society. In sum, after the reform, public sector became more centralised with the central government playing a more active and encompassing role in society. Particularly, the scale of change signaled the intention of the executive to impose its control of the bureaucracy than ever before (Pasuk and Baker, 2004).

In addition to the above change, Thaksin has brought new styles of management. With his successful background in business, he has promised to run the country like a large corporation and the Prime Minister will perform like a Chief Executive Officer (CEO). He proclaimed the 'CEO approach' to the government, modeled on his previous experience in his companies: strong centralised leadership rather than a participatory approach to policy-making. He perceives the ministries as 'department heads' of this his company-liked Thailand, Inc. (Thaksin, 1999). He even said that 'a country is a company, they are the same, the management is the same' (Thaksin, 1997 quoted in Chumpon, 2002: 105). Further, he introduced a scheme to turn provincial governors to become 'CEO-styled governors'. The PM indicated that he intended to re-position all the provincial governors as his own representatives in provincial administration (The Nation, 12 November 201). At present, the Ministry of Interior appoints staff members from its Department of Local Administration (DOLA) to act as provincial governors and as the heads of districts in 75 regional provinces.[7] Before the CEO governor scheme was implemented, provincial governors and district chief officers appointed by the Ministry of Interior did not directly control the provincial officers of other ministries. In October 2003, the CEO governor was officially instituted in all provinces to allow provincial governments to effectively, efficiently, and strategi-

[7] The only exception is the governor of Bangkok, who is elected for a four-year term to oversee the Bangkok Metropolitan Administration.

cally implement central government policies. CEO governor scheme aims to empower governors with full authority over all branches of local officials from other ministries. However, Mutebi (2004) argues that the CEO governor is a strategy the politicians, with state-building agenda, employ to enhance the role of the central government. It is indeed a project to recentralise the central-local institutional arrangement. The governors still come from the ranks of the very centralised Interior Ministry's DOLA and the appointment needs to be approved by the PM.

6. An Emergence Of Developmental State?

By late 2003, the Thai economy had gone a considerable way towards recovery from the effect of the crisis since it was the first time GDP growth had recovered to its level of 1996 (Warr, 2005). However, the legacy of crisis is still evident in many ways, especially the transformation of the role of Thai state. In the case of Thailand, the crisis does reinforce the need to understand more fully how the global economy and international institutions affect domestic political configuration. It had led to a search for new institutional arrangement and mechanisms to development a more politically and socially viable framework to engage the global economy. The state itself has been restructuring in ways which seem to deprive many of its traditional sources of power, policy capacity, institutional capabilities, and legitimacy. Jayasuriya (2000) analysed the process of state reorientation in Asia after the crisis and argued that the crisis would result in the transformation of the state, moving away from the Asian *developmental* model to a *regulatory* model. In a developmental state, government seeks economic growth by promoting domestic capital. In a regulatory state, state provides a safe environment for international capital: the economic governance transferred to rule-based institutions (for example central bank or court), power is concentrated within a social and technocrat elite, parliament becomes a puppet show, and civil society is managed.

It clearly presented that Thailand had followed the neo-liberal path since the mid-1980s. The process was driven by the international organisations, as well as demands from domestic business and technocrats. The role of the state became gradually diminished since then. The crisis even deepened Thailand into the neo-liberal reform package enforced by the IMF and effected the retreating role of state in governing process. By aligning itself with the IMF to seize on the crisis as an opportunity to restructure Thailand's financial system and introduce a regulatory framework for economic governing, the DP's government became the presenter of the kind of regulatory state reorientation as Jarasuriya's argument. However, it is too rushed to conclude in that way because the change of government in 2001 had brought some differences. At the peak of the crisis, there was the rise of domestic discontent on government's recovery policy as a backlash against globalised neo-liberalism. Drawbacks of the recovery programme created domestic discontent that demanded a different role of the state. It pressured the state (government) to decide to adjust its role by implementing some Keynesian stimuli to alleviate the crisis impacts. Attempts to push funds (from Miyazawa scheme and budget deficit) into the rural localities to cushion distress and deliver the fastest multiplier was the key adjustment. However, this reorientation was not enough to cover the domestic insurgence and save the government in the 2001 national election. A new party, TRT led by Thaksin Shinawatra, won and began to administer Thailand with new policy platform, new position of the state in society, and new management practice that reshaped the role of the state. It seems that the role of the state has been changed to become more of active developmentalism.

Pasuk (2004a) argued that Thaksin's government has pressed for a sharp shift away from the neo-liberal model of the IMF by shifting towards the developmentalist view in order to achieve catch-up economies. Government played a positive role in protecting and promoting domestic firms in order to compete against more advanced economies. Government controlled source of capital funds and channelled to those selected sectors of economies with other promotional measures. However, it needs to be investigated in detail. If we draw on the major components of developmental state[8] derived by Leftwich (1995), which he meant an extraction of common properties from a set of diverse concrete forms, the Thai state after 2001 became fit in several of its characteristics. First and foremost, he argues that all developmental states have been led by determined developmental elites. The elites have developmental determination, commitment to economic growth and transformation, and capacity to put it through. The elites have been the dense traffic between top levels of the civil and military bureaucracies and high political office with highly nationalistic sentiment. Thailand meets this feature with slight differences in the group of elite. Instead of driven by the bureaucracy elites like in East Asia cases, after 2001, the development trajectory of Thailand has been shaped by the political elite-specifically the Thaksin government. These elected politicians came with their strong policy agenda and have forced the civil servants to align with their agenda. The government reformed the civil and military bureaucracies and subdued them under the political will of the government. This means another feature has not been met. The role of bureaucratic power-the powerful, professional, highly competent, insulated and career-based bureaucracies who direct the economic and social development like the MITI in Japan, the Economic Planning Board in Korea, the Economic Development Board in Singapore-becomes very weak in the Thai case. Furthermore, it is very clear that Thaksin' government has strong economic development determination as it puts economic recovery and growth in high policy priority. It aimed to get recovery from the crisis and the

[8] There were a number of valuable studies of developmental states following Johnson's work (1981, 1982, 1987, 1995, 1999), for instance Evans (1985), White and Wade (1985), Deyo (1987), Wade (1990), Woo-Cumings (1999). Almost every account of the developmental state has mainly focused on East Asia, very few studies focus on Southeast Asia.

attain OECD status and transiting into the first world (Thaksin, 2001 quoted in Pran, 2004; The Nation, 27 December, 2003).

Another feature, developmental states have the capacity for effective management of private economic interests. The power, authority, and relative autonomy of the developmental states was established and consolidated at an early point in their development take-off, well before national or foreign capital became potentially influential. The consolidation of state power at this stage has greatly enhanced the capacities of developmental states to have much greater influence in determining the role that both foreign and national capital have played in development and also enable the state to set terms for this. However, in the Thai case, it is slightly complicated. The consolidation of state power began after the crisis (when foreign capital has already taken over many collapsed firms) in order to promote the domestic capital. In his first year, the PM signalled a tendency to return to protectionism (Thaksin, 2001a). The change in policy direction and growing willingness to protect local business from global competition appeared to be modelled on Malaysia's trend of initiating greater control over foreign access (Jarvis, 2002).

However, this position seemed to have undergone several conceptual adjustments. The *dual-track plus* policy began to appear. The inward-looking mode of TRT's first year metamorphosed into an acceptance of the importance of external forces to the Thai economy: foreign capital, investment, markets, technology, and managerial skills. Given the relatively open economy of Thailand, this was simple and practical. It is clearly evidenced when the plan to pass a law restricting the role of foreign retailers was abandoned in late 2002. By promoting domestic capital, government actively worked for direct credit allocation and industrial policy. As mentioned, the government forcefully directed the state banking system to finance the local business, especially the SMEs, while setting up the key definite industrial sector, based on the nation's competitiveness, to be promoted. Focusing on SMEs and domestic economy seems to be the distinctive feature of the Thai model from the East Asian developmental model. The government stimulates consumption through many urgent policies-such as VURF, People's Bank, special credits for the real estate companies-in order to create the market for domestically oriented enterprise. This began with Keynesian stimuli under the previous government but Thaksin expanded it by significantly encouraging the increase in consumer consumption.

Next, the developmental states held relative autonomy of the elites and the state institutions. The state has been able to achieve relative independence from the demand of special interest groups. Civil society has experienced weakness, flattening or control at the hands of the state. It seems that the weakness of civil society has been a condition of the emergence and consolidation of developmental states. This condition coexists with, in either western liberal or socialist standards, the condition that human rights is poor in developmental states. The treatment of some individuals and organised groups has often been atrocious. Any orgnisation of movement that looked as if it would challenge the state and its developmental purposed has been swiftly neutralised, penetrated or incorporated as part of the ruling party. This feature becomes very clear in Thailand. Many authors criticised the suppressive role of the state over civil society during the first-term of Thaksin's government administration (such as Kurlantzick, 2003; McCargo, 2002; Pasuk and Baker, 2004, chapter 5). Media and press have been manipulated and silenced in more sophisticated ways though the mixture of law, regulation, intimidation and money (Kavi, Jakapob and Bardacke, 2001; Mutebi, 2003; Thitinan, 2003). The role of labour and other social movements have been undermined, and some NGOs and the protests of power development projects have been forcefully repressed (Brown and Hewison, 2004; Pasuk and Baker, 2004). Thaksin believes his government has done much better that these groups in bridging the gap between state and society. He said 'NGOs are social groups that help bridge the gap between the government and the people. If such a gap no longer exists, the role of NGOs will be automatically diminished and foreign donors will not need to fund them any more'

(The Nation, 10 May, 2003). Human rights were seriously abused under the campaign of 'war on drugs' (Chookiat, 2004; Mutebi, 2004a).

Another important issue under state reorientation is the 'new social contract'. Some authors term the government's agenda that targeted the poor and made social welfare provisions, with the government taking a central role of managing society, as a 'new social contract'. Prior the crisis, the old social contract-the developmental social contract (Hewison, 2003)-was meant to establish the social and political order that domestic capital required to delivering economic growth, the government was to support private capital, and the working class and the poor would eventually gain from a trickle-down effect. This contract was finally destroyed by the 1997 economic crisis. The TRT government gave priority to boosting the domestic economy, this process needs political and social stability. To achieve this, the poor have to be taken care of and society has to be managed (Brown and Hewison, 2004). The TRT government came with a new social contract that aims to deliver the social and political stability which domestic capital demands to rebuild and restructure its power, but to enable this, it requires increased social welfare for the poor (Brown and Hewison, 2004; Hewison, 2003). In other words, the new social contract of TRT government is that people surrendered their rights and freedoms to the state, which was managed by a person with disinterested vision, and wait for the government to deliver the political goods (Pasuk and Baker, 2004).

In sum, we can see that neo-liberalism operated differently in the case of Thailand. The crisis punctuated the belief on purely market mechanism in governing society and domestic organisations demanded for a more active role of the state in the process of governing. The significant reorientation of Thai state in favour of active role in developmentalism can be claimed as the result of neo-liberalism that has become self-destructive during the crisis. The post-crisis Thai state put more favour on the active developmentalist role. However, the nature of Thai developmental state seems to be different from the precedent. Although it seems to be able to extract capital, generate and implement national plans, manipulate private access to scare resources, target specific industrial sectors, and resist political pressures from popular forces; the model of East Asian developmental state cannot fully capture the overall features of this reorientation. The post-crisis Thai state is driven by the elected politicians, rather than the bureaucrats. It focuses on two-pronged policy of economies-both the export-oriented market and foreign direct investment, and domestic market and consumption-which is dubbed the *dual-track plus* policy. Government expressed a determination to cultivate domestic sources of growth, make Thailand less vulnerable to the ups and downs of world markets. The rural economy has been prioritised and became an important part of urgent recovery policies. Not big conglomerate business but SMEs were focused on. State provision to afford cross-groups of people, the populist policies, became a prime strategy. To the poor-especially the rural poor-state held out the promise of debt relief, low-cost health care, and village development fund. To the more affluent urban people, state provided the decisive application of business know-how and loans. Such distinctions mean we shall need further study in detail about how this new developmental state functions and whether this Thai developmental state will bring significant success as the achievement of the East Asian countries in the 1980s. This may need more time for the answer to come out.

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