

Industrialization with a Weak State: Thailand's Development in Historical Perspective

SOMBOON SIRIPRACHAI (edited by KAORU SUGIHARA, PASUK PHONGPAICHIT, and CHRIS BAKER)

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Over the past decade, Thailand has experienced constant political turmoil. Although fair evaluation of the economic “reforms” of the Thaksin government (2001–06) is not yet possible, there is little doubt that these “reforms” cut into Thailand’s socio-economic fundamentals—long treated as a taboo subject—and affect the core factors that have stabilized and integrated the nation. Undoubtedly, Thaksin’s growth strategies, various redistribution policies, and drastic rearrangements of vested interests (i.e. rents) enlarged the “economic pie.” But these also brought vast wealth to crony business factions, attracting serious complaints from groups that held opposing traditional vested interests. Since the coup d’état of 2006, the political system has failed to adjust to conflicts in a democratic fashion and the last 10 years have seen the actual democratic process itself continually undermined. Public conflicts between competing groups have become a daily scene, leading to both the military and the judiciary asserting political control, even as the bureaucracy and monarchy do not show any signs of being in full control of the situation.

Somboon Siriprachai’s posthumous book, *Industrialization with a Weak State*, develops his observations on and analyses of long-term economic development in post-war Thailand until 1990s. Adopting a critical stance toward standard development economic theory, it describes the Thai state as a “weak state,” one contrasted to the “strong state” typically found in East Asian countries. Within such a context, the book discusses the characteristics and shortcomings of Thailand as well as the prospective challenges that the Thai economy faces. While the period the book focuses on is a little out of date (pre–1990), the argument nevertheless contains many insights which remain relevant for Thailand’s present socio-economy.

The author, Professor Somboon Siriprachai, was a prominent Thai economist, who had long engaged in academic work on Thailand’s economic development in Thammasat University. Regrettably, he suddenly passed away in December 2008 while in Japan, on his way back home from a conference at Kyoto University, where he gave a talk based on one part of the manuscript that became this book, and this reviewer was his discussant. Carrying out his wishes, his friends in academia, Kaoru Sugihara, Pasuk Phongpaichit, and Chris Baker, edited his published journal papers and gathered them together in this book.

Owing to the nature of the publication process, this book is a collection of the author’s major journal papers, rather than a monograph. However, all chapters share a common concern: to shed light on the fundamental structure of the Thai economy. The seven chapters are divided into three

parts. Chapter 1 presents an overview of the book and its basic questions. Chapter 2 focuses on export-led industrialization under the conditions of “land abundance”; chapter 3 on demographic change, land cultivation, and deforestation; and chapter 4 primarily on the inconsistency of development policy. The second half of the book, chapters 5 to 7, revisits the question of East Asian economic development. These chapters offer a critical overview of modern development economics and focus on the nature of the “state” as a policy authority in East Asia and Thailand by pointing out the limitations of the applicability of the East Asian miracle to Thailand.

Chapter 1 provides an overview of the trajectory of the development stages that took place between the 1940s and the 1990s. These were: the state-owned-enterprise-based economy of the Phibun regime in the 1940s; the private capital-led economy with national development plans and the conservative macroeconomic management of the Sarit regime in the late 1950s to 1960s; industrialization with primary product export and import substitution in 1960s; gradual conversion toward export-led industrialization while coping with the global economic recession of the 1970s; and serious macroeconomic imbalance and its recovery in the early 1980s. The chapter critically interprets the late 1980s high growth era by referring to the depletion of natural resources, poverty in rural areas, corruption, and insufficient human capital investment.

The following three chapters consider the structure of Thai economic development from a historical and socio-economical point of view. Chapter 2 traces the process of economic development and industrialization with an emphasis on the keyword “land abundance.” Rich primary products and accommodated wage upward pressure, backed by “abundance of land,” were the key factors for economic growth. This meant that the bureaucracy was less concerned about how to effectively achieve industrialization than about how to sustain the system to exploit the surplus generated by the endowment condition. According to the author, these structures relate to an incomplete policy shift from import-substitution to export-led industrialization since the 1970s, the destruction of the natural environment, and worsening income disparity in the 1980s.

Chapter 3 discusses Thai demographics in relation to deforestation between 1850–1990, a theme that connects to the previous chapter’s discussion on “land abundance.” Following prominent population studies in Thailand by Skinner, Falkus, and Siamwalla, the author states that as early as 1960s, demographic transition was already occurring in Thailand. Population growth synchronized with agricultural growth that came about through conversion from forest into land for cultivation. As a result, population concentration and upward wage pressure in urban areas remained relatively moderate. This meant that Thailand’s industrialization largely depended on its initial conditions, and the contribution of industrialization to economic growth was limited until the 1990s.

Chapter 4 focuses on the various dimensions of a “weak state” and argues that the development policies adopted by the post-war Thai state were inconsistent and incomplete. The conversion from import substitution to export-led industrialization and agricultural land reform remained

an incomplete project, generating urban-rural disparities that became serious in 1990s. The author argues that behind inconsistent policies, there existed patrimonial bureaucrats who failed to transform themselves into technocrats as well as other groups with vested interests.

The rest of the chapters aim to interpret Thai economic development through international comparison, particularly with East Asia, based on various general theories of economic development, and through existing empirical studies on Thailand's economic growth. Chapter 5 seeks to identify the nature of the modern "developmental state," cutting into the classical dispute over mercantilism versus trade liberalism during the absolute monarchy period in Western Europe. It concludes that policies under East Asian Developmentalism shared common ideologies with classical mercantilism.

Chapter 6 critically overviews both mainstream economics and relevant development economics, as descendants of liberalism, showing that the East Asian miracle was not a triumph of development economics, but entailed strong government intervention, one enabled only under the "developmental state" in East Asia. The author doubts the applicability of similar policies in Thailand which lacks such a "strong state."

Lastly, Chapter 7 surveys existing empirical studies on Thailand's economic growth and reveals the fact that, unexpectedly, post-war Thailand has sustained relatively high rates of technological progress (total factor productivity) among Asian countries, while agricultural productivity has remained low. Furthermore, in the manufacturing sector, the rate of technological progress declined in 1990s even under high growth led by foreign direct investment (FDI). The author identifies low investment in human capital and worsening income disparity as the reasons behind—as well as the results of—such productivity structures and these remain challenges for the future. Given such "technological inertia," as Professor Somboon called it in the chapter title, such negative structures in Thai economy are a consequence of "land abundance" and a "weak state" (or a "predatory state"). In order to realize further sustainable growth, structural conversion from the exploitation of natural resources and cheap wages to new directions in technological progress is essential. This is, in fact, the core message of this book.

Again, partly due to the publication process, the author's arguments overlap in places. The introductory chapter by Professor Pasuk Phongpaichit nicely summarizes the author's main arguments, which center on the following key issues: characteristics of the state, economic policies, corruption, and income distribution. In effect, Pasuk's introduction is not only an opening chapter, but also an excellent commentary that gives readers a clear understanding of Professor Somboon's arguments.

However, as a reviewer, I would like to raise a few points. The author describes the Thai state as a "weak state" occupied by bureaucrats and groups with vested interests who have leeches off the environment's rich surplus. But whether the state is "weak" or "strong" does not have to be seen as extrinsic or unchangeable. In addition, government intervention may not always be a

necessary condition for technological progress. Among the East Asian examples, post-war Taiwan began as a country where the mutual interests of state and society did not coincide: autonomous innovation was achieved primarily within the private sector under conditions of repression and exploitation by the state. Support from the state in terms of technological progress such as government initiatives for Research and Development was, in a sense, a mere consequence of a state-side change.

While there is no doubt that bureaucrats and political actors in Thailand have not transformed the state into “strong” one until 1990s, we cannot deny that this may be a possibility in the near future. While the Thaksin government was a chimera of a predatory and interventionist state, in some aspects, Thaksin apparently tried to direct Thailand toward a “strong state.” This book seems to give many implicit suggestions as to the main reasons for the collapse of Thaksin’s attempt, and the subsequent emergence of serious social disturbances.

Covering the period before 1990s, the author is less appreciative of the contributions of FDI-driven industrialization. It is true that growth until the mid-1990s came about largely as a result of an increase in factor inputs, rather than improvement in productivity. Indeed, how to overcome the nature of the assembling industry and enhance high value-added in the manufacturing sector remains a vital policy agenda for the present-day economy. Therefore, to enhance investment in human capital is no doubt crucial. However, it is also a fact that the Thai economy in the 2000s has shown another possible side. After the Asian financial crisis in 1997, trade balance went from deficit to surplus with remarkable growth in financial assets, both in macroeconomic savings and foreign assets. Entering the 2010s, domestic private corporations have actively expanded and diversified their businesses, and in the process of enlargement they have been aggressively expanding business relationships with, or even been acquiring, Japanese and US companies with their now abundant cash flow.

In general, there are a few patterns in technological progress in relation to fund-raising channels. Technological progress by technology diffusion through FDI will hit its limits sooner or later. In the process of catching up with Japan and Korea, under strong government interference, the evaluation capabilities of banks played a major role in the acquisition of new technology. In Taiwan, however, the technological progress was realized mainly through mutual mergers and acquisitions (M&A) through self-financing by the companies. Lastly, as in North America, the most dynamic innovation in the world has been occurring through affluent risk money on the market. The current pattern in Thailand seems to resemble that of Taiwan’s experience. The future jump in technological progress may be achieved through technology acquisition by M&A activities even under persistently weak government intervention.

In sum, this book invites readers to stand in front of an entrance gate that poses questions about Thailand’s future prospects. Yet regrettably, it is silent in offering direct answers since it covers the earlier period prior to the 1990s and will never be updated. Instead of definitive answers,

the book gives us many excellent insights drawn from economics, economic history, and political economy, insights that cut right and deeply into the question. This is where I believe the essential value of the book lies. Professor Somboon's posthumous manuscript is an excellent academic work as well as a nice textbook on economic development in Thailand. Above all, however, the readers will be impressed by this book's celebration of the life and career of one faithful economist who dealt clear-eyed and courageously with the economy of his home country.

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Gambling with the Land: The Contemporary Evolution of Southeast Asian Agriculture

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Gambling with the Land is one of a series of publications resulting from an international research project on "Challenges of the Agrarian Transition in Southeast Asia" funded by the Social Sciences and Humanities Research Council of Canada. The main aim of this book is to illustrate ongoing agricultural intensification and expansion throughout Southeast Asian countries by means of an analysis of statistical data. The book focuses in particular on rapid agricultural transformation that began in the middle of the twentieth century, and draws on statistics relating to agricultural production such as crops, livestock, land, production, yields, irrigated areas, the application of chemical fertilizers, the use of tractors, and so on. In spite of the limitations of the database examined in the book, in terms of both time and space and the quality of the data, the authors have managed to present a general analysis of agricultural data and offer a contemporary account of changes taking place in Southeast Asian agriculture.

The authors identify four processes behind the agricultural transformation occurring in Southeast Asian countries: commoditization; globalization; "agriculturalization"; and relays and complementarities of agriculture among nations. These four processes have unevenly developed across the countries and have been influenced by various factors such as a range of national policies, a number of political events, wars, colonialism, regional and international agencies, and the ecological settings specific to the region. These processes bear out a unique feature of Southeast Asian countries: agricultural intensification and expansion go hand-in-hand, thereby contradicting the widely held belief that agricultural development intensifies only after expansion. "Agriculturalization" is the most interesting process discussed in the book. Research and statistical data confirm that there is an increase in labor migration as a result of the shift from agriculture to