

*Local Economy and Entrepreneurship
in Thailand:
A Case Study of
Nakhon Ratchasima*

YOKO UEDA



1995
KYOTO UNIVERSITY PRESS
JAPAN

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Published by
Kyoto University Press
Kyoto, Japan
ISBN 4-87698-018-7 C3034 P3000E

*Local Economy and Entrepreneurship in Thailand:
A Case Study of Nakhon Ratchasima*

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Dedicated to the people of Khorat

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*Local Economy and Entrepreneurship in Thailand:
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Preface
Notes

Preface

This study analyzes provincial economies and local entrepreneurship in Thailand on the basis of research that I conducted in Nakhon Ratchasima (NM), with special reference to NM City (Thetsaban Muang NM). Some parts of this study have already been published. Chapters 2 and 3 are based on a revision of my "Research Note: Characteristics of Local Entrepreneurs in Nakhon Ratchasima City" (published in *Southeast Asian Studies*, vol. 30, no. 3, December 1992), a revised version of which will be compiled in a forthcoming book (McVey, Ruth and Taylor, Robert, eds. *Money and Power in Provincial Thailand* (working title). New York: Southeast Asia Program, Cornell University). Chapter 4 is a revision of "The Development of Commercial Banking and Financial Businesses in the Provinces of Thailand" (*Southeast Asian Studies*, vol. 31, no. 4, March 1994).

A number of people, many more than I can mention, have helped me to complete this work. First of all, I would like to express my heartfelt gratitude to those individuals whom I interviewed in Nakhon Ratchasima. Despite hectic timetables, many entrepreneurs graciously made time for me to conduct interviews, and willingly provided me with a lot of precious information about their careers and businesses. Some were so understanding as to talk to me for several hours, to take me to see their factories and facilities, or to meet me several times.

Many public and private organizations also lent their cooperation to my survey. The Provincial Office of NM and the Municipal Office of NM provided me with local statistics and documents. The Northeastern Regional Branch of the Bank of Thailand was helpful in collecting economic data about NM and the Northeast. I am particularly indebted to Mr. Songkwan Suwantaemee, the Director (at that time) of the Northeastern Regional Branch of the Bank, and Mr. Praneet Chotikiratavech, the Chief of the Economic Research Section of that branch, who answered my questions about financial businesses. In NM, private business organizations, such as the

Chamber of Commerce and the Federation of Thai Industry, which had a considerable membership among local businessmen, were also informative sources. I would also like to express my gratitude to Mr. Khomgrid Sertnaung, the office head of the Chamber of Commerce (NM Branch), whose information was very useful to my research. Committeemen of Chinese societies in NM were also informative. I especially wish to thank Mr. Suwan Chanrattanaprida, the president of a foundation for Teochiu Chinese (*Munlanithi Lak Siang Siang Tung*) at that time, and Mr. Sansoen Chongcharoenchai, the ex-president of a society for Hakka Chinese (*Samakhom Haka Nakhon Ratchasima*). These two local leaders furnished me with information concerning local Chinese business circles and the Chinese way of business. Interviews with Mr. Soontorn Junrungsee, the editor of a local newspaper, were of a great help in understanding the situation of local politics in NM.

I must add a special note of indebtedness to Professor Shinichi Ichimura, Vice Rector, Osaka International University, and Professor Hisashi Watanabe, Kyoto University, for their long encouragement and support in continuing my study of the Thai economy. I would also like to mention Rector Krirkkiat Phipatseritham of the University of the Thai Chamber of Commerce and Dr. Akira Suehiro of Tokyo University, and Dr. Sompop Manarungsan of Chulalongkorn University for their helpful comments and advice. I must give a special note of thanks to Professor Kunio Yoshihara of Kyoto University for his help and support. He has read through my draft of this work and made many useful suggestions. Last (but not least), Mr. David J. Askew, Mr. Peter J. Hawkes, and Dr. A.G. Geddes have also been extremely helpful in refining my English drafts.

I am grateful for the help of all these individuals. Without this help, my research would have taken a lot longer and not been quite as much fun. I have written this work in the hope that it will be of use to those concerned with provincial development in Thailand, and will stimulate others to become interested in what I think is a fascinating subject. I should finally state that the responsibility for any and all mistakes is mine.

Notes

Romanization

As a rule, Thai names and words in this study are romanized based on the Library of Congress system (all diacritical marks, however, are omitted). As with all rules, this one has some exceptions. One is the case of nationwide politicians and political parties whose names often appear in English newspapers and magazines, the spellings of which I have followed to avoid confusion. In the case of place names, I have used the most common English transliteration, too. The other exception I have made is for those individuals who presented me with their name cards with their names written in English. Here I have followed the spelling of their cards.

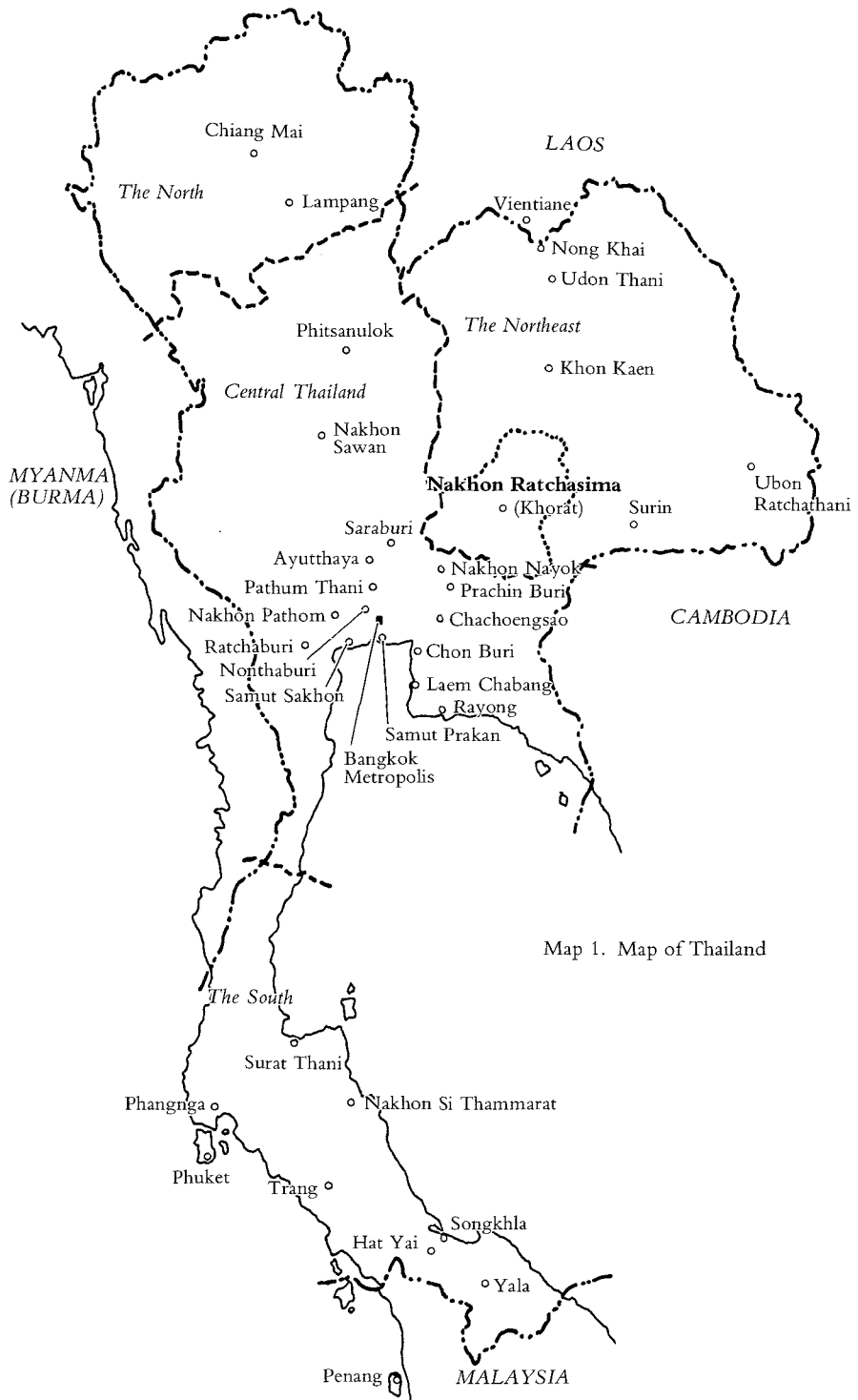
The Definition of 'Nakhon Ratchasima City'

In this paper, a *thetsaban* is defined as a local city and Thetsaban Muang Nakhon Ratchasima is called Nakhon Ratchasima (NM) City.* (I follow the Thai practice, and use NM as an abbreviation of Nakhon Ratchasima.) NM City was established in 1935, following the enactment of the Municipality Act of 1933. When I refer to the pre-1933 period, 'NM City' will be used to indicate the rather heavily populated district that existed in NM, or to be more precise, the area inside the fort (1,700 by 1,100 m) that was established by King Narai (r. 1656-1688) in the Ayutthaya Period.

*Hashimoto [1993:113-114] notes that this definition has a defect. According to him, the administrative area of a *thetsaban* is too small to be defined as a city, especially in comparison to Bangkok and Japanese local cities. The administrative areas of the second largest city (Nonthaburi) and the third largest one (Nakhon Ratchasima) are indeed each only about one fortieth as large as that of Bangkok (See Table 1). I will, however, use this definition, because there is no better alternative.

'Khorat'

NM is often called 'Khorat'. Kachirat [1989:19-22] notes that 'Khorat' is the old name for NM which local people have been fond of using since the Ayutthaya Period, and that, towards the end of the Ayutthaya Period, the royal court in Ayutthaya began to use the name 'Nakhon Ratchasima' officially. However, local people have continued to use 'Khorat' as well as 'Nakhon Ratchasima' until the present. In this paper, I do not use 'Khorat' except when quoting from other books, because of the territorial ambiguity of this word. 'Khorat' generally indicates the town of NM, corresponding more or less to the area that was enclosed by a fort of the Ayutthaya Period, and to the administrative district of NM City today. But 'Khorat' may also be used to indicate a broader area, including NM City.



Map 1. Map of Thailand

Local Economy and Entrepreneurship in Thailand:
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Chapter 1

INTRODUCTION

1-1 The Study of Local Entrepreneurship

The growth of big business groups in Southeast Asia has stimulated interest in the study of entrepreneurs who are regarded as one of the main driving forces of capitalism. Several works have analyzed the origins and characteristics of entrepreneurs, and the process of their growth. Yoshihara's book [1988] is useful for obtaining a comprehensive understanding of capitalists in ASEAN countries. ASEAN capitalists are here categorized as foreign, Chinese, and indigenous capitalists. One of the main points made in this book is that the capitalism of Southeast Asia is 'ersatz' because of technological backwardness. McVey's book [1992] is one of the latest to collect papers on prominent business leaders and their close relationships with the political authorities of Southeast Asian countries.

A number of works on entrepreneurs and business groups in individual ASEAN countries have also been published. In the case of Thailand, many of the influential business leaders are of Chinese origin and based in Bangkok, and they have attracted considerable attention. Skinner's work [1958] is the first comprehensive analysis of Chinese business leadership in Bangkok. Suthy [1980] reviews the socio-economic characteristics of business leaders through a questionnaire survey. Krirkkiat [1982] argues that big business groups have grown large enough to have established a highly concentrated ownership in many business sectors, and Krirkkiat and Yoshihara [1983] explain the distinguishing characteristics of big business groups in comparison with those of Japan and the Philippines. Hewison [1989] discusses the development of capitalists and the role of the state in Thailand. He demonstrates that finance capital, particularly banking capital, has been and continues to be a leading force in the development of the Thai political economy. From an economic-historical point of view, Suehiro [1989] makes a very detailed survey of the development of prominent capitalist groups, and Phanni [1986] examines the growth of capitalists in banking. Sirilak [1980] also uses a historical investigation in order to analyze the origin of Thai capitalists.

All of these works focus their attention on Bangkok-based business leaders and big business groups which are representative of capitalism in Thailand. The study of entrepreneurs in the provinces of Thailand has been rather neglected because of their slight influence on the national economy. Plaio's book [1987] on the history of capitalists in the North of Thailand is one of the few published works on provincial entrepreneurs. The growth of Chinese entrepreneurship in the South, which has had an intimate economic relationship with the Straits Settlements rather than with Bangkok, is described from a historical viewpoint in Phuwadol's unpublished dissertation [1986].

This lack of research in local entrepreneurship is not a peculiarity of scholars

interested in Thailand. The same may be said of works that investigate other Southeast Asian countries. Most research aims to demonstrate the growth of big business groups, which are usually based in big cities, and little attention has been paid to entrepreneurs in local areas. Robinson [1986], for instance, focuses on the development of what he calls the domestic capitalist 'class' within an authoritarian state structure in Indonesia, and analyzes the expansion of state corporations, military companies, Chinese capitalists, and indigenous capitalists. Yoshihara [1985] examines industrialization in the Philippines through a survey of *influential entrepreneurs in manufacturing, which are classified into three groups (foreign, Chinese, and Filipino capital)*. Lim Mah Hui's book [1981] reveals that there exists a high degree of concentration of ownership and control in Malaysia's corporate sector, based on a theoretical analysis of the largest corporations in Malaysia. This book suggests that economic concentration has had not a small effect on the society and the nation in Malaysia.

On the other hand, there are several works, such as Bruch [1984] and Clapham [1985], which investigate small and medium scale industries in Southeast Asia. However, their main interest is in small entrepreneurs in general, and not particularly in local businesses in the provinces. Geertz [1963] has written one of the few publications that focuses on entrepreneurship in local areas. Through case studies in two towns in Java and Bali, Geertz argues that new entrepreneurship springs from petty market traders and the traditional elite. However, his argument is one which would be difficult to generalize.

I hope to make a new contribution to studies on entrepreneurship in Southeast Asia with this study. More precisely, my efforts are focused on local entrepreneurship in the provinces of Thailand. This work is mainly based on research that I conducted for over one year, together with a short subsequent trip, in Nakhon Ratchasima (NM), although the results of earlier research that was conducted in Bangkok and adjoining provinces during another year-long stay is also used. My primary purpose here is to analyze why local entrepreneurs in the provinces of Thailand have failed to grow vigorously enough to be a driving force behind the economic development of Thailand.

Study of the economies and entrepreneurship of provincial Thailand is significant because it helps explain the most notable characteristics of the Thai economy, namely, the increasing concentration of economic functions in Bangkok, together with the progress of economic growth, and the decidedly important role played by Bangkok-based capital. Entrepreneurs in the provinces have displayed only inconspicuous activity. The lack of competitiveness of local entrepreneurs is at least one factor that can explain the fact that local cities in Thailand have not developed into urban centers large enough to be comparable with Bangkok. My investigation into local entrepreneurship thus also aims to give an answer to the question of why the economies of the provinces are small and weak in Thailand.

1-2 Research Methods and Sources of Information

I have chosen NM City (Thetsaban Muang NM) as my research field for investigating local entrepreneurship in Thailand. NM City is virtually the second largest city in Thailand after the Bangkok Metropolis. In other words, NM City is the first among local cities, and this is why I selected it as a field site. Although, as Table 1 shows, its population in 1991 of 202,503 was smaller than that of

Table 1. The Top Ten Cities in Thailand, 1991

Rank	City	Population	Area (km ²)
1	Bangkok Metropolis	5,620,591	1,568.7
2	TBM* Nonthaburi	264,201	38.9
3	TBM Nakhon Ratchasima	202,503	37.5
4	TBN* Chiang Mai	161,541	40.0
5	TBM Hat Yai	142,351	21.0
6	TBM Khon Kaen	131,478	46.0
7	TBM Nakhon Sawan	108,569	27.9
8	TBM Ubon Ratchathani	98,950	29.0
9	TBM Songkhla	82,167	6.7
10	TBM Udon Thani	78,489	8.3

Source: NSO [1993], Samrit [n.d.] and survey by the author at Samnakan TBM Nonthaburi (the Municipal Office of Nonthaburi).

Note: See Note (The Definition of 'Nakhon Ratchasima City') for a definition of local cities.

* TBM and TBN are abbreviations of *thetsaban muang* and *thetsaban nakhon*, respectively.

Nonthaburi City, which leapt to the top among local cities through a large expansion in area in 1988, the latter is located in the suburbs of Bangkok, and can be regarded as part of Greater Bangkok.

Data on entrepreneurs was collected mainly through interviews with them during my stay in NM City from February 1991 to February 1992, and in January-February 1993, although some published materials such as newspapers (including two local newspapers published in NM City) were also used. My first task was to identify the most influential entrepreneurs in this local circle. They were selected on the basis of their experiences as committee persons in leading associations such as the Chamber of Commerce (NM Branch), the Federation of Thai Industry (NM Branch), and several Chinese associations. Entrepreneurs with experience on the provincial council of NM Province or the municipal council of NM City were also included. Newspapers published in NM City were also informative in selecting the leading entrepreneurs in this area. Once I had compiled a list, I showed it to the office head of the Chamber of Commerce, Mr. Khomgrid Sertnaunsang, who added the names of several important persons. This gave me a total of 67 individuals. However, in this paper, I have ex-

amined only 46 entrepreneurs. Except for one individual, who rejected my request for an interview, I gained information about them all through interviews. Some of these businessmen¹ made time to meet me two or three times. Although I was not able to interview one businessman, data on him was collected from published materials. This paper does not refer to the other 21 businessmen for various reasons: some declined to be interviewed, the whereabouts of others was unknown, and some were dropped from analysis after an interview with them revealed that they were not as important as had originally been expected.

This study tries to use the real names of the interviewees wherever possible. I have used the real names of this group of local entrepreneurs mainly because I felt that to do so would help to attain (and maintain) an high level of accuracy. Anybody who wants to use (and check) the results of my research will not have to try and figure out who *Mr. X* and *Mr. Y* are. As anyone who has read Skinner, for instance, knows, this can be an interesting way to spend time, and is often quite obvious, but can also be quite frustrating. I have not used the real names of entrepreneurs in several cases, mainly because I felt that to do so might be offensive to them.

I should also perhaps point out that all of my interviewees whose profiles are included in the Appendix consented to my request for interviews for academic purposes, and that information obtained from other sources (such as newspapers) gives their real names.

The rest of this work is organized as follows. Chapter 2 summarizes the economic history of NM and its economic structure after 1975, using secondary materials and statistics. Chapter 3 outlines the major characteristics of influential entrepreneurs in NM on the basis of data mainly collected through interviews with them. Here, the rise and growth of local entrepreneurship is discussed. In Chapter 4, local financial businesses of NM and other provinces are taken into consideration. This is because an analysis of the development of financial businesses illustrates vividly the entrepreneurship of local Chinese merchants, and because financial businesses are good examples for explaining how economic regulation distorted resource allocation, dampened the growth of local entrepreneurship, and impeded the economic development of the provinces. Chapter 5 analyzes factors which have prevented local entrepreneurs of the provinces from growing as much as their counterparts of Bangkok, based on facts described in Chapters 3 and 4. First, the theory of urban economics is used to argue that several advantages determined the Bangkok-dominant economic structure in Thailand originally. Next, it is demonstrated that rent-seeking activities of entrepre-

¹ I should perhaps point out at the outset of my study that all 46 entrepreneurs were male.

neurs, which imposed far heavier losses and damages on economic development in the provinces than in Bangkok, helped Bangkok attain a great economic superiority over the provinces. Concluding remarks are made in Chapter 6. The last part of this work consists of an Appendix, which includes profiles of influential entrepreneurs who are classified according to the nature of their businesses and their careers.

Local Economy and Entrepreneurship in Thailand:
A Case Study of Nakhon Ratchasima

Chapter 2

AN OUTLINE OF THE ECONOMY IN NAKHON RATCHASIMA

In this chapter, the economic history of NM is presented, mainly with the use of secondary materials, and its economic structure is surveyed on the basis of statistics. Due to a lack of data, I refer here only to the economic structure of the post-1975 period.

2-1 A Brief Economic History: Four Factors Which Had a Great Effect on the Economy in Nakhon Ratchasima

2-1-1 The Opening of the Railway from Bangkok to Nakhon Ratchasima

NM City is located 256 km from Bangkok in the southwestern part of Northeast Thailand, and has been important since the Ayutthaya Period (1351-1767) as one of the main trading centers of Thailand. NM City was originally a transit center. Various products from the rich forests of the region were collected there and transported to Ayutthaya by caravans of oxcarts and *kwian*, a local cart. Trade between NM City and Vientiane became so prosperous that the flow of goods between Vientiane and Ayutthaya was diverted to the pass from Nongbualamphu (Udon Thani Province) to NM City instead of the route along the Pa Sak River, which had previously enjoyed more traffic [Kachirat 1989:14, 17-19].

Geographical factors helped NM City to develop as a trading center in the region, or as the gate to the Northeast. The Northeast is to a degree a closed-in area, with mountain ranges both to the west and the south. The Saraburi-Khorat pass through the narrow opening between the two ranges (where the Friendship Highway runs today) was for a long time the main point of access to the Northeast from Central Thailand [Donner 1978:631; Kachirat 1989:15]. NM City is located on this pass, and was thus a center located close to Central Thailand. Traffic between Ayutthaya (Bangkok after the fall of Ayutthaya in 1767) and the Northeast was obliged to pass through NM City and eventually goods transported from Central Thailand and the Northeast, and from further regions, came to be traded there.

When the difficulty of communication and the 'tyranny of distance' was partly conquered with the opening of the railway from Bangkok to NM City in 1900, economic relations between NM City and Bangkok began to strengthen. First, the positive effect that the opening of this railway had on NM City was shown in the increase of the amount of rice that was transported through NM City to Bangkok. This rice contributed to Thailand's rice exports, which increased sharply after the Bowring Treaty was signed. According to Ingram [1971:47], after the railway reached NM City, "shipments of rice and paddy began to move from the vicinity of Korat [Khorat] to Bangkok." The volume of rice shipments from the Northeast steadily increased as the railway extended

further into the region. By 1935, the Northeast provided nearly 20 percent of total Thai rice exports [*loc. cit.*].

However, the Thai government was sluggish in following up this expansion of the railway network into the Northeast after 1900. It was not extended eastward to Ubon Ratchathani until 1926, nor northward to Udon Thani until the 1930s, and not to Nong Khai until 1955. Vella [1978:81-82] explains why Thai officials hesitated to develop the Northeast even though they felt strongly that such development was necessary. According to Vella, the authorities in Thailand were compelled to hold railway extensions in abeyance for fear of goading France, which wanted to hold the basin of the Mekong River under her control. At that time, France was expanding her power in Indochina and during the period from 1867 to 1907 had succeeded in gaining large territories that had previously been under Bangkok's suzerainty [Wyatt 1984:195-196, 201-208]. If the Northeast had been equipped with a well-organized railway, NM City might well have grown faster through deepening economic relations with Bangkok, but, in this case, political concerns of sovereignty overruled any possible economic gains.

2-1-2 *The Making of a Chinese Society in Nakhon Ratchasima*

The second important consequence of the opening of the railway was an influx of Chinese, particularly of Teochiu Chinese, from Bangkok. Kiangcu Saeung, a ninety-two year-old Teochiu Chinese, for instance, whose family has a long history in NM, explained that his father came and resided in NM because the railway from Bangkok reached NM. In this sense, its opening advanced commercialization in NM through stimulating a migration of Chinese merchants.

According to Malloch [quoted in Skinner 1957:87], NM City was one of more than 60 towns in Thailand which had a sizable Chinese population in the mid-19th century. Skinner [1957:84] suggests that, as was the case in other up-country towns in Thailand, Chinese pioneers who had resided in NM City since the earlier years of the 19th century were Hainanese, rather than Teochius or Cantonese. Since the latter half of the 19th century, "Khorat swelled with the influx of Chinese" as an exchange economy expanded upcountry and "this new movement included a much higher proportion of Teochius and Hakkas" [Skinner 1957:88]. In NM City the boom in numbers of Teochius and Hakkas only occurred after 1900, when the railroad from Bangkok reached there. Only then were the Hainanese reduced to a small minority [*ibid.*:88-90, 198]. My research gives almost the same results about the proportion of dialect groups of Chinese entrepreneurs, although Hakkas are far smaller in number than Teochius (see Table 10).

On 19 September 1941, a royal decree named Amphoe Muang NM (includ-

ing NM City) as a prohibited area together with two other *amphoe*, presumably because army bases were located there. Foreign nationals were forbidden to enter such prohibited areas, and foreign residents were forcibly evacuated. This prohibited-area policy, which continued until being terminated (together with the War) in 1945, forced Chinese people who did not possess Thai nationality to leave Amphoe Muang NM and imposed hardships on them [*ibid.*:270-272, 274-275; Thavi 1973:121-123]. However, in 1947, Amphoe Muang NM, together with Amphoe Muang Ubon Ratchathani, was one of the two *amphoe* in the Northeast with the highest concentration of Chinese people, while the Northeast as a whole had a smaller concentration of Chinese than either the Center or the South [Skinner 1957: Map 6]. This indicates that NM City was one of the commercial centers in the Northeast and attracted a sizable number of Chinese at that time, in spite of the enforcement of the prohibited-area policy for foreign nationals from 1941 to 1945.

Nevertheless, it should be noted that NM City was neither an important center for Chinese nor an important economic center in Thailand as a whole. Quoting from Skinner [*loc. cit.*] again, in 1947, the heaviest concentration of Chinese was found in those several central provinces around the upper Gulf of Thailand with Bangkok at the center, and in Nakhon Sawan and Phitsanulok in the North, as well as in several towns in the South, such as Surat Thani, Phuket, and Hat Yai.

This geographical distribution of Chinese seems to be closely bound up with the prosperity of rice-related industries in the basin of the Chaophraya, and with the expansion of rubber production and tin mining in the South. These three products amounted to between nearly 55 percent to more than 80 percent of total exports during the six decades from 1890 to 1951 [Ingram 1971:94], and economic development in Thailand was stimulated to a great extent by their production and export.¹ Certainly, as already noted, the Northeast contributed to the expansion of rice exports to some extent after 1900. However, the Northeast lacked a rice milling industry (in which Chinese have been predominant in Thailand). In 1929, only 4.6 percent of all provincial rice mills in Thailand (rice mills located outside of Bangkok) were located in the Northeast [Skinner 1957:214]. Without any other commodities which the world market demanded, the Northeast attracted a smaller number of Chinese than the Center and the South.

The history of branch banking in the provinces also indicates that NM City was a less important economic and financial center than Southern and Northern

¹Ingram gives four commodities — rice, rubber, tin, and teak — as major exports during this period. These four commodities together accounted for between about 60 percent to 90 percent of total exports between 1890 and 1951. However, I have omitted teak because Europeans played a much more significant role than Chinese in the development of the teak industry.

cities. In 1943, when the first branch of a commercial bank was established in NM, six other branches had already been established in Southern and Northern cities.² These bank branches were closely related to the trading of tin and rubber in the South and teak in the North (see p. 75 Note 25). Judging from the Chinese population and the establishment of bank branches as an index of commercialization and economic growth, NM City can be seen to be a regional commercial center for Chinese in the Northeast, but not a hub of commerce and industry which afforded employment to a large number of Chinese.

Skinner [1958:13] judges that “by the end of the First World War, Chinese society in Bangkok could legitimately be called a community.” His argument is based on the circulation of Chinese newspapers, the establishment of cross-speech group organizations in the social welfare and business worlds, and the existence of leaders who spoke for Chinese people as a whole, in Bangkok [*loc. cit.*; Skinner 1957:171]. According to my research, the Chinese society in NM City has never been united close enough to be defined as a ‘community’ in the sense that Skinner uses the word in reference to Bangkok. Chinese people in NM City seemed not to have established a cross-speech group like the Chinese Chamber of Commerce which “became *the* organization representing the Chinese community as a whole” soon after being organized in 1908 in Bangkok [Skinner 1957:170-171]. Chinese people have published no local Chinese newspapers in NM City. In addition Hakka and Teochiu Chinese, at least, were several decades behind their counterparts in Bangkok in establishing speech-group associations in NM City. A Hakka association was established in Bangkok in 1909 [*ibid.*:167], while in NM City in about 1949; a Teochiu association was registered formally in 1938 in Bangkok [*ibid.*:260], although its counterpart in NM City was not set up until 1957 (see 3-3). To be accurate, although the Chinese in NM City may have failed to form a cross-speech group community, Hakka Chinese and Teochiu Chinese came to strengthen the unity of each speech group through establishing associations only after 1945, when the prohibited-area policy was abrogated.

2-1-3 *The Vietnam War*

Two other factors had a distinct effect on the economy of NM City. The Vietnam War (1960-1975) was one of these. The War certainly exerted a favorable influence upon the economy of NM City because one of the five US air bases in the Northeast was located in NM. This base was stationed by the United States army from 1963 to 1975, and fully so from 1965 to 1975.³ It is diffi-

²The Thai monetary authorities did not intervene in the branching of commercial banks until 1962 (see 4-2-3). Therefore, we can estimate the importance of a city in financial circles from the history of branch banking during the pre-1962 period.

cult to show the effect of the war on NM with such indicators as the growth rate of GPP (Gross Provincial Product) because of the limitation of available data. I can thus only give a rough description of the improvement in economic conditions in the Northeast.

As a result of having these US military bases, the Northeast as a whole came to obtain “one of the best transportation systems in Asia” [LePoer 1989:72]. In addition, the stationing of US forces seemed to improve regional income distribution by boosting the economy of the Northeast. According to Ikemoto’s estimation [1991:57-65], income inequality in terms of household income between the Northeast and the whole kingdom decreased during the period from 1962 to 1975, and that between the Northeast and Bangkok decreased from 1962 to 1981. It can be assumed that the existence of US bases was one of the factors which improved the income distribution between the Northeast and other regions. In NM, the local economy might well have expanded faster than those of other provinces of the Northeast which had no US bases.⁴

2-1-4 *The Chatichai Government*

The last factor that needs to be noted is the Chatichai government (August 1988 – February 1991). Gen. Chatichai Choonhavan, who has been an elected member of parliament for NM Province since 1975, was elected prime minister in August 1988. Although he held that position for only roughly two and a half years until February 1991, when his government was brought down by a coup d’état, the Chatichai government exerted a considerable effect on the economy of NM.

It is widely said that Chatichai took the initiative in starting several projects in NM that aimed at boosting the local economy. Several large projects were promoted during those two and half years, such as the ‘Thailand Agricultural and Industrial Exposition 1992’ (EXPO), the Suranaree Technology University (STU), which is the first university outside Bangkok that stresses the teaching of modern technology, and a project to widen the Friendship Highway (Saraburi-NM). Although the Chatichai government inherited the last two projects from its immediate predecessor, that of Gen. Prem Tinsulanonda, Chatichai announced after gaining office that it was he and the Chart Thai Party that had originally brought these projects to NM [KRWYKI 2 October 1991; PCT 12-14 December 1991].

³Based on a survey by the author at the Second Army base in NM.

⁴I must stress, however, that if the main reason behind this decrease in income inequality is due to transfers of capital from taxpayers in the U.S.A. (and Bangkok) to NM City, then this may have expanded the local economy, but in no way should be seen as economic development.

Some projects might have been backed by members of parliament for NM who, in the last Chatichai government formed in December 1990, held high positions in those ministries which were responsible for these projects. In that cabinet, 6 of the 15 members of parliament for NM Province held ministerial positions, including the prime minister. One of these members became a deputy minister of communications, which has considerable power in deciding nationwide transportation projects, and another 2 members of parliament were inaugurated as deputy education ministers. The interests of Suwat Liptapallop, a deputy minister of communications at that time, particularly seemed to be reflected in the Friendship Highway project, because a building contract company which he ran with his family in Bangkok obtained a contract to expand part of that highway [Thonkon 1991]. Handley [1992] reported that "there was no official project-handling procedure [in the Chatichai government], so a single minister could formulate a project or concession of any size and forward it to the cabinet" and that "with strong support from cabinet colleagues, a concession project could be finalized without consulting the Finance Ministry, the NESDB [Office of the National Economic and Social Development Board], or the ministry's own planning staff." *AWSJ* [13 July 1992] also mentions that the system aggravated pork-barrel politics in Thailand and that "the parliament approves only broad budget outlines for each ministry, after which the cabinet decides how the money is spent." It is likely that those schemes originated with an influential figure whose interests were linked with NM. The fact that both the EXPO and STU projects were postponed after Chatichai's government was overthrown seems to support this argument.

Having a native son as prime minister, NM was economically stimulated through these big projects. However, the data of GPP in 1988 and 1989, the latest available, does not show outstanding growth in NM Province compared to the rest of the country at that time, although it does indicate a rather high growth rate in NM Province (Table 2). The period that Chatichai was in power, from 1988 to 1991, corresponds to the time when Thailand realized a high economic growth rate. Although NM Province enjoyed very respectable growth rates (10.4 percent in 1988 and 9.0 percent in 1989, for instance), these rates could not by any means be called outstanding when compared to those of Thailand in general or the Northeast. Furthermore, NM Province's growth rates in 1988 and 1989 were partly a result of the high growth rate in the agricultural sector.

Nevertheless, during that period, a number of local entrepreneurs in NM City made plans to expand their investments. The largest investment among these, I estimate, is the Suranaree Industrial Zone (SIZ) (see 3-6) that was opened in Amphoe Muang NM in 1989. This privately-operated industrial zone was developed with the cooperation of a local businessman and members of parliament for NM Province, including Chatichai. The EXPO plan, combined with an in-

Table 2. Economic Growth Rate (at Constant 1972 Prices) for the Whole Country, the Northeast, and NM Province, 1975-1989 (%)

Year	Whole Kingdom GDP	the Northeast GRP	NM Province GPP
1975*	6.8	17.0	29.8 (52.1)**
1976	8.7	1.6	7.5 (10.6)
1977	7.2	-2.7	-0.7 (-4.2)
1978	10.1	14.8	14.5 (17.6)
1979	6.1	6.1	0.1 (-3.0)
1980	5.8	7.4	10.5 (11.2)
1981*	8.7	10.6	18.3 (-8.5)
1982	4.1	7.0	6.0 (5.9)
1983	7.3	8.8	8.8 (13.0)
1984	7.1	7.3	7.7 (1.9)
1985	3.5	4.7	-0.6 (3.0)
1986	4.9	1.5	1.7 (-9.9)
1987	9.5	2.7	0.6 (-9.8)
1988	13.2	11.9	10.4 (18.6)
1989	12.0	8.1	9.0 (9.2)

Source: NESDB [2521, 1986, 2529, 1991]

* NESDB published several series of data on GRP and GPP after 1974. I have used as late a series as possible. However, the data for 1975 and 1981 might seem to be aberrant, because the series of data for 1975-1979 and 1981-1989 leave out 1974 and 1980.

** Values in parentheses are for the agricultural sector.

crease in investment in the SIZ from Bangkok and abroad, induced several local businessmen to invest in the construction of new high-class hotels in NM City, although construction work on some of these came to a standstill after Chatchai's government was overthrown. Two big, modern department stores were opened in NM City in 1991, each by different local families, and attracted a good deal of public attention. Both stores are as modern as any in the Northeast. One of the two families also plans to construct a 23 storey complex building in NM City, which is expected to be the largest building in the Northeast when completed. One family member stated that they conceived the idea of the complex building in 1988, when the climate seemed to be suitable for an expansion in investment [LTT 5-20 December 1991]. Other local entrepreneurs also rushed through plans to increase investment during the two and a half years when Chatchai's government was in power, and several new enterprises thus emerged in NM.

All of these factors led to a sharp increase in the land prices in those districts that face trunk routes around NM City. According to the annual report of the NM Chamber of Commerce of 1989 [Hokankha Changwat Nakhon Ratchasima 1990:93], the price of land near the STU and the site of EXPO rose four- to ten-fold during the short period of one year from the beginning of 1989. The land around the SIZ also experienced a sharp increase in price during the same period.

It is understandable that these projects and the following improvement in infrastructure induced people to rush to invest in land there. People from Bangkok as well as local people purchased land.⁵

2-2 The Economic Structure, 1975-1991

The economic structure of NM can be illustrated by reference to statistics. Since I was unable to collect data on economic production for NM City, I here cite the GPP of NM Province.

First, I shall examine the position of NM Province in the Thai economy in terms of population and the Gross Domestic Product (GDP). According to Table 3, NM Province held a stable proportion of 4.1 or 4.2 percent of the kingdom's population throughout the 1975-1990 period. On the other hand, its share of the GDP decreased: from 2.4 percent in 1975 to 2.2 percent in 1980, and to 1.8 percent in 1990. The reverse phenomenon, that is, an increase in the GDP and

Table 3. The Share in GDP, Population, and per capita GDP: NM Province, the Northeast, Bangkok Metropolis, and Bangkok and Vicinity, 1975, 1980, 1985, and 1990

GDP (%)					
Year	NM Province	Northeast	Bangkok Metropolis	Bangkok and Vicinity*	Whole Kingdom
1975	2.4	17.2	29.3	36.8	100.0
1980	2.2	15.0	34.8	42.4	100.0
1985	2.1	13.9	35.9	46.2	100.0
1990	1.8	11.6	39.4	52.2	100.0
Population (%)					
1975	4.1	35.1	9.9	14.1	100.0
1980	4.2	35.2	10.4	14.8	100.0
1985	4.2	34.9	10.8	15.5	100.0
1990	4.1	34.5	11.0	16.0	100.0
Per capita GPP, GRP and GDP (Baht)					
1975	4,244	3,527	21,309	18,827	7,221
1980	7,642	6,257	48,930	42,155	14,660
1985	10,282	8,193	68,322	61,228	20,483
1990	16,717	13,152	139,642	127,099	38,908

Source: NESDB [2529, 1994]

Note: GDP at current market prices.

* Bangkok Metropolis, Samut Prakan, Pathum Thani, Samut Sakhon, Nonthaburi, and Nakhon Pathom.

⁵Based on an interview with Mr. Sunthon Chitamnuaiwatthana, a member of the committee of the NM Chamber of Commerce, who is well informed about land dealing in NM Province.

population ratio, happened in Bangkok and her vicinity (five neighboring provinces). The increase in the share of the GDP by Bangkok and vicinity from 1975 was particularly marked, while GDP and population growth in Bangkok Metropolis was sluggish. Economic activities in Bangkok began to move to suburban areas, and new investments poured not into Bangkok but also into her neighboring provinces. This tendency seemed to strengthen when Thailand experienced two-digit economic growth during the period from 1988 to 1990. In 1990, Bangkok and the five neighboring provinces, with 16 percent of the Thai population, produced more than half of the GDP. Data on per capita GDP shows that the disparity between Bangkok and NM Province, or Bangkok and vicinity and NM Province grew, if we simply compare figures for 1975 and 1990. In 1975, the ratio of per capita GDP between Bangkok Metropolis and NM Province was 5.0:1, and that between Bangkok and vicinity and NM Province was 4.4:1. These rose respectively to 8.4:1 and 7.6:1 in 1990. It should be said that in 1991, NM Province topped the list of the 17 provinces of the Northeast in terms of GPP, and held third place in terms of per capita GDP [NESDB 1994].

The agricultural sector occupies a predominant place in the economy of NM Province. Table 4 shows the shares of the agricultural and non-agricultural sectors in the province's GPP. The agricultural sector accounted for more than 40 percent during the period from 1975 to 1980. This gradually fell through the 1980s to 26.2 percent in 1991. Nevertheless, the agricultural sector was still the largest single industrial sector in NM Province in terms of GPP.

Table 4. Shares of Agricultural and Non-agricultural Sectors in GPP of NM Province, at Current Market Prices, 1974-1991 (%)

Year	Agriculture (Crops)	Non-agriculture	Total
1974	36.2 (27.4)	63.8	100.0
1975	45.0 (37.8)	55.0	100.0
1976	46.1 (38.7)	53.9	100.0
1977	43.0 (35.4)	57.0	100.0
1978	42.3 (36.6)	57.7	100.0
1979	44.9 (38.5)	55.1	100.0
1980	42.5 (35.9)	57.5	100.0
1981	34.2 (25.1)	65.8	100.0
1982	30.9 (23.3)	69.1	100.0
1983	37.7 (30.0)	62.3	100.0
1984	30.3 (23.9)	69.7	100.0
1985	28.4 (21.7)	71.6	100.0
1986	29.0 (21.8)	71.0	100.0
1987	27.2 (19.3)	72.8	100.0
1988	27.9 (20.7)	72.1	100.0
1989	27.9 (20.5)	72.1	100.0
1990	25.2 (18.3)	74.8	100.0
1991	26.2 (19.7)	73.8	100.0

Source: Thailand, NESDB [2521, 1986, 2529, 1994].

Crops were the most important agricultural products. The data on crops in Table 4 might be underestimated after 1982 because the classification of agricultural products was further subdivided from 1981. Notwithstanding this inconsistency, Table 4 underlines the significance of crops in NM Province throughout the period under consideration. Crops still accounted for 19.7 percent of GPP in 1991. The staple crops in this province are rice and cassava. Although the exact percentages of GPP are not available, according to Samnakgan Kaset Changwat NM, in the crop year 1990/91, rice and cassava together accounted for more than 70 percent of the planted area and more than 60 percent of its crop production. Cassava is of special importance in NM Province, which is one of Thailand's cassava-producing centers. In 1988, NM Province led the kingdom in cassava production, having a good lead over the second placed Rayong Province. NM Province developed into a cassava-producing center from the 1970s as exports increased, and provided from about 19 to about 27 percent of the whole country's cassava production throughout the 1980s [Thailand, Center for Agricultural Statistics 1983, 1985, 1988].

It hardly needs to be said that the rich availability of rice and cassava influenced the structure of local manufacturing. Cassava, a root crop, is processed into tapioca flour and tapioca pellets. As Table 5 shows, rice milling and tapioca

Table 5. Factories in the Manufacturing Sector of NM Province, 1989

Type of Manufacturing	Number of Factories	Registered Capital (Million Baht)	Number of Employees
Rice Milling	4,559 (73.3)	714 (6.1)	6,595 (14.2)
Cassava Processing	769 (12.4)	3,927 (33.4)	8,906 (19.1)
Others	894 (14.4)	7,124 (60.6)	31,035 (66.7)
Total	6,222 (100.0)	11,765 (100.0)	46,536 (100.0)

Source: Samnakgan Utsahagam Changwat Nakhon Ratchasima [n.d.]

processing are representative of the manufacturing sector in NM Province. In 1989, the former accounted for an overwhelming majority of the number of factories, and the latter accounted for more than one third of the registered capital.

Next, I will compare the industrial composition of the GPP of NM Province with that of the GDP and the Gross Regional Product (GRP) of the Northeast. Table 6 reveals a downward tendency of the agricultural sector in national accounting in NM Province as well as in the whole country (GDP). However, in NM Province, the agricultural sector accounted for more than a quarter of GPP and was still the largest sector in 1990. In the GDP, the reduction in the agricultural sector coincided with an increase in the manufacturing sector from 1975. But this was not the case in NM Province, where the share of the manufacturing sector did not grow. There, services, construction, and ownership of dwellings increased to replace the decreasing share of agriculture. A comparison with the

Table 6. GPP (NM Province), GRP (Northeast), and GDP Classified by Sector, at Current Market Prices, 1975, 1980, 1985 and 1990

GPP of NM Province				(%)
Sector	1975	1980	1985	1990
Agriculture	45.0	42.5	28.4	25.2
Mining and Quarrying	0.8	1.5	1.1	0.9
Manufacturing	11.4	8.9	8.8	9.5
Construction	4.1	6.4	9.0	9.5
Electricity and Water Supply	1.1	1.0	2.1	2.1
Transportation and Communication	3.4	3.2	4.4	5.6
Wholesale and Retail Trade	18.2	20.9	17.5	18.1
Banking, Insurance, and Real Estate	1.9	3.0	2.3	3.7
Ownership of Dwellings	1.8	1.2	5.6	4.7
Public Administration and Defense	5.7	6.2	7.6	6.9
Services	6.6	5.3	13.3	13.7
GPP	100.0	100.0	100.0	100.0
(Millions of Baht)	(7,186)	(14,987)	(22,096)	(38,883)
GRP of the Northeast				(%)
Sector	1975	1980	1985	1990
Agriculture	48.8	43.2	28.4	27.0
Mining and Quarrying	0.6	0.6	0.5	0.4
Manufacturing	7.1	6.9	6.7	8.3
Construction	5.0	5.3	8.1	7.9
Electricity and Water Supply	0.5	0.5	1.3	1.4
Transportation and Communication	4.0	5.6	4.2	3.9
Wholesale and Retail Trade	19.8	21.8	21.2	21.6
Banking, Insurance, and Real Estate	1.5	2.3	1.9	2.7
Ownership of Dwellings	2.0	1.5	6.6	5.4
Public Administration and Defense	4.6	5.7	7.4	7.1
Services	6.1	6.6	13.6	14.3
GRP	100.0	100.0	100.0	100.0
(Millions of Baht)	(51,279)	(102,841)	(147,326)	(254,113)
GDP				(%)
Sector	1975	1980	1985	1990
Agriculture	31.5	25.4	14.9	12.8
Mining and Quarrying	1.4	2.1	2.5	1.6
Manufacturing	18.1	19.6	21.9	27.3
Construction	4.3	5.8	5.1	6.1
Electricity and Water Supply	1.1	0.9	2.4	2.2
Transportation and Communication	6.3	6.6	7.4	7.2
Wholesale and Retail Trade	18.3	18.8	18.3	17.3
Banking, Insurance, and Real Estate	4.9	6.1	3.3	5.6
Ownership of Dwellings	1.5	1.1	4.2	3.0
Public Administration and Defense	4.1	4.1	4.6	3.5
Services	8.7	9.4	14.5	13.4
GDP	100.0	100.0	100.0	100.0
(Millions of Baht)	(298,895)	(684,909)	(1,056,496)	(2,182,100)

Source: NESDB [1986, 2529, 1994]

Northeast reveals that NM Province had a very similar industrial composition to the Northeast during the period of research. The table does not, however, confirm that NM City was the distribution center of the Northeast, which might be expected to show up in a strong wholesale and retail trade, and a strong transportation and communication sector.

Since agriculture has been the largest economic sector in NM Province, the economic growth rate, given in Table 2, was conditioned by growth in the agricultural sector. Between 1980 and 1984, NM Province realized a higher growth rate than the whole country because of favorable growth in the agriculture sector in all years except 1981 and 1984. From 1985, the situation reversed: the growth rate of NM Province failed to equal that of the whole country. However, in 1988 and 1989, when Thailand was in a ferment with a two-digit rate of economic growth, NM Province also attained very respectable growth rates; 10.4 percent in 1988, as a result of high growth in agriculture, and 9.0 percent in 1989, due to an expansion in agriculture and trade. In 1988 and 1989, the manufacturing sector, which had become the largest sector in the Thai economy from 1981 [Thailand, NESDB 1991], expanded by as much as about 17 (1988) and 15 (1989) percent in the country as a whole. But in NM Province, the manufacturing sector attained less than half of the national growth rate. Therefore, the manufacturing sector did not trigger high economic growth in NM Province as it did in the Thai economy overall.

Finally, I shall look at labor force statistics. The data for NM Province (Table 7) can be assumed to reflect the labor force structure of NM City rather

Table 7. Percentage of Population (aged 11 years and over) at Work:
Municipal Areas, April 1979–March 1980 (%)

Sector	NM Province	Northeast	Whole Kingdom
Agriculture	10.6	10.4	7.1
Manufacturing	7.9	9.3	18.0
Commerce	25.5	28.5	24.4
Services	43.3	37.2	29.3

Source: NSO [n.d.]

Note 1) This is the ratio to population (aged 11 years and over), not to the labor force. 2) Municipal areas include *thetsaban nakhon*, *thetsaban muang* and *thetsaban tambon*.

accurately, because NM City dominates the municipal population of this province. In comparison with the municipal areas of the Northeast and the whole country, NM Province is strong in services and is poor in manufacturing in terms of the labor force. This might be interpreted as showing that NM City is the service center for the Northeast.

Local Economy and Entrepreneurship in Thailand:
A Case Study of Nakhon Ratchasima

Chapter 3

CHARACTERISTICS OF ENTREPRENEURS IN NAKHON RATCHASIMA CITY

This chapter analyzes the characteristics of entrepreneurs on the basis of field research that I conducted in Nakhon Ratchasima (NM) City (from February 1991 to February 1992). I focus on the features of local businessmen, especially those who are influential figures in NM City, and the process of the formation of local entrepreneurship.

As I have already noted, all of the 46 interviewees were male. The oldest was 82 years old, the youngest 27. Classified by age (Table 8), the 41-45 year-old

Table 8. Age of Interviewees as of 1991

Age	Year of Birth	Number	Percent
26 - 30	1961-1965	2	4.3
31 - 35	1956-1960	0	0.0
36 - 40	1951-1955	8	17.4
41 - 45	1946-1950	11	23.9
46 - 50	1941-1945	6	13.0
51 - 55	1936-1940	3	6.5
56 - 60	1931-1935	9	19.6
61 - 65	1926-1930	3	6.5
66 - 70	1921-1925	2	4.3
71 and over	prior to 1920	2	4.3
Total		46	100.0
Average Age		49.8 years	

age group accounts for the largest share, 23.9 percent. The average age is 49.8 years, and more than 40 percent were born after the Second World War. This suggests that the businessmen chosen as influential figures are younger than might be expected, especially if we take into account the preconception that old-fashioned local Chinese run the economies of Thailand's regional provinces.

In Table 9, the interviewees are classified by occupation. All of them are self-employed. It is notable that entrepreneurs in this city are very weak in manufacturing, despite the fact that Thailand has succeeded in developing domestic manufacturing in such sectors as textiles and agribusiness during the past three decades. According to my research, only three entrepreneurs are engaged in rather modern manufacturing which would require high-standard technology. Two of these operate factories producing vehicle parts (some for export), and one of these two manages, in addition, a large industrial estate in NM City (Case 2 in Table 9). The third entrepreneur owns a tapioca processing factory and, with the technical cooperation of a German company, plans to open a new plant for producing glucose from tapioca and to start another project to produce appliances such as steam boilers for both the domestic market and for export. Not a single businessman is involved in the textile industry, to which the Thai government has given such a high priority in promoting industrialization. The reason why provincial economies including NM have been very weak in the modern

Table 9. Occupations of Interviewees

	Number (italic: Breakdown)
Manufacturing	4
Rice Miller	<i>1</i>
Kenaf Processor	<i>1</i>
Factory Operator: Tapioca Processing	<i>1</i>
Factory Operator: Production of Automobile Parts	<i>1</i>
Manufacturing-cum-Commerce	4
Maker and Seller of Food Products	<i>3</i>
Maker and Seller of Furniture	<i>1</i>
Construction-cum-Commerce	4
Construction Contractor and Shopkeeper of Construction Materials	<i>4</i>
Commerce	14
Shopkeeper: Gold Shop	<i>3</i>
Shopkeeper: General Shop	<i>2</i>
Shopkeeper: Household Electrical Appliances Shop	<i>2</i>
Shopkeeper: Construction Materials Shop	<i>2</i>
Operator of Department Store	<i>2</i>
Shopkeeper: Photography Shop	<i>1</i>
Shopkeeper: Automobile Parts Shop	<i>1</i>
Automobile Dealer	<i>1</i>
Service	11
Travel Agency	<i>2</i>
Operator of Bus Company	<i>2</i>
Hotel Operator	<i>2</i>
Cinema Operator	<i>1</i>
Operator of Transportation Company	<i>1</i>
Real Estate Agent	<i>1</i>
Operator of Law Office	<i>1</i>
Newspaper Editor	<i>1</i>
Other	1
Repairman and Seller of Secondhand Construction Vehicles	<i>1</i>
Unclassifiable*	8
Case 1: Operator of Bus Assembly Factory and Bus Company, and Automobile Dealer	
Case 2: Operator of Industrial Zone and Factory of Construction-vehicle Parts	
Case 3: Operator of Ice Factory, Hotel and Agency of Office Automation Machinery, and Real Estate Agent	
Case 4: Operator of Match Factory and Hotel	
Case 5: Operator of Tapioca Processing Factory and Transportation Company, and Automobile Dealer	
Case 6: Operator of Gas Station, Transportation Company, and Bus Station	
Case 7: Shopkeeper selling Automobile Parts and Operator of Computer Parts Factory	
Case 8: Operator of Passenger Transit Company and Hotel, and Real Estate Agent	
Total	46

Note: Interviewees are classified based on the occupations which I judge to be their largest source of income.

* The eight persons grouped as 'unclassifiable' are involved in so many businesses that I was unable to judge which one is crucial for them. Joint operations with other businessmen are included.

manufacturing sector is discussed in section 5-2. Several factors peculiar to NM, which retarded the development of local manufacturing, are discussed in 3-9.

In the following pages, several important points that characterize entrepreneurs in NM City will be analyzed. Although they are described on the basis of data that I collected in NM, I believe that other provincial economies in Thailand share with NM these characteristics of entrepreneurs, more or less. This is because the economy of Thailand is Bangkok-dominated and because almost all provincial economies have failed to become competitive with Bangkok.

3-1 Dominance of Chinese Descendants

As several works on entrepreneurs in Thailand have already mentioned [Krirkkiat and Yoshihara 1983; Skinner 1958; Suehiro 1989], Chinese immigrants and their descendants have played an important role in economic development in Thailand throughout the postwar period. My research gives similar results. In NM City, Chinese immigrants and their descendants are dominant, accounting for nearly 90 percent of business leaders (Table 10). Teochiu Chinese command

Table 10. Ethnicity and Dialect Groups of Interviewees

	Number	Percentage
Chinese and Chinese Descendants	41	89.1
Teochiu	34	73.9
Hakka	4	8.7
Hainanese	2	4.3
Cantonese	1	2.2
Thai	4	8.7
Unknown	1	2.2
Total	46	100.0

an overwhelming majority among the Chinese speech groups.

However, it seems that their consciousness of being Chinese is decreasing. This is largely because of generation change. The second generation is the largest group (68.3 percent), the third generation stands next (26.8 percent), and the first generation accounts for only 4.9 percent of leading entrepreneurs (Table 11).¹ The small number of first-generation Chinese reflects the fact that "Chinese mass immigration" ended in about 1950 as a result of the Thai government's restrictive policy on immigration [Skinner 1957:177-178]. In my research, only four of the 41 Chinese have ever resided in China: three were born in China, and the remaining one, who was born in Thailand, stayed in China for about 10 years in

¹ See Table 11 for a definition of the generations of Chinese people.

Table 11. Generation of Chinese Immigrants and Chinese Descendants

	Number	Percentage	Average Age
First Generation	2	4.9	69.5 Years
Second Generation : Born in China	1	2.4	68.0 Years
Second Generation : Born in Thailand	27	65.9	50.1 Years
Third Generation	11	26.8	42.3 Years
Total	41	100.0	49.4 Years

Note: Generation of Chinese people is defined as follows. *First generation*: an individual born in China of a China-born father who never resided in Thailand. *Second generation*: an individual born in China or in Thailand of a China-born father who immigrated to and resided in Thailand. *Third generation*: an individual born in Thailand of a second-generation father.

his youth, being enrolled in primary school for the first four years. All of the 41 Chinese and their descendants spoke Thai fluently, although three persons spoke it with a Chinese accent and stated that their reading and writing ability was far better in Chinese than in Thai. There were only six individuals who were at home in both Chinese and Thai. About two thirds of the 41 Chinese answered that their first language was Thai and that their Chinese was poor. For the third generation, English was given a higher priority than Chinese.

Wirat Tanchindapraphip and Charin Thanyaset, 58- and 62-year-old Teochiu Chinese descendants, who are regarded as influential persons both in local business circles and in the local Chinese descendants world, explained that Chinese dialect groups are hardly bound up at all with business interests nowadays, although they admitted that they did have an effect on Chinese peoples' business behavior in the past. They explained that business is a matter of individuals, not a matter of speech groups. I assume that this means that their consciousness of being Chinese is decreasing as Thailand-born Chinese descendants become more and more dominant. In addition, the diminishing importance of Chinese associations in the local business world, which is referred to in section 3-3, supports this argument.

Nevertheless, it should be noted that my interviewees have not entirely lost their Chinese sense of values. This is shown by the fact that three quarters of the 41 Chinese people interviewed have studied the Chinese language in one way or another (Table 12). Chinese schooling in Thailand began to be controlled after the 1932 revolution [Murashima 1993:285]. The Phibun government (1948-1957) especially placed rigid regulations on such schooling [Thavi 1973:128]. Skinner [1957:370] reveals that "between 1948 and 1956, the total number of Chinese schools in Thailand decreased from over 430 to about 195," and that in 1956 NM Province had only one Chinese school. As described above, since more than 40 percent of my interviewees (including several non-Chinese individuals, however) were born in and after 1946, many of them had a rather limited opportunity to attend Chinese school when they reached school age. Despite this, the

Table 12. Attendance of Chinese School by Chinese Immigrants and Chinese Descendants

	Number	Percentage
Attended Chinese School* or Studied Chinese	31	75.6
Less Than 1 Year	3	7.3
1 - 3 Years	7	17.1
4 - 6 Years	7	17.1
More Than 10 Years	1	2.4
Attended but Unknown How Long	3	7.3
Did Not Attend but Studied Chinese**	10	24.4
Never Attended a Chinese School or Never Studied Chinese	9	22.0
Unknown	1	2.4
Total	41	100.0

* Including three individuals who attended a school in China.

** Including one individual who never attended school but learned Chinese because he was born in China and resided there until he was about 20 years old.

fact that about half of the Chinese interviewees attended Chinese school and nearly another quarter of them studied Chinese through tutorial lessons and so on, indicates that their parents were zealous in bringing up their children with some knowledge of the Chinese language and, presumably, culture.

3-2 Fund-Raising of Chinese Entrepreneurs

To analyze the methods through which Chinese raise capital and expand their businesses, the fourfold classification which Skinner [1958: 43-45] used for measuring the degree to which Chinese leaders were self-made men is applied here (Table 13). The definition of this fourfold classification is about the same as that of Skinner. 'Self-made from scratch' are those who had nearly nothing to fall back on when they started to work in Thailand. It was their hard work and efforts that elevated their economic status. The second category, 'self-made' men, had someone to support them, such as parents or siblings, but were not born rich. They received only primary or, at best, middle school education. None of the 'self-made' men graduated from college or university, although one individual entered university at his own expense after he became wealthy enough to afford to pay for a tertiary education. At the start of their careers, some of these 'self-made' men worked helping their fathers (again, literally) and some were given a small amount of capital by their parents to set up tiny businesses on their own. After that, they launched into other businesses and succeeded in expanding their undertakings. The third category is that of 'partly self-made' men. They started by succeeding to businesses that their fathers had already established. They became successful entrepreneurs through diversifying their under-

Table 13. Self-made Men: Chinese Immigrants and Chinese Descendants

	Number	Percent
Self-made from Scratch	3	7.3
Self-made	20	48.8
Partly Self-made	4	9.8
Not Self-made	13	31.7
Unknown	1	2.4
Total	41	100.0
Breakdown by Generation		
Generation	Number (italic: Breakdown)	
First Generation	2	
Self-made from Scratch	<i>2</i>	
Second Generation: Born in China	1	
Self-made from Scratch	<i>1</i>	
Second Generation: Born in Thailand	27	
Self-made	<i>18</i>	
Partly Self-made	<i>2</i>	
Not Self-made	<i>6</i>	
Unknown	<i>1</i>	
Third Generation	11	
Self-made	<i>2</i>	
Partly Self-made	<i>2</i>	
Not Self-made	<i>7</i>	
Total	41	

takings, using the businesses that were originally their fathers' as a launching pad. The last category is 'not self-made'. These individuals literally owe almost everything to their fathers in operating their businesses. The father of one 'not self-made' individual built a factory for his son when the son finished a graduate course in the United States, and another father bought a hotel and let his son manage it after he graduated from university. Those who are classified into this category have not yet been active in launching into other kinds of businesses.

According to Table 13, nearly half of the Chinese people are categorized as self-made men. This fourfold classification correlates closely with generation. It is probably self-evident that all of the first generation and those second-generation individuals born in China are 'self-made from scratch'. About two thirds of the second-generation Chinese born in Thailand are classified as 'self-made', while nearly the same share of the third generation are 'not self-made'.

From this fourfold classification, the upgrade shift from the first to the third generation of Chinese people is evident. Other data also supports this point: one is school career, and another is father's occupation. Table 14 (breakdown by generation) reveals that the length of education is closely connected with genera-

Table 14. School Career of Chinese Immigrants and Chinese Descendants

School Career	Number	Percentage
No Formal Schooling or Less Than 4 Years of Schooling	3	7.3
4 Years of Primary School	12	29.3
More Than 4 Years of Primary School	1	2.4
Middle School but Did Not Graduate or Less Than 12 Years of Schooling	4	9.8
Middle School Graduates or 12 Years of Schooling	8	19.5
College or University Graduates or More Than 12 Years of Schooling	9	22.0
Master's Course Graduates in the United States	3	7.3
Unknown	1	2.4
Total	41	100.0
Breakdown by Generation		
Generation	Number (italic: Breakdown)	
First Generation	2	
No Formal Schooling	<i>1</i>	
4 Years of Primary School	<i>1</i>	
Second Generation: Born in China	1	
Less Than 4 Years of Schooling	<i>1</i>	
Second Generation: Born in Thailand	27	
No Formal Schooling	<i>1</i>	
4 Years of Primary School	<i>10</i>	
More Than 4 Years of Primary School	<i>1</i>	
Middle School but Did Not Graduate or Less Than 12 Years of Schooling	<i>4</i>	
Middle School Graduates or 12 Years of Schooling	<i>4</i>	
College or University Graduates or More Than 12 Years of Schooling	<i>6</i>	
Unknown	<i>1</i>	
Third Generation	11	
4 Years of Primary School	<i>1</i>	
Middle School Graduates or 12 Years of Schooling	<i>4</i>	
College or University Graduates or More Than 12 Years of Schooling	<i>3</i>	
Master's Course Graduates in the United States	<i>3</i>	
Total	41	

tion. All of the first generation and those second-generation Chinese born in China have had only 4 years or less of formal schooling. Roughly 40 percent of the second-generation individuals born in Thailand received no education or only

4 years of primary education, while more than 20 percent of them received or finished tertiary education (more than 12 years of schooling). Among third-generation Chinese, those with tertiary education rise to about 55 percent. In addition, half of the third-generation graduated from a master's course in the United States. There is only one third-generation individual with only primary school education.

Next, as far as their fathers' jobs are concerned (Table 15), the data available

Table 15. Father's Occupation

Ethnicity and Generation of Interviewees		Number (italic: Breakdown)
Chinese	First Generation	2
	Unknown	2
	Second Generation: Born in China	1
	Merchant	1
	Second Generation: Born in Thailand	27
	Merchant	13
	Farmer	5
	Company Employee	2
	Laundry Worker	1
	Tailor and Dressmaker	1
	Maker and Seller of Food Products	1
	Photography Shop	1
	Hotel Operator	1
	Unknown	2
	Third Generation	11
	Merchant	5
	Factory Operator	1
	Cinema Operator	1
	Hotel Operator	1
Maker and Seller of Food Products	1	
Automobile Dealer	1	
Subcontractor in Construction	1	
Thai		4
	Government Employee	2
	Company Operator	1
Unknown	Newspaper Dealer	1
	Merchant	1
Total		46

allows a comparison only between the second generation born in Thailand and the third generation. In both generations, those whose fathers were merchants account roughly for one half of the total number. Most of these merchants consist of small-scale general shop operators and middlemen for agricultural products. However, farmers make the difference: those whose fathers were farmers, who command nearly one fifth of the second generation, find no counterpart

among the third generation.

If I were to pick out the most successful and influential 10 businessmen among all interviewees (see Appendix), 8 would be 'self-made' men (7 being second-generation Chinese born in Thailand, the other one being an individual whom I could not interview and whose ethnicity is therefore unknown), one a 'self-made from scratch' first-generation Chinese, and the last a 'partly self-made' third-generation Chinese. Therefore, businessmen of high caliber in today's NM City can be said to be predominantly 'self-made' second-generation Chinese born in Thailand. The dominance of second-generation individuals born in Thailand among business leaders in this local city can be explained by the stoppage of new immigration after 1949 and the subsequent change of generation. Another reason is that because the average age of second-generation Chinese born in Thailand is nearly eight years higher than that of third-generation Chinese (Table 11), the former can be said to have had many more opportunities and gained much more experience in giving scope to their ability.

Here, I would like to concentrate on how the 'self-made' second-generation Chinese born in Thailand, especially those whom I rank among the top 10 businessmen in NM City, started and extended their businesses.² Many of these individuals were born poor with Chinese immigrant fathers, and usually started making money as employees or salaried workers (*luk chang*), or helped in their fathers' businesses, such as the operation of general shops, since their childhood. That was the only course open to them. When they sought employment, connections combined with ethnicity seemed to count for something. After they had accumulated experience as *luk chang* or through helping their fathers at work, they each set up small-scale businesses of their own, usually with a small amount of capital that they had saved, or in cooperation with their parents and siblings. This point is in accord with results of the sample survey that Rozenal [1970:260-262] carried out on urban credit in the latter half of the 1960s, although this survey did not focus especially on Chinese businessmen. According to his survey, 88 percent of the initial capital used to start the businesses of those entrepreneurs represented in his sample was their own capital.³

My research found that, if necessary, local businessmen arranged a *chaer* (a rotating credit society) to raise more capital, which they used not only to start their undertakings but also to operate and expand them. Rozenal [*ibid.*:261, 266-267, 270] notes that rotating credit societies played a larger role in raising capital

² See the Appendix for more detailed profiles of the top 10 businessmen ranked by the author.

³ Small-scale provincial entrepreneurs seldom manage to obtain bank loans when starting their owner-operated businesses. This is due to 'credit rationing' brought about by the interest rate ceiling in the financial market. This point is discussed in detail in 4-2-3 and 4-2-5.

for ongoing business operations than in setting up new businesses, and that nearly 30 percent of all the sample firms relied on rotating credit societies in operating their ongoing business, although the amount of money provided by these societies accounted for less than 5 percent of the capital used for ongoing business operations. According to Charin Thanyaset (see 3-1), the most common method used by Chinese merchants to raise money in the old days, when the banking system was not yet prevalent, was to set up a *chaer* together with several credible acquaintances. Those who had not yet established enough credibility to borrow from banks also used this method. He explained that Chinese merchants carefully selected as members of their *chaer* trustworthy acquaintances who belonged to business circles and with whom they expected to manage business satisfactorily. The selection of members was judged by their credibility, not by their membership of a Chinese society such as a dialect group association. This suggests that it was crucial for Chinese merchants who wanted to be successful in the business world to establish a good reputation and credibility in the local Chinese society. He also claimed that raising money through a *chaer* did not create a heavy burden for the debtor, because interest charges were at most 'only' about 4 percent per month.⁴ Therefore, a *chaer* was a kind of mutual interdependence system for Chinese merchants who wanted capital to start their businesses.

The following example suggests that the *chaer* system operated in local business circles until recent times. Wichian Suphasiraphra, who is a second-generation Hakka Chinese and one of the top 10 businessmen in NM City (see Appendix), stated in a newspaper that he and his brother had set up a *chaer* to raise from 70,000 to 80,000 baht to open a shop in the mid-1970s [Sengliho 1991]. Another merchant, Phaisan Manasin, who is a second-generation Teochiu Chinese and another one of the top 10 businessmen, said in a newspaper that after opening his department store in 1976, he met his operating costs on several occasions by setting up a *chaer* [PCKRS 25-31 May 1992].

Occasionally, Chinese merchants were illegally involved in the financial business of discounting post-dated cheques (*plian cheque*).⁵ Wirat Tanchindapraphit (see 3-1) mentioned that the discounting of post-dated cheques functioned as one of the methods that Chinese used in the past to obtain short-term loans, and to raise capital for their businesses. However, this method probably imposed a high discounting rate on those entrepreneurs who had not established a reputation in local Chinese societies. This is because post-dated cheques were largely dis-

⁴That an interest charge of 4 percent a month could be regarded as modest suggests two things: first, that the demand for credit in the provinces was unsatisfied, which means that the official credit system served the provinces poorly (see 4-2-3 and 4-2-5), and second that the availability of capital made huge profits possible (otherwise people would never agree to such an interest rate).

⁵See 4-2-5 for a more detailed description of the discounting of post-dated cheques.

counted on the basis of the creditworthiness of the drawers and drawees in an informal market as described in 4-2-5.

In summary, influential entrepreneurs in NM City set up businesses with their own hard-earned capital or with the help of family members. In the past, *chaer* and the discounting of cheques were occasionally used to raise additional capital. These served as mechanisms to make short-term borrowing possible for Chinese businessmen who intended to raise capital. Especially in the case of obtaining capital through these informal financial markets, entrepreneurs without credibility or who lacked a good working relationship with other local entrepreneurs could not succeed in local business circles. This point is investigated next.

3-3 The Importance of Creditworthiness in the Local Business World

Joint investment among local entrepreneurs is another very common method used to raise the capital necessary to finance local businesses. This means that local entrepreneurs are required to involve themselves to a great extent in the local business world, and must maintain good relations with others within it, as in the case of raising capital through a *chaer* and the discounting of post-dated cheques. There are several intermediaries who lie between local businessmen and acquaint them with each other. In this section, some societies which are organized in NM are considered.

First, some local Chinese associations should be mentioned. Teochiu Chinese, the largest Chinese dialect group in NM as in the whole country, do not have a *samakhom* (society) in NM. However, a foundation named *Munlanithi Lak Siang Siang Tung*, a charitable foundation which was established in NM in 1957, served as a kind of club for the Teochiu Chinese.⁶ This foundation was organized originally by Teochiu Chinese in Siracha, Chon Buri Province, and developed into a nationwide organization.

A society for Hakka Chinese of NM (*Samakhom Haka Nakhon Ratchasima*) was established in about 1949 for the purpose of strengthening the solidarity of Hakka Chinese in NM. Membership is limited to Hakka Chinese and their descendants. This society is a large one, having more than 700 members.

Skinner [1957:167-168, 260] reveals that, in Bangkok, the least powerful

⁶ According to Thavi [1973:136], the Thai government supervised Chinese societies rather strictly due to the fear that these societies might be used by the Chinese as a political tool. Thavi stated that Chinese people occasionally avoided bother by registering their individual organizations as a *munlanithi* (foundation) or company, not as a *samakhom* (society), when they were set up. This might be one reason why the Teochiu in NM did not have a society.

Chinese speech group (the Cantonese) established their society first in 1877, while the numerically dominant Teochiu Chinese, with the greatest power among the Chinese, apparently felt no need to establish a society until the latter half of the 1930s. By analogy, the Hakka, one of the minority speech groups, might have found it necessary to establish a society in NM earlier than the Teochiu. According to my research, other minority speech groups (that is, the Cantonese and the Hainanese), have societies in NM, but, at least at present, they seem not to be in full activity.

Chinese immigrants and their descendants also have societies for those who bear the same family name. One of these is *Samakhom Tia Charoen Nakhon Ratchasima*, which was established by those who have the family name of *Tia*. It was in 1989 that this society registered formally, despite a rather long history, and began to operate a financing company. Most of the 200 or so registered members are Teochiu Chinese, but Hakka Chinese also take part in it. The example of this company, run by people with the same family name, suggests the importance of unity among the Chinese of the local business world.

However, nowadays, Chinese societies focus on charitable work and do not directly take an active part in business matters. Membership of Chinese societies has not been as helpful to local entrepreneurs in financing their businesses as having acquaintances who trust them. Thus, the role of Chinese societies in financing local businesses is rather limited.

Barton's [1983] analysis of the importance of creditworthiness among overseas Chinese traders in South Vietnam suggests one function which Chinese associations fulfill within a local society. Barton [*ibid.*:57] argues that "voluntary associations within the Chinese community provided merchants with another outlet for demonstrating their wealth and building their reputations." Barton's first point is that Chinese merchants place great importance on creditworthiness in doing business. The various societies and associations of the Chinese, based on common native places, dialect groups, surnames, and so on, offer opportunities not only to become acquainted with other people and exchange information, but also to investigate their credit and trustworthiness through their monetary contributions to various organizations. In other words, Chinese associations are a means through which Chinese businessmen show to what extent they have established credibility, and through which they intend to increase the efficiency of their business transactions by the reduction of transaction costs.⁷ These Chinese associations are regarded as organizations which were established for the purpose of reducing transaction costs in situations where the price mechanism has failed to work.

⁷The importance of creditworthiness in the local Chinese business world is discussed in 4-2-5, in reference to the reduction of transaction costs.

The following example that happened to reach my ears illustrates well the significance of interpersonal trust and creditworthiness for the Chinese. It suggests how the Chinese try to maintain a good reputation within the community to which they belong. The details of the story have been changed somewhat. We will call the businessman involved *X*. He is a Teochiu Chinese, and a respected person within the Chinese community in NM. Although he has retired from active business life, in the past he held responsible positions in certain Chinese associations, as do several of his family members today. His family name is widely known in the local society for their brilliant achievements in commercial and service undertakings. Seeking a way to diversify their business, his family decided to enter the manufacturing sector. Gaining the acquaintance of an engineer, whom we will call *Y*, who manages a factory, *X*'s family reached an agreement with *Y* on a joint undertaking and started a factory.

Unfortunately, *X*'s family had no knowledge of production and their company incurred heavy losses. In the resulting confrontation between *X*'s family and *Y*, *Y* suggested to *X* that they renounce their joint business. However, *X* decisively turned down *Y*'s offer. *X* and his family believed that their family name would be damaged if they abandoned the factory. It seemed to me that this project had already burdened *X*'s family with too heavy a capital investment for them to recover. This decision to continue their involvement with the factory might not seem at first glance to be a rational one to an economist. However, they feared that the damage to their reputation in the community which would result from their abandoning this project would impose heavy transaction costs on them in future business dealings and ventures. If these transaction costs outweigh the direct economic losses of continuing to be involved in the factory, their decision is completely rational.

This example not only illustrates the significance of reputation in the local society, it also suggests that the small Chinese community places a limit upon the local entrepreneur's behavior. Regarding this point, Thai local entrepreneurs suffer from the same restrictions imposed by their small community that Morikawa [1985:252-253, 283] found for local *zaibatsu* (*chiho zaibatsu*) in pre-war Japan. Morikawa argued that local *zaibatsu* had to devote a lot of their time to serving the local community as representatives of associations or assemblies, and to arbitrating disputes in their local community, where they were celebrities. This argument suggests that local businessmen cannot succeed without maintaining close connections with the local community where they place their economic base.

Contrary to local Chinese societies, which are becoming less significant in business circles, trade societies and nationwide organizations such as the Chamber of Commerce and the Rotary Club seem to have gained broad support from, and certainly have won the wide participation of, the younger businessmen, most of

whom are second- or third-generation Chinese. The advanced age of the principal members of local Chinese associations, most of whom are first- or second-generation Chinese, has caused a reorganization of the Chinese societies in NM City. A number of second- and third-generation Chinese have not sought membership of Chinese associations, despite the fact that their fathers were members. I expect that these associations will fade away by the time the third generation, who do not identify themselves as Chinese so strongly, becomes dominant. Suwan Chanrattanaprida, the president of an above-mentioned charitable foundation of Teochiu Chinese clearly stated that though this foundation still plays an important role in charities, it has handed over its leading position in the business world to the NM Chamber of Commerce. Sansoen Chongcharoenchai, who has served as the president of the Hakka Society, also noted the diminishing importance of this association in the local society.

The best-organized of the newly-established organizations in NM today is the NM Branch of the Chamber of Commerce, which was established in 1980.⁸ As of October 1991 the number of members has reached about 900 in the whole province. Some senior Chinese from several dialect groups, including Hakka and Hainanese as well as Teochiu, now hold positions in this organization as committee members. In NM, this association is the most functional in grouping local entrepreneurs together.⁹ Its leading members have joined hands in setting up several projects. Two projects which attracted a good deal of public attention concerned hotel management, and it is noteworthy that both involve Bangkok-based entrepreneurs as investors. One is a project to refurbish an old local hotel into a modern one. The other is a joint venture between local entrepreneurs and a well known Bangkok-based hotel chain company to establish a first-class hotel in NM (see 3-6). In the latter project, the president of the NM Branch of the Chamber of Commerce has taken the lead among the local businessmen involved. The Chamber of Commerce is a nationwide network and thus it has helped local entrepreneurs to form better connections with Bangkok business circles. It seems not only to fulfill the function previously served by Chinese associations in building members' reputations, but also to help members to expand

⁸ According to Anek [1992:39-40], it was not until 1983-1984 that the government began to encourage the establishment of provincial chambers of commerce. In 1981, there were only six provinces which had chambers of commerce, so the NM Branch of the Chamber of Commerce was established earlier than many other provincial chambers of commerce.

⁹ Anek [1992:144, 168] emphasizes that this was not the only job which provincial chambers of commerce devoted themselves to. They not only have contributed to the economic development of the provinces, but have also begun to exercise an influence upon national policies. One of the influential members of the Chamber of Commerce (NM branch) informed me that several members have sounded out their desire to establish a political party of the Chamber (NM branch).

their business networks.

Matrimonial relations provide another channel by which local entrepreneurs strengthen relationships with one another. Hewison [1981:399-406] emphasizes family relationships within 'the financial bourgeoisie', by which he means big business groups formed by bank-managing families like the Bangkok Bank Group. Through family ties, big financial business groups are not only tied to each other, but are also linked with other influential families, directly or indirectly, in the business world, the bureaucracy, and the military. According to Hewison, these family ties help 'the financial bourgeoisie' to strengthen their business linkages. Skinner's survey [1958:183] also found that intermarriage among the big business leaders' families in Bangkok strengthened their power in the business world.

Hewison and Skinner refer to the top business groups in Bangkok. Because NM City has such a small population in comparison with Bangkok, it is perhaps only natural that eminent entrepreneurs have some family relations with each other. It is not clear, however, that local businessmen use family relations with other influential families to their advantage in entrepreneurial circles. That is, it seems at least that there are no remarkable cases in which marriage has reinforced the linkage between two families in the business world. It seems to be more important for local entrepreneurs to establish a reputation for reliability than to establish marital relationships with one another. Besides family ties among local entrepreneurs, no notable family relations were found between local entrepreneurs and Bangkok-based entrepreneurs, the central bureaucracy, or the military in Bangkok.

3-4 The Importance of Connections with Bangkok

Joint investments by local businessmen are common in NM as mentioned above. Joint investments between local entrepreneurs and Bangkok-based ones are also found widely and at many levels, from small-scale investments to large-scale projects. In addition, this is a two-way street. That is, not only does Bangkok capital flow into NM, but NM capital also moves to Bangkok. However, the contribution that each makes to the economic development of the other is, of course, quite different.

In big projects and projects that require sophisticated know-how or technology and large amounts of capital, the role of Bangkok-based entrepreneurs rises in importance in NM City. A typical large-scale project which was undertaken by both Bangkok-based and local entrepreneurs in 1991 is the construction of a first-class hotel with the cooperation of a well-known hotel franchise based in Bangkok (see 3-6). One of the local investors explicitly stated that the manage-

ment know-how of running a high-class hotel was needed for the project to succeed. Technological and know-how cooperation with Bangkok entrepreneurs is often found in investments made in NM, regardless of the size and kind of business. In the commercial sector, dealers in automobiles and electric appliances whose shops also serve as service centers are given guidance in repair technology by head offices located in Bangkok, which in turn are backed by foreign companies. When such dealers are unable to repair goods, specialists are either called in from Bangkok, or the goods are sent to Bangkok for repair. Some manufacturing factories entrust the repair of their machines to the companies that set them up in the factories. These companies are usually based in Bangkok.

On the other hand, some businessmen of NM take part in enterprises such as real estate, financing, and export in Bangkok. However, it is doubtful whether their participation in projects in Bangkok contributes greatly to the economic development and industrialization of the whole country. The biggest sector in which they are involved is the real estate-construction business, such as the construction of condominiums in Bangkok. Therefore, at least at present, the local businessmen's launch into the Bangkok economy should not be regarded as a dynamic inroad made by the local economy into Bangkok. In the case of NM City, local entrepreneurs have merely found an outlet in the construction boom in Bangkok, that lasted from the end of the 1980s to the beginning of the 1990s, through which they can utilize their capital.

3-5 A Remote Relationship with Foreign Capital

A deluge of direct foreign investment was one of the driving forces which boosted the economic growth rate of Thailand, especially after 1988. However, NM City enjoyed almost no foreign investment until about 1990, when foreign companies began to operate in the SIZ. After that, the inflow of foreign capital, mainly from Japan and Taiwan, seemed to become a steady stream in this city. Almost all the foreign companies that have invested in and around NM City are located within the SIZ. As in the country as a whole, direct foreign investment established few, if any, close links with local small and medium-sized industries. NM city provided foreign investors with scarcely any of the materials, parts, and machines necessary for production. These were either imported or brought in from other regions. Furthermore, these foreign companies were export-oriented.

In the process of industrialization in Thailand, entrepreneurs who lack advanced technical knowledge typically enter a new manufacturing business by tying up with foreign companies. Among my interviewees, there was only one such person (Thosapol Tantiwong, see Appendix). In planning to begin production of

a higher value-added product than the tapioca starch which was then his main product, he sought technical cooperation from a German company.

Thai companies have already started to embark on indirect investment in foreign countries. The most outstanding Thai enterprise in launching into foreign countries is the Charoen Pokphand (CP) group. Though this group is known as an agribusiness giant, its businesses now range from agribusiness to petrochemicals. The CP group has invested in many countries, particularly in China.¹⁰ In neighboring countries, such as Cambodia and Laos, Thailand is (in some terms) the largest foreign investor. It is reported that Thailand stands first on the list of approved foreign investments (in terms of numbers of projects) in Cambodia as of April of 1992 [Hiebert 1992]. In Laos, investment from Thailand accounted for about 44 percent of all foreign investment (in terms of capital) during the period from 1988 and June of 1994 [PCKRW 15 December 1994]. Thailand is the dominant source of foreign investment in Laos.

This suggests that the Thai economy has developed to the extent that it is able to make inroads into foreign countries, and particularly into Indochina. However, I found only one local entrepreneur in NM City who has definite plans to invest overseas, although some did express an interest in investing in Indochina in the future. That businessman (Amorn Vongsurawat, see Appendix) plans to set up several factories in Malaysia to produce ice cubes for the Malaysian and Singaporean markets. This was a joint venture with a Malaysian company, in which the Thai businessman would provide the technology needed to produce ice cubes.

In summary, local entrepreneurs in NM City lag behind their counterparts in Bangkok and other regions in establishing relations with foreign companies.¹¹ Those who intend to start new businesses under cooperation with foreigners or intend to launch into foreign markets through direct investment have been hitherto exceptional in this city.

3-6 Tie-ups between Politicians and Local Entrepreneurs

The participation of politicians who have connections with the central government seems to have a great weight for local entrepreneurs involved in large business projects. In NM, projects such as the Royal Princess Khorat and the Suranaree Industrial Zone (SIZ) are cases in point.

¹⁰ *The Economist* [26 November 1994] reported that "CP may well be China's largest inward investor — bigger even than western multinationals such as Pepsico and Volkswagen or than Hong Kong entrepreneurs such as Gordon Wu."

¹¹ The case of Mr. Siriphong Rungrotkitiyot is an exception. See the Appendix for his profile.

The Royal Princess Khorat is one of several projects presently underway in NM, each aiming to establish a new first-class hotel. Its registered capital was 120 million baht as of 1991, although the company was reported to be preparing to increase this to 550 million baht [*KRWYKI* 1-4 March 1991]. An affiliate of the Dusit Thani Group, which is the leading hotel-franchising company in Thailand, will hold half of the new hotel's capital. The other half of the capital will be shared between local businessmen (with 40%), and the former deputy minister of communications, Suwat Liptapalop (10%) [*BP* 17 May 1991].

Suwat was a member of parliament, belonging to the Puang Chon Chao Thai Party, who ran for parliament for the first time in 1988 in the same election district with Gen. Chatichai Choonhavan, and was returned at the head of the poll, defeating Chatichai by a wide margin. He was appointed as the deputy minister of the Ministry of Communications in August and again in December of 1990 in the Chatichai government. After the February 23 coup d'état of 1991, when Chatichai fell from power, Suwat was appointed as one of the 20 members of the National Legislative Assembly by the National Peace-Keeping Council. Before the general election of March 1992, he defected to the military-backed Samakkhi Tham Party with Gen. Arthit Kamlang-ek, who had been the leader of the Puang Chon Chao Thai Party. After the army's crackdown in May 1992, he abandoned that party and joined a group which set up a new party, the Chart Pattana Party, with Arthit and Chatichai. Suwat is a politician who originally came from business circles. His father operated a construction company in Bangkok to which Suwat's elder brother succeeded. It is said that during the period that Arthit was supreme commander in the army, this company won many construction contracts from the army [*The Nation* 21 March 1991]. Suwat was not born in NM, but his father's contribution to NM City through the construction of roads and hospitals there seemed to be influential enough for his son to obtain the support of the local people. At present, their company is taking part in widening some sections of the highway between Saraburi and NM from a two-lane to a four-lane highway [Thonkon 1991:38-39, 46, 61; *BP* 8 February 1992; *KRWYKI* 17 December 1990]. In 1992, this company was ranked 14th in terms of revenue among construction companies in Thailand [International Business Research (Thailand) Co., Ltd. 1993]. *The Nation* [13 October 1994] reported that that company was the eighth largest contractor of the Highway Department during the period from 1992 to 1994.

The Suranaree Industrial Zone (SIZ) is a privately-developed industrial estate which opened in 1989. By 1991, the SIZ covered an area of 5,000 *rai*. It was developed with the cooperation of a local businessman and several politicians who had belonged to the Chart Thai Party, including Chatichai. The operator of the SIZ stated that Chatichai advised him to purchase a piece of land for developing an industrial estate. He added that he managed to open the SIZ with the help of

Chatichai and Korn Thapparangsi, Chatichai's nephew, who was a Chart Thai Party member of parliament and who has been elected from NM Province since 1983. The SIZ attracted investment not only from Bangkok, but also from foreign countries (see 3-5). Local entrepreneurs so far have not been as enthusiastic. In October of 1991, 25 factories were in operation, many of them strongly export-oriented.

How should the participation of influential politicians in local business be interpreted? The most orthodox answer is that both local businessmen and members of parliament for NM have a common interest in promoting local business. If a businessman establishes a close relationship with an influential figure in the Bangkok political scene, through cooperation in business, he can expect something in return, such as an increase in public investment in NM, that will be profitable for him. On the other hand, members of parliament of NM expect some form of support from local businessmen. Such was the case in the relationship between the Chatichai government and businessmen in NM. When Chatichai brought several large projects to NM (see 2-1-4), local business circles received them with immense enthusiasm because they were expected to boost the city's economy. Businessmen in NM, who have had a powerful effect on local politics (see the next section), reacted to the good offices of politicians by increasing their support for the ministers who had been elected from NM.

How we interpret the participation of politicians in local business has some bearing on the problem of political intervention into the economy. This point is argued in detail in 5-4. There, this phenomenon is characterized as resulting from the rent-seeking activities of provincial entrepreneurs.

3-7 Entrepreneurs Launching into Local Politics

As Murashima's survey [1987] in Nakhon Sawan showed, a marked tendency of businessmen to launch into politics can be seen in local areas. The extent to which my interviewees have been concerned in local politics is shown in Table 16. About 30 percent have had the experience of either running in person in local elections or having their children run.

In NM City, the movement of local entrepreneurs into local politics took the form of a political body. This was formed mainly by politically-minded local entrepreneurs in about 1974. The president of this political body (call him Z) is one of the best known businessmen in the city. He is a second-generation Teochiu Chinese born in NM City, and was said to have made a fortune operating a gas station, which he opened in the late 1950s when the Friendship Highway from Saraburi to NM was opened. He and his family now operate several transport businesses. In my interview, he explained that he took the lead in forming a local

Table 16. Experience in Local Elections

	Number	Percentage
Ran in Local Election in Person	10	21.7
Elected*	7	
Unelected	3	
Children Ran in Local Election	4	8.7
Elected	3	
Unelected	1	
Have Never Run in Local Election, either in Person, or through a Child	32	69.6
Total	46	100.0

Note: Those who have run in elections for the municipal council of Amphoe Muang NM and the provincial council of NM Province are included.

* One individual who was returned once, though not in the latest election, is included.

political body in order to support candidates for seats on the municipal council of Amphoe Muang NM. *Z* firmly denied any relations with any of the political parties in the central political world. According to him, his political body was not so successful in elections. One of its ex-members explained that this group fell into disarray because of internal discord and finally it was absorbed by a group led by another entrepreneur, Wichai Choetchai (see Appendix), in the election of 1990. However, *Z* is still an influential figure in local politics, belonging now to the political body lead by Wichai. One of *Z*'s sons was successfully returned as a member of the municipal council of Muang NM in 1990, receiving support from Wichai's group. The families of *Z* and Wichai have a matrimonial relationship that may have helped to solidify their ties.

According to the editor of a local newspaper, it was from the 1980s that local businessmen began to launch into local politics and grew to be an overwhelming power in NM. In 1985, Wichai, who is regarded as the most successful entrepreneur in NM, with brilliant achievements in his bus assembly plant and other transportation services, took the leadership in forming a political body on the occasion of a local election. Today, he is regarded as the leader in local politics. His political body has backed several candidates with entrepreneurial backgrounds and met with excellent results in elections held in 1990 for the provincial council of NM Province and the municipal council of Amphoe Muang NM. The way this political body raised membership and put up candidates seems to have been by taking advantage of the credibility that its members had already established through business undertakings. This point is illustrated by the following concrete example, which shows how their business relationships help them to unite politically.

Wichai and four of his acquaintances (*B*, *C*, *D* and *E*) have managed a transportation company in NM City since 1985. When the election for members of the municipal council of Amphoe Muang NM was held in September 1990,

Wichai (A) and two of his four colleagues, B and C, had their sons (A*, B*, and C*) stand as candidates of their political body. It was the first time for A* and B* to run in a local election, while C* had stood successfully in the election of 1985. The poll ended with an overwhelming victory for their group. Only about one month later, in October 1990, voting for members for the provincial council of NM Province took place. Here, Wichai's political body backed A** and B**, other sons of Wichai and B. Only A** won, though B** topped the list of unsuccessful candidates. Wichai formed this political body as a local one. However, it now has connections with central political parties. Wichai was widely known as a sponsor of ex-premier Chatichai Choonhavan. It was believed in NM City that Chatichai awarded a seat in the Upper House to Wichai in return for economic support in previous elections. In addition, it was said that Wichai's political body gave backing to Suwat Liptapallop, another influential member of parliament for NM.

The fact that D, one of the four members involved in the management of the transportation company, ran in the election to parliament as a candidate of the Puang Chon Chao Thai Party in 1988 suggests a close relationship between the political body led by Wichai and Suwat. D served as mayor of NM City for about two years in the past and thus was already an influential figure in local politics. However, he failed to be returned. Although neither E, the last member of this transportation company, nor any of his family members have ever stood for election, E played an active part in elections. A local newspaper reported, for instance, that E was a *hua khanaen* (vote solicitor) for several political parties.

Besides these political bodies, the NM Chamber of Commerce has started to take an interest in local elections. In the latest election for seats on the municipal council of Amphoe Muang NM in 1990, it backed two candidates who held responsible positions in its organization. However, they were soundly beaten by the group led by Wichai.

The striking feature in these cases is that politically-ambitious businessmen like Wichai and Z have not run in local elections in person, but instead have had their children (sons in their cases) stand as candidates. This might be due to some extent to the Electoral Law which prevents some second-generation Chinese from being qualified to run for election in both the municipal and the provincial councils. Concerning the eligibility for candidates, the Electoral Law (*Phraratchabanyat Kan Luaktang Samachik Sapha Thetsaban* and *Phraratchabanyat Kan Luaktang Samachik Sapha Changwat*) stipulates that if the candidate is of Thai nationality with an alien father, he/she must have studied for and completed not less than a higher secondary education or its equivalent in accordance with the curriculum prescribed by the Ministry of Education or the national education plan, or must have studied at a university or a higher educational institution in Thailand in accordance with the prescribed course and obtained a certificate of not less than a

bachelor degree or its equivalent. Therefore, second-generation Chinese (born in Thailand) whose fathers are Chinese in nationality are not eligible as candidates in local elections unless they fulfill the above mentioned legal requirements about school career. In my research, nearly 60 percent of the second-generation Chinese born in Thailand received less than 12 years of schooling (Table 14). *B* and *Z* are second-generation Chinese (the ethnicity of *Wichai* is unknown), and all three finished only primary education. If the fathers of *B* and *Z* were not naturalized Thai, it follows that they were not eligible to run as candidates in local elections.

Next I would like to focus on the question of why entrepreneurs are so eager to launch into local politics. Pertinent to this point is the problem of political intervention in the economy. If entrepreneurs have the latitude to carry out their business activities within the sphere of a (completely) free market, their entry into politics will be motivated by reasons other than economic ones, such as a desire for fame. This is because they can maximize their profits within the economic sphere as long as (and to the degree that) the principles of the free market are upheld. However, if politicians interfere in economic matters, entrepreneurs cannot necessarily attain profit maximization through purely economic activities. Businessmen who aspire for economic success, in other words, may not be able to find a way to do so other than by either joining hands with politicians, or by launching into politics themselves.

As is frequently noted, many big business groups in Thailand have established close relations with influential figures in the government. This relationship was originally caused by racially-based political intervention into the economy, which forced Chinese businessmen to seek political patronage. Skinner [1958: 186-187] explains that, in the second Phibun era since 1948, government intervention into business sectors under Thai-ification programs "have forced economic co-operation at the highest levels between Chinese leaders and Thai government officials." Chinese entrepreneurs were forced to make contact with Thai politicians in order to protect their businesses against racially motivated economic legislation and popular dissent. The basic motive at this time was not a desire for economic gain, but a desire for political protection: *fear*, not *greed*, to put it in blunt terms.

However, the degree of racial tension in Thailand today has dissipated to such an extent that Chinese entrepreneurs should no longer feel the need for political protection from racially-based political intervention. Their cooperation with politicians, therefore, must be explained in other terms. It is fair to say that, generally speaking, Chinese businessmen today are not forced to seek political patronage but do so willingly in order either to seek favors for their own businesses or to influence the legislative process, since economic legislation understandably is a source of great concern for entrepreneurs.¹² Profit, not a desire

for fame or protection, seems to be the main motive for currying favor with politicians today. Entrepreneurs understand that having political patrons can be a great help in attaining business success. Entrepreneurs in the provinces, understandably, have also endeavored to establish relationships with political patrons, patrons whom they apparently expect to be able to help them gain special privileges from the government. Local entrepreneurs thus have launched into local politics because they intend to make contact with politicians in the central political circles of Bangkok. This activity is known in the jargon as rent-seeking activity. The details of this point are argued in 5-3.

3-8 Discontinuity of the Chinese

The next point that I would like to discuss is the discontinuity of the Chinese. It is remarkable that many of the economic leaders of NM City were not born locally. NM City-born individuals make up less than one third of all Chinese descendants (Table 17). Birth places of second-generation Chinese born in Thailand show a large divergence, from Bangkok to various local provinces. Furthermore, among the seven NM City-born third-generation Chinese, the fathers of only two individuals were born there. The grandfathers of these two were not born in NM City, but moved there from Bangkok. Therefore, the families of only two individuals have lived in NM City for three generations. On the other hand, 11 of the Chinese interviewees' families have stayed in the city for two generations: they are NM City-born second- and third-generation Chinese. According to my research, Chinese entrepreneurs whose families have resided in this city for two generations or more are in the minority.

The grandfathers of the two individuals whose families have resided in NM City for three generations moved from Bangkok, where they had both operated gold shops, and opened gold shops in NM City. One of them moved his economic base from Bangkok to NM City in the early 1920s; and among the interviewees, his family has lived longest in NM City. Three other families, which have stayed for two generations in NM City, had settled there by the early 1930s and have the second longest history. One was a photography shop operator who came from Bangkok, where he worked in a photography shop managed by a Chinese individual. Another, from Nakhon Pathom Province, came from fruit-grower stock and started an ice factory in the 1950s in NM City. The last was engaged in several jobs until his family managed to open a shop there.

¹²This is not to deny the fact that some entrepreneurs may well be forced to seek political patronage to obtain some degree of protection from corruption, or indeed to dissipate some of the disadvantages of competing with other entrepreneurs who do have politicians at their beck and call.

Table 17. Birth Place: Chinese Immigrants and Chinese Descendants

Birth Place	Number	Percentage
Thailand		
NM City	13	31.7
NM Province (except for NM City)	6	14.6
Central (except for Bangkok)	7	17.1
Bangkok	6	14.6
Northeast (except for NM Province)	5	12.2
North	1	2.4
China: Kwangtung Province	3	7.3
Total	41	100.0
Breakdown by Generation		
Generation	Number (italic: Breakdown)	
First Generation: Born in China	2	
<i>Second Generation: Born in China</i>	1	
Second Generation: Born in Thailand	27	
NM City	6	
NM Province	5	
Central	6	
Bangkok	5	
Northeast	4	
North	1	
Third Generation	11	
NM City	7	
NM Province	1	
Central	1	
Bangkok	1	
Northeast	1	
Total	41	

Here, the special circumstances of Amphoe Muang NM, which contributed to the increased mobility and thus the discontinuity of Chinese nationals, needs to be noted. During the Second World War, those who did not possess Thai nationality were forced to leave Amphoe Muang NM (see 2-1-2). This prohibited-areas policy imposed hardships on Chinese because they “had to sell out or at least close up shop before evacuating” [Skinner 1957:271]. According to Chothin Saeliu, who is 82 years old and was one of those evicted at that time, all Chinese who were not naturalized Thais disappeared from NM City as a result of this policy and only a few of them returned after the war. He stated that a great number of Chinese had to leave, and that they dispersed all over the country.¹³

¹³Skinner [1957:202] differs from Chothin’s description as regards their destination, stating that most of the Chinese evacuees from Amphoe Muang NM descended onto nearby towns in the Northeast, of which the greater part were not prohibited to aliens.

Some went to Bangkok and some to Chiang Mai, while Chothin himself rusticated in a nearby *amphoe* town. Since only a few of these people returned to NM after the war, it follows that the continuity of the Chinese society of NM City was largely disrupted. Chinese aliens were forced to suspend their economic activities and were deprived of what they had accumulated through their businesses. Skinner [*ibid.*:275] notes that Amphoe Muang NM suffered an “economic paralysis and acute food shortages” after 1941 because of the eviction of Chinese nationals. That the eviction was severe enough to cause economic paralysis indirectly shows what a drastic effect it must have had on the Chinese individuals involved.

The economy of this city, like that of other provincial economies, made progress through the frequent migration of talented Chinese individuals from Bangkok and other regions. However, the eviction of Chinese nationals brought this economy to a standstill for several years in the 1940s.

3-9 The Lack of Locally-Developed Manufacturing during the Pre-1960 Period

My research in Ratchaburi Province in 1989 [Ueda 1990] found that the local textile industry had its origin in small-scale manufacturing that was started by Hakkas who had moved from Bangkok by the second half of the 1930s. Today, some of these textile companies, though very small in number, have developed into an exporting industry. These Hakka Chinese gained experience and know-how by working in Chinese-run textile factories in Bangkok. This suggests that manufacturing in local provinces was established by Chinese who had gained technical know-how in Bangkok and become widely dispersed all over the country several decades before 1960, when the Thai government introduced an industrialization policy.

However, according to my research, NM City had no prominent manufacturing which Chinese immigrants had started several decades earlier, making use of knowledge and experience obtained in Bangkok. At least, I could find no signs of modern manufacturing, which might have been expected to lead the local economy, through interviewing Chinese families who had lived in the city for more than six decades. It is notable that Chinese migrants from Bangkok to NM City in the 1920s or 1930s were engaged in commerce such as shopkeeping, and not in manufacturing.

Ingram [1971:117] mentions that the town of NM “has long been a silk-weaving center, and silk cloth was (and still is) exported,” but “after the railway was opened to Korat [Khorat], the production of silk began to decline in the

Northeast.”¹⁴ At present, there are several factories which produce raw silk or weave silk cloth in Amphoe Muang NM and surrounding amphoe. However, according to my survey at the Research Center of White Mulberry in NM, these factories began to operate several years ago and have no continuity with the older silk industry.

What prevented NM City from developing a local manufacturing sector in the pre-1960 period: why, in other words, were there no prominent manufacturers who moved from Bangkok at that time, bringing know-how with them? The example of Ratchaburi suggests that the demand in Bangkok, which, from the latter half of the 19th century, developed into the center of the rice-export industry as well as of related industries, stimulated the rise of manufacturing (even though small-scale) not only in Bangkok but also in neighboring provinces.

In the case of NM City, the distance from Bangkok might well have been an obstacle to stronger economic connections with Bangkok. After the railroad reached NM City in 1900, the Northeast was provided with hardly any further transportation means at all until 1958, when the Friendship Highway reached NM. During these six decades, the Chaophraya Delta was reclaimed and the economy of Bangkok grew rapidly as rice exports increased. Certainly, the increase in rice shipments from NM to Bangkok with the opening of the railroad seems to have boosted the economy of NM City. The establishment of the first ‘modern’ rice mill of 1915 in ‘Khorat’ [Ingram 1971:70] supports this point. However, other manufacturing industries were not successful in NM City.

Furthermore, the eviction of talented Chinese during the period from 1941 to 1945 (see 2-1-2 and 3-8) would have had a hampering effect on any budding manufacturing sector, if indeed the formation of a local manufacturing sector, such as the textile industry, was underway. However, it must also be noted that Chinese entrepreneurs were free to move to NM City after 1945. In other words, the opportunity to invest in the local manufacturing sector in response to the demand in Bangkok existed throughout the post-1945 period. I can find very little evidence that this opportunity was exploited. Therefore, it is fair to say that entrepreneurs thought very little of the business chances in the manufacturing sector. This can be explained by the fact that the local market in NM and neighboring areas was a small one, and because the transportation facilities which connected NM with large markets such as Bangkok were poor.

Further general factors which have retarded the growth of manufacturing and economic development in the provinces, including NM, are analyzed in Chapter 5.

¹⁴ According to Brown [1988:157-164, 166], the sericulture industry in Thailand gave ground to imports of silk products from Asian countries in the early twentieth century. Brown investigates the failure of one sericulture program which was set up with the cooperation of Japanese officials in 1903 in *monthon* Khorat.

3-10 Summary

In this chapter, I have analyzed some characteristics of local entrepreneurs, based on my survey in NM City. They are summarized as follows. Chinese immigrants and Chinese descendants are dominant among local entrepreneurs, and 'self-made' second-generation Chinese born in Thailand are the most prominent in this local business circle. Apart from hard work, establishing good credibility in the local society is their first consideration for business success. Another important condition for them to make great progress is to have a close connection with an influential politician such as a member of parliament. The tendency for businessmen to launch into local politics is increasing in this city, as in other local provinces. Entrepreneurs in NM City seem to have been little interested in the manufacturing sector during the pre-1960 period. The poor transportation means between NM and Bangkok, and the small local market might be reasons why this city has failed until recently to develop manufacturing.

Local Economy and Entrepreneurship in Thailand:
A Case Study of Nakhon Ratchasima

Chapter 4

THE DEVELOPMENT OF COMMERCIAL BANKING AND FINANCIAL
BUSINESSES IN NAKHON RATCHASIMA AND OTHER PROVINCES

This chapter will discuss the growth and decline of indigenous financial businesses in NM City that were built up by Chinese entrepreneurs. Because other provinces have faced the same problems as NM City has, and because the development of local entrepreneurship in the financial sector can be well supplemented by examples from other provinces, financial businesses in those provinces will also be mentioned, when necessary. I will argue that although commercial banking in Thailand was started by people in Bangkok who were involved in the export of rice, some of these indigenous provincial financial businesses matured sufficiently to have developed into commercial banks. Despite this potential, Chinese merchants who came to have the desire to establish local (or regional) banks in the provinces faced strong opposition from the government, which prevented the establishment of even a single local bank. Local banks would have enjoyed several advantages over large-scale banks in Bangkok. If we accept that competition in the financial sector is a good thing, and that it is desirable for the Thai economy to be decentralized to a greater degree than it is, then the monetary authorities should have been more responsive to those local entrepreneurs who were eager to exercise their entrepreneurship in commercial banking. Local banks could well have contributed greatly to economic development in the provinces, where the demand for credit was ill filled. The growth of local financial businesses is a concrete example that serves well in describing the actual rise of local entrepreneurship as well as the potentialities of this entrepreneurship. This chapter furthermore demonstrates that economic regulation hampered the further development of local entrepreneurship in the financial sector.

4-1 The Formation of Commercial Banking in Thailand

Before investigating the rise (and fall) of financial businesses in the provinces, I would first like to briefly summarize the development of commercial banking in Thailand.

4-1-1 The Birth of Commercial Banks in Thailand: A Close Relationship with Export Trade

Generally speaking, financing the export of agricultural and primary products gave birth to commercial banking in developing countries. In these countries, the development of early commercial banking was intimately related with the export and import trade, and banking industries were developed by foreign banks within the confines of port cities and other commercial centers [IBRD 1989:47; Viksnins 1980:7].

Thailand was not an exception. The expansion of trade after the Bowring Treaty, which marked the opening of Thailand to the world market in 1855, gave birth to commercial banks in Thailand [Krirkkiat 1986:(8-1); Phanni 1986: 254]. Commercial banks originally started as agents, and then developed into branch offices, of European banks. These were established in Bangkok and were closely related with trading [Rozenal 1970:104]. During the 1860s, within roughly a decade of the Bowring Treaty, two British banks in the East, the Hongkong and Shanghai Banking Corporation and the Chartered Bank of India, Australia and China, appointed agents in Bangkok [Collis 1965:90; King 1988:130; Mackenzie 1954:195]. The first branch of a European bank was established in Bangkok by the Hongkong and Shanghai Banking Corporation in 1888, and the second one was opened in 1894 by the Chartered Bank.

During the first few decades after these European banks opened branches in Bangkok their main business concerned the purchase from Chinese rice millers in Bangkok of dollar bills drawn against shipments to Hong Kong and the Straits Settlements [Collis 1965:92; Mackenzie 1954:196]. Between 1888 and 1941, most of the banks were engaged in financing the movement of crops, especially rice, from the provinces to Bangkok and from Bangkok to foreign markets [Paul Sithi-Amnuai 1964:38].

From 1888, when the first bank was established in Bangkok, to 1941, commercial banking in Thailand was generally controlled by foreigners [*ibid.*:33]. During this pre-1941 era, many commercial banks¹ were established by Chinese merchants in Thailand with the backing of rice exporters and rice millers. However, most of these faced management problems and were forced out of the market [*ibid.*:36; Krirkkiat 1986:(2-10)-(2-11); Noppaphon 1989:9].

4-1-2 *The Period of Formation of Thai Banks: 1941-1950*

Paul Sithi-Amnuai [1964:163] points out that the decade between 1941 and 1950 was “a period of formation of the Thai banks.” This was partly due to the fact that during the Second World War, when Thailand became an ally of Japan, the Thai authorities confiscated the branches of five Western banks [Krirkkiat 1986:(2-15)-(2-16)]. The Thai government, at the same time, encouraged native Thais to establish commercial banks in place of foreigners. During the period from 1941 to 1945, five new Thai banks were founded, each with a small amount

¹They were ‘commercial banks’ as stipulated by a law enacted in 1928 and the first banking law of 1937. According to Paul Sithi-Amnuai [1964:35], the law of 1928 was “a general act which governed all business activity in the country,” and this formed a definition of commercial banking for the first time. The banking law was not formulated until 1937. See Paul Sithi-Amnuai [*ibid.*:35-36, 140-141] for details.

of capital, by merchants [*ibid.*: (2-17); Phanni 1986:54, 57]. Chinese merchants who had been compradores of foreign banks were also involved in setting up these Thai banks [Noppaphon 1989:49].

A postwar boom in exporting intensified the competition in the banking sector. Another five Thai banks were established by 1950, enticed “by the large profits to be made in financing the booming postwar export trade” [Rozenal 1970:105]. Several Western banks, which resumed operations after the war, also contributed to heating up the competition.

4-2 Financial Businessmen in the Provinces

4-2-1 *Entrepreneurs in the Provinces during the Period of the Formation of Thai Banks*

It should be noted that entrepreneurs of the provinces contributed to a certain degree to the formation of commercial banks in Bangkok during the period between 1941 and 1950. However, only entrepreneurs in the South, who were engaged in the tin and rubber industries, were involved in the establishment and management of Thai banks which were established in the middle of the postwar boom in exports of raw materials.² Provincial entrepreneurs of other regions, including those of NM City, were not involved in the formation of commercial banks during this period.

The reason why local entrepreneurs in the South, rather than the Northeast or the North, participated in the establishment of Thai banks is because Chinese entrepreneurs in the South gained sufficient wealth through exporting tin and rubber, especially during the immediate postwar export boom, to be able to invest in the commercial banking sector.

As described above, the birth of commercial banking in Thailand was intimately connected with the export trade. For many decades after the Bowring Treaty, between about 60 and 90 percent of total exports consisted of four primary products; rice, tin, teak³ and (later) rubber [Ingram 1971:93-94]. Of these

²The Laem Thong Bank (established in 1948) had a prominent tin businessman of Changwat Phangnga (Chutti Bunsung) on the first board of directors, the Agricultural Bank (1950) was joined by an important tin businessman and another rubber trader of Changwat Phuket as directors, and the Bangkok Metropolitan Bank (1950) had a big businessman who managed rubber trading and several other businesses in Changwat Nakhon Si Thammarat and Surat Thani as a shareholder [Phanni 1986:95-98; Phuangthip 1991:211].

³The importance of teak as a commodity for export declined after the middle of the 1910s. It represented only a small percentage (between 1.6 and 5.1 percent) of exports during the period from 1915/16 to 1951 [Ingram 1971:94].

commodities, rice, which represented between about 35 and 77 percent of exports, was the most significant. According to Ingram's estimation [*ibid.*:40], shipments from Bangkok "probably accounted for 95-99 percent of the total rice exports" during the period from 1850 to 1950. Therefore, not only was Bangkok located in Central Thailand, the major rice-producing region, but Bangkok Port was the dominant port and trading center of the country.^{4,5} This is why early commercial banking in Thailand was started and managed exclusively in Bangkok, and why merchants of rice-related industries played an important role in the development of banking.

The South produced tin and rubber for export and, for about three decades after 1920, these accounted for between 10 and 30 percent of total exports. Tin, at least until the 1930s, was the second most important export product after rice [*ibid.*:94; Phuangthip 1991:205]. Tin mining in the South was developed, after 1855, by local Chinese entrepreneurs, some of whom were tax-farmers there. However, the turn of the century saw an inflow of Western capital which changed the structure of the tin industry [Phuangthip 1991:209-214]. On the other hand, "Western capital and entrepreneurship have not played an important part" [Ingram 1971:103] in the rubber industry — which increased in importance in the total amount of exports, particularly after the mid-1930s — because of a government policy to prevent foreign participation in this sector. During the early years of rubber planting, the Thai government was opposed to the introduction of foreign capital and foreign labor to this industry. As a result, the rubber industry was virtually completely left in the hands of the Chinese [*ibid.*:104; Donner 1978:481-482]. Thus, the South was blessed with industries through which local Chinese entrepreneurs could grow, and some of these entrepreneurs were involved in giving birth to banking in Thailand.

However, the contribution which these Southern entrepreneurs made to the formation of Thai banks was limited. This was because the financing of tin and rubber exports was dominantly arranged in bank offices in Penang. Almost all Thai-produced tin was shipped, in the form of ore, to the smelters in Penang and Singapore, from where it was then exported to Europe [Phuangthip 1991:162-163]. More than 90 percent of all rubber exports were shipped from Southern ports, such as Phuket and Nakhon Si Thammarat, during the 1920s and 1930s [Sompop 1989:110]. As might be expected from this, exporting finance of tin and

⁴As described later, tin, which was the second most important export until the 1930s [Ingram 1971:94], was exported from Penang and Singapore, not from a port in the South of Thailand. This was another reason why Bangkok became the dominant port in Thailand.

⁵According to Suehiro's estimation [1989a:222-223], more than 90 percent of all exports from Thailand were shipped from Bangkok Port during the period between 1895 and 1923.

rubber was managed by the Chartered Bank and the Hongkong and Shanghai Banking Corporation in Penang [King 1988:129; Phuangthip 1991:177-178]. In 1909, the former bank established a branch in Phuket “for business, most of it consisting of cashing the dollar cheques drawn on Penang by the dredging companies” [Mackenzie 1954:217]. This Phuket branch was set up as a branch of the Penang office when foreign trade expanded [Phuangthip 1991:177-178]. Therefore, exports of tin and rubber were exclusively connected with the economy of the British Straits Settlements, not with that of Bangkok, and the tin mining and rubber industries in the South did not induce local entrepreneurs to set up local banks in the South. As a whole, it contributed far less than the rice industry in Bangkok to the formation of Thai commercial banking.

The North produced teak, one of the four major export commodities, but the least important among them after the middle of the 19th century. In general, European firms have controlled the teak industry, particularly its export trade [Ingram 1971:105-107; Plaio 1987:7; Sompop 1989:127-128]. Teak was exported both through Bangkok Port, and through an inland transportation route running from North Thailand to ports in Burma. However, Bangkok Port exported a much larger amount of teak than the latter [Suehiro 1989a:222-223]. Plaio [1987:33] argues that after the construction of the railway from Bangkok to the North (to Nakhon Sawan in 1905 and to Chiang Mai in 1921), the flow of trade from the North was diverted to Bangkok instead of Burma, and that the economic relation with Bangkok was strengthened in place of that with Burma. Compared with rice in the Center or tin and rubber in the South, the teak industry in the North had little effect in stimulating local Chinese merchants to launch into commercial banking because the Chinese did not play an important role in the development of the teak industry and because much of the teak was exported through Bangkok Port by European firms.

The Northeast contributed to the increase of rice exports from Bangkok Port after 1900, when the railroad was constructed from Bangkok to Nakhon Ratchasima. However, the amount of rice shipped by the Northeast was not at all equal to that of the Center. In the Northeast, where rice, the only exportable product, was transported to Bangkok Port for export, financial businesses such as banking faced great hurdles on the road to development.

As a whole, the contribution of local entrepreneurs in the provinces to the formation of Thai banks during the pre-1950 period seems to have been limited. Especially, the Northeast (where NM City is located) had only a limited demand for financial transactions. All Thai banks were based in Bangkok. Local merchants had not been able to cooperate in setting up and managing a single local bank or regional bank in any province.⁶ This centralization, and lack of local banks, has been a characteristic of Thai commercial banks that has not changed at all up to the present.

4-2-2 Growth through Protection rather than Competition: Post-1950 Commercial Banking Policy

Until the mid-1950s, the monetary authorities did not exercise rigid control over the establishment of banks. The capital required to establish a bank was small (250,000 Baht) [Paul Sithi-Amnuai 1964:93]. During the period between 1947 and 1950, competition among commercial banks became very severe. Not only were several new Thai banks established, stimulated by a postwar boom in exporting, but foreign bank branches resumed operations after the war. The number of commercial banks in Thailand, including branches of foreign banks, soared from 10 in 1946 to 25 in 1950. The average amount of deposits of commercial banks was 79.10 million Baht in 1946, but plunged to less than 40 million Baht between 1947-1950 [Krirkkiat 1986:(2-35), (2-37)-(2-38), (2-41)].

Faced with this situation, the government came to attach a greater importance to stability than to competition in the banking sector, and began to restrict the approval of new banks [*ibid.*:(2-35)]. In 1955, the Cabinet passed a resolution to restrict the approval of new banks [Emery 1970:567]. Since then, foreign bank branches have been restricted to one per country (except in cases of reciprocity), and the establishment of only two Thai banks have been approved.^{7,8} One was the Thai Military Bank, established in 1957, the other was the Asia Trust Bank, established in 1965. The Asia Trust Bank became a public enterprise and changed its name to the Sayam Bank in 1984 when 'bad management' brought about the intervention of the Ministry of Finance [*Kan Ngoen Kan Khlang* January-February 1987:35-36]. The Sayam Bank was merged with the Krung Thai Bank in 1987.⁹

⁶ Although the Bank of Ayudhya, which was established in 1945, was the first and only bank to be registered in a province (Ayutthaya Province), it moved its head office to Bangkok in 1948. In addition, the largest original shareholder of this bank was Pridi Phanomyong's younger brother [Krirkkiat 1986:(6-11); Nopphaphon 1989:57-58; Suehiro 1989b:133, 246-247]. Therefore, it could be said that this bank was established by Pridi's group, and was thus a Bangkok-based bank from the beginning.

⁷ Excluding the Krung Thai Bank, which was set up in 1966 by merging two banks, the Provincial Bank (the Thai Bank Company, originally) and the Agricultural Bank.

⁸ At present, the financial sector in Thailand is being liberalized. According to one report [PCKRW 23 January 1995], the Bank of Thailand will begin to permit the establishment of five or six new commercial banks in 1996. Licenses for new banks will be granted to existing finance companies or other appropriate enterprises which are not financial institutions. Another report [FEER 16 February 1995:57] differs slightly from that of the PCKRW. According to the FEER, the Bank of Thailand will grant licenses for new banks to seven finance companies which seek "to upgrade their operations and become banks."

A restrictive policy on the establishment of new banks has thus characterized the Thai banking system, particularly since the mid-1950s. According to Krirk-kiat [1986:(8-2)], there have been no bankruptcies in the commercial banking sector since 1941. If a bank verged on a crisis, the Bank of Thailand arranged a bailout. The monetary authorities were concerned to prevent the bankruptcy of any bank, the nominal reason being because of the adverse effect that this would have on the economy. In 1962, the Commercial Banking Act, which aimed at the stable growth of the banking industry, was passed [Supachai 1977:38]. This was followed by another Commercial Banking Act (No. 2), which was enacted in 1979.

4-2-3 *The Development of Branch Banking*

While restricting the establishment of new banks, the Bank of Thailand adopted the branch banking system in order to extend banking services to the provinces. As Table 18 shows, the branch banking system spread throughout the country, particularly after 1955. Paul Sithi-Amnuai [1964:123-124] explains that banks were induced to establish branches in the provinces by the strong demand for agricultural exports that was caused by the Korean War. However, the monetary authorities began to impose restraints on the establishment of branch offices with the introduction of the Commercial Banking Act of 1962, which required banks to secure permission from the Minister of Finance in order to set up new branches [Nopalak 1983:22-24; Noppaphon 1989:137]. This act also specified that only Thai banks could open branches in the provinces. Since this date, foreign banks were prohibited from expanding outside of Bangkok [Supachai 1977:38].¹⁰

Since 1975, when the Bank of Thailand relaxed the eligibility requirements for Thai banks to apply for permission to open branches in the provinces (excluding *amphoe muang*), and encouraged commercial banks to establish branch

⁹The Asia Trust Bank was formerly the Asia Trust Co., Ltd. which was involved in financial businesses such as money exchange and remittances from Chinese in Bangkok. One of the main shareholders was Chin Sophonpanit; and Police General Phao Sriyanon took the post of chairman on the board of directors [Suehiro 1989:142, 160; *Kan Ngoen Kan Khlang* January-February 1987:35]. Phanni [1986:90] states that the Asia Trust Co., Ltd. was one of financial institutions which formed the financial basis of the Phin-Phao group (see p. 76, Note 26).

¹⁰As one of a series of deregulation measures, the monetary authorities, in January of 1995, awarded licenses to 22 foreign banks to open branch offices in the provinces. 37 offices were licensed to open: Chon Buri province, where the Laem Chabang Commercial Port on the Eastern Seaboard is located, being the most favored location among foreign banks. 16 foreign banks obtained approval to open offices in Chon Buri. Permission was granted in another four provinces;[†]

Table 18. Numbers of Bank Offices

Year	Bangkok*	Provinces	Total
1940	11	4	15
1945	16	8	24
1950	30	32	62
1955	42	73	115
1960	113	238	351
1965	161	313	474
1970	234	413	647
1975	323	572	895
1980	461	1,017	1,478
1985	565	1,271	1,836

Source: Krirkkiat [1986:(3-20)], Nopalak [1983:17], Thailand, Bank of Thailand [1961, 1966, 1971, 1976, 1980, 2529].

Note: The number of bank offices includes head offices.

* Bangkok and Thonburi until 1970.

offices there [Thailand, Bank of Thailand 1976:87-88], the number of branches in the provinces has increased at a faster rate than those in Bangkok, as Table 18 shows. Along with this policy, the degree of monopoly in the banking sector was intensified: a large Thai bank, such as the Bangkok Bank, gained an advantage over small and medium-sized banks by expanding its market share through increasing the number of branches [Krirkkiat 1986:(7-4)].

In spite of the spread of branch banking services throughout the country, commercial banks have often been criticized for failing to promote economic development in the provinces. This is explicitly shown in the difference in the credit-deposit ratio between Bangkok and the provinces (Table 19). Until the mid-1970s, branch offices in the provinces were a channel through which credit was transferred to Bangkok. More than half of the deposits collected by such branch offices were not lent locally. In 1969, the Bank of Thailand tried to stem the drain of funds from the provinces to Bangkok, stating that it would take into account "the amount of credit each bank provided to local communities during the past" when deciding whether to approve the establishment of new branches [Nopalak 1983:51]. However, this seems to have been an ineffective method in solving the problem of the drain of funds from the provinces, as Table 19 shows [Kanitta 1976:14].

In 1975, as I have already mentioned, the monetary authorities changed tac-

†Chiang Mai (seven offices), Ayutthaya (seven offices), Rayong (six offices) and Songkhla (one office). These offices are known as Provincial International Banking Facilities and "are authorized to borrow from offshore sources and lend money in baht or dollars to Thai businesses in rural areas" [AWSJ 12 January 1995]. They can receive deposits in foreign exchange only from non-residents, and residents who are exporters. However, they are not allowed to receive deposits in Baht [BPWR 20 January 1995].

Table 19. Credit-to-Deposit Ratio of Commercial Banks

Year	Bangkok	Provinces	Whole Kingdom
1962-1968*	100.79	38.52	87.54
1969-1974*	99.74	43.91	82.31
1975-1982*	120.99	64.05	97.89
1983	116.69	75.25	99.49
1984	115.75	77.37	96.04
1985	108.35	72.57	94.13
1986	99.52	66.94	86.98
1987	104.80	65.55	90.02
1988	112.21	70.44	96.16
1989	115.24	72.38	98.60
1990	121.43	76.07	103.35
1991	117.30	79.24	102.79

Source: Nopalak [1983:54] and statistics based on information which the author collected at the Bank of Thailand.

* Average Value.

tics, and decided to allow the establishment of bank branches in areas of the provinces apart from *amphoe muang* on the condition that a local lending requirement (at least 60 percent of local deposits) was fulfilled [Kanitta 1978:3; Thailand, Bank of Thailand Northeastern Regional Branch 2518-2519:37]. This was effective in raising the credit-deposit ratio of the provinces, as Table 19 reveals.

It is not uncommon in developing countries for commercial banks to serve rural areas and small borrowers very poorly [McKinnon 1973:68]. In general, businesses in rural areas (or in the provinces of Thailand) are so small that the potential default risk is high and information on them is costly to obtain. When the authorities artificially set the real interest rate at a level below the market-clearing rate (in Thailand's case through a legal interest rate ceiling on bank loans),^{11,12} an excess demand for bank loans results. It becomes necessary for commercial banks to ration their loans, and bank loans are allocated among favored borrowers such as big-business operators (in Bangkok, in the case of Thailand) and those who have political connections. Small borrowers can obtain only limited loans from commercial banks because the artificial interest rate does not pay enough to cover the potential risks to banks [*ibid.*:73; Nopalak 1983:84-

¹¹The Thai monetary authorities removed this legal interest rate ceiling on commercial bank loans in June 1992 [Thailand, Bank of Thailand 1992:50]. This was a part of a series of deregulation measures in the financial sector which has proceeded under the Bank of Thailand, which aims to make Bangkok a financial center in Indochina.

¹²In developing countries, the government regularly intervenes in the financial sector in order to channel cheap credit into those sectors to which the government has given high priority. A credit ceiling for commercial banks is the most common form of intervention [IBRD 1989:38, 54].

85].¹³ Government control of interest rates causes a distorted allocation of bank loans, which is shown in the discrepancy between Bangkok and the provinces in the credit-deposit ratio.

4-2-4 *Compradores and Bank Agencies in the Provinces*

The expansion of branch banking did not eliminate the possibility of financial intermediaries growing in the provinces, although Thailand failed to develop this possibility. The *compradore* system or agency arrangement, which commercial banks adopted when they branched out of Bangkok, gave Chinese merchants the opportunity to build a foundation on which to establish financial businesses in the provinces.

The *compradore* system was developed by European banks as a method to overcome a lack of information about local markets in Thailand. Chinese who were influential in business circles were employed as *compradores* to mediate between local businessmen (who were potential customers) and European banks. Branch offices of Thai banks with Western managers also used *compradores* [Plaio 1987:61]. However, through the years, the function of the *compradores* changed, and some Thai banks began to use them as well, particularly when they extended their businesses to the provinces. They guaranteed loans for local customers whose creditworthiness was unknown to Bangkok-based banks [Kirkkiat 1986:(4-4); Paul Sithi-Amnuai 1964:176; Rozental 1970:171-173, 175]. According to Rozental [1970:171-172], in 1966, there were over 120 *compradores*, and most of these were employed in the provinces.

Thai commercial banks arranged another system when they expanded branch banking in the provinces. This was the agency system. Local influential entrepreneurs (Chinese, in most cases) were appointed as managers of agencies. The manager of the agency, which was lent the bank's name and its creditworthiness, was granted greater latitude in management than those branch managers who were under the direct control of headquarters [*ibid.*:167, 169; Paul Sithi-Amnuai 1964:130-131]. In 1962, the number of agencies accounted for about 17 percent of the total number of branch offices (not including head offices) of Thai commercial banks [Noppaphon 1989:151].

These two devices were used in order to reduce the transaction costs involved in financial transactions. Before a loan is offered, commercial banks are required to collect a great deal of information about borrowers and their planned

¹³For commercial banks, small loans might have been too costly to arrange since the administrative costs involved are independent of the size of the loan. This probably added to the difficulty of small-scale borrowers in obtaining bank loans as the interest rate ceiling was not set high enough to enable banks to cover the costs of processing small-scale lending.

projects in order to investigate their creditworthiness and potential profitability. Administration costs accumulate as banks process a contract carefully so that borrowers will not impute the risk of a project on them. Commercial banks must cover these costs, which are necessary regardless of the loan size [Horiuchi 1990: 37-41; IBRD 1989:34]. The transaction costs exhibit 'increasing returns to scale'. The costs involved in collecting information on small-scale customers in the provinces were high, relative to the size of the loan, for Bangkok-based banks. Commercial banks with no experience in the provinces thus came to employ local Chinese merchants who were well informed about local businesses and people, intending to utilize the valuable personal knowledge of these merchants which had been accumulated through commercial transactions. The compradore and agency systems show that the special knowledge of Chinese merchants can be traded as a commodity on the financial market.

However, citing occasional abuses caused by compradores and agencies, the Bank of Thailand took action against them. In 1967, the Bank of Thailand imposed the condition, in granting permission for a new branch, that a newly established branch office should be a real branch, not an agency, and should not employ compradores [Thailand, Bank of Thailand 1972:61]. Since then, both agencies and compradores have become less important: neither agencies nor compradores are to be found in the commercial banks of today.

Although the agency system began to fade away, agency managers far from abandoned their financial businesses. Some continued to manage branch offices by changing their position from agency manager to branch manager [Plaio 1987: 108-109], and others began to operate another type of financial undertaking, that is, finance companies. Since I could not manage to find appropriate cases in NM City, an example of a Chinese family in the North is cited in order to show the rich entrepreneurship of Chinese financial businessmen.

Plaio [*ibid.*:100-102, 109-110] cites the case of a prominent Chinese family in the North which had been involved in the money lending business there since the 1930s, and became the agency of the Siam City Bank and the Bangkok Bank of Commerce after the Second World War. Their financial business expanded so rapidly that this family operated 13 agencies of the latter bank in some Northern provinces. After 1967, when the Bank of Thailand worked out a scheme to eradicate the agency system, this family gave up its agencies and established two finance companies instead, both of which were started in cooperation with other influential families in the North. One of these two companies grew to have nine branch offices in five Northern provinces. However, both companies were joined later by Bangkok capital, and at least one of them was later merged with Bangkok-based finance companies. One of these Bangkok-based finance companies was the Asia Credit Ltd., a finance and securities company which was managed by the Sophonpanit family-Bangkok Bank group, and is one of the

largest finance companies in Thailand. This Northern family now runs commerce and service businesses and remains one of the most prominent families in the business world of the North.

This family's establishment of finance companies can be seen as an attempt to make the most of the knowledge that it had collected through business and social activities, knowledge which it had previously sold to commercial banks. Agency managers were motivated to maintain relationships with customers over a long period of time because collected knowledge and information about their customers was an investment (or accumulated capital) that might prove useful in the future. Moreover, information intrinsically has the problem of optimal allocation. Information can be traded like other commodities. However, in most cases, information, unlike some forms of knowledge, can be reproduced at a negligible cost. A buyer of information can resell the information which he has bought from its producer to another person at a very low cost. This means that a producer of information can not eliminate the possibility that a buyer of his information will resell it to another buyer. The most practical way to cope with this situation is for the producer of information to use the product himself, not to leave the production and trading of information to market mechanisms [Arrow 1962:615; Horiuchi 1987:34, 38]. Therefore, it was quite rational for those who were agency managers to launch into the management of finance companies where they could best use their personal knowledge and information.¹⁴

Knowledge about the trustworthiness and information about the credit status of local Chinese entrepreneurs obviously gives local financiers a strong edge over Bangkok financiers in terms of reducing transaction costs, as will be discussed in the next section. We must, therefore, ask why the provinces have failed to develop indigenous financial institutions, such as local banks, operated by local people. Why have financial entrepreneurs of the provinces never been vigorous enough to compete with their counterparts in Bangkok?

Before answering these questions, the business of discounting post-dated cheques, in which many Chinese merchants were involved, is first analyzed. This is another example which shows that financial entrepreneurs rose rapidly through the discounting of cheques in the provinces, although in most cases they failed both to develop their financial businesses into a solid industry, and to establish organized institutions.

¹⁴I could not manage to find a single case in which a compradore established a finance company after the compradore system faded away. However, it can be assumed, from what is argued about agency managers above, that they continued to be involved in financial businesses after they ceased to be the compradores of commercial banks. This is because, again, that was the method by which they would have made the most of their personal information.

4-2-5 *Discounting of Post-Dated Cheques and Chinese Merchants*

With the spread of commercial banking in Thailand, post-dated cheques have been used among businessmen as a means of making payments in trading.¹⁵ As Paul Sithi-Amnuai [1964:132] describes, the use of post-dated cheques became widespread throughout the country because such cheques came to gain the confidence of merchants after 1954, when a new act which criminalized the use of bad cheques was passed.

Post-dated cheques have been discounted both in the organized financial market, that is by commercial banks and finance companies, and in the unorganized market [Thailand, Bank of Thailand 1990:33]. Chinese merchants have been involved to a great extent in the discounting of post-dated cheques in the unorganized financial markets, not only in Bangkok but also in the provinces, because commercial banks (and finance companies, to a lesser extent) were controlled by the monetary authorities and could not fulfill the increasing demand for credit. The monetary authorities imposed an interest rate ceiling on loans, and this artificial ceiling had a large effect on bank lending. Since the excess demand for credit could not be satisfied by banks and finance companies (that is, since 'credit rationing' occurs in financial markets), less-favored post-dated cheques, which commercial banks or finance companies would not discount, were put into the hands of financial businessmen who may well not have had licenses. This illegal cheque-discounting business was "demand-driven" and "generated purely by the needs of the marketplace," as is generally the case for informal economic activities [Montiel *et al.* 1993:8]. This financial arrangement provided Chinese businessmen with short-term loans.

Post-dated cheques were discounted by commercial banks for 15-19 percent per annum from 1982 to 1989. These discounting rates corresponded with the interest rate ceilings imposed on bank loans [Thailand, Bank of Thailand 1990:Table 19]. On the other hand, Chinese merchants usually determined the discount rate by the creditworthiness of the sellers, as well as the market interest-rate level. As Montiel *et al.* [1993:13] describe, in the regular moneylending of the informal credit market, "credit is also allocated rationally among clients and in keeping with risk perceptions and past performance. Thus, for example, longstanding clients who have established creditworthiness are charged a lower interest rate than those who are first entering the market." In Thailand, while the discount rates of post-dated cheques were usually around 2 percent, this rose to about 10 percent (maturities usually being about three months) when the seller had a bad

¹⁵ See Paul Sithi-Amnuai [1964:131-134] and Rozental [1968:42-43] for detailed explanations about post-dated cheques.

reputation.¹⁶

My research in NM City in 1991 revealed that there were many local Chinese merchants who had been engaged in the discounting of post-dated cheques as a sideline in the past. According to Ratprathip Kiratiurai, who has been involved in finance businesses in NM City for more than two decades, local merchants in NM City had come to use post-dated cheques widely by about 1960 due to an increase in trade between Bangkok and NM. This was why he and his father at that time began the business of discounting post-dated cheques, which were drawn on merchants of NM by businessmen of Bangkok. Until 1972, they were able to run this business without being subjected to any legal regulations. In 1972, the government began to control the activities of non-bank financial institutions, such as finance companies, by amending the Act for the Control of Commercial Undertakings Affecting Public Safety and Welfare, and those who desired to undertake financial businesses were required to obtain permission from the Ministry of Finance [The Association of Finance Companies:1991; Virach 1980: 34-35]. As described later, Ratprathip managed to obtain such permission, and his discounting business developed into a formal finance company in 1972.

Sunthon Phumhothong, another Chinese merchant, who at the end of the 1970s established a company in NM City that specialized only in the discounting of post-dated cheques, states that the number of such companies run by Chinese merchants reached 27 in the Northeast by the mid-1980s. He explained that those companies were allowed by the monetary authorities only to discount post-dated

¹⁶Based on information offered by Rector Krikkiat Phipatserttham (The University of the Thai Chamber of Commerce). However, the discount rate of 2 percent per three months is lower than the interest rate ceilings of 15-19 percent per annum which were imposed on bank loans from 1982 to 1989. Usually, the interest rates tend to be substantially higher in the informal (or unorganized) credit market than the formal market. The data on the non-institutional rates of interest in Thailand from 1962 to 1963 [Montiel *et al.* 1993:21] suggests that rather high interest rates were charged on informal lending. According to this data, the lowest rate per annum was 11 percent and the usual rates were between 22 and 35 percent. These rates were reported to rise to a top rate of 80-150 percent. On the other hand, the interest rate ceilings imposed on bank loans were 12 percent for export loans and 15 percent for ordinary loans per annum during the period from 1962 to 1964 [Thailand, Bank of Thailand 1993:50]. Other data, such as the interest rates in the informal rural credit markets of NM Province (1984-1985), also suggests that informal lending rates have been higher than formal ones. The mean interest rate in the informal rural credit market was 90 percent per annum, which was far higher than the mean rate of 12-14 percent in the formal rural credit market [Montiel *et al.* 1993:22]. However, Montiel *et al.* [*ibid.*:22-23] mention that the interest rates in the informal markets of developing economies are on a downward trend. This is not only because of a liberalization of financial markets but also because the flows of information have been improved and transaction costs thus reduced.

cheques and not to engage in other financial activities such as receiving deposits from the public and granting loans, which finance companies were allowed to arrange. His company was registered at the Ministry of Commerce as a *len chaer* company (that is, a company to arrange a rotating credit society). It is plausible that some post-dated cheques which were discounted by this type of company were drawn by Chinese merchants who were arranging a *chaer*.

However, a run involving 44 finance companies of Thailand in 1983 [IBRD 1989:72] threatened the solvency of these companies in the Northeast. The Bank of Thailand Northeastern Regional Branch [2527:1-2] reported that the *chaer* business in the Northeast faced financial difficulties in 1984 and that the number of dishonored post-dated cheques had increased, especially those which had been drawn in arranging a *chaer*. All of the 27 companies described above went down, said Sunthon. At that time, his company was taken over by a Bangkok-based finance and securities company, which was an affiliated company of the Thai Farmers Bank, and became the NM branch of that finance and securities company.

4-2-6 *Ratprathip Kiratiurai — A Provincial Financial Entrepreneur*

In the following, a profile of Ratprathip Kiratiurai is given to show how one Chinese merchant has managed a financial business in a province.

Ratprathip was born in 1952 in NM City of a father who was a second-generation Teochiu Chinese. Ratprathip's father had been employed in a company run by Teochiu Chinese merchants in Bangkok. That company not only provided the medium of exchange for wholesale transactions between Bangkok and Northeastern cities such as Ubon Ratchathani and NM, but was also engaged in trading between these cities, although it was an informal financial institution which served Teochiu Chinese merchants in an age when commercial banks had not yet spread. Ratprathip's father was appointed to take charge of business with NM, and so he came to reside in NM City from around 1950. After he came to NM City, he resigned and established a general shop. In about 1960, he opened a hotel in town, and in his hotel he began the business of discounting post-dated cheques, which were mainly drawn on local merchants of NM by businessmen from Bangkok. Ratprathip explained that the demand for credit in NM increased to the extent that a small number of bank branches could not fulfill it. His father launched into the business of discounting, making the best use of knowledge gained when he had worked for the Chinese financial company. In 1960, NM Province had only eight bank branches, although this was more than any other province in the Northeast.

Ratprathip, after finishing his education at a college of commerce in Bangkok, started his business career by helping his father in the discounting of post-dated cheques and hotel management. When the government began to require

those involved in financial businesses to apply for permission from the Ministry of Finance in 1972, Ratprathip and his father decided to do that, and they were accorded permission to manage a finance company.¹⁷ Their finance company was the only one in the Northeast at that time, and the 49th to be established in Thailand. Since then, he has been involved in various financial businesses in NM City.

During the period when he operated a finance company, he conceived the desire to develop his company into a local bank. He was eager to deepen his knowledge of the financial business and attended several courses in financing in Hong Kong and Bangkok. However, as described above, the monetary authorities have refused to grant permission for the establishment of any new commercial banks since the mid-1960s. Despite his eagerness, he had to face up to the fact that his application to the authorities to establish a local bank would be turned down. As a result, he never applied for permission. He stated that he would have set up a local bank if the government had relaxed regulations regarding the establishment of commercial banks.

In the end, in 1980, he decided to sell the majority of his shares in his finance company to a friend who operated a finance company in Bangkok. He explained that he had decided to make a clean break from the management of the finance company because he had become too busy to continue after his election as a member of the municipal council of Amphoe Muang NM. In 1984, this finance company faced financial difficulties during a run on finance companies, which caused the intervention of the Ministry of Finance. At present, it operates as a branch of a Bangkok-based finance company which was established after the run through the merger of six finance companies. Ratprathip is still a minor shareholder in this company.

His major business is now in real estate. However, he still insists on the need for local banks and is opposed to regulation in the banking sector, although he admits at the same time that local banks in Thailand would have shortcomings.

4-2-7 Competitive Advantages of Local Entrepreneurs

My findings in NM suggest that Chinese merchants formed the backbone of an indigenous financial industry that existed in the provinces several decades ago. A competitive edge over commercial banks induced Chinese merchants to oper-

¹⁷ Activities in which licensed finance companies take part are the collecting of funds through the issue of promissory notes and borrowing from commercial banks (they are prohibited to receive deposits). Besides providing short-term consumer credits, one of their major lending activities was the discounting of post-dated cheques [Supachai 1985:92; Thailand, Bank of Thailand 1990:9-10].

ate financial institutions, and particularly to specialize in the discounting of post-dated cheques drawn on local Chinese businessmen.

This competitive edge consisted mainly of three factors. First, the regulations (such as an interest rate ceiling on loans) faced by commercial banks made it difficult for these banks to fulfill the needs of small borrowers. Commercial banks prefer relatively risk-free large enterprises in a situation of credit-rationing. Many Chinese businessmen ran small-scale businesses and were generally regarded as less favorable borrowers by banks. Informal financial agents that were free from legal regulations, on the other hand, could adjust interest rates to match the borrower's creditworthiness.

Secondly, those Chinese merchants who managed businesses which required a close relation with local Chinese societies enjoyed a competitive advantage, as it was not as costly for them to collect information and (especially) personal knowledge about the credit status of other local Chinese businessmen as it was for the branch offices of Bangkok-based commercial banks. Local businessmen gathered knowledge not only from business dealings but also from social networks of Chinese people such as Chinese associations. Moreover, Chinese merchants who were involved in the cheque-discounting business could keep transaction costs low and reduce the risk of default to a great degree by the following measures. They limited the number of customers to a small circle of acquaintances, or acquaintances contacted through mutual friends. This meant that knowledge on creditworthiness was easily and cheaply obtained. In addition, they sought to maintain so-called 'customer relationships', that is, they tried to maintain relations with the same customers, and their transactions were arranged by mutual consent. As such relationships developed, transaction costs were driven down further. As a whole, therefore, their businesses were based on personal relationships in the local Chinese society. The business of cheque discounting was a manifestation of the entrepreneurship of Chinese merchants who tried to exploit new business opportunities by utilizing their personal knowledge.¹⁸ This personal knowledge is based on 'informal relationships' and frequently allows the owner to enjoy a competitive advantage because of "*past* investments in mutual familiarization" [Sowell 1980:25].

The third advantage which these local financial arrangements enjoyed over commercial banks can be seen in their enforcement methods. Since these financial arrangements were largely informal, enforcement methods also had to be informal.¹⁹ The sanction which Chinese merchants sometimes relied on was to appeal either to a person's reputation or in extreme cases to social ostracism [Bar-

¹⁸They might also have enjoyed economies of scale by specializing "in providing a single type of financial commodity" (the discounting of post-dated cheques) "to a special group of customers" (local Chinese of their acquaintance) [Benston and Smith 1976:222].

ton 1983:59-60]. Ostracism means a total loss of creditworthiness among Chinese businessmen, a creditworthiness which had been previously fostered through business and social activities. Once it was lost, defaulters faced great difficulties in regaining it: sometimes they even had to leave the area altogether.²⁰ As described in 3-3, the establishment of creditworthiness in the local society was of great importance for Chinese entrepreneurs who desired to be successful. Therefore, the desire to maintain their reputation and the threat of social ostracism were effective methods in discouraging payment defaults. Lending arranged on the basis of personal relationships gives a strong incentive to the borrowers to invest in less risky ventures than would have been the case with bank loans. This means that the risk of the 'moral hazard' of borrowers declines.²¹ Relationships based on trustworthiness, which are a form of nonmarket control, can be a method to approach optimal resource allocation in a market.²²

Benston and Smith [1976:215-216] have argued that the *raison d'être* for financial intermediaries is the existence of transaction costs. Financial intermediaries, in other words, are organized to reduce transaction costs. When high costs prevent the transaction of funds, a lower level of 'welfare' is obtained. Therefore, the reduction of transaction costs is an important problem which confronts the economic world [Horiuchi 1987:25]. Chinese merchants thus arranged the discounting of post-dated cheques in order to cut down the transaction costs associated with processing loan contracts, especially for Chinese businessmen, although these costs are comparatively low. Ultimately, these financial businesses have helped to increase the efficiency of business transactions of Chinese entrepreneurs and to rectify, to some extent, a resource allocation distorted by government intervention.

¹⁹ There are several reasons for this. One, of course, is because such financial arrangements sometimes were carried out, if not illegally, in a gray area between legal and illegal. Another may simply be because the businessmen involved did not want to draw attention to themselves: in any transaction that involved even a relatively small amount of money, a dispute and publicity may well have brought heavy handed offers to 'resolve' the dispute by relieving the parties of their funds. (Skinner [1958:157-170] gives an interesting example of a case where a dispute between a number of Chinese over a large sum of money donated to charity which became public eventually was settled to the satisfaction of the Thai police.) There are also good reasons not to make public this sort of transaction for taxation reasons. One of my interviewees, a prominent Chinese businessman, noted that it has been a common practice for Chinese entrepreneurs to use a double accounting system in order to evade taxes.

²⁰ According to Sunthon Phumhothong, who was involved in the discounting of post-dated cheques, when the *chaer* businesses in the Northeast faced great difficulties in 1984, an owner of a *len chaer* company in NM fled to the United States after his company went bankrupt. This defaulter has still not returned. This case suggests that social ostracism within the local society inflicts great hardships on defaulters.

Chinese people who are, in a sense, both isolated and divided from Thai society rely on their creditworthiness and personal relationships not only in dealing with post-dated cheques, but also in other businesses in order to achieve optimal resource allocation. Chinese associations, through which Chinese entrepreneurs show to what extent they have established credibility in their community (see 3-3), can be seen as organizations that aim to reduce transaction costs and increase efficiency in managing businesses in a market of imperfect information. In this sense, Chinese associations are organizations which are defined as “a means of achieving the benefits of collective action in situations in which the price system fails” [Arrow 1974:33].

In concluding this section, it should be noted that Chinese businessmen became involved in financial business because it was ‘rational behavior’ for them. Many Chinese operated small-scale businesses, and had to manage these in a situation of ‘imperfect information’.²³

4-3 Dominance of Bangkok-Based Banks in the Provinces

I have given one example of an entrepreneur (Ratprathip Kiratiurai) of NM City who wanted to launch into commercial banking. There must be others in other provinces, entrepreneurs, for instance, with experience in operating financial businesses such as finance companies and cheque discounting, who likewise wished to make a career in commercial banking.²⁴ This desire to establish local banks was not fulfilled because the entry of new banks was limited by economic

²¹In credit markets, a moral hazard is caused by imperfect information, that is to say, an asymmetry of information between a lender and a borrower [Horiuchi 1990:280]. It is difficult for the lender to know exactly in what project the borrower will invest. The borrower, who makes a solid and careful investment when the interest rate is low, may change his investment behavior when the interest rate is raised. He may invest in a risky but highly-profitable project, and try to shift his responsibility on the lender’s shoulder if that project fails. A moral hazard, in other words, is the risk that a certain arrangement will encourage socially undesirable behavior (investing in risky projects, in this case). Since the ‘punishment’ for default is heavier in the case of personal relationships, the number of defaults should therefore decline.

²²These advantages which these indigenous financial businesses have over commercial banks are those that informal relationships enjoy. As Sowell [1980:26] describes, “informal relationships are not only able to acquire much knowledge at lower cost than formal organizations in some cases, but are generally able to apply it in more specific or ‘fine tuned’ fashion in making decisions.” This is because “informal relationships are, by definition, relatively freer of rules than are formal organizations.” These financial businesses were able to make decisions at a lower cost than formal institutions, adapting themselves to the requirements of customers.

regulation. Basically, this was the direct cause of Thailand's failure to develop local (or regional) banks in the provinces. On the other hand, Bangkok-based banks obtained political patronage and enjoyed a situation of restricted competition, and some of these banks became big enough to enjoy economies of scale. However, it should be emphasized that small-scale local banks appear to have several advantages over larger banks in Bangkok.

4-3-1 Economic Regulation and Local Bankers in the Provinces

By citing the case of NM again, I will argue that the government had already adopted a restrictive policy towards the establishment of new banks by the time when financial businessmen in the provinces had matured enough to develop their financial institutions into commercial banks. Because the authorities adopted this restrictive policy, Bangkok-based banks, which originally sprang up from the export business in Bangkok, could extend their power to the provinces in a situation of restrained competition.

Table 20 shows the numerical change of branch offices in NM Province.

Table 20. Numbers of Bank Branches in NM Province

Year	Number	Year	Number
1940	0	1965	9
1943	1	1970	15
1951	2	1975	17
1952	3	1980	37
1957	5	1985	47
1960	8	1990	60

Source: Thailand, Bank of Thailand [1958, 1961, 1966, 1971, 1976, 1980], Thailand, Bank of Thailand Northeastern Regional Branch [2528, 2533], and based on information which the author collected at the Bank of Thailand.

The first branch of a commercial bank was opened there in 1943 by the Siam Commercial Bank. This branch was the first branch in the Northeast and probably the seventh branch in the provinces in Thailand.²⁵ The second in NM Province was a branch of the Thai Farmers Bank, which was set up in 1951, and the third was that of the Bank of Ayudhya in 1952. As Table 20 shows, the number

²³The unorganized cheque-discounting business of Chinese merchants is expected to decline with the deregulation of finance which has been undertaken by the Bank of Thailand since the end of the 1980s. This is because, as described above, regulation in the formal financial market has given rise to this discounting business [Montiel *et al.* 1993:17, 19].

²⁴Noppaphon [1986:45] refers to another example in which the government rejected an application to establish a local bank in a province. It happened in 1969, and the applicant was a businessman in a province who had operated an agency of a commercial bank there.

of branches in NM Province has increased gradually since the 1950s, with a sharp expansion during the period from 1975 to 1980, probably as a consequence of the relaxation of requirements for opening branches in the provinces (see 4-2-3). This indicates that commercial banks responded to an increasing number of financial transactions in NM Province at that time by broadening their branch networks. Ratprathip Kiratiurai, who established a finance company in NM Province (see 4-2-6), stated that sometime around 1960 his father started an informal cheque-discounting business, induced by an increasing demand for credit. The fact that the number of bank branches nearly doubled from 1960 to 1970 would seem to endorse his suggestion of an enlarged demand for financial intermediaries. Moreover, when Ratprathip and his father established a finance company in 1972, NM Province had just entered upon yet another decade of rapid increase in branch offices, in which the number of branches shot up from 15 to 37.

Seeing an expansion of branch networks, Ratprathip judged that the financial business would promise good profits, and so conceived the desire to set up his own bank. The more important point concerns his competitiveness with branches of Bangkok-based banks. The transaction costs which he would have had to bear at an early stage in managing a bank would be lower than those which a similarly sized branch of a Bangkok-based bank would face, because he could utilize information and personal knowledge about the credit status of local customers which he and his father had collected through managing a cheque-discounting business and a finance company. This would have been a great advantage, and was a factor that induced him to think about establishing a bank.

However, the government had begun to tighten controls over the establishment of new banks as early as the mid-1950s. This case indicates that when the time was ripe for the establishment of local banks by local businessmen, they were prevented from launching into the banking sector by economic regulation.

²⁵ The first six bank branches set up in the provinces were as follows (in order of time). 1. The Chartered Bank, Phuket in 1910. 2. The Bank Sayam Kanmachon (the Siam Commercial Bank after 1939), Thungsong (Nakho Si Thammarat Province) in 1920, closed in 1932 because of losses. 3. The Bank Sayam Kanmachon, Chiang Mai in 1927. 4. The Bank Sayam Kanmachon, Lampang in 1930. 5. The Bank of Asia, Hat Yai in 1940. 6. The Bank of Asia, Yala in 1942. Although the Provincial Bank established a branch in Chon Buri during the period from 1942 to 1945, I could not discover the exact year when this branch was set up. Data is based on Phanni [1986:15] and on information which I collected at the Bank of Thailand. Many of these branches in the provinces were located in the trading center of tin and rubber in the South. The reason why Nakhon Ratchasima (NM) was selected as the first site in the Northeast might be due to the military presence (the army base at NM was important during the Second World War) and the increased demand for financial services that this presence fostered.

4-3-2 Political Patronage of Bangkok-Based Banks

Several works [Krirkkiat and Yoshihara 1983:24-26; Phanni 1986:255; Suehiro and Nanbara 1991:9] reveal that, in Thailand, big business groups have grown, more or less, by establishing close relations with the government in power. Close relations between businessmen and politically influential figures such as military generals are distinctive, particularly in the financial sector. During the 1950s and 1960s, when the military ran politics, all Thai commercial banks that had been established by Chinese merchants (except for one bank, the Wang Lee Bank) sought government patrons [Suehiro and Nanbara 1991:115].²⁶

The case of the Bangkok Bank in the 1950s clearly shows that it grew remarkably by having political patrons in the government. In 1953, the Bangkok Bank became the largest bank in Thailand by increasing the stock which was furnished by the Ministry of Economic Affairs (the Ministry of Commerce today), while Major General Siri Siriyothin, who was the Deputy Minister of Economic Affairs and an important member of the Phin-Phao group, was appointed as Chairman of the bank's board of directors. The Ministry of Economic Affairs was the major shareholder at that time [*ibid.*:114; The Bangkok Bank 1981:40]. According to Krirkkiat [1986:(4-39)-(4-40)], a large amount of money, particularly profits from rice exports, was deposited in the Bangkok Bank by organizations of the government from 1953 as a result of the government being the major shareholder. The Bangkok Bank [1981:56-57] reported that during the period between 1952 and 1960 its growth in deposits and loans was very rapid. Although the remarkable growth of the Bangkok Bank from this time to the present cannot be explained satisfactorily solely on the basis of strong political patronage [Suehiro 1989b:254-256], this patronage was undoubtedly the main cause of the growth

²⁶ There were two major groups in which Chinese bankers sought political patrons: the Phin-Phao group (including Field Marshal Phin Chunhawan and Police General Phao Sriyanon), which wielded power in the Phibun government of the 1950s until 1957, when they were ousted by Sarit; and the Sarit group (Field Marshal Sarit Thanarat, Major General Thanom Kittikachon, Major General Praphat Charusathian and others), which was in power from 1957 to 1973. A number of prominent members of the Phin-Phao group took up posts, through the 1950s, on the boards of directors of the Bangkok Bank, the Siam Commercial Bank, the Agricultural Bank, and the Bank of Ayudhya. On the other hand, some generals of the Sarit group sat on the boards of directors of the Bank of Asia, the Provincial Bank, the Bangkok Bank, the Siam Commercial Bank, the Thai Military Bank, the Bank of Ayudhya, the Thai Development Bank, and the Union Bank of Bangkok [Noppaphon 1989:96-97]. After 1974, commercial banks did not explicitly seek assistance from influential figures in the government by offering them directorships.

during the 1950s and the 1960s.

Skinner [1958:191-192] points out that Chinese businessmen, being members of an ethnic minority, and facing discrimination in Thai society, needed protection, which they obtained from the Thai elite. They 'bought' business security by offering directorships of their firms to influential figures in the government. The Chinese businessmen gained not only protection but also special privileges through this alliance with the Thai elite [*ibid.*:304]. Commercial bankers in Bangkok who developed intimate connections with the government could seek favors from it. Restraining competition in the banking sector might well be one of the favors that was sought. It is plausible that Thai officials who sat on the boards of various banks accepted this opposition to the establishment of new banks, although I could not find any supporting evidence (apart from the fact that virtually only two new banks have been allowed to be established since the mid-1950s). If that was the case, the government's restrictions on new banks imposed in the mid-1950s (see 4-2-2) could be seen as being at least partly due to the fact that influential officials resorted to this stratagem to stem competition and to protect the interests of those Bangkok-based banks with which they were allied.²⁷

Stigler [1975:114] describes economic regulations imposed by the state as follows. Although regulation is widely viewed as being "instituted primarily for the protection and benefit of the public at large or some large subclass of the public," in fact "regulation is acquired by the industry and is designed and operated primarily for its benefit." Stigler [*ibid.*:116] gives "control over entry by new rivals," (which can be seen in the case of commercial banks in Thailand), as one of the main policies which are generally sought by an industry. "The damage to the rest of the community" caused by such regulation outweighs the benefits which that industry can draw from regulation [*ibid.*:123]. Regulation, in other words, results in a deadweight loss to the economy.

If Bangkok-based banks sought, through their political connections, regulation over entry by new banks (including local banks) from the government, that would definitely result in a distortion of resource allocation. The demand for financial services in the provinces might well have been ill filled because of the dominance of Bangkok-based banks. The discounting business of post-dated cheques and fund-raising through rotating credit societies, which was widespread in the provinces, can be partly attributed to this distorted allocation of resources. If the demand for credit was ill satisfied, the efficiency and productivity of economic activities in the provinces would have been lower than would have been the case if there had been no regulation.

Next, it should be asked why Chinese businessmen in the provinces did not succeed in expanding their businesses through seeking political patronage as their

²⁷This point is discussed again in 5-4 from the viewpoint of rent seeking.

counterparts in Bangkok did. Why did Chinese financial entrepreneurs in the provinces not explicitly buy 'protection' and 'special privileges' from influential figures in the government, making that an occasion to advance in financial business? This was simply because small-scale financial entrepreneurs in the provinces could not afford to offer the same economic incentives to political patrons that large banks in Bangkok could.²⁸ The rapprochement between Chinese bankers and the Thai elite was particularly outstanding in the 1950s and 1960s. At that time, financial businesses of the provinces were not well developed in comparison with those of Bangkok. It is interesting to note again, in this context, that the entrepreneur (Ratprathip Kiratiurai) whom I found in NM City to be most interested in the financial sector has entered politics (see 4-2-6). This could be interpreted as a quest for political patronage — if you can't beat them, join them, as it were.

It seems to me that, in NM, the evidence indicates that local financial institutions had the potential to develop into commercial banks in the 1970s. By that time, however, it became difficult to pursue political patronage explicitly, and a number of Bangkok-based banks had expanded their businesses (at least partly through political patronage in the 1950s and the 1960s) enough to enjoy economies of scale.

4-3-3 *Advantages of Local Banks*

Economists generally argue that commercial banks enjoy an advantage of economies of scale, although the definition of 'output' of commercial banks has been much debated. Benston [1972], defining 'output' as the number of loans and number of savings accounts, and taking American banks as samples, concludes that in general economies of scale for commercial banks were found. Concerning Japanese banks, Royama and Iwane [1973] took gross income as an index of 'output' and found that economies of scale operated in commercial banks to a certain extent.

These arguments support, in theory, the policy of the Bank of Thailand, which preferred the branching of larger banks to the establishment of small-scale local banks.²⁹ However, local banks established by local entrepreneurs who are well informed about local economic circles would have been competitive with Bangkok-based banks, particularly at an early stage, when branches of the latter had only a short history of operation in the local society. This is because local

²⁸ 5-4 analyzes this point in detail.

²⁹ It has been reported that the Bangkok Bank enjoys economies of scale. This report was based on an analysis of the net profits per branch and net profits per employee [AWSJ 30 September-1 October 1994].

banks face smaller transaction costs (see 4-2-7), which means that Bangkok-based banks must bear extra costs to collect information, for example, by employing people well versed in the intricacies of local businesses.

However, it should be pointed out that a local bank enjoys this advantage only as long as it enjoys a 'monopoly' on the inside information of a local society. Mobility of staff among banks can easily destroy this monopoly. As Arrow [1962:615] argues, information as a commodity is reproduced "at little or no cost" once it is sold (see 4-2-4). As a consequence, small-scale local banks would face severe competition with Bangkok-based banks, which are assumed to have advantages of scale economies, once such local banks lose their cost advantages.

The second advantage which local banks could have enjoyed is 'economies of scope', which are defined as cost savings effected by combining "two or more product lines in one firm," product lines which are otherwise produced separately by several firms [Panzar and Willing 1981:268]. Economies of scope come from the existence of sharable inputs. Commercial banks enjoy economies of scope because their information about customers is an input sharable between the commercial banking business and other financial services such as the securities business. By appropriating information gained through arranging loans for another business, such as the transaction of securities, commercial banks are able to enjoy economies of scope [Kasuya 1986:50]. In analogy with this, it can be argued that the operator of a finance company would enjoy economies of scope if he established a local bank, because the information which he has accumulated through managing the finance company is also useful for commercial banking. He can use that information over and over again at no cost while the intrinsic characteristics of information hinder him from selling that information on the market.³⁰ Therefore, it is rational for an operator of a finance company to use his personal knowledge and information by launching into commercial banking.

Third, local banks are assumed to have an advantage concerning creditworthiness and the ability to gain deposits. It is quite possible that several influential families would join in the establishment of a local bank. As I have argued in 3-3, local Chinese businessmen regard reputation and trustworthiness within the local society as their most important asset in doing businesses. If a number of prominent families invest to set up a local bank, that bank would undoubtedly win broad confidence and support from local people, which a new branch of a Bangkok-based bank could not readily gain. That would help to accelerate capital mobilization in the provinces, where the majority of savers often consist of a great number of small-scale asset holders. It would be easier for local banks to

³⁰Information as a commodity is difficult to trade in a market because of two problems. One is the problem of allocation and the other is the credibility of information. See Arrow [1962:614-616], and Leland and Pyle [1977:383] for a more detailed explanation.

increase deposits through connections with the local people than for Bangkok-based banks to do so. This situation is similar to that of 'product differentiation'. In other words, although the same financial service (product) offered by both a local bank and a branch office might not be differentiated by interest rates (price), a local bank might still attract a larger number of savers if its shareholders have been successful in gaining public confidence within the local society. However, this kind of 'product differentiation' becomes less effective when a local bank is established after Bangkok-based banks have made a name for themselves throughout the country. In today's Thailand, where large banks such as the Bangkok Bank occupy an indisputable position in the financial sector, it would be hard for any new local bank to build up a sound reputation from scratch. In other words, the time when this advantage would have been greatest has already passed.

On the other hand, a possible counter argument against local banks is that, even if they had been allowed to be established, they could not have maintained solvency and credibility, and so would not have been able to survive. The Director of the Northeastern Regional Branch of the Bank of Thailand insisted that if the existing financial institutions could meet the demand, the government should not permit the establishment of new local banks which might be defective in managerial efficiency, citing the past case of agency managers in the provinces.³¹ The agency system (see 4-2-4) had been criticized because of loose management. Agency managers, who in many cases were local provincial merchants, used bank deposits to finance their own businesses or accommodate their acquaintances with unsecured loans. The Director of the Northeastern Regional Branch of the Bank of Thailand argues that any local bank established and managed by local merchants might merely act the part of such agencies in different robes.

This point should not be overlooked when we examine the role of financial institutions in economic development. In developing countries, it is of great importance for the monetary authorities to build public confidence in the financial sector in order to mobilize the capital necessary for development. Horiuchi [1987:31] argues that in an economy where the majority of those who deposit their savings are composed of a great number of small-scale asset holders, commercial banks which can provide them with safety and highly divisible financial assets would play an important role in capital mobilization.

Nevertheless, at least in Thailand, I believe that the government should offer local entrepreneurs the chance to show their entrepreneurship in the financial sector, especially when individuals exist who have a strong wish to do. I would

³¹Based on an interview with Mr. Songkwan Suwantaemee, the Director of the Northeastern Regional Branch of the Bank of Thailand, and Mr. Praneet Chotikirativech, the Chief of the Economic Research Section of the Bank, in November 1991.

argue that the evidence indicates that (small-scale) local banks would have been competitive with branches of Bangkok-based ones, at least during the period before banking networks spread out in the provinces. The rejection of applications to establish a local bank means that the monetary authorities, placing great importance on the stability of the financial sector, have denied the provinces one possibility of further development. This is because the demand for credit in the provinces has not been met sufficiently to increase the productivity and efficiency of business activities. As Table 19 shows, a large part of the deposits collected in the local provinces was transferred to Bangkok, especially during the period until the mid-1970s (see 4-2-3). Branch offices of Bangkok-based banks in the provinces functioned as 'pumps' feeding capital into Bangkok. This suggests that Bangkok-based banks were not eager to explore business opportunities in the provinces. As a result, small-scale entrepreneurs in the provinces were ruled out as customers of banks and so confronted great difficulties in raising capital. This left them little choice but to raise funds through informal markets (the informal discounting of post-dated cheques and rotating credit societies).³² The monetary authorities must have recognized the importance of capital mobilization, as they tried to advance it by encouraging the branching out of Bangkok-based banks throughout the country. This branch system was actually successful in mobilizing capital, as well as in establishing public confidence in commercial banking. However, much of the capital raised in the provinces was sent to Bangkok, and we have to conclude that the branch system was helpful in neither the advancement of economic development of the provinces nor in the decentralization of the Thai economy.

I would hasten to add that in Thailand at present, local banks would have a very difficult time in competing with their counterparts in Bangkok because the latter have become so large as to enjoy huge economies of scale. Nevertheless, local banks could probably have flourished if the government had permitted their establishment a couple of decades ago, when they could have made the most of

³²Regarding the size of the informal market compared with that of the formal or organized market in Thailand, the following data is helpful in giving a rough outline. In 1987, the share of informal credit (the share of debt outstanding) in total credit was 66 percent [Montiel *et al.* 1993:19]. Montiel's data reveals that Thailand shows a rather high percentage of informal credit when compared with other developing countries. One reason for this is probably to be found in the fact that the real deposit interest rate in the formal sector of Thailand was low. If this interest rate is low, the supply of funds to the informal sector, as well as the demand for foreign exchange, increases. Professor Kunio Yoshihara (Kyoto University), who made comments on an earlier version of this work, suggests that the real deposit interest rate was negative (-2.0 percent) in Thailand during the 1970s. This was attributed to the high inflation rate during that period (9.7 percent).

their advantages over Bangkok-based banks.

Since competition between local banks and Bangkok-based ones never took place, it is difficult to argue about what might have been. One possible scenario, however, is that under competitive conditions, local banks would have refrained from pursuing the same opportunities as the branch offices of Bangkok-based banks, and instead sought a special niche. Granting loans, for instance, to small-scale entrepreneurs whom the local society regarded as eminently creditworthy but whose financial needs and assets were not large enough to interest branch offices.³³

4-4 Summary

The development of financial businesses and the emergence of financial entrepreneurs in NM as well as in other provinces has been discussed in this chapter. One case in NM City among others suggests that several financial businessmen in the provinces were ready to launch into the commercial banking sector. I have argued that these local businessmen appeared to have an edge over their counterparts in Bangkok. These advantages basically lie in their personal knowledge and information about local business circles, which was gained through business and social activities in local Chinese societies. For local entrepreneurs struggling to grasp business chances and give full swing to their entrepreneurial skills, it was a rational decision to manage financial businesses in the provinces, formally or informally.

However, economic regulation by the monetary authorities prevented these entrepreneurs from establishing local banks. The policy towards commercial banking was considered to be appropriate to build confidence in the commercial banking sector and to mobilize capital in Thailand as a whole. However, the strict and cautious approach of the monetary authorities towards commercial banks limited competition and precluded the possibility of establishing local banks.

As a consequence, businessmen in the provinces were not provided with enough credit to meet demand by branch offices of Bangkok-based banks, which

³³The case of Japanese regional banks (*chiho ginko*), which have been successful in finding a niche partly because the government adopted an appropriate policy suggests that even if Thai local banks had faced difficulties, the monetary authorities could have maintained stability and public confidence in the commercial banking sector through appropriate supervision and control. See Marimura and Tamaru [1991], Otomo [1977], Sugiyama [1988] and Tsuchiya [1961] for more details about regional banks in Japan. On early commercial banking in Japan, see Cameron [1967], and Satake and Hashiguchi [1967].

showed little interest in loaning capital to small-scale local businessmen. This was because 'credit rationing' was caused in financial markets by an interest rate ceiling on loans. This undoubtedly had a depressing effect on business activity in the provinces. Furthermore, the Bank of Thailand did not permit the establishment of local banks which would have served provincial entrepreneurs better than Bangkok-based banks. If the establishment of local banks had been allowed, they would have contributed to the advance of economic development in the provinces and to the decentralization of the Thai economy.

Political patronage, which Bangkok-based banks sought from the government during the 1950s and 1960s, was one important factor behind the Bangkok-concentrated financial system in Thailand. These banks seemed to win the agreement of their political patrons to virtually prohibit the establishment of new banks and to restrain competition in the banking sector. Several Bangkok-based banks have enjoyed sufficient privileges to expand their business to such an extent that small-scale local banks would find it extremely difficult to compete with them today. I conclude that economic regulation imposed by the government over the establishment of new banks has distorted regional resource allocation and decreased the efficiency of the provincial economies. The next chapter discusses this point further from the viewpoint of rent seeking.

Local Economy and Entrepreneurship in Thailand:
A Case Study of Nakhon Ratchasima

Chapter 5

FACTORS WHICH HAVE RETARDED THE ECONOMIC DEVELOPMENT
OF PROVINCIAL ECONOMIES IN THAILAND

This chapter analyzes those factors which have impeded the growth of provincial entrepreneurs and local economies. Theories of urban economics and rent seeking are used for this analysis. These theories make possible a better understanding of provincial economies and the reasons behind their backwardness.

5-1 Small-Scale Business, Weakness in Manufacturing, and Few Exportable Manufactured Products

Based on the results of my research in NM City, economic backwardness in provincial economies in Thailand can be best summarized in the following three points; small-scale business, weak manufacturing, and few exportable manufactured products.

First, compared with Bangkok-based companies, companies run by local businessmen in NM City are small-scale. According to a company directory [International Business Research (Thailand) Co., Ltd. 1990] which selected the biggest 1,111 companies in Thailand, only two companies in NM were ranked among the top 1,111 companies in terms of sales, profits, and assets in 1988. One of these two was a factory owned by Siriphong Rungrotkitiyot (see Appendix) which produces automobile parts and was ranked 366th in terms of profits. The other company was a distributor of petroleum products, which ranked as the 619th in terms of sales. The operator of this company would undoubtedly be one of the entrepreneurs whom I would rank among the top 10. However, he is not included in the Appendix because of a lack of data.

The second point is that the manufacturing sector is weak. As described in chapter 3 (see Table 9), in NM City only a very small number of local entrepreneurs are engaged in *modern* manufacturing. By *modern* manufacturing, I mean manufacturing which has the ability to develop high-valued and exportable new products one after another in reply to changes in the world market. A weakness in *modern* manufacturing means that NM City lacks exportable manufactured products. Generally, the growth of the manufacturing sector and the export of manufactured products are seen as the most significant factors in the process of economic development. If entrepreneurs have the ability and innovation to produce new manufactured products which are demanded by consumers, they can be a powerful driving force of economic development.

In many cases, when Thai entrepreneurs launch into a new manufacturing sector, technical cooperation with foreign companies enables them to start new businesses. However, in NM City, there were exceptionally few entrepreneurs who sought technical cooperation from foreign enterprises. Most local entrepreneurs could not surmount the technical difficulties in launching into the *modern*

manufacturing sector.

Understandably, these three characteristics of local entrepreneurs in NM City probably apply to other provincial entrepreneurs as well. The fact that small-scale entrepreneurs are weak in the manufacturing sector and produce few, if any, exportable manufactured products clearly characterizes the torpor of economic activities in the provinces compared with those in Bangkok.

However, these characteristics are only phenomena which appear on the surface of the economic structure of the provinces, and any other unprosperous region faces the same problems. We should ask what determines the smallness and weakness of provincial economies in Thailand.

In the rest of this chapter, I will attempt to reveal the important factors which caused economic backwardness in the provinces. First, the comparative advantage of Bangkok in terms of urban economics, which originally conditioned the Bangkok-concentrated economic structure in Thailand, is explained. Comparative advantage enabled Bangkok to develop into the dominant economic center in Thailand, and eventually Bangkok-based entrepreneurs came to enjoy other cost advantages associated with urban areas. This was to be a fundamental disadvantage to provincial entrepreneurs in expanding their business activities. Next, I argue that in addition to (and partly because of) these advantages which determined the economic superiority of Bangkok over the provinces, Bangkok-based entrepreneurs were able to win a rent-seeking competition, to some degree at the expense of provincial entrepreneurs. Furthermore, the participation of local entrepreneurs in this rent-seeking competition has imposed heavy costs on economic development in the provinces, which has retarded the expansion of local economies. In this manner the superiority of Bangkok has been firmly established.

5-2 The Comparative Advantage of Bangkok and the Establishment of a Bangkok-Concentrated Economy

Bangkok is the most important economic center in Thailand, and has become increasingly so since Thailand entered the world market in 1855. This is because the Thai economy has basically grown through expanding exports of primary products such as rice from the latter half of the 19th century, and because the port of Bangkok is the pre-eminent international port in Thailand through which most of these exports, which were collected at Bangkok from many regions, have been exported. Not only trading industries but also many related industries, such as rice milling, and banking and insurance services, were started by Westerners and Chinese, almost without exception in Bangkok. Apart from agriculture, rice exports and rice-related industries were the main industries in Thailand until (around) 1960 when industrialization began in Thailand, and

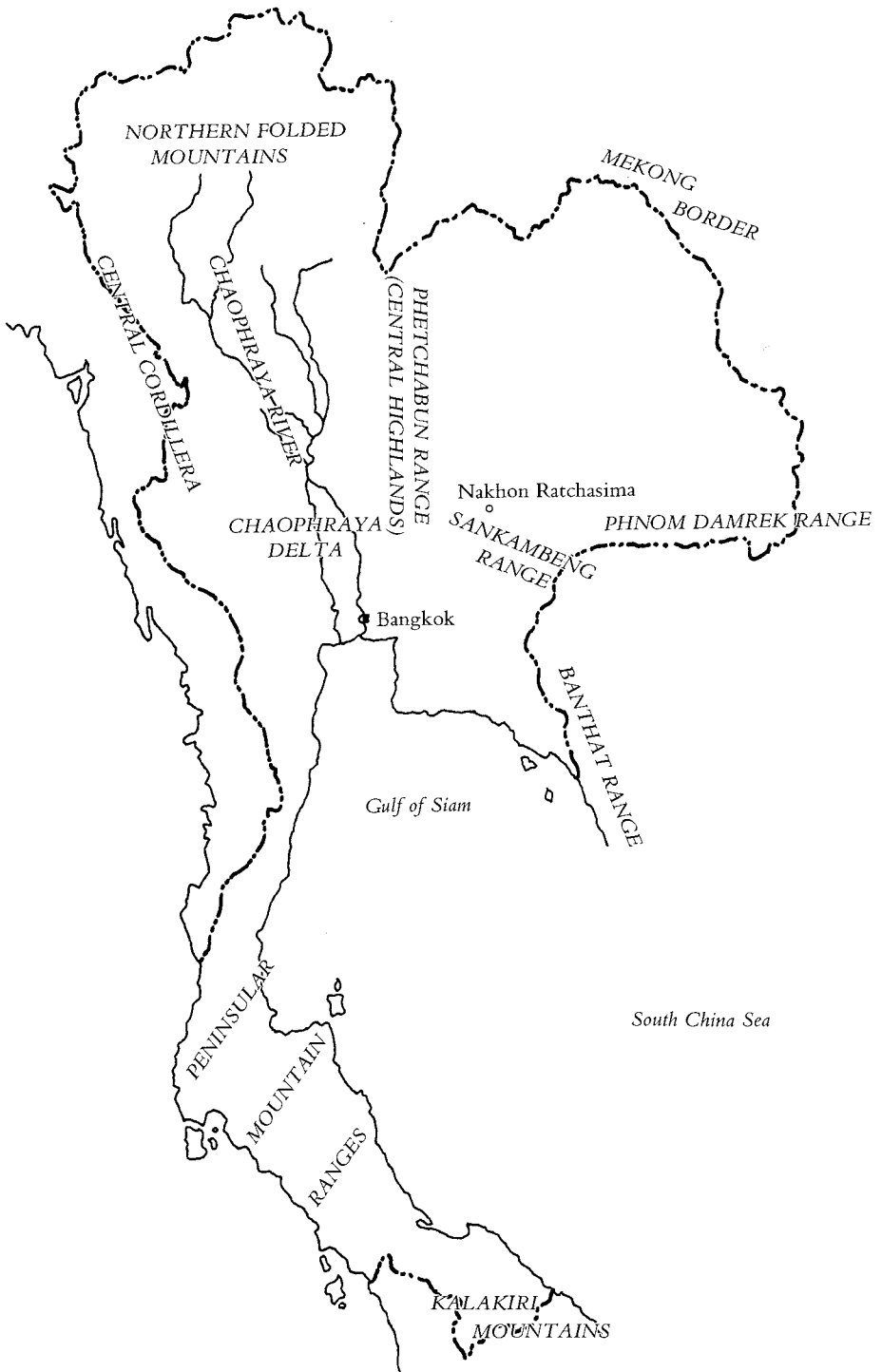
economic activities in Bangkok have been the hub of the Thai economy.

Among Chinese entrepreneurs who were involved in these businesses in Bangkok, distributors of imported manufacturing products played an important role in the development of *modern* manufacturing in Thailand. Some of these distributors were so successful that they were able to create big business groups that, in joint ventures with foreign companies, manufactured those imported goods which they had previously handled after (around) 1960. This was the case of the Siam Motors group (automobiles), the Saha Union group and the Sukree group (textiles), the CP group and the Metro group (starting from fertilizers), and so on. These distributors, almost without exception, are Bangkok-based entrepreneurs, so it can be said that Bangkok has been the place which gave rise to the big businesses of today.

The reason why Bangkok became the dominant port and, therefore, the economic center of Thailand, was largely due to her geographical nature. Bangkok (Bangkok-Thonburi), which is located near the mouth of the Chaophraya River, became the capital of the kingdom in 1767. The good port location may well have appealed to the political authorities in deciding the site of the capital. The port of Bangkok became increasingly significant when rice exports expanded sharply after the Bowring Treaty of 1855. The importance of Bangkok has not decreased since that time. Donner [1978:4], from a geographical viewpoint, notes that "Thailand is a rather isolated country which opens only towards the sea." Thailand is divided from Burma and Cambodia by distinct mountain chains, and from Laos by the huge Mekong River. These form natural boundaries which make surface transport difficult. In contrast to these land routes, the broad opening to the sea, that is, the coasts and ports of Thailand, permit easier access (see Map 2). As Donner [*loc. cit.*] explains, geographical conditions strongly influenced economic development in Thailand; "the main part of the kingdom exported and imported along the Mae Nam Chao Phraya [the Chaophraya River] to the sea (where now Bangkok is the main port) and peninsular Thailand either towards Singapore or Penang." Peninsular Thailand was connected to a greater extent to the British Straits Settlements through exports of tin and rubber than to other regions of Thailand (see 4-2-1). In other words, Peninsular Thailand (in purely economic terms) for quite a long time could be seen as being part of the Straits Settlements rather than of the Thai Kingdom.

In terms of the effects on the Thai economy as a whole, it is fair to say that the Bangkok-Chaophraya River has been the trunk line of transportation in Thailand. The favorable location for a port on the Chaophraya River, which was the best access point to Thailand from the sea, enabled Bangkok to develop into the dominant port.

The term used by urban economists for this phenomenon is "interregional differences in resource endowments (comparative advantage)" [Mills and Hamilton



Map 2. Physical Orientation Map of Thailand [Donner 1978 13]

1994:33-35]. Economists use this idea to explain how the location of cities is decided and how interregional trade between them takes place. In the case of Bangkok, geographical conditions are the comparative advantage which makes Bangkok a transport node in Thailand. In addition, as Yamada [1980:20] describes, accumulative investment in transportation facilities and networks can be a continuously influential comparative advantage for urban areas enabling them to attract people and economic activities. Bangkok originally developed into an international port and economic center because of advantages of a geographical nature. After that, all transportation networks (inland waterways, railways, and roads) have been constructed with Bangkok at the hub and extending from Bangkok in many directions throughout the country. This is because 'social overhead capital (SOC)' (such as transportation facilities) generally enjoy 'scale economies', that is, Bangkok can attract more investment in SOC by the government than other cities. Once the transportation network whose pivotal point was Bangkok was established, more businesses were attracted to Bangkok. In short, scale economies in transport, "along with regional comparative advantage, give rise to transport-node, or port, cities" [Mills and Hamilton 1994:35].

However, comparative advantage is not a rationale for the existence of cities. 'Scale economies' are crucial in explaining them. As Mills and Hamilton [*ibid.*:7] explain, "urban areas exist because people have found it advantageous to carry on various activities in a spatially concentrated fashion." Urban areas arise because scale economies enable people to generate higher returns on investment in urban areas than in rural areas [*ibid.*:8-11]. That is to say, market forces have given rise to Bangkok, the primate city in Thailand. The fact that the well-equipped SOC available in Bangkok helps to reduce production costs and transport costs can also be attributed to the 'scale economies' of SOC.

'Agglomeration economies', which are defined to be "the advantages of spatial concentration that result from the scale of an entire urban area" [*ibid.*:20], also explain the existence of urban areas. For instance, the proximity of business activities in urban areas gives urban entrepreneurs more opportunities to obtain information and useful know-how for production compared with rural entrepreneurs [Yamada 1980:19]. This also explains the cost advantage of urban areas in terms of information (transaction) costs.

In this way, because Bangkok enjoyed a comparative advantage in resource endowment and because this offered many economic advantages to entrepreneurs in Bangkok over their counterparts in the provinces, a Bangkok-concentrated economic structure has been formed.

Until comparatively recently, when congestion began to impose increasingly higher costs on entrepreneurs in managing businesses in Bangkok, Bangkok-based entrepreneurs (including foreign investors) had few incentives to locate (or move) their businesses in (or to) the provinces. The government's recent policies

to promote investments in the outer provinces can be seen as an attempt to cut production costs in these provinces and to stimulate investment there. Before such policies were enacted, the provinces could attract “only those sectors with scale economies that were exhausted by the demands of small populations” [Mills and Hamilton 1994:15], such as small-scale retail trading. If successful entrepreneurs in the provinces desire to expand their businesses, they move to Bangkok which can support large-scale industries whose scale economies are exhausted only by the demands of a larger population. Well-equipped SOC enables Bangkok-based businessmen to cut their transport costs, including the costs of exporting and importing. The decision of successful entrepreneurs in the provinces to move to Bangkok can be explained by the cost advantage which Bangkok offers them. Although I could not find any such cases in NM City, there were several big business groups which transferred their business bases from the provinces to Bangkok. This was the case of the Boonsung group which originally made its fortune in tin mining in Phuket, a southern province, and moved to Bangkok to launch into manufacturing. The Hong Yiah Seng group is another example. It was originally engaged in exporting rice and importing textiles in Saraburi, but moved to Bangkok and started textile production and other businesses there [Krirkkiat and Yoshihara 1983:21].

However, the provinces can contain some large-scale industries. Transport cost-oriented industries, such as sugar factories which are induced to locate at an input source because an input is “heavy and bulky relative to its value,” that is, costly to transport [Mills and Hamilton 1994:36], being one example. In the case of NM City, the reason why Thosapol Tantiwong (see Appendix) became very successful in tapioca processing in NM can be explained partly by the fact that his business is transport cost-oriented. He enjoys cost advantages through keeping transport costs of inputs low in NM to the extent that he is able to run large-scale factories. Despite the fact that his business has not been supported by demand in NM, he has hardly felt the need to move to Bangkok as long as his main business is tapioca processing.

The three main characteristics of provincial entrepreneurs (small scale, weak manufacturing, and few exportable manufactured products), can be explained in terms of urban economics. ‘Scale economies’ make it clear why the economic activities of provincial entrepreneurs are small-scale and weak in manufacturing. This is because the provincial cities have a far smaller population than Bangkok, and because small populations do not give rise to large-scale industries and manufacturing whose scale economies are exhausted only by the demands of a larger population. (However, transport cost-oriented industries are exceptions, as described above.)

Next, the fact that most entrepreneurs of the provinces have had difficulties in launching into the production of exportable manufactured products can be

partly attributed to their small-scale businesses. In Thailand, technical cooperation with foreign companies has been a great help for those entrepreneurs who intend to launch into new businesses, particularly in the manufacturing sector, and to expand their markets to foreign countries. In many cases, joint ventures with foreign partners enabled Thai entrepreneurs to surmount technological backwardness in producing exportable manufactured products. Those who were able to afford joint ventures with foreign companies were concentrated in Bangkok, where they have enjoyed both comparative advantage and scale economies in operating businesses. In addition, it is easier and less costly in Bangkok than in the provinces to use 'face to face communication' [Yamada 1980:19] with other Thai entrepreneurs in order to seek connections with foreign enterprises and markets, because a large number of various businesses, some of which have already established relationships with foreign countries through joint ventures and/or exports, are concentrated in Bangkok. The remote relationship with foreign countries would be one of the factors which has impeded the rise of a manufacturing industry in the provinces which otherwise would have contributed to expanding exports from the provinces.

However, the geographical advantage of Bangkok, which is explained by urban economics, does not fully account for all of the advantages of Bangkok-based entrepreneurs (or the disadvantages of provincial entrepreneurs). A political factor, which may be unrelated with geography, is significant in analyzing the disadvantages of provincial entrepreneurs. This is the concentration of political power in Bangkok. This concentration has offered Bangkok-based entrepreneurs a decided advantage in seeking political patronage. Political patronage proved to be crucial for a number of Bangkok-based businessmen in expanding their businesses. Needless to say, their counterparts in the provinces originally found it difficult if not impossible to obtain such patronage. However, with the progress of electoral politics in Thailand, influential entrepreneurs in the provinces also began to seek political connections. These rent-seeking activities of local entrepreneurs have imposed heavy burdens on the local economy, which has impeded economic development in NM. All these points are examined in the following sections.

5-3 The Concentration of Political Power in Bangkok

Thailand has a highly-centralized system of provincial administration. The foundations for this centralized system were laid during the process of modernization and nation-building in Thailand. During this process, Prince Damrong Rajanubhab, who was the Minister of Interior from 1892 to 1915, reformed the provincial administration in order to defend the Kingdom against external pres-

sure from France and Great Britain, and in doing so superimposed a new centralized system, known as *Thesaphiban*, upon the provinces. The provinces were grouped into *monthons* (circles), and *khaluang thesaphiban*, who were centrally-appointed commissioners, superintended these *monthons* [Tej 1977:1, 39, 92, 136, 252-253]. With the superimposition of this centralized system, “some older officials [in the provinces] were retired, and others were incorporated into the new system” [Wyatt 1984:209], and “many of the provincial nobility” were “transformed into salaried civil servants” [Tej 1977:118].

This *Thesaphiban* system was abolished in 1915.¹ However, today’s system of provincial administration is based on the *Thesaphiban* system, and the characteristics of the centralized administrative system have changed little. Provincial administration in Thailand today is still headed by the Ministry of the Interior, and the provinces are still administered by centrally-appointed governors, who are officials of the Ministry of the Interior. Furthermore, these governors supervise each province with the aid of public officials of the various central ministries (excluding the Ministry of Foreign Affairs) rather than with local officials [Hashimoto 1993:70; LePoer 1989:194-195].²

Therefore, in Thailand today, important decision- and policy-making is mostly carried out in Bangkok by central government agencies. It should also be noted that Thailand showed an increased tendency to a concentration of political power in Bangkok from 1958 to 1973 when she was governed by a military-dominated authoritarian government.

In 1958, Field Marshal Sarit Thanarat staged a coup (his second) and seized power. This was the beginning of one period of authoritarian rule in Thailand which lasted until the October 14 upheaval in 1973. Throughout his regime, Sarit sought to strengthen and centralize the premier’s political power. He put an end to the parliamentary system, which had been maintained after the 1932 revolution of the People’s Party, and “transformed the premiership from the first minister to the chief executive” [Likhit 1992:165]. After Sarit’s death in 1963, he was succeeded by Field Marshal Thanom Kittikachorn, who basically followed the authoritarian line which Sarit had laid down.

During this authoritarian regime, which lasted for fifteen years, a general election was held once in 1969 under Thanom’s premiership. Although Thanom, who did not run for election, was nominated as Prime Minister, he failed to establish control over the elected politicians, and staged a coup in 1971 to overthrow his own government.

Because of this centralization of political power in Bangkok, Bangkok-based

¹ *Monthon*, which was a unit of provincial administration, lasted until 1933 [Hashimoto 1993:70].

² For the system of provincial administration of today’s Thailand, see Hashimoto [1989].

entrepreneurs were able to enjoy advantages over provincial entrepreneurs in seeking political patronage. This ability was strengthened with the process of centralization during this period from 1958 and 1973, as mentioned in the next section. Provincial entrepreneurs became active in seeking political connections only after 1973 when Thailand began to be ruled by democratic governments. Only then did provincial entrepreneurs begin to seek extra benefits through political connections, like their Bangkok-based counterparts. These activities are defined as 'rent-seeking' activities, which are discussed in the rest of this chapter, together with the social losses that these activities cause.

5-4 Rent-Seeking Activities and Provincial Economies

In the following, I mainly discuss the causes of rent seeking by entrepreneurs, the behavior in which their rent seeking was embodied, and the damage that these activities inflicted on local economies. Before analyzing these points, however, I would like to examine the definition of 'rent-seeking' activities more closely.

Generally, 'rent' is defined, in terms of economics, as a return to a resource owner in excess of the resource owner's opportunity cost [Buchanan 1980:3; Tollison 1982:575]. "The behavior of persons in trying to maximize returns on their own capacities or opportunities can be socially beneficial in an ordered market structure" [Buchanan 1980:4]. This attempt to maximize returns (rent) is beneficial 'profit-seeking' behavior. However, it is important to draw a sharp distinction between 'profit seeking' and 'rent seeking'. Buchanan [*loc. cit.*] explains that "the term *rent seeking* is designed to describe behavior in institutional settings where individual efforts to maximize value generate social waste rather than social surplus." Profit seeking is generally seen as being a productive positive-sum game. Rent seeking, on the other hand, is zero-sum at best, and probably a negative-sum game.

"Rent-seeking arises where output is given and fixed, as in the case of monopoly rents" [Tollison 1987:144]. If output is arbitrarily restricted in an industry, "such scarcity implies the potential emergence of rents, which, in turn, implies rent-seeking activities" [Buchanan 1980:9] in that industry. Economic regulation,³ which controls entry, such as governmental licenses, quotas, and approvals, means "arbitrary and/or artificial scarcity created by government" [*loc. cit.*]. Once an arbitrary scarcity is created by the government, entrepreneurs

³Government intervention in the market can be called "economic regulation," which "refers to taxes and subsidies of all sorts as well as to explicit legislative and administrative controls over rates, entry, and other facets of economic activity" [Posner 1974:335].

compete for the government's favor in order to secure the 'privilege' to operate in this industry in the form of legislation. This implies the emergence of rent seeking. McCormick [1989:17] defines 'rent seeking' as follows: "the strategic use of regulation is any attempt by a firm or a collection of firms or others with similar interest to alter the political or legal structure of the economy to their advantage."

Since legislation and other governmental regulations are not acquired at zero-cost, rent seekers must invest (scarce) resources in order to secure rents. Rent-seeking activity can be understood as a game in which resources are used to capture a pure transfer which is artificially contrived by government. "Since expenditures to take a dollar from *A* and give it to *B* produce nothing, they are wasted from the point of view of the economy at large; they are zero-sum at best and are probably negative-sum" [Tollison 1987:145]. Since entrepreneurs use resources to seek rents, opportunity costs in terms of the output they could have produced alternatively emerge. As Tollison [*ibid.*:144] notes, these opportunity costs are one of the social costs of rent seeking. However, these costs are not the only social costs of rent seeking.

The social costs of rent seeking can be shown using a simple model (Figure 1). Following Tollison [*ibid.*:146-147], we assume that governmental regulation

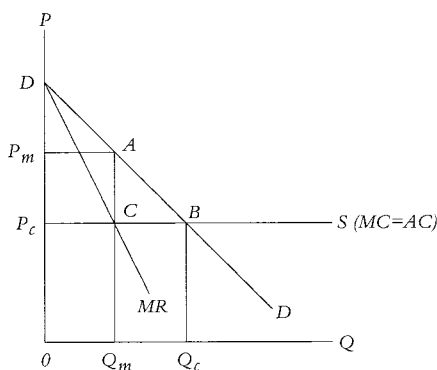


Figure 1. The Costs of Regulation

creates a monopoly in an industry. At the original competitive output point *B*, consumer surplus is maximized (DBP_c). Economic regulation raises the price to P_m , which dampens demand (restricts output to Q_m). This creates an incentive for producers to undertake rent seeking to capture the sum of this consumer surplus. The consequence of regulation or monopoly is shown in Figure 1: a part of the consumer surplus ($P_m A C P_c$) is transferred from consumers to producers, and another part (ABC) "vanished from the economy" [*ibid.*:147]. ABC is called the deadweight cost of monopoly or regulation, which means the total loss in con-

sumer surplus caused by a decline in demand. In addition, as described above, since producers have to spend resources to capture the potential transfer of P_mACP_c , these resources are also included in the social cost of rent seeking. Tollison gives a simple case where 20 bidders compete for a governmental monopoly right, the value of which is fixed at \$100,000. All bidders are assumed to be risk-neutral, so each bidder will spend \$5,000 for a one-in-twenty chance of capturing the \$100,000 rent. From the social point of view, \$100,000 is spent to capture \$100,000. If that is the case, rent seekers will spend an amount equal to P_mACP_c in order to capture the pool of rents. In this way, the capital that is represented by the figure P_mACP_c is completely dissipated. The social cost of rent seeking is thus P_mABP_c , which is equal to the expenditure to capture the rent (P_mACP_c), plus the deadweight cost (ABC).

5-4-1 Rent-Seeking Activities of Bangkok-Based Entrepreneurs

In this section, I would like to survey the rent-seeking activities of Bangkok-based entrepreneurs, which have been caused by government intervention in the market. Until 1973, wealthy Bangkok-based entrepreneurs were the most successful bidders for favorable legislation. This benefited some entrepreneurs in Bangkok, whose businesses developed into big ones, at the expense of their potential competitors (including provincial entrepreneurs), in addition to the general consumer.

The extent and degree of economic regulation in Thailand was intensified by the nationalistic policies of the first Phibun Songkhram government (1938-1944); the second Phibun government (1948-1957) continued these policies. Nationalistic measures included legislation of licenses, approvals, and quotas to regulate the economic activities of foreigners, particularly the Chinese [Thavi 1973:86-100]. Legislative control over entry implies the emergence of protection and rent seekers. (Protection seekers will consist of those Chinese entrepreneurs who suffered the most damage from this economic regulation.)

As a result of economic nationalism, some Bangkok-based big enterprises certainly began to seek political patrons in the government by offering them posts on the boards of directors of their various enterprises. Small-scale entrepreneurs used another method to protect their businesses: they gave bribes to government officials [Anek 1992:26]. However, this phenomenon in Thailand might well have originally been caused by *fear* on the part of Chinese entrepreneurs, whose business activities became the target of nationalistic policies.⁴ Furthermore,

⁴Indeed, from a rent-seeking point of view, nationalistic policies themselves may have originated from a desire on the part of the politicians to browbeat Chinese entrepreneurs into paying them off: this is that is known in the literature as 'fishing' or 'trolling'.

in the 1950s, “anti-(Chinese) communism was another convenient justification that officials could employ to deter activities considered to be abuses of economic power, or simply to extort money from businessmen” [*ibid.*:151]. For Chinese entrepreneurs, the only way to survive through the period of nationalism and anti-communism was probably to seek political patrons and thus obtain protection. At this stage, activities on the part of Chinese entrepreneurs to seek political patronage should not be regarded as pure rent-seeking ones. At this stage, their activities were, so to speak, oriented to ‘profit protection’.⁵

However, the primary purpose of the various activities of Chinese entrepreneurs seemed to gradually change from profit protection to rent seeking through the 1950s. Leading businessmen were still eager to invite prominent officials to join their enterprises as members of the boards of directors even after the nationalistic policies ceased with the overthrow of the Phibun government in 1957. They had originally participated in an endeavor to establish and maintain ties with powerful politicians to project themselves. However, once such ties had been established, leading entrepreneurs came to realize that these ties could be exploited. During the period from 1958 to 1973, when Thailand experienced authoritarian rule, a rent-seeking competition among entrepreneurs who vied to capture the government’s favor became evident. In order to draw bigger returns through regulation, entrepreneurs made full use of the political connections which they had established during the period of nationalism.

The most explicit rent-seeking activities of Chinese entrepreneurs in Thailand were first seen in Bangkok. Rent-seeking activity in the commercial banking sector during the period from the 1950s to 1973 was perhaps the most prominent. Almost all Sino-Thai banks offered posts on their boards of directors to influential military officials (see p. 76, Note 26). These military officials received rewards, for instance, in the form of allowances for attending meetings, bonuses,

⁵The case of Chulin Lamsam presents a typical example of this. Chulin was a grandson of the founder of the Lamsam family which developed into a financial conglomerate after it established the Thai Farmers Bank in 1945. He endeavored to build an intimate relationship with the People’s Party and the Phibun government after 1938 [Suehiro 1989:114]. When the Phibun government established the Thai Niyom Panich Co., Ltd., with the intent to control the domestic sales of imported goods in 1939, Chulin took the post of managing director of this state-run company. Chulin was also involved in financial businesses which were started by the People’s Party, such as the Bank of Asia [Anuson 1966; Suehiro 1989:133-134]. On the other hand, in 1946, he invited a military officer, who was the Minister of the Interior at that time, to become the chairman of the board of directors of his company [Sangsit 1983:158]. It is fair to say that a post in a state-run enterprise was *not* an abundant source of profit for a talented businessman. Chulin’s endeavor to maintain ties with the People’s Party was stimulated by a fear for the safety of his family’s businesses, and should be regarded as profit-protection activity rather than rent seeking.

and dividends [Sangsit 1983:165, 200].

I would like next to ask what the special returns that Bangkok-based entrepreneurs acquired through rent seeking during the period until 1973 were. The theory of rent seeking tells us that “rent-seeking is perhaps most usefully illustrated in the context of government interference in the economy to promote monopoly and economic regulation. The most efficacious way to promote monopoly rents in an industry is to pass a law to restrict output and to license entry” [Tollison 1987:145]. Therefore, if legislation to restrict output and entry in an industry has been enacted, and if a relationship between the leaders of that industry and the political authorities can be shown to have been established, then this can be interpreted to show that rent-seeking activities may well have emerged in that industry.

According to Emery [1970:567], “the Cabinet passed a resolution in 1955 calling for restraint in the approval of new banks.” Since then, the establishment of only two banks, the Thai Military Bank (1957) and the Asia Trust Bank (1965), has been approved, excluding the Krung Thai Bank which was established in 1966 by merging existing banks (see p. 60, Note 7). Judging from the fact that the Thai Military Bank was established and managed under the influence of the Sarit group [Sangsit 1983:238], the 1955 resolution can be said to have had the effect of restraining new entry in the commercial banking sector. The interests of established commercial banks were well reflected in this policy which excluded their potential competitors. Some occasionally argue that the monetary authorities began to exercise rigid control over the establishment of new banks because a sharp increase in the number of banks resulted in severe competition after the war. However, the argument that those military officials who were politically influential supported a restrictive policy of new banks in exchange for rewards which they received from bankers seems to me to be far more plausible.⁶ Since economic regulation could be introduced at a very low cost for the military rulers, they may well have considered it as a cheap ‘reward’ for those entrepreneurs under their wings. It should, however, be noted that legislation favorable to rent seekers can not be obtained at zero cost. In order to obtain favorable legislation, Chinese entrepreneurs had to be prepared to pay political patrons with resources. Political patrons, in turn, were able to sell this legislation to the highest bidder. In the commercial banking sector, payments took the form of, for instance, rewards which military leaders received as members of the various

⁶To argue that the monetary authorities acted *purely* to advance the public interest in maintaining a stable financial environment is to argue from a ‘public-interest’ theory of government and regulation, which assumes that benevolent politicians and bureaucrats pursue the public interest rather than their own private interests, and that therefore the *raison d’être* of regulation is the public interest. This theory has, of course, been thoroughly discredited.

boards of directors.⁷

When the number of bidders goes up in an industry, it would be more efficient and less costly in obtaining favorable legislation to have an organization for lobbying. This might well be the case of commercial bankers.

Here, the example of the Thai Bankers' Association is considered. This Association was established in 1958 by 15 bankers. Needless to say, it was based in Bangkok. At least upon the surface, the establishment of formal links between commercial banks and the monetary authorities was one of the most important original purposes of this Association. However, once the Association was established, it could function as an interest group and exercise its influence on the government. If that was the case, bankers were able to "produce lobbying as a by-product of performing some other function" [Tollison 1982:590]. They did not need to incur start-up costs for lobbying.

If this Association did exercise any influence, theories of rent seeking and regulation would predict that the result would be protection from potential competitors, a virtual ban on new entrants, and so on. The Commercial Banking Act of 1962, which excluded foreign banks in branching in the provinces, and the governmental policy which did not admit the establishment of a single new bank after 1957, when the Thai Military Bank was established, seem to show that this influence was not only felt, but was a strong one. Members of the Association, in other words, were successful in excluding potential competitors from the market by obtaining favorable government regulation. That there was a strong relationship between banks and various political patrons is indisputable. In addi-

⁷Such an alliance with politically influential figures can be found in other big business groups. The founder of the Srifuengfung family, which runs manufacturing companies such as Thai Asahi Glass, has maintained an intimate relationship with the Phin group, particularly with Brig. Gen. Praman Adireksan, an influential politician [Arunee 1991:22; *Phu Chat Kan* September 1988:163]. Praman Adireksan was the Chairman of Thai Asahi Glass during the period from 1963 to 1975, and of another company of the Srifuengfung family, Thai Asahi Caustic Soda, from 1966 to 1975. It is reported that this family has enjoyed monopoly profits in the glass industry for more than 20 years because the establishment of other competitive factories was not allowed, owing to the political power of the Chart Thai Party [PCKRS 20-26 June 1994]. It is believed that the United States put pressure on the Chatichai government when an American company applied to the Board of Investment for investment promotion in the glass industry, and that this was one of the reasons that entry by a competitor was eventually allowed. The Siam Motors group, the major business of which is automobile assembling, traded on connections with the Sarit group (particularly with Field Marshal Praphat Charusathian) in order to expand domestic sales when the Thanom-Praphat military government decided to change taxi car models in the latter half of the 1960s. This greatly helped the Siam Motors group to consolidate its position in the automobile industry of Thailand [*Phu Chat Kan* November 1986:66, 71; Suehiro and Nanbara 1991:231].

tion, as Anek [1992:50] reports, the monetary authorities asked the advice of the Association for legislation of commercial banking activities before the Commercial Banking Act of 1962 was enacted which shows that this Association was active in the process of forming regulations.⁸

The crucial point in my discussion was why, until at least 1973, the outstanding rent seekers were Bangkok-based entrepreneurs. During the pre-1973 period, some Bangkok-based entrepreneurs acquired large returns through rent-seeking activities which functioned as a springboard in expanding their businesses. Scarcity which was created by economic regulation has possibly caused rent-seeking activities not only in Bangkok but also in the provinces. However, it seems that those activities did not bring provincial entrepreneurs large returns.

Four reasons can be pointed out for this. First, access to political power was far easier for Bangkok-based entrepreneurs than for provincial ones because, in Thailand, political power has traditionally been concentrated in Bangkok as mentioned in 5-3. Particularly during the period from 1958 to 1973, the concentration of political power was enhanced. This left little room for provincial entrepreneurs to have their business interests reflected in the national budget and policy-making.

The second reason is the degree of wealth of Bangkok-based entrepreneurs. Following the theory of rent seeking, we can regard economic regulation as an economic good which can be traded. Therefore, it is sold to the highest bidder.⁹ In the case of Thailand, the demanders of legislation are entrepreneurs (rent seek-

⁸ *Krongkan Phan Ngoen*, which the Kukrit government introduced in 1975, might be another example where the Association exercised an influence on the policy-making process. One of the important programs in *Krongkan Phan Ngoen* is the agricultural credit scheme of commercial banks which set a lending target for agricultural credit. This program has continued to this day, though with several changes. (The lending target of commercial banks for agricultural credit was 7 percent of deposits in 1975, and the conditions of lending were gradually raised after 1975. Commercial banks can meet their obligations by making deposits with the Bank for Agriculture and Agricultural Cooperatives. In 1987, this agricultural credit scheme underwent a modification, and became a rural credit scheme under which commercial banks were requested to extend credit for rural development. As of 1990, the lending target was 20 percent of deposits. In 1992, the Bank of Thailand relaxed the requirement of this scheme by including a larger number of related businesses as rural credit. This was one of a number of deregulation measures in which the Bank took initiative. For details, see Thailand, Bank of Thailand [1990:37], Prakan [1993:14-16], and *Annual Economic Report*, Thailand, Bank of Thailand.) Krirkkiat [1975:74, 85-89] emphasizes that *Krongkan Phan Ngoen* was introduced by the Kukrit government, which had an unprecedented number of businessmen in the cabinet, and that these businessmen started this scheme in their own interests, particularly in the interests of bankers. (According to Anek [1992:34 (Table 2.3)], of all cabinets which were set up during the period from[†]

ers) and the suppliers are the government and politicians. Some Bangkok-based entrepreneurs were able to outbid rival seekers of favorable legislation, that is to win this rent-seeking game, because they were richer than their counterparts in the provinces. This wealth was important because of the limited importance of votes.

In Thailand during the period from 1958 to 1973, the authoritarian military government dominated the political arena, and electoral politics were not well developed. When vote getting was of limited importance, the most attractive rewards which politicians desired to receive from rent seekers were not 'votes' but 'money'. In electoral politics, on the other hand, even less wealthy entrepreneurs are able to engage in rent-seeking activities by establishing and participating in vote-winning organizations which can function as interest groups. This is because such organizations are necessary to collect a large number of votes. This kind of electoral politics was not evident in Thailand until 1973. This afforded a strong incentive to wealthy entrepreneurs to establish personal relationships with political patrons by offering money, and limited the ability of other entrepreneurs to compete in the rent-seeking game.

As I have already noted, if a number of entrepreneurs share a common interest, it will be efficient (and rational) for them to establish an organization for lobbying. The Thai Bankers' Association can be seen as being this kind of organization. However, if entrepreneurs do not have any common interests, they may well feel little need to establish an organization. In this case, the most well-to-do entrepreneur would be able to gain an advantage in rent seeking by virtue of being the highest bidder in demanding legislation. Since the most well-to-do

[†]1963 to 1986, the Kukrit government of 1975 showed the highest percentage of businessmen as cabinet members — 59.3 percent.) At that time, commercial banks found it difficult to locate borrowers because of a recession, and so tried to develop outlets for their surplus money. The introduction of this scheme alleviated this problem. Krirkkiat suggests that if the government had really started this program in order to promote the welfare of the people, it should have laid down a new law which compelled banks to fulfill the lending target for agricultural credit. When the market recovered, of course, agricultural credit, which could draw only low interest, was not seen as being so attractive any more. According to Krirkkiat, the fact that there was no such legislation clearly showed that *Krongkan Phan Ngoen* was introduced in order to advance not the farmers' but the banks' interests.

⁹The highest bidder is the person who is willing to pay most (however, less than \$1) to obtain \$1, and/or those who can lobby for \$1 at the lowest cost [Tollison 1991:66-67]. This argument is based on 'the interest-group theory of government' which regards all governmental activities as a response to interest-group pressure. See also Landes and Posner [1975:877] for this theory.

¹⁰Bangkok, as I have already noted (see 5-2), was the most important economic center in Thailand, and had become increasingly important as the economy began to develop through rice exports in the middle of the 19th century.

entrepreneurs have been concentrated in Bangkok,¹⁰ wealthy Bangkok-based entrepreneurs naturally became the highest bidders for favorable legislation.

There are however two other factors in Thailand which are different from those countries where rent-seeking theory is usually applied. The first is ethnicity. Put bluntly, the political ruling class has been dominated by ethnic Thais, whereas successful entrepreneurs have been ethnic Chinese. The second factor is the longevity of the Thai political class. Rather than a democracy, where at least sometimes people are able to 'throw the rascals out', Thailand has been, more or less, governed by various factions in the military and politicians with a military background. An investment in the leader of one of these cliques was one that could well pay off in the long run — since the next coup d'état (or political change) could well bring him back into power.

Because wealthy Chinese in Thailand were 'blackmailed' by politicians because of their ethnicity, ties were established between entrepreneurs and politicians at a very early stage in Thailand. When political intervention in the economy created the opportunity for rent seeking, politicians had yet another 'carrot' to dangle before entrepreneurs in return for economic payoffs. Since these entrepreneurs were concentrated in Bangkok, and have always been more wealthy than provincial entrepreneurs, they quickly 'captured' the available rents, and legislation favorable to a select group of politically favored entrepreneurs resulted. Politicians who wished to fish or troll for entrepreneurs would have concentrated their activities in Bangkok. Ironically, then, by bearing the brunt of racially motivated legislation, Chinese entrepreneurs in Bangkok established ties with political patrons and thus gained an advantage over their provincial counterparts.

After the brief democratic period from 1973 to 1976, straightforward ties between large corporations and military officials invited public criticism. Entrepreneurs ceased to seek political patronage explicitly by offering high officials directorships. However, they have not abandoned their rent-seeking activities. The intimate relationship between wealthy Bangkok-based entrepreneurs and political patrons has continued to exist in a more latent form [Anek 1992:34; Krirkkiat 1985:471].¹¹

The development of electoral politics during the period between 1973 and

¹¹It is reported, for instance, that commercial banks, particularly the Bangkok Bank, are still closely associated with military leaders [Nakhon 1985:118]. In addition, one big business group even today has appointed several retired military officials as members of the board. This is the case of the Charoen Pokphand (CP) group (see 3-5). It invited Gen. Suchinda Kraprayoon, who was a leader of the coup of 1991 that toppled the Chatichai government (see 2-1-4), as an honorary chairman of a company of the group in 1994. Besides Suchinda, several outstanding individuals in military and police circles took up posts on the board of the CP group [*FEER* 15 December 1994].

1976 saw another type of rent-seeking activity among entrepreneurs emerge: that is to directly launch into politics themselves. The general election of 1975 showed noteworthy results: members of parliament with business backgrounds accounted for about 35 percent and stood first in the House. Businessmen have been numerically superior to bureaucrats in the number of members of parliament since then [Anek 1992:33, 35].

Two things need to be noted in this context. First, many businessmen who launched into central politics were newly-rich provincial entrepreneurs.¹² Second, large-scale old business families which established and maintained a close relationship with politically influential figures since the 1950s seem to have felt little need to launch into politics. Their way to seek rents is still to give financial support to politicians and political parties. Apparently it is more profitable for these individuals to concentrate their resources on economic activities and on maintaining their relationships with powerful political figures rather than to launch directly into politics.^{13,14}

5-4-2 *Rent-Seeking Activities of Provincial Entrepreneurs*

The open climate in politics from 1973 has had an effect on the political scene in the provinces: the tendency for wealthy provincial entrepreneurs to launch into local politics has been pronounced since that time. Electoral politics demands large outlays from candidates for election campaigns in order to win votes. This is one of the reasons why well-to-do entrepreneurs began to launch into politics from this time [Tamada 1988:295]. In this section, I would like to focus on the rent-seeking activities of provincial entrepreneurs, including the phe-

¹²One of the most eminent provincial businessmen who has established a reputation as a politician is Banharn Silpa-archa, who was appointed as a minister several times and became the leader of the Chart Thai Party in 1992. He is a businessman in Suphan Buri, who owns a caustic soda factory and a construction company, and is involved in many other businesses. It is said that he made a fortune when he was granted a concession for laying down water mains in the whole country during the period from 1957 to 1973. During that time, Praphat Charusathian was the Interior Minister [*Sayam Rat Sapda Wichan* 25 September 1989:46-47]. Banharn was returned to the Parliament first in 1976, and since 1983 he has continuously been a member of parliament. There are a number of other outstanding provincial entrepreneurs who became members of parliament. For instance, Chaisiri Ruangkanhanaset, who managed a hotel and several factories in Ubon Ratchathani, was elected as a member of parliament for Ubon Ratchathani Province several times (1975, 1986, 1988, March 1992). Narong Wongwan, who manages one of the largest tobacco-exporting companies and other several tobacco-related enterprises, has been a member of parliament since 1979 for Phrae Province in the North. Pinyo Nirot in Nakhon Sawan Province, whose family manages the largest bus transportation company in Thailand (Tavorn Farm Co., Ltd.), was returned from that province twice (March and September in 1992).

nomena of launching into politics.

My survey in NM City suggested that the phenomena of entrepreneurs launching into local politics took the form, first, of the establishment of a political body in 1974. It was suggestive that this local political body was organized during the period of open politics (1973-1976). As described in 3-7, it was from the 1980s that influential entrepreneurs in NM City began to increasingly dominate local elections. The launch of entrepreneurs into local politics also became eminent in other provinces: it was reported that, following the elections for provincial councils and municipal councils which were held in 1990, more than 60 per cent of successful candidates were people with business backgrounds [quoted in Pasuk 1993:34].

What has caused this form of rent-seeking activity among provincial entrepreneurs? First, the growth of electoral politics offered an opportunity in seeking rents from politicians. Through the short period of democracy (1973-1976), and after the so-called halfway-democracy period (1979-1988), vote-winning became increasingly important to members of parliament. In place of 'money', which politicians wanted most under the dictatorships of the pre-1973 period, votes became the most attractive reward for them. This meant that less wealthy entrepreneurs in the provinces could take part in the rent-seeking game efficiently once

¹³This may mean that their businesses have become large enough to enjoy economies of scale which promise larger profits than any that may be acquired through launching into politics.

¹⁴There are however a number of exceptions even in large-scale business families. The most outstanding exception is Phonthep Techaphaibun of the Bangkok Metropolitan Bank group, who has been a member of parliament for Buri Ram province since 1986. One of the reasons why the Techaphaibun family has shown an interest in politics may be related to the whisky business, with which this family has been involved since the end of the 1950s. A company run by this family had been the dominant producer of whisky in Thailand for about 20 years, a position obtained through contracts with the government. However, this monopolistic position was lost after a competitive company started to produce another brand of whisky in 1981. These two companies finally compromised in establishing a new whisky company [Suehiro and Nanbara 1991:chap 9]. However, whisky producers are decided by government tender, and the Techaphaibun family may still feel that political connections are necessary for its whisky business. Although this family has had a close relationship with the Chart Thai Party (or the Soi Ratchakhru Group) though many joint businesses with the Group, Phonthep belongs to a different political party, the Democrats Party. This family is involved in so many businesses that they may have decided to diversify the risk of political changes by establishing connections with several political sections [*Sayam Rat Sapda Wichan* 25 September 1989:45]. Several Bangkok-based entrepreneurs have shown themselves to be eager to become politicians. It is noteworthy that many of them were returned to the House from the provinces, not from Bangkok. Phong Sarasin, who came from an outstanding family in Thailand and ran a large company of soft drinks (Thai Pure Drinks Ltd.), was returned successfully twice†

they had established an organization for winning votes and for lobbying. As described later, political bodies which were established for local elections in the provinces have functioned as vote-getting organizations for members of parliament.

The second reason for provincial entrepreneurs to launch into politics can be attributed to the emergence of wealthy entrepreneurs in the provinces. This emergence can in turn be attributed to an increase in exports of new commercial crops such as tapioca, sugar, maize, and tobacco after the 1970s [*ibid.*:28]. For wealthy entrepreneurs in the provinces, (political) rent seeking became a more profitable and a less risky investment than (economic) profit seeking. Their decision to seek rents from political investment was rational because they understood that some Bangkok-based entrepreneurs made fortunes through political patronage in the 1950s and 60s. Past losers, in other words, turned their interests to political activities when the political climate created favorable conditions.¹⁵

My survey in NM City revealed that provincial entrepreneurs have engaged in three forms of rent seeking. The first one was the most direct; either to launch into local politics themselves, or have their sons do so. Both in the provincial and municipal councils of NM, members with a business background exercised a considerable influence on local politics (see 3-7). Occasionally, some of these entrepreneurs ran in general elections. For them, experience in local politics was the first step toward the central political world in Bangkok.

[†](1986 and 1988) from Khon Kaen Province under the banner of the Social Action Party. He was appointed as a deputy prime minister in the Prem government and the Chatichai government. Surat Osathanukhro, who managed the largest pharmaceutical company in Thailand (Osothsapha Co., Ltd.), was returned to the House from Bangkok once (in 1969), and from Khon Kaen province twice (in 1983 and 1986). He has occupied ministerial posts several times. Det Bunlong, who was involved in textile enterprises such as Thai Teijin Textile, ran successfully for general elections twice (March and September in 1992) in Nakhon Nayok Province. He has had an intimate relationship with the Choonhavan family and the Soi Ratchakhru Group since they started to run their textile businesses [*Sayam Rat Sapda Wichan* 25 September 1989:46]. Although Chaloemphan Siwikon, who was the owner of the President Hotel in Bangkok, became a member of parliament first for Bangkok in 1986, in the general election of 1988 he was returned from Nakhon Ratchasima Province.

¹⁵As described above, Bangkok-based entrepreneurs were paying political patrons for protection at a very early stage: a close relationship had already been established, in other words. Since rich Bangkok-based entrepreneurs had already invested their money in establishing personal relationships with influential politicians, 'bidding' was carried out on a playing field which was not level. The idea of a perfectly risk-neutral bidding environment was not effective in Thailand. Rent seeking through political patrons was a sound investment for those entrepreneurs in Bangkok. However, for provincial entrepreneurs who did not enjoy solid relationships with politicians, this might well be a risky investment. This explains to some degree why provincial entrepreneurs directly launched into politics: it was because they could not 'buy' politicians and legislation directly.

The second form of rent seeking was to give active support to influential politicians through local organizations such as political bodies. A local political body in NM was formed in 1985 by a prominent local businessman (Wichai Choetchai, see 3-7 and Appendix), in order to back candidates with entrepreneurial backgrounds in local elections. Wichai is known as a *hua khanaen* (vote solicitor) for Chatichai Choonhavan and Suwat Liptapallop, and his political body functions as a vote-winning body for these members of parliament. In return for favors from these politicians, payments in the form of contributions to election campaigns and votes were made. Wichai's political body was evidently set up for lobbying.

The last method for local businessmen to seek rents was to involve prominent politicians in their business projects. In NM, Chatichai Choonhavan was involved in the Suranaree Industrial Zone, and Suwat Liptapallop invested in a first-class hotel, the Royal Princess Khorat (see 3-6). If politicians joined in those projects purely from an interest in business, they are perhaps not to be blamed for receiving a part of the profits. To the extent that they are acting as entrepreneurs, and they ought to share in the profits and losses of their enterprise. However, if local businessmen do not burden politicians with any business losses that may occur from their investments, this can be regarded as a rent-seeking activity on the side of entrepreneurs. I could not manage to investigate the cases of Chatichai and Suwat regarding this point. However, it is at least fair to point out that the possibility exists of rent seeking in joint businesses between local entrepreneurs and politicians.¹⁶

All these three phenomenon can be regarded as rent-seeking activities on the part of provincial entrepreneurs, or, in other words, as attempts to acquire governmental wealth-transfer programs. First, provincial entrepreneurs intended to realize special returns from local government by launching into local politics and/or supporting candidates in local elections. Their largest interests here may lie in construction contracts for local public works. Secondly, understanding that access to decision-making power has been a large source of income and wealth for some Bangkok-based entrepreneurs, they sought to establish connections with prominent politicians in Bangkok, who can influence government policy making.

It was suggestive that some provincial entrepreneurs who launched into politics were involved in businesses over which the government exercised rather rigid controls and through which they were able to enjoy monopolistic profits. In NM

¹⁶Once politicians become involved in various businesses, they obviously have a strong incentive to act and legislate in a responsible, business-friendly fashion. However, they also have an incentive to restrict competition and promote monopolies/cartels in favor of their particular business interests. I suspect that there are serious limits to any cost-benefit analysis of such joint ventures, but would like to point out that Thailand does seem to enjoy a comparatively *laissez-faire* business environment, so there may well be benefits to at least some forms of rent seeking.

City, the most politically-ambitious businessman, Wichai Choetchai, who established a political body in 1985, manages a bus transportation company which has enjoyed a monopoly in bus services between NM City and Bangkok. Permission from the government is needed to operate any bus service in Thailand. In 1993, a group of local businessmen in NM applied for permission to establish a new bus transportation company which would break the monopoly of Wichai's company on the NM-Bangkok bus route. Their application, however, was rejected by the government. This case suggests that Wichai's strong ties with influential politicians such as Chatichai Choonhavan and Suwat Liptapallop might have worked to his advantage.^{17,18}

The theory of rent seeking suggests that, in a rent-seeking competition, "losers need not passively accept their fate, but can trim their losses and the gains to winners by lobbying, ... and other kinds of political pressure to raise their influence" [Becker 1983:377]. A marked tendency of businessmen in the provinces to launch into politics can well be explained in this context. If we regard some Bangkok-based entrepreneurs as winners in the rent-seeking competitions through 1950s and 1960s, provincial businessmen who could not efficiently participate in them consisted one group of losers. Launching into politics can be seen as an attempt to rectify this situation.¹⁹

5-4-3 *The Effect of Rent-Seeking Activities upon Provincial Economies*

Finally, I would like to discuss the costs and benefits of rent-seeking activi-

¹⁷Based on an interview with an official of the Chamber of Commerce (NM Branch), in October 1994.

¹⁸The same tendency can be seen in several members of parliament who are provincial entrepreneurs. The case Pinyo Nirot, a member of parliament for Nakhon Sawan Province, may be similar to that of Wichai. His family's bus service enterprise is the largest one in Thailand, and the political connection can be assumed to be a great help in maintaining the profitability of this enterprise. It was reported that his family had run their company at a heavy loss, and that their request for permission to raise their bus fares was not accepted by a series of governments over the years. Their losses were so bad that they decided to sell most of their bus service business in 1990. However, since they could not reach an agreement with their investors concerning this sale, they continued to manage that company [*Krungthep Thurakit Sut Sapda* 25 April 1992; *Than Setthakit Rai Sam Wan* 14 January 1993, 28 January 1993]. There is obviously a large incentive to become involved in politics here: the ability to exercise an influence on the government's decision making on bus fares becomes perhaps one of, if not the most, important factors behind the viability of their business. This may well be the main reason why Pinyo has been a member of parliament since 1992. Narong Wongwan is involved in the tobacco industry in a northern province, Phrae, for which he has been a member of parliament since 1979. The production of tobacco is controlled by the state-owned Thailand Tobacco Monopoly, so it[†]

ties. My primary concern is the negative effect which rent-seeking activities in the provinces have had on local economies.

Here I will analyze those economic losses which provincial economies incur, by focusing on one of the costs of rent-seeking: expenditures used to capture a rent, which imply the rise of opportunity costs.^{20, 21}

Directly launching into politics and supporting influential politicians as methods of rent seeking mean that provincial entrepreneurs spend scarce resources such as capital, time, and energy in competing for rents. Since entrepreneurs use resources to seek rents, opportunity costs in terms of the output they could otherwise have produced emerge. These resources would have produced alternative output, which could in turn have contributed to local economic development. This is especially true as many rent seekers in the provinces are the most wealthy and influential entrepreneurs there.

The increasing importance of electoral politics demands of rent seekers today the ability to win votes for their patrons. This is the case not only in supporting candidates in elections, but also in launching directly into politics. My survey found that, in order to secure votes, rent seekers establish political bodies. It should be noted that one of the most influential businessmen in NM City has been deeply involved in a political body. Resources used for this political body, particularly start-up costs, would have been a heavy burden for him. This means that the richest human resources in the provinces have been used for non-productive activities. Besides these costs, the inveterate habits of vote buying in Thailand tell us that rent seekers have to distribute a large amount of cash during

[†]is obviously in his economic interest to exert as much (political) influence as possible on government policy on tobacco production.

¹⁹ Losses which provincial entrepreneurs suffered from the rent-seeking activities of Bangkok-based entrepreneurs were most evident in the commercial banking sector. As described above, bankers in Bangkok were successful in excluding potential competitors through restricting potential competitors, and, to the degree that they succeeded in this, were winners in the rent-seeking competition. Financial businessmen who could not realize their desire to establish local banks in the provinces must be regarded as losers. The wealth transferred from the provinces to Bangkok-based banks was clearly shown in bank loans, the allocation which considerably leaned to Bangkok (see Table 19). This was a loss which provincial economies suffered. If the establishment of local banks had been allowed in the provinces, banks well informed about local economies would certainly have allocated more loans to the provinces.

²⁰ As described above, in a simple model of monopoly, the costs of rent seeking are classified into two categories: the deadweight cost of regulation and the expenditure used to capture the rent. The deadweight cost is the real income which an economy loses as a result of government-imposed regulation. As a result of regulation, the price of the product or service subject to regulation goes up, which causes demand to go down. Because demand falls, a number of individuals are obviously not undertaking transactions that they otherwise would have partici-[†]

elections. It seems that rent seekers today have to bear an extra expenditure, which their counterparts in the 1950s and 60s did not, in seeking favors from political patrons. This is the cost both to set up and manage political bodies, and of other expenditures for elections.

Before 1973, when electoral politics had a limited importance, rent seekers were able to deepen personal relationships with political patrons in a more simple way: bribes or cash payments. I have no evidence to demonstrate that entrepreneurs today pay more than those of the pre-1973 period paid in order to lobby for \$1. However, successful rent seekers of the pre-1973 period in Bangkok do seem to have acquired returns more efficiently, in other words obtained more returns at less expense.

Bangkok-based entrepreneurs did not cease from participating in these activities after 1973. As described above, explicit rent-seeking activities in Bangkok such as “the military-bureaucratic presence on the boards of large corporations” [Anek 1992:34] did decrease. Large-scale entrepreneurs in Bangkok have changed their method of rent seeking: they now afford support to politicians in the form of cash payments [Krirkkiat 1985:468]. Today, although they still seek rents from their political patrons, they do so in a subdued fashion. Their methods are different from those which became prominent among influential entrepreneurs in the provinces, such as launching into politics or establishing political bodies. Cash payments would be an easier and less costly way to seek rents for those individuals who have already established close relationships with politically-influential figures. In addition, for large-scale entrepreneurs in Bangkok who can enjoy

[†]ipated in. These individuals have suffered a loss, and the sum of their losses is what we call deadweight loss — a loss in transactions that would have otherwise taken place without regulation. Producers and consumers who are excluded from trading bear this deadweight loss. However, it is difficult to demonstrate exactly who has borne the largest deadweight loss. When provincial entrepreneurs begin to compete for governmental wealth transfers, who suffers most from the deadweight losses which this activity inevitably produces? Provincial consumers, provincial businessmen who have not participated in the rent-seeking competition, or others? As in many other cases of governmental wealth-transfer programs, “winners can be easily identified while losers cannot” [Tollison 1982:590]. I have therefore decided to analyze only the expenditure to capture rents.

²¹I have focused here on the post-1973 period. As I have argued in this work, the pre-1973 period was one in which Bangkok-based entrepreneurs completely dominated the rent-seeking competition. One result of this was that the government promoted cartels in several markets — in financial services, for instance — and provincial entrepreneurs were excluded from these markets. The cost of this kind of government-sponsored cartel, both to the provincial entrepreneur and to the general consumer, must have been a huge one. Although I only examine the effects of rent seeking after 1973, I should point out that I believe that the costs of rent seeking were not as great to provincial entrepreneurs as they were before 1973.

economies of scale, it may be more profitable to devote themselves to business activities than to launch into politics.²²

Compared with provincial entrepreneurs who have to establish political bodies to seek rents, large-scale businessmen in Bangkok today seem to bear a smaller cost to lobby for \$1. They have already cemented ties which bind them to their political patrons, and they are able to maintain those ties at a small cost. Because of the longevity of the 'ruling class' in Thailand, and because Bangkok-based entrepreneurs have paid their political patrons for many years, they enjoy a huge advantage over their provincial counterparts.

Since provincial entrepreneurs lobby for \$1 at a larger cost than large-scale entrepreneurs in Bangkok, provincial entrepreneurs face larger costs in seeking rents, and so have been obliged to pay large sums to establish political bodies. This obviously has had a harmful effect on provincial economies.²³

Besides opportunity costs, I would like to analyze another two reasons why the provinces suffered more damage than Bangkok, as regards governmental intervention in the economy and rent-seeking activities on the part of entrepreneurs. These are wealth transfers from the provinces to Bangkok, and the distortion of resource allocation. Focussing on these reasons clearly explains how governmental policies and rent-seeking activities have retarded the economic development of the provinces.

Rent seeking is a process that wastes resources in competing for artificially contrived wealth transfers. Rent-seeking theory suggests that, from a social point of view, rent seeking creates no wealth. However, the winner of the rent-seeking competition does capture a contrived transfer. Since a group of Bangkok-based rent seekers have been obvious winners, we can say that rent-seeking activities to a certain extent resulted in a wealth transfer from the provinces to Bangkok.

This work demonstrates that bankers in Bangkok were winners in the pre-1973 rent-seeking competition in the commercial banking sector, and were successful in excluding potential competitors through restrictive legislation over new entry. The wealth transferred from the provinces to Bangkok-based banks was clearly shown in bank loans of which allocation leaned to Bangkok considerably (see Table 19). Therefore, economic regulation which wealthy businessmen and influential pressure groups in Bangkok acquired (or 'captured') has helped to increase the wealth of Bangkok-based entrepreneurs at the expense of, partly at least, the provincial entrepreneurs.²⁴

Governmental wealth-transfer programs, and expenditures to capture them,

²²Tamada [1988:298] explains that, in many cases, large-scale businessmen do not create an intimate relationship with a specific political party, but keep several political parties at an equal distance.

²³Although this is not as harmful for them as being excluded from the rent-seeking competition altogether.

needless to say, distort resource allocation in the market. If bank loans were allocated heavily in favor of Bangkok as a result of legislation, scarcity was created by the government in the market for credit in the provinces. This disequilibrium in the financial market in the provinces implies that local entrepreneurs incurred extra costs in order to obtain credit. Informal methods to raise capital, such as rotating credit societies and the discounting of post-dated cheques, imposed higher interest rates upon local entrepreneurs (see 4-2-5) for instance. These are extra costs which were forced on local entrepreneurs.

Economic regulation which restricts entry into the commercial banking sector and excludes financial entrepreneurs in the provinces from the market also makes for an 'excessive' entry into other professions in the provinces. In the case of Ratprathip Kiratiurai (see 4-2-6), for instance, who launched into local politics and the real estate business after being shut out of the banking sector, economic regulation generated an excess supply (disequilibrium) in entry into the real estate business market.

The entry of influential entrepreneurs in the provinces into politics also clearly suggests that a distortion occurred in the incentive structure of provincial entrepreneurs. An intensified rent-seeking competition induced them to invest a larger amount of resources, which were previously used for their businesses, in political activities than previously was the case. Excess entry into politics was generated, and opportunity costs of those who were involved in politics emerged. The most well-to-do class of provincial entrepreneurs, which otherwise would have been the most productive class in the provincial economies, spent their scarce resources in politics. Because the provinces have only a small number of wealthy entrepreneurs, the economies of the provinces have suffered seriously from the opportunity costs of these wealthy entrepreneurs who have launched into politics. This contributed to a deterioration in the efficiency and productivity of local economies.

So far, I have tried to explain why provincial economies have suffered more than Bangkok from governmental intervention and rent seeking, by using such concepts as the social cost (opportunity cost) of rent seeking, wealth transfers, and distorted resource allocation.

I would like next to look at the benefits which entrepreneurs have acquired from rent-seeking activities. It should first be emphasized that politicians in the parliamentary politics of today's Thailand can offer far smaller returns to rent

²⁴Capture theory, originally outlined by Stigler [1971], has developed in several ways. Stigler's model was based on a producer vs. consumer plan, but more recent work has developed three more categories: cross-subsidization, producer vs. producer, and a triad composed of producers plus an unrelated interest group vs. consumers [McCormick 1989:23]. In my case, what we can see is an example of the producers vs. producers category.

seekers than was possible for the military officers in the 'dictatorial' governments of the pre-1973 period. At that time, some Bangkok-based entrepreneurs obtained considerable returns (which occasionally took the form of legislation favorable to them) through their ties with military officers. Although their business success can not be attributed solely to their rent-seeking activities, returns on such activities were huge, and rent seeking is one of the factors behind the development of their businesses into big groups. However, today's rent seekers are unable to find such chances with the progress of electoral politics.

As described above, provincial rent seekers seek to exercise an influence on the local government, and, if possible, on the power of policy-making in the central government. At the level of local government, they are possibly able to draw returns through the investment of local governments in public utilities. Members of municipal councils and provincial councils can have their business interests reflected in construction contracts and the budget distribution of local government. However, the rents that politically-ambitious entrepreneurs in the provinces can draw from local governments *may* be smaller than those which the central government can offer to rent seekers.²⁵

Furthermore, at the level of central politics, it has become more and more difficult for entrepreneurs to promote their interests through their personal connections with policy-makers due to the development of electoral politics.²⁶ This is because political power was gradually decentralized after 1973, and because an intimate relationship with only one political faction may not promise results in seeking rents because it is possible for cabinet members to change every election. Compared with what politically-influential military officials could offer to rent seekers under the military-led regime, returns which today's rent seekers can acquire through political patrons in electoral politics are far smaller.²⁷

One big project, the 'Thailand Agricultural and Industrial Exposition 1992' (EXPO), which was brought to NM by the Chatichai government, is a good example. After this government was overthrown in 1991, this project was post-

²⁵ The budget of the central government is of course a lot larger, but the pool of potential rent seekers is also much larger than is the case in any province. Central government does offer one rent that local governments can not: favorable legislation.

²⁶ Anek [1992] argues that groups of entrepreneurs began to take part in the policy-making process in the form of business associations, and that their participation in policy-making has contributed to the economic development of Thailand. However, there is another side to this argument. Entrepreneurs' participation in policy-making can be regarded as an attempt to gain access to central political power. This is rent-seeking activity. If there are a number of entrepreneurs who have common interests, it would be more efficient, in electoral politics, to establish an organization to lobby. That is one of the reasons why entrepreneurs set up business associations.

poned several times. Although (as of 1994) there are plans to hold this Exposition in 1995, this is still in doubt. This suggests that the EXPO project was a reward which members of parliament for NM Province such as Chatichai Choonhavan used to pay local entrepreneurs in return for financial support in elections. These politicians were able to exert their influence in favor of NM Province in distributing the national budget when they held ministerial posts in the Chatichai government. However, once forced from office, their influence apparently disappeared. In addition, the effects of this EXPO project on the local economy would be temporary and certainly not dramatic. Compared with commercial banks in Bangkok, which will continue to enjoy monopoly rents as long as economic regulation which excludes new entries exists, provincial entrepreneurs may well draw only small rents from the central government.^{28,29}

Generally speaking, enterprises of politically-ambitious entrepreneurs in the provinces have not yet even begun to approach the scale of Bangkok-based big groups.³⁰ At best, provincial rent seekers can be wealthy businessmen in that region, and/or *cao pho*,³¹ who exert considerable influence on the local economies and politics of several provinces.³² One should not hastily conclude that rent seeking has not brought provincial rent seekers anything like the returns that some Bangkok-based entrepreneurs have gained, just from the fact that provincial entrepreneurs are small-scale. Nevertheless, we can point out, at least, that to date there have been no politically-ambitious entrepreneurs in the provinces comparable to successful Bangkok-based big business groups which have not only established positions in Thailand but have also begun to launch into international markets.

²⁷ Rent-seeking activity and the size of returns are obviously decided by the degree (and nature) of political intervention in the market. The more intervention, the bigger the pool of potential rents, and the larger the incentive to undertake rent-seeking activities.

²⁸ Wichai Choetchai, who enjoys a monopoly in bus services between NM City and Bangkok (see pp. 107-108), may draw exceptionally huge rents from close ties with influential politicians by excluding potential competitors. However, compared with commercial banks which have enjoyed monopolistic rents since the mid-1950s, it is fair to say that his rents are still relatively tiny.

²⁹ It is theoretically possible, however, that NM profits from rent seeking more than other provinces. If all provinces contributed a certain sum to a general pool and then played the rent-seeking game, it may come to pass that a province with skillful players may take home more from the pool of rents than they put in. I suspect that this is the case with Bangkok. It may also be the case with NM. This is because it is possible that NM was able to capture a larger share of rents from the government during the period that Chatichai Choonhavan was prime minister (see 2-1-4). However, we need to take into account the deadweight costs of rent seeking. Although they are usually invisible, such costs do exist, and probably outweigh most of the gains made by even skillful players.

There is no sign that influential entrepreneurs in the provinces have stopped their rent-seeking activities. These activities might be understood better if we consider them as an attempt to stem the expansion of Bangkok-based big business groups' rents as much as possible. Provincial entrepreneurs may have rationally decided that, though rent seeking is costly to the provinces, it would be even more costly not to participate in the rent-seeking competition. Since provincial entrepreneurs have fewer opportunities to enjoy economies of scale than their counterparts in Bangkok, in other words, since their business opportunities in the provinces are limited, they may have given priority to rent seeking (investment in politics). Furthermore, even if provincial entrepreneurs obtained considerable returns through rent-seeking activities, these returns tend to be invested in speculative business such as real estate dealings. This can be attributed again to the point that they have only limited business opportunities in the provinces.

In the provinces, for those who are not able (or do not choose) to take part in the rent-seeking competition, what is the best choice to raise profits or save production costs? Those who can enjoy economies of scale in production could decide not to participate in the rent-seeking game and, instead, to concentrate all of their energies on their businesses. However, there are exceptionally few entrepreneurs in the provinces who do so (this may be the case of Thosapol Tantivong and Siriphong Rungrotkitiyot in NM, see Appendix). For the majority who can not afford to participate in rent seeking, one of the easiest methods to trim production costs is to reduce transaction costs in managing their businesses.

³⁰ It is not accurate to judge the scale of a business run by any entrepreneur from the data about his exemplary enterprise because he (or his family) is usually involved in many other businesses. However, the following data suggests that the enterprises of politically-ambitious entrepreneurs in the provinces are far smaller than those of Bangkok-based big businesses. The largest bus company in Thailand, which is run by Pinyo Nirot's family in Nakhon Sawan (see p. 108, Note 18), stood as the 944th largest company in the country in terms of assets in 1988, while the Bangkok Bank (the Sophonpanit family) ranked first and Thai Asahi Glass (the Srifuengfung family) stood the 75th. Although the Siam Tobacco Export Co., Ltd. of Narong Wongwan in Phrae (see p. 104, Note 12) held the 1006th rank in terms of profit in 1988, Bangkok Bank was first and Thai Asahi Glass was 16th [International Business Research (Thailand) Co., Ltd. 1990].

³¹ *Cao pho*, according to one definition, means "an influential person who can use his wealth and informal power (through patronage, bribery, violence or other means) to put himself above the law and to provide extra-legal protection for others" [Pasuk 1993:3].

³² However, Pasuk [1993:35] argues that *cao pho* acquired influence over national politics after the mid-1970s and that their influence was not confined to their local provinces. Sombat [1992:127-128] also suggests that *cao pho* have had a growing influence over national politics because they can form an intimate relationship with nationwide politicians through their support for political parties in elections.

The devotion of provincial entrepreneurs to the establishment of creditworthiness in the local society through participating in local organizations can be understood in this context. A remarkable tendency of joint investment among provincial entrepreneurs can also be interpreted as an attempt to realize economies of scale which they could not enjoy if they engaged in small-scale businesses separately. Members of a joint investment are selected on the basis of their trustworthiness. This means that they have to spend limited resources and time to establish a good reputation in the local society, and that opportunity costs thus emerge.

In Bangkok, it is not necessary for entrepreneurs to devote themselves to activities in local organizations to the same extent as provincial entrepreneurs do, even if they do not intend to participate in rent seeking. This is because they can increase production and raise profits by trading on the economies of scale and comparative advantage which Bangkok offers them. Bangkok-based entrepreneurs can concentrate on the economic world in profit seeking to a greater degree than provincial ones can. This is because the Bangkok economy today runs on 'market' principles much more than provincial economies. Although rent seeking (or investment in politics) has earned great wealth for some entrepreneurs in Bangkok, investment in pure business activities also brings handsome profits to Bangkok-based entrepreneurs if they are able to fully exploit economies of scale and comparative advantage. They might thus feel little need to be involved in rent-seeking activities. Bangkok-based entrepreneurs, in other words, enjoy the best of both worlds.

In 5-4, I have argued that some Bangkok-based entrepreneurs were successful in lobbying for legislation because they were able to bid in a situation where the 'auctioneer' had already received large payments from them. Rent-seeking activities among some entrepreneurs in Bangkok eventually gave rise to the same activities among wealthy local entrepreneurs in the provinces. It seems to me that it is quite probable that these activities inflicted heavier losses on the provincial economies than on the Bangkok economy. This is because provincial entrepreneurs seek rents at a larger cost and acquired smaller rents than was the case with large-scale entrepreneurs in Bangkok.

I have explained the losses which provincial entrepreneurs suffer from the viewpoint of opportunity costs, wealth transfers, and the distortion of resource allocation. The problem is that the rent-seeking activities of provincial wealthy entrepreneurs are profitable for those individuals but at the same time are harmful to the economy, and to provincial economies in particular. To put it in economic terms, the legal and political structure that allows rent seeking produces a 'negative externality', and the cost of this negative externality has fallen heavily upon the shoulders of provincial economies.

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Chapter **6**

CONCLUSION

In this study, I have attempted both to analyze provincial entrepreneurs and entrepreneurship, and also, through this analysis, to throw light on those factors which I believe have been most responsible for delaying economic development in the provinces of Thailand. A series of stays in Nakhon Ratchasima City and data collected from interviews with local entrepreneurs, among other sources, forms the core of this study.

In Chapter 2, I outlined the economic history and the economic structure of NM. I particularly paid attention to four major factors in the development of this local economy. These are the opening of the railway from Bangkok to NM, the making of a Chinese society in NM, the Vietnam War, and the Chatichai government (1988-1991).

In Chapter 3, I analyzed the main characteristics of provincial entrepreneurs in NM City. This analysis was carried out on the basis of an examination of the leading entrepreneurs in NM. Here, I referred to the dominance of Chinese descendants, and examined the fund-raising method used by Chinese entrepreneurs. In addition, the importance of creditworthiness and of connections with Bangkok, the remote relationship with foreign capital, connections with politicians, and tendency of local entrepreneurs to launch into politics were each investigated. I also noted the discontinuity of Chinese society in NM and the lack of locally-developed manufacturing until the 1960s.

Chapter 4 analyzed the development of commercial banking and financial businesses in local provinces. In Chapters 3 and 4, I describe how local entrepreneurs endeavor to maximize utility through their business and social activities under given conditions in the provinces. Their decision making and other activities are considered to be rational in the sense of being oriented towards maximizing profits or returns on investment. My investigation of local entrepreneurship finds that provincial businessmen have showed rich entrepreneurship, responding in many cases to local demand which was not satisfied by the pro-Bangkok policies of the Thai government.

A good example of this entrepreneurship can be seen in the development of local financial businesses and financial transactions on the basis of creditworthiness in the Chinese business circles of the provinces, which is investigated in Chapter 4. Self-employed Chinese entrepreneurs faced difficulties in obtaining the loans from formal financial institutions, such as commercial banks, that are usually considered necessary to start and operate a small businesses. This was because an artificial interest rate caused credit rationing in the financial market, and because small-scale entrepreneurs were regarded as more risky than large-scale ones. This was particularly true in the case of provincial small-scale entrepreneurs when they solicited loans from commercial banks, all of which were based in Bangkok.

Because of this, informal financial businesses underwent a marked develop-

ment among provincial Chinese entrepreneurs in order to meet their unsatisfied demand for money. These informal financial businesses consisted of rotating credit societies and the discounting of post-dated cheques. Both of these were used as methods for short-term borrowing and were, more importantly, arranged on the basis of the creditworthiness of Chinese entrepreneurs in their local societies. This suggests that it was crucial for provincial small-scale entrepreneurs to establish solid creditworthiness in the local Chinese society. Entrepreneurs regarded as anything less than trustworthy would not have been able to raise capital through informal financial markets, and thus would be unsuccessful in local business circles.

Regarding the importance of creditworthiness in local Chinese societies, we can not overlook the role which Chinese associations have played as a forum where information is exchanged. It was vital for provincial entrepreneurs to collect information about the trustworthiness of other provincial entrepreneurs at a low cost because business and financial transactions were carried out on the basis of trustworthiness.

Although these indigenous financial businesses of provincial Chinese merchants grew in order to fill the demand for credit in a situation of credit rationing, which was caused by the interest rate ceiling imposed on commercial banks, these businesses enjoyed advantages in terms of knowledge and information costs. Provincial Chinese entrepreneurs were able to utilize knowledge and to collect information about local customers at a low cost in comparison with the branches of Bangkok-based commercial banks. Local Chinese societies enjoyed a rich accumulation of knowledge about local Chinese entrepreneurs, knowledge that was difficult if not impossible for commercial banks to utilize. Another advantage of these local financial businesses was that of informal relationships. Most of these financial businesses were not institutionalized as formal financial institutions, and so enjoyed an advantage over formal financial institutions in being more flexible and having a less costly decision-making process. The fact that the threat of social ostracism proved to be an efficient enforcement method among Chinese entrepreneurs also contributed to the development of these financial businesses.

Indigenous financial transactions developed to the extent that several provincial entrepreneurs emerged who desired to establish a local bank. On the other hand, the commercial banking system has also showed rapid progress throughout the country. Unfortunately, commercial banks have served provincial economies very poorly, as the data of credit-to-deposit ratio shows. In the middle of the 1950s, the development of Thai financial businesses reached a turning point, when an official governmental policy to severely restrict the establishment of new banks came into force. As a result of this policy, the desire of financial entrepreneurs to establish and operate local banks in the provinces was ignored by the

monetary authorities. Not all, perhaps, but some of these financial entrepreneurs might well have been able to capitalize on opportunities to expand and diversify their businesses, and so survive, if they had been allowed to launch into other financial activities such as commercial banking.

Furthermore, if the establishment of local banks had been permitted, these banks would have served provincial needs better than the branches of those banks based in Bangkok, and thus would have contributed to the economic development of the provinces. Local banks owned and managed by provincial entrepreneurs could have been competitive with Bangkok-based banks, particularly at the primary stage. The first potential advantage was that local entrepreneurs enjoyed access to knowledge and information about local customers at a lower cost than was the case for Bangkok-based banks. In addition, they could have enjoyed economies of scope. This means that they could expect a substantial profit by diverting their accumulated knowledge and information about local businessmen into other businesses such as commercial banking.

In the Thailand of today, the commercial banking sector shows a high concentration of capital in the hands of several large banks. Government policy restricting the establishment of new banks has resulted in the dominance of Bangkok-based capital in the commercial banking sector. Commercial banks have probably acquired this regulation of the establishment of new banks through their close relationships with their political patrons, through what known as rent seeking. It is said that big business groups in Thailand became successful more or less by capitalizing on connections with political patrons. One outstanding example of rent seeking was found in the commercial banking sector during the 1950s and 1960s, when almost all Thai-Sino commercial banks offered posts on the boards of directors to politically influential military officers. As a result of this, several banks became so large that they dominate the market today. This will hinder local banks from being able to compete with these existing banks, even if the establishment of local banks is ever allowed.

In Chapter 5, I investigated three major factors which have impeded the growth of provincial economies. These are the geographical advantage of Bangkok, the concentration of political power in Bangkok, and rent-seeking activities of provincial entrepreneurs.

Rent-seeking activities have been a source of returns for some eminent Bangkok-based entrepreneurs. Understanding this very well, provincial businessmen also began to seek special returns through political activities. Rent-seeking activities on the part of provincial entrepreneurs took the form of, for instance, launching into politics and the formation of political bodies. In NM City, a local political body which was established in the middle of the 1980s by one of the most outstanding businessmen in NM Province assumed control of local politics. Exercising an influence on the policy-making process to their own favor was the

ultimate intention of such provincial entrepreneurs.

However, it seems that entrepreneurs today (including not only provincial ones but also Bangkok-based ones) seek rents in a less 'efficient' way than their counterparts did during the pre-1973 period through their relationships with political patrons. This means that the former are acquiring smaller returns than the latter did with the same investment of resources.

In today's Thailand, the influence which unelected politicians such as military officers can exert on internal politics are rapidly decreasing with the progress of democracy. Political power is increasingly becoming decentralized, and votes are becoming more and more important in political circles. If people want to seek rents from politicians, they have to be involved to a greater degree in vote-getting for politicians than was the case during the pre-1973 period. In this situation, rent seekers in the provinces have established organizations which can guarantee a large number of votes during elections.

Today's rent seekers have to shoulder another type of cost in order to take part in rent-seeking activities. This is the cost of those resources which provincial entrepreneurs devote to the establishment and management of local organizations for lobbying. Entrepreneurs in the days of dictatorship were able to participate in the rent-seeking game (if they were rich enough to afford to do so) without shouldering this cost because cash payments were the most effective bargaining chip. Big business groups in Bangkok today seldom show an appetite for launching into politics because they have already established intimate relationships with their political patrons through cash payments. On the other hand, new participants in the rent-seeking competition (particularly in the provinces) have to go to the trouble to organize political bodies in order to collect votes for politicians from whom they wish to seek rents. Resources and time spent on these organizations mean the emergence of large opportunity costs in provincial economies. In addition to these resources, the intensification of vote-buying in the provinces pushes up the cost for provincial rent seekers.

It is difficult to show exactly to what degree today's rent seekers (both in Bangkok and in the provinces) spend their resources for elections, and whether these resources are absolutely larger than the capital which outstanding rent seekers in Bangkok in the past have paid their patrons. Nevertheless, it is plausible to say that, as a whole, opportunity costs are larger in the provinces than in Bangkok, because the smaller-sized economy of a province may spend a larger portion of available resources within the local economy on rent seeking.¹

Furthermore, today's rent seekers can hardly expect special returns from politicians as large as several Bangkok-based entrepreneurs acquired from those military officers which dominated the centralized political power structure of the past. With the progress of parliamentary politics, and the decentralization of political power, today's politicians are less powerful in exercising influence on the

policy-making process in the government than military officers were during the dictatorial period. In addition to this, the pool of potential political leaders has greatly expanded, and so an investment in any one political leader does not have as large a potential return as was the case under the millitary regime. Governmental wealth-transfer programs in the period of dictatorship helped the Bangkok economy to accumulate wealth faster than provincial economies. This was because some Bangkok-based entrepreneurs were able to seek rents in a rather efficient way, and were successful in expanding their businesses through rent-seeking activities.

For entrepreneurs who have made their fortune in the provinces, it is a reasonable decision to participate in rent seeking in an attempt to obtain contrived wealth transfers from the government. They have selected investment in rent seeking out of a number of possible investment plans because it is the most 'rational' — that is, it promises a larger return to their investment at a lower risk than is the case for other investment plans. Having seen that rent-seeking activities contributed greatly to the success of Bangkok-based entrepreneurs, it is unfortunate but quite understandable that they have decided to take part too.

Once rent seeking emerges, it is difficult to control it, let alone escape from it. In Thailand, the extent of rent seeking is still weak compared with countries such as the Philippines and Indonesia (which could perhaps be called 'rent-seeking societies'). The economy of Thailand is arguably more *laisser-faire* than these Asian countries.² Nevertheless, rent seeking does exist, and it does impose serious losses particularly on provincial economies. These losses have retarded economic development, again particularly in the provinces. Rent seeking is neither as pervasive nor as destructive in Thailand as it is in many neighboring countries, so looking at Thailand *comparatively*, one could say that Thailand is doing very well. I believe, however, that Thailand could do better.

My study starts from field surveys in NM City, and the point of view regarding provincial economies developed here has been hammered out with the facts and data that I collected in NM City playing a large role in the background. However, I believe that the economic situation of other provinces is more or less

¹ Let us compare the Bangkok economy and a provincial economy in terms of GPP (Gross Provincial Product). Table 3 (GDP) shows that the GPP of NM Province and that of Bangkok differed very greatly in the selected years. In 1990, NM Province produced less than one twenty-first of Bangkok. The conspicuous smallness of any province in comparison with Bangkok means that it is plausible that a trifling amount of opportunity costs can be a heavier burden on a provincial economy than on the Bangkok one. It is fair to say that the rent-seeking competition has imposed greater damage on provincial economies in terms of opportunity costs.

² Compared with other developing countries, Thailand has a rather low public sector investment as a percentage of total investment [IBRD 1988:47], and low central government expenditures as a share of GNP [IBRD 1990:198-199].

similar to that of NM. This is because economic activity in Thailand still continues to be concentrated in Bangkok, and because there are no explicit signs that local cities or economic centers which are competitive with Bangkok are being formed in the provinces. Compared with the Bangkok economy, provincial economies still seem to be weak and small, particularly in modern manufacturing, which is able to produce exportable products for the world market and is generally regarded as the driving force of economic development.

This study ascribes those factors which have impeded provincial economies in expanding more and becoming more competitive than they are mainly to the losses which governmental regulation of the market and the resulting rent-seeking activities of entrepreneurs have imposed on provincial economies. I have also pointed to those advantages which Bangkok enjoys as the exclusively large urban area in Thailand. Bangkok-based entrepreneurs enjoy several advantages which can be explained by urban economic theory. These advantages have created economic conditions favorable to them in carrying out various business activities. Large-scale industries which took the lead in the process of economic development in Thailand, such as modern manufacturing, have been formed in a spatially concentrated way in Bangkok. The Bangkok-concentrated economic structure of today can be attributed to those advantages which Bangkok enjoys as an urban area.

Once established, it may be thought that it would be difficult to change the Bangkok-concentrated economic structure. This is because accumulated wealth increasingly adds to the comparative advantage of Bangkok, which enables Bangkok to increase its wealth furthermore. From a public interest view of government, this process will continue until congestion in Bangkok forces government officials to devote more resources to develop provincial economies (this is another governmental wealth-transfer program), and other governmental policies to promote private investment in the provinces offset all the cost advantages which Bangkok has enjoyed.

However, I have no faith in this public interest view. If there are any factors which encourage hope for the economic future of the provinces in the long run, they are the location of Thailand and the congestion in Bangkok. First, because Thailand is located geographically in an extremely competitive part of the world, I believe that there will be constant pressure on rent-seeking activities from international competition. Free trade frequently makes rent seeking difficult if not impossible, and Thailand lacks the political clout in international relations to close her doors and engage in protectionism. Second, because Bangkok is so crowded, I believe that a net movement of capital from Bangkok to the provinces will eventually occur. This movement will be one of *private* capital, and will be invested in areas which offer a greater return than investments within the Bangkok area. The increasing expense of undertaking business in Bangkok should make

investments in the provinces more and more attractive.

The Thai economy is already beginning to display signs of decentralization, although the movement of investment from Bangkok to remote provinces is still slight, compared with the movement to the provinces surrounding Bangkok. These trends will contribute to a healthy local private sector and local entrepreneurship. Provincial business leaders who are rich in entrepreneurship will respond well to an increasing and diversified demand, and will thus promote economic growth in the provinces. It is very suggestive that a drastic change in provincial economies may well be caused by investments from Bangkok and foreign countries (that is, from so-called outside pressure). These changes will slowly erode the disadvantages of (at least some of) the provinces away: the ugly duckling of one provincial economy, at least, may well one day grow up into a swan.

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Appendix

PROFILES OF THE TOP TEN ENTREPRENEURS

These profiles are of the 10 individuals¹ whom I rank among the most influential businessmen in both business and social circles of NM City. The data provided here is mainly based on interviews with each businessman, except for one individual whom I could not meet. Information on this individual is based purely on published material.

One businessman whom I would rank high among the top 10 entrepreneurs is not referred to here. I did manage to interview him, but he was unfortunately very cautious about giving details on his business career, and I was not able to collect enough information through published materials to give an outline of his personal history. With the exception of this single businessman, all of the most prominent entrepreneurs in NM City are represented in these 10 individuals.

Manufacturing (1) — *Thosapol Tantiwong*

Thosapol Tantiwong is the operator of a tapioca processing plant that is thought to be one of the largest in Thailand. His business has grown together with the expansion of cassava cultivation in NM. His factory is huge: its production accounts for 7% of the total Thai market of tapioca starch.

Thosapol was born in Ratchaburi Province in 1937. His father was a Teochiu Chinese who immigrated from Puning, Kwangtung Province, to Ratchaburi, where he engaged in selling forest products such as cattle hides and beans. Thosapol came to NM City after finishing primary school (three years in a Chinese school and three years in a Thai one), following his elder brothers, who had already moved there and opened a general store. He explained that his elder brothers settled in NM City during the period (1941-1945) when foreigners not possessing Thai nationality were prohibited from residing there (see 2-1-2). He and his brothers cooperated to expand their business through dealing with car-related products. Besides selling car parts and gasoline, they also dealt in automobiles, motorbikes, and tractors. In 1974, Thosapol decided to separate from his brothers and took over the part of the business involved with the sale of car parts and gasoline. Dealing in automobiles and so on was left to his brothers. Moreover, he began to operate a tapioca-processing plant in the expectation of higher profits. At that time, the number of cassava cultivators was increasing sharply in NM, and this was why he entered the agribusiness sector. His plant started operation in 1976. Thosapol explained that although he had no higher education he was able to produce tapioca by himself due to his knowledge of machines, which he gained through dealing in car parts. This helped him in the operation of his factory.

¹ Actually of 11 individuals. I include two brothers who work together under the same heading.

Thosapol is endeavoring to diversify his enterprises into other manufacturing undertakings. His method of entering a new field of manufacturing is similar to that of other Thai entrepreneurs who have difficulties with technology: that is, through a joint venture with foreigners. Thosapol will open a new plant producing glucose from tapioca in technical cooperation with a German company. Another project to produce appliances such as steam boilers for the domestic market and export, again a joint venture with Germany, is also underway. He has received approval for investment promotion from the Board of Investment, and is in the process of establishing a factory in the Suranaree Industrial Zone (SIZ). He is the first and only local entrepreneur who has invested in the SIZ at present.

Date of Interview: 3 May 1991

Other Sources: *KRWYKT* 17 December 1993; *Sam Thotsawat Thurakit Isan* 1991?

Manufacturing (2) — Siriphong Rungrotkitiyot

Siriphong Rungrotkitiyot stands out among local entrepreneurs in NM City because of his aggressive expansion into machinery manufacturing, which requires rather highly developed technology. At the same time, he is a businessman more open to foreign countries than to the local society in NM. That is, he maintains close connections with foreign countries in seeking new markets and obtaining new technology.

Siriphong is a second-generation Teochiu Chinese. His father stayed in NM City after immigrating from China. Siriphong was born in 1948 in NM City, and graduated from a high school in his birth place. It was during a stay of seven years (not consecutive) in England that he acquired the skill and technology needed to produce automobile parts. This knowledge he obtained in school and in a factory which manufactured car gears. At first, Siriphong was engaged in dealing used cars and Ford tractors in NM City. It was natural for him to start a factory which produced small parts for automobiles, putting his knowledge gained in England to practical use. At present, his plant manufactures gears and shafts, and employs about 300 workers. Half of the production is exported to European countries, the U.S.A., and Singapore. This means that the technology of his factory has reached a high enough level for him to be able to export to the world market. His plant is not greatly dependent technologically on foreign engineers, and in this it differs from other manufacturing factories with intricate technology in NM. A Japanese engineer, an employee of Siriphong's factory, noted that this factory may well boast the highest technology among all Thai factories in the car industry. A company directory ranks Siriphong's plant as the 366th largest establishment in Thailand in terms of profit in 1990.

Siriphong is extremely active in extending his business to new fields. A

plant to produce computer parts will soon open. According to the data of the BOI, a project to produce automobile parts and grinding machines in cooperation with a Japanese group was approved to receive investment promotion from the BOI. In addition to this, he also intends to develop a private industrial zone in NM.

Date of Interview: 20 May 1991

Other Sources: International Business Research (Thailand) Co., Ltd. 1990; *KRWYKI* 17
December 1990

Manufacturing (3) — *Apisak Piriyaongsak*

Only one industrial estate is in operation in NM Province at present. Apisak Piriyaongsak is the operator of this privately run industrial zone, the Suranaree Industrial Zone (SIZ).

Apisak was born in Amphoe Khonburi of NM Province in 1943. His father, a Teochiu Chinese, immigrated to Amphoe Khonburi, and Apisak is thus a second-generation Teochiu Chinese. He graduated from a four-year elementary school (*po. 4*) in his birth place, then attended a Chinese school in Bangkok for five years. After that, although he succeeded to his father's general store and then cultivated agricultural products in his home town, he also went as far as Trang Province in the South to work for an agency dealing in tires which was operated by his relatives. Because they took on the service of repairing batteries in addition to the sale of tires, he learned how to repair batteries as well as how to mend punctures. It took one year for him to set up his own plant to repair batteries and mend punctures in Trang. In (or around) 1973, he returned to NM, though to Amphoe Muang NM and not to Amphoe Khonburi, and began to manage a factory producing batteries, as well as to operate as an agency for tires. Several years later, his business advanced far enough for him to be able to establish a factory to produce parts for construction vehicles for the domestic market.

In about 1980, he thought of establishing an industrial estate in NM, which would be of great help to people in the Northeast who otherwise would have to go to Bangkok to look for work. He purchased a piece of land near the Moon River which seemed to be suitable for industrial use, deferring to Gen. Chatichai Choonhavan's advice. According to Apisak, he opened the SIZ in 1989 with the assistance of influential politicians such as Chatichai and Korn Thapparangsi, who is a nephew of Chatichai and a member of parliament for NM Province. In the SIZ, he operates a factory producing parts for construction vehicles, such as hydraulic shafts and hydraulic cylinders, some of which are exported, mainly to Europe. He employs a Singaporean engineer in his factory. (See 3-5 and 3-6 for details of the SIZ.)

Date of Interview: 23 July 1991

Other Source: *LTT* 5-20 April 1991

Construction-cum-Commerce — Suwan Chanrattanaprida

Suwan Chanrattanaprida is looked on as a leading figure in the local Teochiu society. He is the president of a charitable foundation, which is the most comprehensive society among Teochius in NM. He holds several other important positions in Chinese societies of NM, such as that of chairman of a native place association, vice chairman of a family name society, and director of a credit company that was formed by Chinese immigrants and Chinese descendants with the same family name. Apart from these positions in Chinese societies, he holds an advisory position in the NM Chamber of Commerce. His success in local business circles, particularly in construction-related businesses, allowed him to assume these positions.

Suwan, a second-generation Teochiu Chinese, was born in Amphoe Buayai of NM Province in 1930. His father was a Teochiu who came from Puning, Kwangtung Province and immigrated to Amphoe Buayai, where many Teochius with the same family name of Tia had already settled. Suwan's father operated a general store in Amphoe Buayai. Suwan graduated from a Chinese primary school in his home town, and thus he is bilingual in Teochiu Chinese and Thai. After graduation from school, he started to help in his father's shop, as is usually the case with Chinese. Being ambitious, he left his home town in search of his fortune. He explained that he decided to move to NM City because it was larger than his rustic home town. During the latter half of the 1940s, he opened a lumber shop in NM City. After that, he was successful in expanding into construction-related businesses.

When his eldest son finished high school, Suwan and his son began to work as subcontractors in construction and to deal with construction material. They started on a small scale and gradually diversified into related businesses as Suwan's children became independent. That is, each child was presented with a shop or a workshop on finishing school. At present, he runs a construction company, a sanitary ware shop, construction material shops, and is involved in the building and selling of furniture, with his five children. All these businesses run by his family have grown to the extent that they employ about 300 people, and when they undertake a large construction project, they employ about 700 to 800 people. A company run by one of his sons is at present involved in several rather large projects, such as the construction of a memorial park and a first-class hotel in NM City.

Date of Interview: 7 June 1991

Commerce (1) — *Sansoen Chongcharoenchai*

Sansoen Chongcharoenchai and his family are the most prominent shopkeepers dealing in household electrical appliances and motorbikes in NM City. A supplement of a local newspaper reported that they are also one of the five largest dealers of Mitsubishi electrical appliances in Thailand.

Sansoen is a Hakka Chinese and was born in Kwangtung Province in 1924. He finished the first four years of primary education in his home town of China. He immigrated to Thailand in 1939 when he was 15 years old. His uncle already lived in NM City, and thus Sansoen intended to go to NM City from the beginning. He learned how to repair watches during the 11 years that he stayed with his uncle, who was engaged in selling watches. After that, he became independent and opened a shop selling watches with his brother. They have expanded their business by establishing new branches at every opportunity, including those provided by their marriages, and their children's independence. Goods that they deal with have changed from glasses, oil lamps, and watches to electrical appliances, such as radios and television sets. Sansoen later began to deal in agricultural machines and motorbikes, both of which are Japanese products. There are now five shops in NM which have branched from their business. Three of these are managed by his three sons.

Sansoen's family is one of the leading Hakka Chinese families in NM. He has been president of the NM branch of the Hakka Society, which has 700-800 members, for several terms. At present, his younger brother, who operates two of their five branches, has succeeded to this position. In addition, Sansoen is a member of the advisory committee of the NM Chamber of Commerce. He has also served as president of the Rotary Club of NM. One of his sons, who was also given a shop selling electrical appliances and motor bikes, ran for election to the municipal council of Amphoe Muang NM in 1985 but was defeated.

Date of Interview: 3 May 1991

Other Source: *Sam Thotsawat Thurakit Isan* 1991?

Commerce (2) — *Phaisan Manasin*

Phaisan Manasin is the owner of the biggest department store in the Northeast. He is a second-generation Teochiu Chinese, and was born in NM City in 1941. His father, who came from Swatow and was a soldier in China, and his mother stayed in Paknam (Samut Prakan Province) for a while after immigrating from China with little more than the clothes on their backs. Roughly 60 years ago they moved to NM City, where they turned their hands to various occupations such as a laundry service. Because Phaisan was born poor, he and his siblings

had to contribute from childhood to their parents' support, and earn their living by selling newspapers and lottery tickets, carrying them from place to place such as the railway station and restaurants. In an earlier interview [Thailand, Krom Wichakan 1988], Phaisan recalled that in his childhood he used to wonder why his life was as it was, why he was not as happy as others looked, and what life was at all when he was ordered away from the places where he was selling lottery tickets. Although he entered junior high school, he did not manage to graduate.

In 1958, when he was only 17 years old, he purchased a house in a block with a store on the first floor (such blocks are a common sight in Thailand) for 10,000 baht in the center of NM City. He started a business handling newspapers with his mother. They enjoyed such steady sales that their business expanded, first to include another shop in the same block of houses in about 1963, and then to include another two in about 1968. At the same time, they diversified into stationery and textbooks in addition to newspapers.

Phaisan's shop grew, eventually becoming a department store in 1976. What led him to launch into the management of a department store was a number of trips to foreign countries. Department stores in small provinces in Japan and Malaysia caught his eye. In 1986, he moved the store to a new site and developed it further, so that it became the largest and most modern department store in the Northeast at that time. He explained that he took the utmost care not to lose the confidence of banks during this process of expansion.

In December 1991, he opened another department store (with a basement and six storeys) with 80 million baht of registered capital, in the center of NM City. This new department store is the biggest one in the Northeast. He is planning to add several further storeys, where he will manage a hotel. His business has thus developed into a huge one. At present his two department stores employ 2,200 persons. Besides these two department stores, he plans to build a 23-storey complex in NM City within five years, according to a newspaper report.

His eldest son, who obtained an M.B.A. degree in the United States, at present assists him in the management of one of the department stores, and one of his other sons, a university graduate, is working for a hotel in the United States. Their business interests seem to have progressed mainly in the commerce sector. They might start a joint venture managing convenience stores in NM City in cooperation with a foreign company.

Date of Interview: 21 August 1991 (with his eldest son)

Other Sources: Thailand, Krom Wichakan 1988:97-110; *LTT* 5-20 December 1991; *NKHCM* August 1991; *PCKRS* 13-19 January 1992, 25-31 May 1992; *Sengliho* 1991

Commerce (3) — *Saner and Wichian Suphasiraprapha*

Saner and Wichian are brothers who first caught the public eye when they opened their new department store along the Friendship Highway in 1991. They held an opening ceremony to which they invited Gen. Prem Tinsulanonda, an ex-Prime Minister, as a guest of honor. Their new department store, a five-storey building with one basement, was reported to be a first-class commercial center in the Northeast.

The brothers were not born rich. Saner, the elder brother, was born in 1944 in Amphoe Buayai, NM Province. Their parents, Hakka Chinese, immigrated from China to Amphoe Buayai, where their father's younger brother had already settled. Saner and Wichian's father made a livelihood by tailoring and dressmaking. Saner and Wichian had to work to help family finances after they graduated from a four-year primary school (p. 4). Saner moved to NM City and began to work for a rather large general store owned by another Hakka Chinese, who had moved from NM City to Amphoe Buayai during the Second World War when the prohibited-area policy was in force (see 2-1-2). This connection with the owner may have helped Saner obtain his job in the general shop.

On the other hand, Wichian, the younger brother, served as an apprentice in a shop in NM City with a monthly salary of 80 baht. His job was to carry goods to an army base by bicycle. He recalled bitter memories of those days in a supplement of a local newspaper, saying that when mobile stalls came around selling noodles at night, he could not sleep well because he had to ignore his hunger in order to remit money to his family. After that, Wichian changed jobs several times. He worked for the general store managed by the Hakka Chinese where his elder brother, Saner, had already worked. At one time he found employment in Bangkok, and on another occasion he was involved in selling tires in Udon Thani together with some friends. Before becoming independent, he also worked in a clothing store for five or six years.

In 1975, the brothers, aged about 30, opened a small clothing store in NM City with a very hard-earned 30,000 baht, according to Saner. (Concerning this point, Wichian differs, stating in a newspaper that they formed a *chaer*, a rotating credit association, and collected 70,000 to 80,000 baht when they set up their shop.)² Fortunately, two or three years after their store opened, the jeans boom reached its height and they succeeded in expanding their clothing store into a small department store at the beginning of 1980s. Moreover, in 1991, they opened another, larger department store as described above. They are presently

²I doubt that they would have been able to obtain any credit at all if they had not had some capital of their own, so the brothers' accounts do not contradict one another.

planning to construct a seven-storey shopping arcade next to their new department store, to open in 1993.

Date of Interview: 8 October 1991 (with Saner)

Other Sources: *LTT* 20 May-5 June 1991; *PCKRS* 13-19 January 1992; *Sengliho* 1991

Unclassifiable (see Table 9) (1) — Amorn Vongsurawat

Amorn Vongsurawat has been the president of the Nakhon Ratchasima Chamber of Commerce for many years, and is thus regarded as one of the most influential businessmen in NM. He also holds an important position as the deputy secretary-general of the national Thai Chamber of Commerce. This position facilitated his cooperation with the Dusit Thani Group, one of the most prominent Bangkok-based hotel franchises in Thailand, in order to construct a first-class hotel, the Royal Princess Khorat, in NM City.

Amorn was born in 1935 in NM. His father was a second-generation Teochiu Chinese from Nakhon Pathom, where he was engaged in growing fruit, who moved to NM City seeking a chance to improve his station in life. Amorn's father started an ice factory in NM in the mid-1950s. After finishing his education at a vocational course (*po. wo. cho.*), Amorn started his career as an operator of a rice mill. He also took part in the management of a hotel with some friends about 20 years ago. During the Vietnam War, he managed a business which provided the American army with food.

He now manages several businesses. One is an ice factory, which he inherited from his father. The other is an agency dealing in office automation machinery and real estate. Amorn is also one of the central figures among local businessmen who are joining in the project to construct a first-class hotel in NM City in a tie-up with the Dusit Thani Corp. Moreover, he is the only individual among my interviewees who plans to invest in a foreign country. Amorn plans to set up several ice-cube factories in Malaysia with a Malaysian businessman from Kuala Lumpur. This joint venture will rely on Amorn's know-how of ice cube production and marketing, because the Malaysian businessman is engaged in real estate and has no experience of ice cube production. They plan not only to produce ice cubes for the Malaysian and Singaporean markets, but also to produce ice-making machines.

Date of Interview: 30 April 1991

Other Sources: *BP* 17 May 1991, 15 July 1992; *KRWYKI* 17 August 1991; *PCT* 20-23 October 1991

Unclassifiable (2) — Wirat Tanchindapraphip

Wirat Tanchindapraphip is an influential person regarded with respect in

business circles in NM City. He was one of the founder members of the NM branch of the Chamber of Commerce, which was established in 1980. He is at present a member of the advisory committee of this branch. He is also the president of a society of some 200 members which was organized to promote friendly relations among various groups, such as businessmen, politicians, government officials, and so on in NM. Besides these positions, Wirat also holds responsible positions in some local societies for Chinese descendants, such as the same region society and the Sae Tang family name society. He can thus be said to be a prominent figure in the local Teochiu Chinese society as well as in the local business world.

Wirat is a second-generation Teochiu Chinese born in 1933 in Amphoe Chaturat, Chaiyaphum Province, 133 km from NM City. In about 1928, his father immigrated from Swatow to Amphoe Chaturat, relying on relatives who had already settled there. Here his father and his relatives dealt in husked rice and foods. Wirat graduated from Thai primary school (*po. 4*) into a world embroiled in the Second World War. He traveled the distance of 133 kilometers to NM City by oxcart (*kwian*) to seek work. He recalled that this trip took three days. He was engaged in the transportation business for five or six years in NM City from the age of 14. His parents later moved to NM City and began to work as subcontractors in the making of cheap clothes. After that, Wirat took several jobs, such as selling tableware and dealing in forest products, as well as in transportation services. In about 1966, he opened a rice mill. Unfortunately, he had to abandon the management of this rice mill after fire struck on two separate occasions. He then started a new business, a shop handling machinery and machine parts used in rice milling and tools.

At present, his business interests seems to lie in the service sector. Wirat has left the management of this shop to his children, and operates a passenger transit company which runs a train between Bangkok and the Northeast (Surin and Ubon Ratchathani) in cooperation with acquaintances in NM. He is also one of the project members who plans to construct a first-class hotel in NM City in a tie-up between local businessmen and the Dusit Thani Group. In addition, Wirat is constructing a six-storey condominium by himself in NM City which will be the largest one there when completed.

Date of Interview: 13 May 1991

The Politically-Ambitious Entrepreneur — *Wichai Choetchai*

Wichai Choetchai is regarded as the most successful businessman in NM Province, with a brilliant achievement in his bus assembly plant. At present, he manages various other businesses such as busing services in the Northeast, and is involved in automobile dealing. At the same time, he is unmatched in exercising

his skill in local politics.

Wichai is not a native of NM. He was born in 1932 in Chon Buri Province of parents who were merchants of miscellaneous goods. He finished the four years of compulsory education there. At the age of 14 or 15 years, he felt the need to be independent and wandered from place to place in pursuit of better opportunities. Wichai started his career rafting logs from Kabinburi (Prachin Buri Province) to Bangpakong (Chachoengsao Province) for sale. He has also worked as a driver of motor boats in Bangpakong and as a truck driver carrying goods between Aranyaprathet (Prachin Buri Province) and Nakhon Nayok or Prachin Buri. During that time when he was 17 or 18, he also worked in a car assembly plant at Chon Buri. This experience helped him to succeed in the same industry later. Wichai traveled as far as Yala in the South, where he tapped rubber trees.

When his father died, he returned to Bangpakong before deciding to go to NM City to seek his fortune, which he did in about 1955 as a young man of 23. Wichai again found himself changing employment frequently in NM City. After working in a truck transportation service, selling sweets, and making furniture, he started a service to provide wood for fuel for the steam-train. Wichai, who had a great interest in assembling cars, bought a truck to transport wood. He discovered that he was able to assemble that truck, and that this work interested him. He thought that he might enjoy the benefits of being the first to enter the market, because there were no other assembling plants then operating in NM. He eventually abandoned all his other businesses and concentrated on assembling cars. It was reported that Wichai started this bus-assembling business when the government issued an order to change wooden bus bodies to steel ones.

Today, his factory has grown to be the largest bus assembling plant in the Northeast, with registered capital of 500 million baht, and provides the government-run *Transportation Company* with 60 percent of its assembled buses.

Wichai presently plans to establish, in cooperation with other local businessmen, a new factory to produce automobile spare parts, such as nuts and screws. He is aiming not only at the market of the Northeast, which Bangkok now supplies, but also that of Indochina, that is Laos, Cambodia and Vietnam. He is also involved in many other businesses. Wichai operates an automobile dealership in addition to busing services in the Northeast, and between Bangkok and the Northeast. He has just started a new tour bus service between Bangkok and the North, and in the East. He also runs trains between Bangkok and the Northeast. During the period when the project of Thai EXPO' 92 proceeded under the Chatchai government, Wichai formed a plan to build a hotel in NM. Although there have been some ups and downs since then, this plan has recently moved from the drawing board to the working site. It has taken the form of a joint undertaking

with other businessmen from NM and Bangkok, in which they bought a bankrupt department store in order to convert it into a hotel.

Wichai is much of a politician. He was said to be a staunch supporter of the Chart Thai Party led by Chatichai. A newspaper explained that he was honored with a seat in the senate in recompense for his financial support for Chatichai in the election of 1988. After Chatichai's government was overthrown by the top military leaders in February 1991, he was said to have estranged himself from the Chart Thai Party and made contact with the Samakkhi Tham Party, which has close links with the military. However, when the Chart Pattana Party was formed for the election September 1992, and Chatichai became the party leader, Wichai seemed to return to Chatichai. Wichai's wife has stated in a newspaper interview that when an election is held, they have to repay Chatichai's kindness because he was the person who awarded Wichai a position in the senate.

Wichai takes the lead in local politics. In 1985 he formed a group named *Prasan Mit*, a campaign club, in order to support candidates in local elections. When elections for the city assembly were held in 1990, his campaign club won all three constituencies. All 18 members who won belonged to this group, and one of his sons was included. Since that election of 1990, the management of the municipal council of Amphoe Muang NM has been in the hands of his campaign club. Another son was elected as a member of the provincial council of NM Province in 1990.

In the future, Wichai intends to launch into the central political world by sending his son, who is now accumulating experience as a politician in the provincial council, to a bigger field, that is, a general election. According to a newspaper article, in March of 1992 when a general election was held, three political parties (the Samakkhi Tham Party, the Chart Thai Party, and the Social Action Party) sounded out Wichai on his son's candidacy. However, Wichai's son did not run for election, partly because Wichai could not decide under the banner of which party his son should run.

He was decorated by the king in 1981 and given an honorary master's degree in technology from Khon Kaen University in 1985. Wichai also holds the position of president of the Nakhon Ratchasima Federation of Thai Industry, which was established in 1990.

Sources: Somkiat 1992:46; *Mati Chon Sut Sapda* 30 September 1990:21-22; *BP* 8 February 1992; *KRWYKI* 27 October 1991; *KRWYKT* 11 January 1992, 16 January 1992, 2 February 1992; *LTT* 5-20 October 1991, 5-20 December 1991; *The Nation* 21 March 1991; *PCKRS* 20-26 July 1992; *PCT* 15-18 December 1991; *Sam Thotsawat Thurakit Isan 1991?*

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