How Openness and Increased World Market Integration Worked in the Case of Thailand

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Introduction

Thailand has traditionally been a trading nation. Export has been crucial in shifting phases of capitalist development and export interests (producers, exporters and related banks) have consistently played an important role of the ruling coalitions. Thailand first became a world exporter of rice, rubber, cassava and sugar. Later agro-industrial exports – canned fruit, canned and frozen seafood - and export of jewellery and precious stones were added. In the 1980s, Thailand developed into an important exporter of labour intensive goods – first garment and footwear, then electric and electronic goods. However, export-orientation did not consist in a full integration into the world economy but was to a considerable extent organised around the interaction between a group of large domestic firms and a group of private commercial banks. The former group was protected by tariffs and tax exemptions, while the latter group was shielded by means of strong entry barriers into banking.

"The golden decade" (1987-1997) was also a period of domestic liberalisation, intensified world market integration and some opening. During this period, Thailand's business groups became increasingly internationalised as they entered into various kinds of co-operation with foreign investors and technology providers.

For the same reason, the financial dominance of the big commercial banks was weakened, and other changes accelerated that process, including proliferation of local finance companies and expansion of new aggressive business groups with access to overseas lending. In the wake of capital account opening, a process of trade liberalisation was initiated, partly as a part of the AFTA-project and partly to adjust to the WTO rules and regulations.

The aim of the present article is to analyse these processes of intensified world market integration and opening up of the economy. The presentation is informed by contending views on globalisation and openness. It is generally argued that premature financial liberalisation and premature shift to advanced exporting, produced vulnerability and shallowness rather than sustainable industrial accumulation and wider economic development in Thailand.

Contending approaches to economic globalisation – accumulation, learning and market competition

During the 1980s, the so-called Washington Consensus emerged as a contender to the prevailing national developmentalist approaches to economic development. This new neo-liberalist consensus was organised around a strong commitment to "the Trinity" of small government, free trade and macroeconomic stability. There was a strong export optimism and much emphasis on the superiority of an "outward-looking" trade policy, but the exact meaning of "outward-looking" was rather fluid. In some cases, the emphasis was on the trade shares, in other cases the trade related incentive structure was highlighted. An outward-looking trade regime was then normally one with neutrality of trade incentives (i.e. absence of bias against exporting) but sometimes low trade barriers or even active promotion of exports were taken as the defining characteristic.[1] By the early 1990s, though most economists agreed that macroeconomic stability was important for economic growth and that there was little ground for trade pessimism, laissez-faire liberalism had lost most of its supporters.[2] Subsequently, public choice views on politicians and bureaucrats lost considerable ground, and a general emphasis on the developmental role of a competent government emerged.

When entering the new century, the so-called new global economy is accepted as a fact by most scholars, but one can identify three different views on the role of economic policy: "making openness work", "strategic world market integration" and

[1] For an early review of this literature, see e.g. Helleiner 1990.
[2] On the adoption of these aspects of neo-liberalism in Latin American neo-structuralism, see e.g. Gwynne and Kay 2000.

"preparing for deep integration".

The *"making openness work"* approach puts *factor accumulation* in the forefront. It has been advanced by, among others, Dani Rodrik. According to Rodrik, international economic integration ('openness') is no substitute for a development strategy. The fundamentals of economic growth have not to do with trade (and trade policies) but with investment and macroeconomic stability. Openness has potential benefits but these are mostly found on the import side - import of ideas, import of goods and services, import of capital and import of institutions.[3] In contrast, there is according to Rodrik no evidence that neither export and direct foreign investments nor low barriers to trade and capital flows *per se* improve economic performance. Further, if left on its own, openness produces both inequality resulting in distributional conflicts, and externally induced shocks triggering domestic conflicts and political upheavals. Therefore, Rodrik argues that a development strategy must be *"accumulation friendly"*, encompassing both a coherent domestic investments strategy and complementary policies and institutions. The latter is important in ensuring macroeconomic stability and in mediating distributional conflicts that come in the wake of macroeconomic adjustments to external shocks. As countries differ considerably, the appropriate specific policies to ensure high investment rates and macroeconomic stability will also tend to differ. Consequently, inflexible rules of the international economy and universal models of economic policy are considered to be counterproductive.[4] All in all, "the world market is a source of disruption and upheaval as much as it is an opportunity for profit and economic growth". Therefore, the kind of countries that get into trouble are those not "able to manage openness" rather than those that are "insufficiently open".[5]

While Rodrik considers trade strategy and industrial policies as being of secondary importance (TFP being of secondary importance), scholars adhering to what could be called a *"strategic world market integration"* approach tend to emphasise the role played by microeconomic policies and institutions. As stressed by Larry Westphal, because "processes of individual and collective learning are the heart of the development process", the development process cannot be reduced to factor accumulation plus sound institutional development.[6] From this perspective, the key word is *learning* rather than accumulation. Alice Amsden even considers learning as being specific to late industrialisers ("industrialisation-through-learning"). The world economy is looked upon not just as turbulent but also as fundamentally hierarchical and asymmetric, i.e. working to the benefit of the advanced, not the backward, nations. The fundamental problem, therefore, is not access to or market failures in

[3] Rodrik 1999, chapter 2.
[4] Ibid., 3 and 147.
[5] Ibid.,96 and 100.
[6] Westphal 1998, 2224.

the world market but rather market success.[7] Small and young producers from late industrialising countries cannot compete with established and large producers from advanced countries ("the penalties of late industrialisation"), unless they obtain some form of protection or subsidy. The suggestion is not an across-the-board import substitution strategy but a selective and temporary protection/subsidy (infant industry protection) and *learning-friendly* policies and institutions.[8] In contrast to Rodrik, who gives less emphasis to export expansion and export diversification, learning oriented scholars tend to stress the "benefits in the form of accelerated and efficacious technological development that *can* be derived through aggressive export activity."[9] Rather than claiming that export expansion is unimportant, they tend to stress that it is difficult. "While entry into the international market improves productivity and competitiveness, by learning etc., to enter the market one has to be competitive. Learning takes time, and the process of learning is specific to each industry and activity; one cannot jump from one plateau to another without going through a learning process".[10] Moreover, because of the high and rising barriers of entry into many international markets (production technologies, marketing and distribution, branding etc.), the infancy period for export production are longer than for production to the domestic market. Altogether, a set of pragmatic trade, industrial and financial policies are considered as important for establishing competitive industries, i.e. to promote the local technological efforts needed to realise the constantly evolving potential comparative advantages (competitive advantages).

Before turning to the last approach, we will address certain similarities between the two approaches to openness presented above. First, both suggest that though one can identify certain common elements and principles that can work across countries, there is a need for a pragmatic approach and for a diversity of strategies - reflecting differences in levels of economic development, resource endowment, macroeconomic circumstances and socio-cultural structures. Consequently they are highly critical to "one-size-fits-all" approaches to development and they distrust over-harmonisation of international rules. Secondly, they both agree on the inability of the market mechanism in itself to accelerate development, and on the need to harness the power of the markets – at the global as well as the national level. Thirdly, they share a fundamental "development-from-within" perspective on economic development.

Moreover, the two approaches may be combined. That is in fact what UNCTAD

[7] Amsden 1989

[8] On the policies and institutions, see Lall 1993, Lall 1994, Lall 1996. The link between export and productivity growth is also a main point in the mainstream laissez-faire literature mentioned previously. Here productivity growth is market-driven, being the outcome of improved allocative efficiency under "outward looking trade regimes", and of enhanced productivity stemming from human capital accumulation and the access to global knowledge and technology.

[9] Westphal, 2226.

[10] Shafaeddin 2000,15. This argument is developed extensively by Alice Amsden in her study of South Korea. Amsden 1989.

researchers have suggested in their "profit-investment model" of East Asian industrialisation.[11] In line with Rodrik, they focus on the dynamic interaction between profit and investment, and are here concerned with the speed of growth rather than on the pattern of growth. These scholars suggest that the state in the (until recently) successful (East) Asian economies, followed a "profit-investment model" that was instrumental in speeding growth. By means of political stability, a "pro-investment" macroeconomic climate, and strong investment incentives "boosting" profits above the free-market level ("rents"), a dynamic investment-profits nexus emerged - leading to an increase in the overall level of investment and to a virtuous cycle of profits, investment, capacity expansion and productivity. High profits resulted in high corporate savings, and high profits "increased simultaneously the incentive of firms to invest and their capacity to finance new investment. Higher investment in turn raised profits by enhancing both rates of capital utilisation and the pace of productivity improvement."[12]

Somewhat in contrast to Rodrik, they also introduce an export-investment nexus, linking the investment-profit nexus to exports. Sustained export is considered to be vital for three reasons. First, an export drive helps countries to overcome the balance-of-payment constraint, thus allowing producers to import modern capital goods embodying the newest technology. Second, exporting provides an outlet for industrial production, making it possible to operate at full capacity without promoting domestic consumption (i.e. lowering savings). Thirdly, exporting has the advantage of subjecting recipients of "rents" to the external discipline of the market. This export-investment nexus can further be improved by a policy of "capturing" of TNCs by means of joint ventures, They allow local entrepreneurs - lacking technological, management and marketing capabilities - to enter into modern industries.[13]

While the profit-investment-export nexus model is specifically concerned with the high growth countries in Asia, Charles Gore has suggested that one can develop it into a "strategic integration" approach – a *"Southern Consensus"* – that are governed by the following policy orientations:

- promotion of growth and structural change through a combination of a growth-oriented macroeconomic policy (to ensure full capacity utilisation and accelerated capital accumulation) and a productive development policy (to ensure improved supply capacities in the economy and to develop competitive advantages by promoting investment and learning in new and higher value-added activities).
- strategic integration of the national economy into the international economy

[11] Akyüz and Gore 1994, Akyüz and Gore 1996, UNCTAD 1996, Akyüz, Chang and Kozul-Wright 1999.
[12] Akyüz and Gore 1996, 464.
[13] UNCTAD 1996, 15-16. Akyüz, Chang and Wright 1999,9-15.

rather than de-linking or across-the-board opening. A strategic integration: adjusts the timing, speed and sequencing of opening to the national interest in terms of growth and structural change; makes any protection or subsidy temporary and conditional; avoids premature trade liberalisation that may harm the building up of production capabilities in national enterprises; avoids premature capital account liberalisation or ensures that it is organised so that it does not undermine financial stability and local systems of financial intermediation; promotes exporting as an incentive for upgrading and as a way of getting access to knowledge and technology resources; ensures that inward FDI (TNCs) support domestic build-up of domestic production (technological) capabilities; and support regional integration and co-operation.

- promotion of government-business co-operation within the framework of a pragmatic developmental state, able to animate private sector entrepreneurship while harnessing aggressive pursuit of profits in the interest of long-term national development.
- managing the distributional dimension through production-oriented measures (e.g. widening of asset ownership and expansion of employment) rather than through re-distributive transfers.[14]

In contrast to this new Southern Consensus and the two above mentioned approaches, stands a Northern Consensus that advocates *"deep integration"*, a *competition-friendly* approach to development and a strong emphasis on pro-market institutions .[15] Rather than 'managing openness' or 'making 'strategic integration' into a turbulent/hierarchical world economy, the challenge for developing countries is to prepare themselves for reaping the benefits of globalisation through institutional therapy. On the one hand opening of trade and investment regimes as well as liberalisation of domestic product and factor markets is underlined. On the other hand, it is stressed that markets and openness cannot function unless they are supported by market-friendly institutions that ensure credibility, transparency and a levelling playing field for the private sector. More specifically, this requires tighter protection of property rights, regulation of non-competitive behaviour (i.e. effective anti-trust regulation), transparency in public administration, reduction in corruption, transparency in financial affairs and in corporate governance etc.. Corporate governance has been given added attention following the Asian financial crisis. Large conglomerates, close government-business relationships and personalised lending practices are increasingly looked upon as detrimental forces leading to profitless investments, crony-capitalism and systemic vulnerability. Therefore, "a new set of corporate governance mechanisms that require reduced reliance on bank debt, more transparency in operations and accounting, and greater shareholder

[14] Gore 2000, 796-798.

[15] The term consensus should be taken with a grain of salt as the volatility of demands and prescriptions emanating from the North also lead to considerable Washington confusion (Naim 2000).

rights" have become an important ingredient in the Northern Consensus.[16] Additional factors are a reliable judicial system, well functioning educational institutions and an efficient infrastructure. Education and infrastructure are examples of key non-tradable inputs becoming increasingly important for economic growth and for participation in the global economy. Altogether, the new Northern Consensus end up with a complex set of measures that can neither be introduced nor sustained by small government. What is suggested is not an activist and entrepreneurial state that can accelerate economic growth (accumulation). What is needed is instead a highly competent government that can sustain a competitive environment; establish and enforce more transparent rules (including tight property rights); organise the provision of a range of non-tradable inputs; and establish conflict management systems – interventions that together can improve (investment) efficiency and reduce systemic vulnerability.[17]

Thailand's road to stronger world market integration

As analysed in detail by, among others, Hewison and Suehiro, capitalist class formation in Thailand has had a long period of development. Capitalism emerged under the absolute monarchy, was reorganised around public enterprises and political patronage during the 1940s and 1950s.[18] The 1960s and 1970s were periods of strong private sector growth and industrialisation. Although commercial and financial forces organised around agriculture remained dominant for a long time, the military governments were also in favour of a modern manufacturing industry and supported private business initiatives in domestically-oriented consumer goods industries. State support never took the form of an overall long-term national import substitution strategy, but manufacturers could take advantage of the property right protection. Although often, as much by accident as design, a system of protection from foreign import competition was introduced. When combined with easy access to promotional privileges (from the Board of Investment), there was a strong incentive for merchants to enter into local production for the domestic market and an incentive for foreign companies to establish local production in Thailand.

Two major groups of Thai industrialists, mainly of Sino-Thai origin, emerged. The first group of entrepreneurs was Sino-Thai importers that responded to the new policy environment by setting up local production of the goods they had previously imported. This group depended to a substantial degree on financial and technical support from foreign - in particular Japanese – capital, and frequently entered into

[16] Mody 1999, Doner and Ramsay 2000, 6-7; Naim 2000 516;
[17] Mody 1999.
[18] For an overview over these periods of capitalist expansion and reorganisation, see Hewison 1999, 49 (appendix 2).

joint ventures with foreign partners. The second group of industrialists – the agribusiness group – expanded from the mid-1970s with strong support from the local commercial banks, setting up vertically integrated export-oriented agribusiness in a range of fields.[19] For both groups, the state (and relations between public officials/politicians and private businessmen) played a significant role in the formation of large domestic industrial business empires.

The former group became the core of the Thailand import substitution industrialisation (ISI). It was successful in the sense that the share of consumer goods declined from 40% in 1961 to just 9% in 1990.[20] Furthermore, the large domestic market had made it possible for firms to benefit from economies of scale, and the ISI sector generated some local capabilities in light, labour intensive activities. Thus, local producers developed considerable capability to master a range of imported technologies almost to best practice levels (by itself a major achievement).

During the 1960s, with import tariffs ranging from 15 per cent to 30 percent, Thailand had comparatively low tariffs – often referred to as a 'mild' import substitution strategy. Similar to the Asian NICs, tariff rates varied widely across groups of commodities but the main underlying objective was generation of government revenue rather than protection of particular important learning processes. The political basis of the Thai state was finance and commerce interests linked to agricultural export. Thailand pursued mainly an agricultural-export-led growth strategy, while import substitution was a secondary concern and even often unintended.[21]

In the 1970s, tariffs were raised for most final consumer goods (in particular for durable consumer goods), while they remained the same for many intermediate and capital goods. As a consequence of this tariff escalation, the effective protection of domestic producers went up considerably.[22] Generally, the tariff system favoured the manufacturing sector relative to the agricultural sector, final consumer goods relative to the intermediate goods and capital goods, and domestic oriented industries relative to export industries. Thus tariff protection favoured in particular assembly operations in large enterprises and promotional privileges went disproportionally to well-connected conglomerates. Due to competition between rivals, to lower actual collection of import duties, to extensive smuggling, and to irregularities in the administration, the result was the rise of fairly efficient producers and local prices not diverging enormously from world market prices.[23]

During the 1970s and early 1980s, the World Bank and local technocrats pushed for

[19] See Suekiro 1985; Suehiro 1992.
[20] Muscat 1994 (table A5) and Tabunlertchai 1993 (table 3.7).
[21] Muscat 1994, 110; Pasuk and Baker 1998, 64.
[22] Robinson 1991:27; Sibunruang 1986,61ff.
[23] Muscat 1994,149; Doner and Ramsay, 1997, 253.

a shift to an export-oriented industrialisation but the actual implemented policies led to *more* protection (pro-longed ISI). Nonetheless, as a measure of solving over-capacity problems, local business people (e.g. in textiles) began exporting. As a consequence Thailand's 'openness ratio', when measured as the value of foreign trade as a share of GDP went up from 37% in 1970 to almost 51% in 1985.[24] The new exporters advocated for a transition to a more export-friendly policy. However, trade policies did not shift dramatically towards export-orientation, but some promotional measures for export (export-promotion schemes) were introduced, exporting procedures were streamlined, and most importantly, the Thai baht was devalued considerably from 1984 and onwards.[25] In the 1980s, Thai authorities introduced liberalisation of agricultural exports but most other trade liberalisation initiatives were only of a superficially nature and introduced mainly as 'window dressing' for the World Bank. Moreover, the tariff structure became even more complex and dispersed. The important thing was that it allowed the Ministry of Finance to increase revenue collection despite missing revenue from export duties.[26] Altogether, due to tax exceptions and duty drawback systems, the actual collected import duties as a percentage of imports showed a declining trend in the 1970s. During the following decade, this trend was partly reversed. The actually applied tariff rates went up in the first half of the 1980s and by the end of the decade, the share of collected duties was still higher than in 1982.

In sum, manufacturing export did expand, accounting for one third and half of the total export in 1980 and 1985, respectively. Though it is correct, that there was not a 'strong anti-export bias', this was not a result of a general shift towards an outward looking trade policy - a process of across-the-board opening (lowering of tariffs). Rather, Thailand went through a simultaneous process of selective opening (for exporting industries) and selective closure (for import-competing industries) during the 1980s.

Thailand as a New Exporting Country - NEC

During the second half of the 1980s, Thailand experienced an economic growth boom that to a considerable extent was linked to exceptionally high growth rates in manufacturing export. From 1985 to 1996, the annual growth rate in manufactured export was almost 24.7% - making Thailand the fastest growing exporter among leading developing countries.[27] There was also an enormous increase in investments. As a percentage of GDP, investments rose from 26% in 1986 to 41% in 1991 and

[24] Dixon 1999, 9 (table 1.7). This is at the level of the Philippines (52%) and Indonesia (53%) but less than half of Malaysia's 'openness ratio' (113%).
[25] "The most important policy measures in response to declining commodity prices and trade flows were the steps that devalued the baht beginning in late 1984". Bowie and Unger 1997, 150.
[26] Doner and Laothamatas 1994, 425.
[27] Lall 1999, 14 (table 7).

they kept that level up to 1996 (42%). These investments were mostly private sector investments, and they were mainly financed by domestic savings which increased from 28% (1986) to 36% (1996). Though, the increase in savings was almost exclusively due to increasing public sector savings, one may well argue that Thailand had the key features of 'the investment-export nexus' in place.

The fairly large investment-savings gap was filled by external finance, part of which were non-debts-creating flows – direct and portfolio investments.[28] Foreign direct investments (FDI) constituted the first wave of foreign capital. During the 1986-91 period, the share of inward FDI in gross domestic capital formation went up to 5.5% of GDP. Though still lower than the corresponding shares in neighbouring Malaysia and Singapore, it was a high level by Thai standards.[29] Foreign direct investments were pushed by the currency appreciation in Japan, South Korea and Taiwan after the Plaza-accord (1985), and they were pulled by the cheap labour and land costs as well as by quota-opportunities and more export-oriented policies introduced in the second half of the 1980s. Gradually, as part of regional re-location of production in the Far East, Thailand 'drifted' into an intensified export-led manufacturing.

According to Bowie and Unger, a broad consensus (an implicit supportive coalition) on greater openness as a desirable strategy was gradually emerging among leading bureaucrats, the military and the business sector during the second half of the 1980s.[30] Pasuk and Baker go even further and point at the influence of new export oriented firms that *'needed the government to improve the infrastructure to keep pace with economic growth; to manage foreign relations in the neighbouring region to provide business with new frontiers; to expand and monitor the capital market; to manage the labour market by upgrading the education system, regulating the flow out of the country side, and policing the relations between capital and labour; to maintain foreign confidence in Thailand's economic growth, fiscal stability, and political stability so as to ensure a continued flow of tourists, technology and yen.'*[31]

The shift was also made possible because of the lack of a strong and entrenched ISI-coalition in the private sector, and because many industrial conglomerates (and commercial banks) were involved in (or financed) both ISI and EOI activities. Whatever the exact nature of the supporting private sector forces, the rapid growth in itself played an important role in ending resistance to tariff lowering in the Ministry of Finance, which mainly dealt with import tariffs as a revenue source. When the economy boomed and the coffers of the Ministry of Finance were full, it started supporting trade liberalisation.

[28] World Bank1999, 36; Jansen 1997, 55-57.
[29] Lall 1999, 29 (table 16). Measured as a percentage of GDP, foreign direct investments were equivalent to: 0.7% in the period 1983-86, 1.9% in period 1987-90, and 1.2% in the period 1991-94. Jansen 1997, 60 (table 3.1).
[30] Bowie and Unger 1997, 150-53.
[31] Pasuk and Baker 1995, 168.

The process of import liberalisation in Thailand was linked to the ASEAN Free Trade Area (AFTA) scheme as well as Thailand's participation in the WTO. The fourth ASEAN Summing Meeting in Singapore in January 1992 marked the beginning of *AFTA*. Starting on January 1, 1993, ASEAN members agreed on The Common Effective Preferential Tariff Scheme (CEPTS) to reduce the internal tariff rates to a level of 0-5 percent within 15 years. The 26th Meeting of the ASEAN Economic Ministers in September 1994 decided to shorten the implementation period of AFTA to 10 years, that is ending in 2003 instead of 2008. Furthermore, it was stipulated that products in the Temporary Exclusion list would be transferred to the Inclusion list at 20% annually for 5 years, which implied that the exclusion list would in fact disappear within 5 years (1 January 2000). This strategy was reconfirmed at the ASEAN Summit in Bangkok December 1995 that also decided to harmonise various custom practices including introducing a common tariff nomenclature by 1997.[32]

During the 1990s, Thailand was committed to the AFTA trade liberalisation process. The driving public force behind import liberalisation was the economic technocrats in the main trade policy agencies – Ministry of Finance and Ministry of Commerce. It was agencies in these two ministries that were responsible for the AFTA-WTO links and also were most worried about competitiveness issues. The introduction of the value-added tax (VAT) in 1992 extended the revenue base and made import tariffs less important from the perspective of MoF. Further, the fact that the AFTA scheme originally was initiated by a Thai Prime Minister (Anand) gave Thailand a particular responsibility for the success of the AFTA process. However, implementation of the tariff reform was no easy process. The early lowering of tariffs on machinery to 5 per cent was followed by reductions in tariffs on parts for the electrical and the automobile industry. Negotiations on tariff reduction for more sensitive areas – e.g. steel and petrochemicals – were much more complicated because of the conflicting interests between the protected upstream conglomerates and the downstream users that were facing increased foreign competition abroad and on the domestic market. Here, the import liberalisation started in the mid-1990s and was ongoing when the financial crisis broke out in 1997. Despite the stop-go nature of the process, the general outcome of these negotiations on trade liberalisation was clear: lower tariffs and a commitment to further liberalisation according to the AFTA and WTO schedules.

In sum, Thailand introduced some export promotion schemes during the late 1980s, while tariff protection in manufacturing continued to rise in manufacturing well into the 1990s. Consequently, import liberalisation started fairly late and was

[32] Bangkok Bank 1995-1, 11ff, 1995-2, 7ff, Arom 1995, 27ff.

implemented in a slow and gradual manner.[33]

Though not preceded by import liberalisation, Thailand export performance was impressive during the 1986-1996 period. One aspect was the high growth rates mentioned previously. Another was a significant change in the structure of export. As can be seen in the table below, the shares of the categories technologically complex and high-tech expanded considerably, while the share of especially resource-based export declined. Using a different classification of manufacturing export and comparing 1996 with 1985, Sanjaya Lall has calculated the following shifts (percentage points) in the shares of resource-based export (-27.6), low technology export (- 2.6), medium technology (+6.9) and high-technology (+ 23.2).[34] The picture is again a shift towards more technology-intensive export. In both records, Thailand remained an important exporter of labour intensive goods (especially textile and garment, precious stones and footwear) but had by the mid-1990s advanced in a range of new high-tech products (especially computers and parts, electrical appliances, integrated circuits, and other electrical circuits apparatus).

Table 1: Distribution of Thailand's manufactured export by technological category; 1980, 1990, 1995.

Type of export	1980	1990	1995
Resource-based	21,7	13,8	10,7
Labour intensive	47.0	45.5	35.8
Scale intensive	7.8	6.3	7.7
Differentiated	22.2	14.1	19.5
Science-based	1.2	20.2	26.4
Technologically complex a	31.3	40.6	53.6
High-tech b	23.4	34.4	45.9

Source: World Bank data (OECD classification) – here from Colaco 1998.

a. Technologically complex products include scale intensive, differentiated and science-based products.
b. High-technology products – include the last two categories – differentiated and science-based

The picture painted above fail to reveal that much of Thailand's high-tech export in reality was manufactured through rather simple, labour-intensive assembly of high-tech components imported from advanced industrialised countries (including the Asian NICs). Therefore, Thai export was in general still dominated by low-value

[33] In commenting on tariff liberalisation in a range of developing countries during the post-Uruguay round, Ashoka Mody observes that "Typically, tariffs are declining, although tariffs in Thailand remain surprisingly high" (Mody1999, 9).
[34] Calculated from Lall 1999, 14 (table 8).

added assembly and processing activities by 1995. Consequently, there was no significant shift from the light industry bias that was a characteristic of the former ISI industrialisation. This narrowness and shallowness had important consequences for the sustainability of the country's industrial development and may be analysed from the perspective of both export and import.

From the perspective *import*, the problem is that the shift to export-oriented industrialisation failed to solve the foreign exchange constraints. During the post-1985 boom, Thailand did not just become a major manufacturing exporter but transformed into a comprehensive importer, too. "The outcome of these processes is that the phenomenal increase in exports has been more than compensated by an even more phenomenal increase in imports, bringing the current-account deficit to high levels."[35] Measured as a share of GDP import went up from 22% in 1986 to 38% in 1994. The share of intermediate goods and raw materials went up from 7.7% to of 11.0% while that of capital goods increased from 7.2% to 17%.[36] Though, the increase in the latter share partly is explicable by the high level of investment, it was also reflecting higher import of components to the electronics and information industry. According to the calculations of Karel Jansen, the increase in the import/GDP ratio was mainly due to a rapid rise in the import-dependency. In turn, this was probably a result of the growing role of FDI partly because it led to expansion in more import intensive sectors and partly because more imported inputs were utilised in production to export markets compared to production for the domestic market.[37] This is consistent with the findings by Bangkok Bank, which (according to Chris Dixon), "estimated that the value of imports accounted for 85-90 per cent of the value of domestically produced computers, 75-80 per cent of radios and TVs, 60-70 per cent of air conditioners, and 60 per cent of microwaves. Even in such longer established, lower tech activities as cotton textiles, 90 per cent of material is imported"[38]. Even in industries such as garment and footwear, surprisingly high level of imported inputs was registered.[39]

The high level of imported inputs thus appears to be a fairly widespread phenomenon in Thailand, reflecting an increasing import-dependent industrial structure which in turn has also to do with the slow development of capital goods and intermediate goods industries. One could even argue that given the weak engineering base and the lack of supporting industries in Thailand, the shift to high technology electronics was a case of premature transformation rather than a step forward towards NIC status.

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[35] Jansen 1995, 198.
[36] Jansen 1997, 42 (table 2.7).
[37] Jan 1997, 179-181
[38] Dixon 1999, 138.
[39] In the garment industry, backward linkages from downstream garment to midstream sector of spinning, weaving, dying and printing industries were weak partly because the latter industries had high costs and partly because they were not able to provide the garment sector with high-quality fabric. See e.g. Unido 1992, 99-100; Doner and Haves 1995, 171-74; Unger 1998, 121ff.

Table 2: Trade growth rates and current account deficit in US$ and percent of GDP in Thailand 1991-1998.

Year	Export growth (f.o.b.) %.	Import growth (c.i.f.). %	Current account balance. US$.	Current account deficit in % of GDP
1991	23,7	15.5	- 7.7	- 7.6
1992	13.8	6.1	- 6.4	- 5.7
1993	13.4	11.9	- 7.0	- 5.1
1994	22.3	18.7	- 8.4	- 5.6
1995	24.7	31.5	-13.4	- 8.1
1996	- 2.0	0.8	-14.7	- 8.2
1997	4.1	- 13.8	- 3.0	-2.0
1998	- 6.9	- 33.7	14.2	12.7

Trade growth rates and current account balance refer to value measured in US$, and are calculated on from NESDB and BoT data as published in the Economist Intelligence Unit, *Country Report: Thailand* various volumes 1995-1999. Current account deficit in per cent of GDP taken from *Quarter Bulletin, Bank of Thailand* various volumes.

At the macro-level, the import-dependent processing industries manifested itself in large trade deficits. When comparing the period 1989-96 with the period 1982-88, UNCTAD found that Thailand belonged to a group of countries that had increased the GDP growth with 1-3 percentage points (in the former period) while concurrently deteriorated the trade balance by 2-5 per cent of GDP.[40] Even though labour export and tourism were important foreign exchange sources, the current account problems in Thailand aggravated prior to the crisis (table 2).

On the *export* side, the big question was whether Thai manufacturers were able to utilise their temporary low production cost advantages as a stepping stone for the creation of more durable competitive advantages based on productivity, product quality and timeliness. During the 1987-96 growth boom, and fuelled by a process of regional relocation, Thai exporters and foreign investors were very skilful in taking advantage in its static comparative advantages in either resource-based industries or in simple labour-intensive assembly. However, there are limits to static advantages. They are normally temporary, because entry barriers are low, because there are modest opportunities for productivity growth, and because rising domestic wages tend to undermine this form of production. In the case of Thailand, it looked as though the limits of low technology labour intensive export processing manifested itself in the export collapse in 1996.

[40] UNCTAD 1999, 82 (table 4.2).

As can be seen in table 2, exports expanded by almost 25 per cent in value terms (and 14% in volume) but the following year export growth was negative (- 2 per cent). To some extent this collapse can be explained by factors external to Thailand. First and foremost, as a consequence of a slowdown in world trade that year, the export growth slowed down for all Asian exporters. This, in turn, reflected slow growth in both Europe and Japan. The growth rate in world trade fell from 8.6% p.a. over 1990-95 to 2.1% in 1996.[41] Secondly, the competitive effects of China's currency devaluation in 1994, which might have played a role, was probably less important because China's export growth actually fell to less than 2% that year and because China's market share declined, too. Thirdly, Mexico's export increased by 23% in 1996, indicating that the privileged access of Latin American suppliers to the American market played a role for the decline in Thai exports of garments and shoes.

These external factors clearly demonstrate the risks of relying too much on exporting to a volatile world market. Though, they to a considerable extent can explain the export slowdown in many Asian countries, they cannot explain that the scale of the decline was significantly higher in Thailand compared to other countries in the region. There is reason to believe that Thailand was losing cost competitiveness because of relative increases in unit labour costs and because of a long-term real appreciation of the baht.

In the late 1980s, urban wages were no longer held back by surplus labour in the rural sector. During the 1990-94 period, real wages in manufacturing increased at an average annual rate of 9%, and a significant real exchange rate appreciation took place from 1990 and onwards.[42] The actual direct impact of the rising wages on Thai competitiveness (unit labour costs) depends on how much labour productivity in manufacturing increased during the same period. Information on labour productivity in the manufacturing sectors is scanty but calculated on the labour productivity index published in the 1996 Year Book of Labour Statistics, labour productivity in manufacturing rose by only 14% during the 1990-1995 period.[43]

The unit labour cost argument is also consistent with the fact that labour intensive products did worse than high tech products. While export of the labour intensive products fell 17.1% in 1996, the latter group increased 4.1%. The weak performance of labour intensive export became a permanent feature even after the strong

[41] Lall 1999,8.

[42] For details see Warr 1998, 53 and 57, Corbett and Vines 1999. When calculated as the ratio of prices of traded goods to non-traded goods, the real exchange rate data shows a steady appreciation from 1988 to 1997. Calculation of the real effective exchange rate (REER) - vis-á-vis trading partners and vis-á-vis trade competitors - demonstrates a depreciation up to 1994/1995 followed by an appreciation thereafter (see Ammar 2000, 20-21).

[43] Year Book of Labour Statistics 1996, (table 8.3). The "productivity deficit" is also revealed in the TFPG data. According to the World Bank, the growth rate of TFP in Thailand declined from 5 per cent in 1990 to minus 1.8 per cent in 1996. World Bank, June 2000, 37.

depreciation in 1997. Export of labour intensive goods declined 7.4% in 1997, while that of high tech product increased 10.7%. During the worst year of the crisis – 1998 – labour intensive goods exports fell 12.5% compared to a decline of only 2.8% for high-tech products. When the country's "export engine" started again in the second quarter of 1999 the same pattern was repeated - with high tech goods showing a strong export performance and labour intensive goods growing slowly.[44]

Although the 1996 export collapse can partly be explained by global market changes, the scale of the export decline was particularly dramatic in Thailand. Thailand under-achieved compared to other developing country exporters in the region that year. The collapse demonstrated how extraordinarily vulnerable the Thai export sector was to both to domestic cost pressure and to changing international market forces. The slowdown was concentrated in the lower-end, traditional labour intensive export industries, and there were also problems of re-activating export of labour intensive goods during the 1999-2000 recovery. In contrast, high-tech exports did better but here the export recovery was partly a compensation for weak local demand and partly linked to a strong import from a booming American economy.

In the high-tech sector, Thailand did attract a significant amount of foreign investors from in particular Japan and the East Asian NICs to compensate for the low level of technological capabilities and weak international marketing capabilities locally. Nevertheless, because Thailand remained a place for low-skill assembly and finishing operations, and because it enjoyed few localised competitive advantages in the new exporting industries, there was increasing fear that these investors were of 'footloose' nature. Therefore, the foreign investors might choose to re-locate their production to lower wage countries in the region - Vietnam and China. As a consequence, the longer-term prospects for exporting industries in Thailand will generally depend on the ability to shift away from low-skill and simple labour intensive processing activities, i.e. their ability to enhance their export potential through upgrading.

In sum, even before the financial crisis Thailand was faced with considerable structural problems rooted in the prevailing pattern of industrialisation. The shift towards high-tech export looked impressive but because it was to a significant extent a shift to low-skill processing and assembly activities using imported high-tech inputs, it was also fragile. The ability of the country to sustain its current account deficit was questioned partly because of the growing import intensity, and partly because of the nature of its industrial exports - stemming either from receding labour intensive goods sectors or from new and more advanced sectors in which local contribution was reduced to simple assembly operations.

[44] World Bank February 2000, 45 (table 9). Export of resource intensive goods increased 3.3% in 1996, stagnated at –0.1% in 1997, declined 12.6% in 1998 but showed fast revival in 1999. See also World Bank December 2000, 15 (table 2.2.).

Thailand had been able to "manage openness" by establishing an "accumulation friendly strategy". Further, by devaluating the baht and by introducing pro-export policies, it had placed itself in a good position to take advantage of the global - and in particular regional - relocation processes. Nevertheless, by the mid-1990s the lack of a "learning-friendly strategy" - that could one the one hand lower import intensity by developing a diversified and deeper manufacturing base, and on the other hand enhance long-term export competitiveness by improving productivity and product quality - was short in supply and much needed.

Financial opening as a disaster

Thailand's economic crisis was preceded by imbalances on the current account, but capital account vulnerabilities were much more directly involved in the financial turmoil in 1997. Traditionally, the profit-investment nexus in Thailand was organised around an exclusive relationship between banks and business conglomerates, but in a few years a fast process of financial liberalisation had transformed it into a much more market-driven financial system. The growth in FDI led to direct contacts between foreign investors and local partners, constituting one challenge to the dominance of role of big local banks. Another challenge was the growth of merchant banking by means of finance companies that were forced to specialise into riskier business areas such as consumer credits and real estate lending. A third challenge was the setting up of a Securities Exchange of Thailand (SET). A final step was a process of interest rate liberalisation that also contributed to the stronger competitive pressure on established banks. Internal financial liberalisation was one aspect of this transformation but external financial liberalisation was even more important.[45]

In the late 1980s, large domestic companies had been allowed to borrow on the international financial markets, but by the early 1990s the capital account was liberalised and Thailand became fully integrated into the international financial markets. An offshore banking facility – the Bangkok International Banking Facility (BIBF) – that originally was intended to finance growth in Indo-China – became a crucial direct link to the international credit markets.[46] As a consequence of external liberalisation, high interest rates and strong economic growth in Thailand, new types of capital flows (short-term and long-term loans for the private sector) entered the country, contributing to an enormous credit boom. The share of local banks in the total sources of external funds for non-financial enterprises declined from 76% in 1990 to 50% in 1995, while bank credits of foreign banks went up from 3% to 15% and that of finance companies from 14% to 18%.[47]

[45] See Jansen 1997, 183 and Hewison 1999, 26.
[46] On the change in the orientation of BIBF, see Leightner 1999, 368 and Overholt 1999, 1013-1014.
[47] Menkhoff, 2000, 158 (table 3).

External financial liberalisation was aimed at financing current account deficits as well as increasing competition and efficiency, but actually led to an uncontrolled inflow of foreign capital, to increasing risks, decreasing risk awareness and a spirit of freewheeling capitalism. Comparative inexperienced foreign and domestic suppliers of capital, linked to new groups of capitalists that went for high profits in real estate, in infrastructure, in telecommunication, in tourism, in finance and in retail services etc.[48]

On the one hand external financial liberalisation and the huge inflow of debt-creating foreign capital made it possible to keep an extremely high level of investment in the 1990s. On the other hand it shielded – or even aggravated - the underlying micro-economic weaknesses in the manufacturing sector and contributed to a variety of macroeconomic imbalances and vulnerabilities. First, it led to the accumulation of private sector short-term debt that by 1995 had reached the size of Thailand's foreign reserves. Therefore, in case of a loss in investor confidence, Thailand was in a vulnerable position. Second, inflow of easy and comparatively cheap money resulted in a speculative bubble in the property market and on the stock exchange. Large investments led to increases in asset prices, which in turn attracted more funds and thus higher prices. Through careless lending, an investment bubble was created, and the foreign funds even prolonged the boom. When the economic recession started in 1996 and the buying power of the middle and upper classes began declining, the property bubble burst and left substantial bad debts on the balance sheets of finance companies and commercial banks. Moreover, a stock market collapse set in during the first half of 1996, partly reflecting declining profits in listed enterprises. Third, increasing values in the assets markets induced growing consumerism when people spent some or most of the gains of their investments. Fourth, as mentioned in the previous section, prices of non-tradeables increased relative to tradeables during the 1990s. According to Peter Warr, the principle cause of this real appreciation were 'the demand effects of large foreign capital inflows, only partially sterilised. The real appreciation undermined the competitiveness of Thailand's traded goods industries, by which I mean their capacity to attract resources within the domestic economy in competition with non-traded goods sectors'.[49] Fifth, the growing consumerism, and the upward pressure on the baht (making import relatively cheap) in combination with import liberalisation policy, also encouraged a boom in imports. Finally, Thailand had reached a level of investment that not only resulted in the above mentioned speculative activities (and conspicuous consumption), but also let to over-investments, over-expansion and declining profit in productive sectors. In their analysis of corporate performance in the East Asian crisis, Claessens et. al. found

[48] Pasuk and Baker 2000, 27-28. Menkhoff analysises how liberalisation resulted in increasing market risks and credit risks, as well as how risk awareness declined due to both 'easy money' and international benchmarking. Menkhoff 2000, 155-165.
[49] Warr 1998,54.

that the heavy investments during the 1990s were making progressively lower returns. The mediate rate of return (in real local currency) for listed companies declined from 11.7% in 1990 to 7.4% in 1996, while the decline was from 19.3% to 11.5% when listed in nominal U.S. dollars.[50] Based on their survey of smaller firms, another group of researchers found that the average firm profits declined from 17% of capital in 1994 to 4% in 1996, and that "industrial firms continued to invest at a high level in 1996 and the first half of 1997 despite a sharp drop in sales, export, and profitability".[51]

In sum, Thailand tried the "impossible trinity" of a liberalised capital account, a quasi-fixed exchange rate and high interest rates, triggering a large inflow of foreign capital that in turn led to high growth rates and to over-investment. There can be little doubt that the level of investment (42% of GDP in 1996) was simply too high to be efficiently absorbed by domestic companies. External liberalisation resulted in destabilising inflows. They induced exchange rate appreciation (loss of international competitiveness), increases in demand for import (trade deficit) and speculative bubbles in real estate and the stock exchange (instability). When the growing confidence in economic growth disappeared in 1996-97, the easy inflow of capital was transformed into massive withdrawal of liquid capital ('easy outflows') leading to a massive flight from the Thai baht with devastating effects on corporate debtors holding dollar-nominated debt. Therefore, we do not hesitate to call Thailand's full integration into the global financial markets a 'disaster'.

Fragility and weak second order fundamentals

During the economic boom in the 1990s, Thailand became increasingly integrated into the world economy, having access to funds from the international capital markets and being more involved in international trade.[52] The availability of cheap credits helped to finance an unusually high rate of investment. Further, the country was able to take advantage of both industrial relocation in the Far East and strong

[50] Claessens, Djankov and Xu 2000, 26 (table 1) and 28 (table 2).

[51] Dollar and Hallward-Driemeier 2000,7 see also Dollar and Hallward-Driemeier et al 1998. It should however be noticed that returns in the listed enterprises in 1996 were higher than in most other countries in the region and still higher than returns in the OECD countries. As far as the financial structure is concerned, there was a difference between smaller and larger companies. Dollar and Hallward-Driemeier found that much of the investments in the smaller companies were financed by short-term borrowings that were not backed by collateral. In contrast Claessens, Djankov and Xu could not find evidence of a massive build-up of short-term debt in the listed companies prior to the crisis. In fact, the share of long-term debt declined from 1988 to 1992 but increased afterwards. (Claessens, Djankov and Xu 2000, 31 –table 4.). What they found was an increase in leverage during the 1990s. As it was mostly unhedged dollar debt, many large companies were in a highly vulnerable position when the baht exchange rate slashed.

[52] In 1994, Thailands openness ratio (the value of foreign trade as a percentage of GDP) had gone up to 79% (compared to 51% in 1985). Dixon 1999, 9 (table 1.7).

market growth in the United States. The fragile nature of this double-digit growth became increasingly obvious when import kept growing and when export collapsed in the mid-1990s. The lack of a diversified manufacturing base and the weak skill- and technology base had already been pointed out in a variety of studies during the 1980s and 1990s, but effective policies were never formulated and/or implemented. It looked as if the high economic growth and the spread of neo-liberal "export fetishism" served as a pretext for doing nothing about the deeper structural problems in the industrial structure.

The financial crisis led from bad to worse. Many medium size, and even several large industrial conglomerates, were damaged by a mixture of high leverage, unhedged loans and over-investment. Many small-to-medium enterprises (SMEs) did not survive the collapse of the domestic market and the credit crunch. In the beginning, it looked as if the parts producing SMEs were in a better position, partly because high-tech export kept growing and partly because the depreciation of the baht made assemblers more interested in local procurement of parts.

A recent survey of 32 enterprises in the electrical and electronics industry showed that there has been a significant shift in the demand structure with export becoming more and the domestic market less important. This shift works to the detrimental of Thai owned parts producers that normally used to serve assemblers with substantial sales on the domestic market. In order to stay in business, they are now forced to deliver parts of export grade quality to their buyers, and that will require considerable upgrading of their technological capabilities and safety standards.[53] The situation is parallel in the more important auto industry. The collapse in the domestic auto market has resulted in a similar shift towards exported cars, and assemblers are therefore asking local Thai suppliers to improve their quality, lower their costs and improve the reliability of delivery. With the elimination of the local content requirements as part of WTO harmonisation process, there is in fact a real danger of elimination of local Thai (but not the "localised global") part producers. A recent survey on the matter, gave the following evaluation: "Whether the Thai automotive industry will become an export oriented industry supported by competitive parts suppliers or just remain to be an export base for assemblers who rely on the global suppliers and imported parts, will be decided within five years".[54]

Against this background, it is hardly surprising that by the spring 1999, there was a growing realisation in Thailand, that more emphasis should be given to the revitalisation of the real sector, and that a stability-oriented (and macroeconomy oriented) crisis policy was insufficient to solve the deeper structural problems in the industrial sector. In the following, we will elaborate on a few of the deeper structural problems: linkages, education and training and technology infrastructure.

[53] JICA 1999, 3-2-12 – 3-2-18.
[54] JICA 1999, 3-1-18.

As was demonstrated previously, the transformation to export-oriented industrialisation did not solve the problems of *weak linkages and high import content* already prevailing in the non-resource based ISI-sectors. Rather, these problems were reproduced in Thai controlled non-resource based export industries, and was also found to a considerable extent in new, more FDI-driven, export industries. In both cases, there were an emphasis on low value added assembly and processing activities. Absence of import replacing linkages led to considerable loss of value added to foreign input manufacturers and aggravated Thailand's current account balance. Further, it led to by-passing of potential technological and entrepreneurial spin-offs, because local inter-industry linkages are vital both for diffusion and improvements of technology and for the integration of small and medium scale enterprises in technological development.

Education and skill training is another obvious structural weakness. The average level of education in Thailand is fairly low and there is generally a lack of skilled labour. In 1999, 69% of the employed persons in formal employment had only a primary educational (or lower) background.[55] This was primarily the legacy of a long neglected and underdeveloped secondary education. The traditionally weak post-basic education has further not to any considerable extent been compensated for by employer-provided training. Many medium-large firms and most SMEs do not provide any employee training, and when training exists in Thai companies, it is mostly limited to meeting fairly narrow operational needs.[56]

Though, Thailand outperforms Malaysia and Indonesia in tertiary level enrolment, there are problems with quality of education, and still a small stock of science and engineering skills available. Therefore, an inadequately trained workforce tend to hold back the kinds of engineering and development activities needed for industrial upgrading. This is part of a broader problem of backward *technological development* and weak technological infrastructure in Thailand. Most Thai firms concentrate on utilising existing technology - technology they have acquired either via license or sometimes through reverse engineering. Moreover, they rely on adapting and modifying production (or products) based on practical experimentation, but such non-R&D technology efforts are most often of an "informal and of a sporadic nature rather than an explicit element of firm strategy".[57] Thus, while many domestic firms have in fact developed considerable production or operating capabilities, they have not developed the deeper capabilities related to design, research and technology development. To compensate for these weaknesses and for the absence of international marketing networks, Thai manufacturers have consistently relied on imported technology. The scale of the problem manifests itself when one compares

[55] NSO 2000, table 1.8, 14. (Key Statistics of Thailand 2000, National Statistical Office
[56] See World Bank, Thai Economic Monitor June 2000, 42 (table 23).
[57] Dahlman & Brimble 1991, 85.

R&D indicators for Thailand and Korea. Arnold et al. found that, while Thailand just before the crisis exhibited similar economic characteristics to those of Korea in the early 1980s, the technology system lacked further 10-15 years behind the technological level in Korea during that period. To close the gap between Thailand in 1996 and the early 1980s Korea, total R&D would need to be increased five-fold, business-funded R&D should be increased more than twenty-fold, the number of researchers about four-fold, and international patenting six-fold.[58]

The above mentioned three structural weakness indicates that Thai manufacturers are not well prepared to a highly internationalising world with complex and fast-changing technologies. Before the financial crisis Thailand was praised to the skies for its prudent macroeconomic policy and good (first order) fundamentals. After the crisis there is now much more emphasis on competitiveness and *second order fundamentals* such as: R&D support, labour training and skill development, promotion of higher value products, backward linkages, sectoral integration, capacity regulation, effective technology transfer, export market information and marketing support and effective SME support.[59]

Coping with globalisation – adaptation, accumulation or learning?

Although, there is increasing consensus on the need to address at least some of these second order fundamentals, the interpretation differs according to *contending approaches to economic globalisation* mentioned in the beginning of this article.

From the perspective of the *"making openness work"* approach, the Asian financial crisis was a puzzle because the high growth economies in Asia generally had followed a accumulation friendly strategy, and had institutions in place to ensure macroeconomic stability and to mediate unavoidable distributional conflicts. The main causes of the crisis are therefore sought in the size of the external shocks, in the unwise capital account liberalisation, and in IMF's wrong neo-liberal prescriptions after the crisis had started.[60] The Thai case is to a considerable extent consistent with this interpretation. First, the double financial liberalisation and in particular financial opening turned out to be an unwise move. It led to an unprecedented high level of short-term financial inflows that potentially could turn into destabilising outflows, as happened in May-June 1997. Second, one can certainly criticise the IMF rescue package for leading to an unnecessary drastic contraction in the Thai economy and for following objectives well beyond what was needed to "restore investors

[58] Arnold et. al., 2000, 26-27.
[59] The term second order fundamentals is borrowed from Rasiah 1998.
[60] Rodrik refers to Feldstein's strong criticism of IMF's approach.

confidence".[61] However, other aspects of the Thai situation fit less well into this interpretation. By giving so high priority to accumulation, this approach tends to overlook that (foreign and domestic) investors - as a consequence of the "easy money" - made many unwise and risky investment decisions.[62] Further, the high level of investment and the two-digit economic growth became a pretext for doing nothing in relation to the deeper structural problems in the prevailing mode of industrialisation – problems that has to do with "learning".

During the Democrat Party dominated government, headed by Chuan Leekpai (November 1997 – February 2001), the actual crisis policy in Thailand was addressed from neo-liberal perspective. Up to May 1998, the IMF demanded a contractionary macro-policy, privatisation and financial restructuring. From then on, the emphasis shifted to a more expansionary approach, and during the spring of 1999, there was a further shift to more emphasis on real economy issues and a comprehensive reform agenda.[63]

In this process, and with the aim of enhancing both allocative efficiency and investment efficiency, competition and competitiveness have been put more in the forefront. From the perspective of *"deep integration"*, a range of weaknesses in the real economy has to be addressed if Thailand shall be able to *"reap the benefits of globalisation"*. Because the financial crisis is interpreted as an 'Asian crisis' and as mainly the result of 'bad' governance (personalised and cronyist relations), there is a strong emphasis on state enterprise reform (privatisation); corporate governance to ensure effective boards of directors, reliable financial reporting, better audits, increasing shareholder rights; and more generally on measures and rules that expose corporation to market discipline.[64] From this perspective, there is also a strong emphasis on a supporting environment to attract foreign investors to Thailand – a stronger educational foundation, skill development, suitable physical infrastructure, higher environmental standards and enhanced transparency and accountability in the public sector.[65] The broader vision is to enhance competition and to establish a set pro-market institutions that can ensure a levelling playing field for (in particular foreign) investors, while at the same time provide them with more public goods and fewer public "bads" (red-tape, corruption, hidden protection of local business etc.). The direction is towards more opening of the economy with lower tariffs, and a

[61] See e.g. Pasuk and Baker 2000, 35ff.
[62] One may of course - with the wisdom of hindsight - argue that Thailand failed because it lacked a coherent domestic investment strategy,
[63] Here, it might not be possible to talk about a "Northern Consensus". From late 1998, Japan took over as the main donor (the Miyazawa Scheme) and it pushed for real sector reforms, just as other second order fundamentals – sectoral linkages, technology support and SME support with particular emphasis on electronics and the auto industry – were given more emphasis.
[64] On the cronyism argument, Pasuk and Baker are sharp in their pointing out that: "Cronyism is much less to blame than the expectation that liberalized markets would quickly acquire an internally generated logic, fairness, and discipline in circumstances when such markets were populated by ambitious new business groups, ambitious new political players, and the speculative fringes of international finance." (Pasuk and Baker 2000, 32.)
[65] See e.g. World Bank September 2000, in which the social policy aspects are also given high priority.

phasing out of restrictions to foreign direct investments. In a deep integration approach, foreign investors are "the pioneers of effective capitalism" that generally have the capacity to eradicate cronyism, improve investment efficiency, and more specifically make it possible to achieve manufacturing competitiveness.

While the Chuan government did successful modify the standard IMF macro-package, its microeconomic policy orientation was generally along the "competition-friendly" and "deep integration" path. During the crisis, there was a strong new inflow of foreign direct investments. Rather than reflecting a new economic expansion on a levelling playing field, these investments were part of "the fire sale" that made it possible for foreign firms buy up existing assets at reduced prices.[66] To the broader process of protests (from farmers, workers and NGO groups) against the government's crisis management, were added strong protests from (influential) local businessmen, who had been or could be negatively effected by the neo-liberal opening process, and who were themselves not able to take advantage of the privatisation process or the 'fire sale'. The new government led by Thaksin Shinawatra's Thai Rak Thai party has announced that it will boost the rural economy, protect local Thai entrepreneurship and in particular help small and medium firms as part of its populist agenda.

It is too early to evaluate the extent to which it leads to a new strategy but it will hardly move towards *a "strategic world market integration"* approach with emphasis on *"learning"*. In this approach, technological development is not just about proximity to the technological frontier but about deepening and indigenisation of technological capabilities.[67] In the case of Thailand, competitiveness and sustainable industrialisation will require more than adaptation and openness. As we have demonstrated earlier, the competitiveness problem is not just found in the labour intensive industries in which Thailand's cost advantages has been eroded, in which other locations look more favourable, and in which there is a lack of domestic inputs and parts of sufficient quality. In the high-tech industries, Thailand is also mostly involved in low-skill assembly activities with high-technology imported parts.

What is needed, therefore, is a broad-based learning-oriented approach – a productive development policy – that draws upon a broader range of second order fundamentals. The aim is double. First, to make it possible to enhance the export potential by moving into new and higher value-added activities. Second, to reduce import dependency (and enhance learning processes) by establishing a diversified industrial base that makes it possible to establish more local linkages and effective

[66] On the inflow of FDIs, see Pasuk and Baker 2000, 218-225.
[67] On the three aspects of technological development (proximity to technological frontier, deepening of technological capabilities and indigenisation of technological capability) and their interrelations, see Felker and Weiss 1995, 385-389.

supporting industries. This approach will not be compatible with an across-the-board opening for foreign import or foreign investors, but will require a selective, a slower and more sequenced opening process.

Conclusion

Thailand has, compared to many other developing countries, been a company-driven economy with a fairly liberal approach to foreign investors, but also a country that has relied on a strong Sino-Thai business class with a basis in trade, agribusiness and banking. The state played an important role by ensuring macroeconomic stability, and by protecting (plus promoting) local commercial banks, that in turn supported local business groups. Industrial policies (including trade policies) remained subordinated to macroeconomic policies. There was no big industrial vision, and no overall national industrial development plan in Thailand. The main focus remained the same as always - stimulating industrial growth (and export) rather than affecting its management, technological and marketing capabilities or to any significant extent influencing sector specialisation and product specialisation. Selective industrial policies were neither urgent, nor to a very high degree demanded by the private sector. Thailand's private entrepreneur class was satisfied if the government created a stable and profitable investment environment; if they could get access to subsidies without conditions (performance requirements); and if the government gave assistance in case of short-term shocks. Apart from that, they were able to manage the predominantly resource-intensive and labour-intensive light industry, on their own (inside conglomerates) in co-operation with local commercial banks and/or foreign partners.

In the 1987-96 period, Thailand enjoyed an exceptional high growth that was partly financed and accelerated by two waves of foreign capital. The first wave was direct foreign investments from East Asia, that drove a pattern labour-intensive, import-dependent manufacturing for export into still more high-tech industries. The second wave was inflow of foreign loans ('easy money' including many 'short-term money') as a result of a process of financial opening. In combination with domestic financial liberalisation, this led to a more competitive financial system and it supplanted the 'old' mechanism of financial allocation through relational lending by commercial banks. The second inflow resulted in a local investment boom in property, finance, retail, hotels, telecommunication and a few heavy industry sectors. Some of these investments were of speculative nature and led to assets bubbles, while others resulted in over-investment and declining profits.

In the first wave of investments, trade openness was highly selective, mainly taking the form import tariff deduction for exporters. In contrast, the second wave of investment was a result of full openness, and turned out to be both risky and costly.

In both cases, there was a fairly passive market-driven approach to world market integration. There were a lack of policy and institutional initiatives to ensure the long-run sustainability, partly because the booming economy made such initiatives a less urgent matter, partly because the politico-institutional arrangements were not geared to such initiatives.

In relation to both waves, one can talk about premature 'openness'. Today, most scholars agree that the financial openings in high-saving countries such as Thailand (and elsewhere) were unwise either *per se* or because a proper financial institutional environment was not in place. We have further argued that Thailand's shift to export of electronics and high-tech products was premature or two reasons. First, because it did not have the supporting industries in place (leading to import-intensive exporting). Secondly, because it did not have the technological infrastructure in place to be able to utilise this export as a stepping stone for more advanced local value-added activities in the next phase.

Altogether, we therefore tend to argue that across-the-board liberalisation is a risky business in a fast moving and volatile world economy, and that a passive approach to openness/world-market integration may give some short-term growth advantages, but that it will be at the expense of sustainable long-term development. To that one ought to ad the distributional impacts of openness and world market integration, which we have not touched upon in this article. For Thailand, the "Golden decade 1987-97" did lead to general improvements in the standard of living, but not to a more egalitarian society. As one would normally expect when market forces are left to themselves, it resulted in an uneven, exclusive pattern of growth. It created very rich middle-to-upper classes and benefited skilled workers and technicians disproportionally as well. It favoured large conglomerates at the expense of small enterprises, and it benefited the extended Bangkok Metropolitan Region (BMR) at the expense of the rest of the country. Therefore, it is not just the long-term economic viability of the present trajectory of industrialisation that is called into question, but also the political feasibility.

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