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THE POLITICS OF NEO-LIBERALISM: CLASS AND CAPITALISM IN CONTEMPORARY THAILAND

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Before the Asian Economic Crisis, Thailand was one of the world's most successful economies. A number of international agencies lauded the Thai economy as a 'model' for other developing countries. Oddly, though, Thailand was neither a model of a market-driven economy favoured by neo-liberal economists nor of the developmentalism associated with statist perceptions of 'Asian Capitalism'. Some neo-liberal analysts captured this variance in their descriptions of the patronage and rent-seeking that prevented effective policymaking (see, for example, Christensen et. al. 1993: 1-8). From a different theoretical perspective, historical institutionalists explained that Thailand's economic success was not driven by powerful technocrats and developmentalist elites, but by an ensemble of non-state institutions such as banks and business associations (Doner and Ramsey 1997). In other words, it was the dynamic private sector that drove growth, while the state was relatively weak (Doner and Hawes 1995: 168-9). It was usually added that Thailand's success also owed something to those elements of the state, especially in fiscal and economic offices, that were seen to be relatively 'insulated' from patronage that was seen in the line agencies of the bureaucracy (see Thitinan 2001).

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When the economic crisis struck Thailand in 1997, there was a remarkable resurgence of neo-liberal policy prescription. Orthodox economists and international policymakers at the World Bank and International Monetary Fund (IMF) had breathed a collective sigh of relief for they believed that 'Asian Capitalism' had finally been shown to be fundamentally flawed.[1] They gleefully identified 'market distortions' as contributing to the crisis, asserting that such distortions resulted from state actions. 'Asian Capitalism' – now identified as 'crony capitalism' – had, they said, failed. These analysts identified weak state and corporate governance, inadequate institutions, cronyism (resulting in moral hazard), corruption/rent-seeking/patronage and resource misallocation as key factors in generating the crisis. Their solutions demanded that these elements of 'Asian Capitalism' be eliminated in favour of a rules-based market system. Together with further liberalisation, market enhancing reform, and more attention to the institutions that supported the market, the promised outcome was a return to growth. 'Good' public policy seen to be that developed by technocrats and institutions that were insulated from political and particularistic influences. The policy bottom-line was that crisis-damaged Asian economies like Thailand had to be made more like those of Western, especially American, capitalism.[2]

This paper addresses the political impacts of the neo-liberal policy offensive in Thailand.[3] As will be indicated, while the tenure of this resurgent neo-liberalism was relatively brief, its impact was significant. I will argue that understanding the political outcomes of economic crisis and recovery, the critical elements are *not* neo-liberalism and neo-liberal policy, but the responses of domestic economic and political forces. I will begin this analysis with a brief account of the course of the neo-liberal policy offensive that followed the devaluation of the baht on 2 July 1997.

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[1] There is no need to detail the picture of 'Asian Capitalism'. Essentially, there had emerged a view that the state had played a significant role for late industrialisers in Asia, and this suggested that the neo-liberal market orthodoxy needed to be rethought. It was erroneously assumed that this approach to development represented a generically Asian model.

[2] The diagnosis of crisis provided by historical institutionalists was not dissimilar, although their solutions were different. Those who favoured a more state-centred institutionalism argued that the downturn showed that the state was no longer insulated from 'particularistic interest politics'. The crisis resulted from the state's reduced capacity to drive the changes that were required to improve the 'production regime'. This lack of capacity was evidence that the state had been weakened by particularistic interests (Weiss 1999: 319-22, 329). Analysts who were more society-focussed made similar arguments. For example, focussing on Thailand, it was argued that the country had undergone a fundamental transformation from a situation where the state was relatively stronger than business, to one where business had established its collective interest over the state. Liberalisation, with little attention to building appropriate institutions, and increasing patronage fuelled by politicians looting state coffers had set the scene for the crisis (Hutchcroft 1999: 474, 495-7). In other words, various business interests had captured policymaking, neutering or even corrupting technocrats in the process.

[3] For more details on definitions of 'neo-liberalism', see Portes (1997) and Campbell and Pederson (2001).

The neo-liberal offensive

The baht devaluation followed concerted attacks on the currency that saw the Bank of Thailand defending its peg to the US dollar and, in the process, depleting official reserves from about $38 billion to just $2.8 billion in a remarkably short period (Thitinan 2001). Through devaluation, most of Thailand's medium and large-scale companies, already suffering considerable over-capacity, were immediately and, for all practical purposes, pushed into insolvency. Those that weren't, together with many small businesses, suddenly found that they were unable to access a banking system that had all but collapsed under the weight of enormous non-performing loans (see Hewison 2000a). Thailand was in serious economic trouble, and was left with little choice but to turn to the IMF for a $17 billion stand-by facility, funded by the IMF, Japan, Australia, South Korea, and other Asian countries. Of course, the IMF demanded austerity, reform and restructuring from its former star pupil. In seeking market-enhancing reform, the IMF was supported by the World Bank, the Asian Development Bank (ADB), and a range of bilateral programmes (see 1st Letter of Intent [LoI], 14 August 1997).

At the time, for those familiar with the work of the IMF in Eastern Europe, Africa and Latin America, the demands it made were unremarkable. As with their assessment of the broader Asian crisis, the IMF and its allies diagnosed Thailand's problems as deriving from too much government intervention in the economy, too much corruption, and a lack of transparency. As reflected in the first three Letters of Intent (LoI, 14 August 1997, 25 November 1997, 24 February 1998), the initial policy interest from the international institutions was in financial restructuring and 'stabilisation'. This involved a severe tightening of monetary and fiscal policy.

However, for neo-liberal analysts, the real 'remedy' to Thailand's malaise was seen to involve a fundamental transformation of the ways of doing business and politics (see Pasuk and Baker 2000: 35-7). As the then US Treasury Secretary Robert Rubin (1998: 1) explained, Thailand shared with other Asian countries,

> weak financial sectors, noncommercial relationships amongst banks, governments, and industrial companies, and a lack of transparency in financial transactions and government decision-making, to name a few – and all of this eventually led to severe financial instability. These problems are not … self-correcting; they require the help of the international community and a reorientation of the role of government and the political will to implement that reorientation.

In essence, this reorientation involved the following: keeping wages low; privatisation of state enterprises (especially targeting communications, transport and energy); civil service reform; reform of the regulatory environment; an easing of restrictions on, and an increase in, foreign investment; improvements to corporate governance; and increased private sector participation in infrastructure projects. All of this reform was to be supervised by the IMF (1st LoI, 14 August 1997).

When the Chuan Leekpai-led coalition government came to power in late 1997, the second LoI was issued and reaffirmed the thrust of the IMF's strategy. In addition, a number of concrete measures were announced to further the reform agenda. These included the accelerated privatisation of prominent state enterprises. The LoI noted that the government had 'made considerable progress in bringing the legal and regulatory framework in line with international standards…'. Further efforts were promised in this area, including a raft of new and revised laws and regulations to facilitate financial restructuring (2nd LoI, 25 November 1997). In summary, the basic aim was to make Thailand's regulatory environment more like those of the West.

Thus it was that the Chuan Government implemented a 'bold' programme, being careful to keep the IMF and its supporters on side, while being more facilitative of the entry and operations of international business. The problem was that this economic strategy, and the resulting recession, had considerable political implications.

Immediately following the 1997 devaluation, there were some political successes for those promoting neo-liberal economic policy. For example, the inept Chavalit coalition government lost the backing of domestic and foreign business, and was thrown out. The incoming Chuan government thus had the support of both international and domestic business (*Nation* 22 July 1998). Locally, the powerful commercial banks and other elements of big business were initially positive. For example, both telecommunications tycoon and budding political leader Thaksin Shinawatra and former prime minister and business leader Anand Punyarachun both gave their support to the Chuan government and its IMF-prescribed economic medicine (*Bangkok Post* 26 & 27 July 1998). Indeed, the Chuan government made a point of seeking advice from the largest businesses (see various reports in the *Bangkok Post* April-July 1998). The government gave much of its initial attention to ways of bailing out state and private banks, guaranteeing depositors and creditors, taking over failing banks and reorganising the collapsed finance sector (Endo et. al. 2000).[4] The relationship between business and the government was not without potential conflict. However, the state of shock suffered by business and the public as a result of the crisis delivered a political honeymoon period for the government.

However, this honeymoon was relatively short (Pasuk and Baker 2000: 47-57). As the crisis deepened, a reaction set it, involving a widespread and popular opposition to the strictures demanded by the IMF (see Hewison 2000b). More significant for this paper, however, was the way that powerful interests were able to overcome historical and personal animosities, business competition and

[4] Most of the country's finance companies had been suspended in July and August 1997, under the Chavalit government.

political rivalries to organise a political revival that was meant to save *domestic* capital. The reaction against the neo-liberal offensive worried a number of observers. In hindsight, however, the US Embassy's (1998: 1) assessment that 'resistance from indigenous business and political interests', would be overcome, was well wide of the mark.

As mentioned, local business was deeply distressed. In its struggle to survive, domestic business complained about high interest rates, a lack of liquidity and about a 'fire sale' of local assets to foreign interests. More broadly, business and academic economists argued for more attention to domestic initiatives to save an economy that was spiralling ever deeper into negative territory. The government began to take notice, and the third LoI set out a strategy for further bailing out the banks, increased liquidity, an expansion of government spending, and more attention to the social impacts of the crisis (3rd LoI, 24 February 1998). Despite these measures, the next LoI indicated that the real economy remained in serious trouble. Amid growing political agitation and opposition, the government made many of the points of the 3rd LoI again, and added provisions to further reduce interest rates and continue to expand the deficit (4th LoI, 26 May 1998). Significantly, however, the government maintained its plans for privatisation, regulatory reform, liberalisation, improved corporate governance, and further foreign investment.

While domestic business might have been pleased that the government was beginning to respond to aspects of its broader economic concerns, it was apparent that Chuan's Democrats remained broadly committed to the neo-liberal restructuring programme. It was this programme that was at the heart of the increasing concern over the impact of the crisis, being expressed by a range of economic and political forces including academics, public intellectuals, the monarch, non-governmental organisations and, increasingly, by big domestic business. Importantly, big domestic business had come to view the restructuring demanded in the LoIs was weakening the control of domestic capitalists, and was threatening the demise of this class. The crisis had already decimated it.

For example, the once dominant group of Sino-Thai banking capitalists were in serious difficulties. Their largely family-controlled financial and industrial conglomerates had become particularly powerful in the protected environment of the 1960s and 1970s. When export-oriented strategies were fully adopted, and the 1987-96 boom began, the capitalist class became larger and more diverse, but the banking families remained significant. However, the crisis saw the collapse of the wealth and power of important banking capitalists. Before the crisis, these banking families still controlled the only partially liberalised finance sector, including 13 of the 16 commercial banks,[5] and ranked amongst the wealthiest groups in the country. By the end of 1998, only five commercial banks remained in majority Thai ownership, with just three of these controlled by the previously dominant Sino-Thai families. Each of these had foreign

[5] Foreign shareholdings were then limited to 25 percent.

shareholdings of 40-49 percent (Hewison 2001a). This pattern of foreign penetration was being seen in other sectors, from manufacturing to retailing.

What was it about the Chuan Government's neo-liberal reform agenda that motivated business opposition? Various elements of the package were, of course, attractive to some businesses. For example, the new bankruptcy provisions potentially assisted some, especially the banks. But there were problems with the thrust of the total package. Privatisation is a useful guide. Selling state enterprises had not been a threat to significant elements of the domestic private sector since the early 1960s. Indeed, some local business people had long argued that the state should divest itself of some of its enterprises. However, doing this in the midst of a crisis was a concern. With the further opening of the economy to foreign investment, at the same time that domestic business was strapped for cash, and when the banks were not lending, meant that domestic capital was at a severe disadvantage. This was especially the case in the banking sector where the remaining Thai banks were already facing strong competition from banks taken over by foreign investors. Selling state banks was an additional threat, as these were unlikely to be bought by cash-strapped local business. Other state enterprises that might have been attractive to domestic investors were also slated for sale – the Bangchak Refinery, the Ratchaburi power plant, Thai Airways, and a range of utilities – at a time when it was considered that only foreign investors would benefit (LoI, 23 March 1999).

Chuan's Government and the IMF, through their neo-liberal agenda, sought to buttress capitalism. However, this was a support for a generalised capital rather than for domestic capital in particular. As noted above, there were also some local capitalists who initially felt that the neo-liberal agenda was likely to be good for local capitalism. However, this sentiment began to change as the crisis deepened. In previous economic crises, foreign capital had retreated and domestic business had actually expanded. This time, the reverse was true, and liberalisation was seen to be making matters worse. Capitalist crises rearrange the architecture of capital, but domestic capital was being out-competed by foreign businesses. Time and again the reforms proposed by the Democrat-led coalition appeared to threaten domestic business interests.

The Democrats repeatedly conveyed a neo-liberal reform message that suggested they were 'forgetting' domestic business. Seemingly accepting notions of 'crony capitalism', the government was apparently determined to create a restructured capitalism with foreign investors having a much enhanced position. In Letters of Intent, the government expressed its full commitment to 'further market opening', and especially in those sectors '… sheltered from foreign investment' (LoI, 25 August 1998). It argued that further liberalisation was essential for recovery, and moved to increase foreign investment in real estate, a sector that had been protected for decades (LoI, 23 March 1999). The laws required to further such liberalisation were often opposed, amended and held up in parliament and especially the Senate, but many were eventually passed. Further, when the crisis struck, some import tariffs had been raised. At the first sign of a weak recovery, however, the government cut a range of tariffs, erasing the earlier increases (LoI, 21 September 1999).

The Chuan government, supported by international organisations and investors, was seen to be blaming domestic business for the crisis. Whereas these international groups and various Thai governments had consistently supported the development of local business for the past three decades and more, they now seemed to be supporting its destruction. Domestic capital perceived that the Chuan Government was implementing a neo-liberal agenda that was, by late 1999, of little benefit to them in the short-term, and promised long-term negative impacts, with only foreign capital seen as likely to benefit. The threat of extinction meant that domestic capital had to take direct control of parliament, ministries and the state.

Thaksin, domestic capital, and the political arena

In 1997, Chuan and the Democrats had seemed the only reasonable alternative to Chavalit's government. They appeared less hamstrung by the obligations of Chavalit's coalition of provincial based politicians scrambling to recoup election expenses and to enrich themselves and their business cronies. However, by 1998, the fabulously wealthy urban-based businessman Thaksin Shinawatra had established a viable alternative party in Thai Rak Thai (Thai love Thai, TRT).[6] TRT promised to think and work in new ways for a new Thailand.

More than any previous party, TRT represented the interests of big domestic business. As Baker (2002) points out, in the past, the biggest business families had remained somewhat aloof from electoral politics; they had not needed to be directly involved, for government had long supported domestic business. Potential extinction, blamed on the neo-liberal policy thrust of the Chuan government, caused the remaining tycoons to conclude that big *domestic* capital needed policies that served its interests. At this time, it seemed that this could only be achieved by taking control of the state.[7] Thaksin and TRT thus became the vehicles to oppose the neo-liberal agenda, slow liberalisation in some areas, and to give back a competitive 'edge' to domestic business. This was eventually symbolised in the TRT's runaway election victory in January 2001.

Thaksin is one of the most successful new magnates created by the economic boom. From small computer interests in the early 1980s, Thaksin was, in 1996, listed by *Forbes* magazine as Thailand's fifth wealthiest person, with $2.1 billion (reported in *Bangkok Post,* 22 June 1998). In terms of holdings listed on the

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[6] Thaksin was one of the few local business people to have made it through the crisis relatively unscathed. There were allegations that when Deputy Prime Minister under Chavalit, he had benefited from inside advice on the coming devaluation, but this was strenuously denied (see Thitinan 2001: 327).

[7] The provisions of the 1997 Constitution, including the system of party lists (where the candidates did not need to undertake individual campaigning) also made it more palatable for this elite to become more directly involved in politics.

local stock market, Thaksin and his family had shares worth almost 37 billion baht in 2000, mostly in the broad communications sector (*Kan ngeon thanakhan* [Money & Banking], December 2000, p. 148). He had dabbled in national politics from 1994 to 1997, although he had been neither particularly popular nor successful as a minister. A significant element in Thaksin's business success had been his ability to gain state concessions in telecommunications and related areas (see Ukrist, 2002). As well as excellent links in government, Thaksin had close connections with the military (Baker 2002: 3-5). While his businesses were not unscathed by the crisis, he was one of the first local capitalists to expand after 1997. Thaksin had cash. As Baker (2002: 5) shows, Thaksin quickly came to arrangements with former business rivals and built powerful business and political alliances that allowed him to prosper in business and politics.

Having cash and powerful alliances was a distinct advantage when it came to inventing and constructing TRT and its election victory.[8] However, Thaksin drew on more than this. The story of the election success has been reported elsewhere (e.g. Baker 2002), so there is no need for details here. However, it should be noted that TRT, using techniques drawn from US campaign experience and marketing, built an electoral platform that addressed the aspirations of many voters. Its slogan emphasised the theme that something new was required in politics: 'new thinking, new ways, for all Thais'. This inclusive slogan, and a party platform tinged with nationalism and promising help for those suffering from the slump, was especially appealing to poor, rural voters. TRT also targeted small business, promising to make credit available for them. Because of their local agenda, Thaksin and TRT were also able to draw on the support of a range of intellectuals and leaders of civil society groups (see Connors 2001). This focus and promises and policies, emphasising local benefits from government policy, marked Thaksin and TRT as different from the neo-liberalism of Chuan and the IMF. At this time, the broad domestic debate about the crisis seemed unable to distinguish between the suffering of the poor and that of domestic business.

In campaigning, Thaksin and TRT caught the mood of an electorate that had seen significant welfare declines during the crisis. Most popular and notable were promises of soft loans for every village and a 30 baht health care programme. Such promises delivered TRT a handsome victory that was a rejection of the IMF-brokered policies of the Democrat-led government.[9] As

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[8] It is worth noting that the former business people who dominated parliamentary elections were provincial godfather-like figures. Many of these were very badly affected by the crisis, and were unable to provide the kinds of funding to local candidates in the 2000-1 elections. This is not to say that 'money politics' was dead. As the election showed, there remained pockets where local godfathers were influential. At the same time, TRT's platform promised a flow of funds to rural areas, amounting to money politics of the pork barrel variety.

[9] Both the World Bank and IMF made comments warning that Thai voters should not be seduced by TRT's promises and risk rolling back reforms (see comments in IMF 2000). They clearly misjudged the electorate's mood and resentment over the impacts of the crisis and the role of international agencies and foreign business. In addition, Thaksin and his supporters had made it clear that they felt the IMF had harmed Thailand (Thanong 2001).

Thaksin extolled the virtues of the Malaysian and Singaporean managed development, it seemed that Thailand, the Bank's model pupil, was looking elsewhere for its teachers (Thaksin, 2001). Not only did TRT make promises, but following the election, it also moved quickly to implement its key commitments to the poor.

Despite this commitment to the poor, the coalition that TRT dominated was a government by and for the rich. Thaksin's first cabinet included a range of big business leaders who were forces in the post-crisis era, from groups including his own Shin Corporation, as well as Jasmine, Charoen Phokphand, Bangkok Entertainment, the Thai Military Bank, Thai Summit, and a range of others (see Baker 2002: 5). His second cabinet further entrenched this pattern. The government immediately set about helping domestic business, including those of its leaders. It did this in two ways. First, by measures to protect domestic business. Second, by strengthening the government itself.

To protect and support domestic business the government and Thaksin spent time assuring the public that this was a government that cared about all Thais, as the TRT name implied. The government moved slowly on privatisation. This allowed time for domestic investors to ready themselves. In addition, in the telecoms sector, the government slowed liberalisation and sought to maintain domestic control. One way to do this was to place limits on foreign ownership. This move greatly benefited the Prime Minister's own companies.[10] In the media and telecoms sectors, the government moved glacially on the establishment of independent agencies. In other ways, the government reduced the pace of reform or did little. The timetables set in the LoIs seemed to have been forgotten. At the same time, some of the investigations into the financial shenanigans that led to the 1997 crash were put on the back-burner (Baker 2002: 18-19). State banks also managed to come to quick deals with Thaksin supporters and advisers who were bankrupted by the crisis, and the Thai Asset Management Corporation began to handle some of the bad loans of nationalised and state banks.

The strengthening of the government became an important task. Even before the election, the newly-empowered National Counter Corruption Commission had threatened to scupper Thaksin's political ambitions. He was alleged to have concealed assets by transferring these to maids, gardeners and other staff. Thaksin won his case, but in controversial circumstances. Immediately after this decision, Thaksin threatened the independent agencies that had been created under the reformist 1997 Constitution. His party also moved to establish some control of the media and manage its coverage, both domestic and international, effectively limiting criticism of Thaksin, his government, and the TRT. Thaksin also moved to make TRT a larger party by managing mergers with a number of smaller parties, so that TRT controlled almost two-thirds of the seats in the Lower House. This also limited scrutiny of the government and meant that there

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[10] After some controversy, it was agreed that the measure was to be revised. Even so, the message was clear.

was little to worry about in managing parliament.[11] Indeed, Thaksin argued that parliamentary opposition and government should be united in working for the 'best interests of the people'. Indeed, he argues that adversarial politics may be a betrayal of the people (Thaksin 2002: 4). In fact, by minimising and managing opposition, TRT has been making the government of business 'safe'. For Thaksin, the hope was that his government might stay in power for two or more four-year terms.

Establishing a new social contract

As Thaksin passed his first year in power, it was apparent that the TRT-dominated government was Thailand's first government of tycoons. But this did not amount to a simple seizing of the state by domestic capital. Rather, Thaksin, TRT and domestic capital, operating within a representative parliamentary system, were engaged in a political process that attempted to establish a new social contract for Thai society.[12] Indeed, Thaksin (2002: 2) himself has cited Rousseau on the social contract, when he argued that political parties

> are bound together by a Social Contract towards our peoples. This Social Contract confers upon us the duty to dedicate ourselves to solving the people's problems, improve their livelihood, and create greater opportunities for them to enrich their lives.[13]

To understand this process, it is necessary to briefly explain the social contract that was established in the 1960s, and has underpinned Thailand's development.

<u>The developmental social contract</u>

In 1958, the military, led by General Sarit Thanarat, seized power. The General explained his regime's authoritarianism in terms that involved economic promises:

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[11] The problem group was a small core of elected Senators who continue to scrutinise the government's policies and implementation.

[12] I am aware of the problems associated with using the term 'social contract'. Others prefer terms like 'social compact'. The pedigree of 'social contract' is usually seen to reflect the work of Rousseau, Hobbes, Locke and, more recently, Rawls. It most usually denotes a belief that political structures and the legitimacy of the state derive from an explicit or implicit agreement by citizens to surrender some or all of their personal rights in order to secure stability and the protection of and organisation such as government (see D'Agostino 1998). In this essay, I am using the term to identify an arrangement where government or the state make an implicit or explicit promise to deliver benefits to citizens in exchange for political support. This does not imply any freedom to choose on the part of citizens.

[13] Michael Connors (personal communication, April 2003) suggests that 'the idea of a social contract was … an initiative of the various NGO/democracy networks who from the mid 1990s had been calling for elections to be policy-based, and this was couched in terms of parties offering social contracts to the electorate'.

> The Revolutionary Party is resolved to improve the economy…. However, before the economy can be placed on a raised level … it is imperative to deal with the administrative aspects of the nation first… (*Bangkok Post* 22 October 1958, reporting Sarit).

> … [T]he Government deems it necessary that the improvement of the national economy [is] the foremost problem and [is] thus given priority … to boost … the national income, resulting in [a] higher standard of living… (*Journal of the Thai Chamber of Commerce* [*nangsuphim ho kankha thai*] 13, 3, 1959: 130, reporting Sarit).

Sarit explained that his authoritarianism was to create the stability required to expand the middle class and make it strong. He saw this task as one that would build a 'new society for Thailand, a society that is happy' (*Journal of the Thai Chamber of Commerce* 14, 11, 1960: 99-100).

In other words, Sarit was justifying military authoritarianism by promising to deliver economic prosperity. The regime's economic approach represented a significant change over that followed by previous governments. It articulated a philosophical position promoting private initiative, while limiting state investments primarily to infrastructure development (Abonyi and Bunyaraks, n.d.: 21–4). The plan outlined the regime's commitment to development, and received substantial US and World Bank assistance. The government also provided substantial incentives for foreign investors (Hewison, 1985: 278–9). This plan heralded a period of growth that was to underpin Thailand's developmental 'social contract', albeit one that workers and peasants had no role in establishing. In short, the military would deliver political stability, the government would support private capital, and domestic capital would deliver the economic growth that would allow a trickle-down of benefits to the working and peasant classes.

While the economic benefits of this implicit agreement can be debated, it was not until 1973 that this social contract based on developmental trickle-down was challenged. That challenge was to the authoritarian political element of the contract. In three years, however, the military returned, and retained control of the political process until the late 1980s. The military returned yet again in 1991, but only briefly, being ousted by a mass uprising in May 1992. The developmental social contract was maintained, albeit shakily, throughout this period by, first, military domination of the political process, and then through the economic boom, which delivered significant benefits to all sectors of society. This is not to imply that all classes benefited equally. Rapid growth did structure a significant middle class, but the boom also saw an increase in wealth disparities, with the wealthiest doing particularly well (see Hewison 1996, 2001b: 89-91). However, the generally rising standard of living and well-being of the population meant that the contract remained fulfilled. It was the economic crisis that marked the death of the developmental social contract.

Thaksin, TRT and a new social contract

With his stunning electoral victory secured, Thaksin was not about to forget the policies that had him elected, and he and his government continued to promote policies identified in the international media as both nationalist and populist.

The problem for those who were not dedicated Thaksin supporters, including the international financial institutions, was that he and TRT were difficult to categorise with groups characterised as 'anti-globalists' and vehemently opposed to liberalisation.[14] Indeed, some of the new government's policies were congruent with a number of strategies favoured by the international institutions and supported by international business. For example, both the World Bank and government favoured decentralisation, enhancing civil society participation in governance, bureaucratic reform and support for small and medium scale enterprises. In addition, there were many micro-reforms in areas such as some areas of corporate governance and bureaucratic operations that were supported by domestic business. But there was also IMF and World Bank concern that the TRT government's policies would move too far from the orthodox neo-liberal agenda (*Asia Times Online*, 25 August 2001). These TRT policies included the government's lukewarm approach to foreign investment, slowing privatisation, promises to roll-back some of the financial sector reforms, and the potential for a budget blow-out to fund the village development scheme (at a million baht per village) and the 30 baht universal health scheme.

It was obvious to all that the TRT came to power through electoral policies that targeted the poor and made social welfare a significant part of its platform, with government taking a central role. The international financial institutions were worried about the increased role for the state. However, this approach delivered considerable and wide support from a range of political and social activists, including from some ex-members of the defunct Communist Party of Thailand and a variety of non-governmental organisations (see Connors 2001). While this support began to drain away by early 2002,[15] it was the coalition of domestic business that was most significant for the TRT government. The alliance of local business people was brought together by the recognition that domestic capital needed a new social contract if it was to maintain its political ascendancy while re-establishing and restructuring its economic power.

As noted above, prior to the Asian crisis, the developmental social contract affirmed that domestic business would deliver growth, government would be supportive of this, while the poor would gain the trickle-down benefits of rapid growth. This compact was supported by the World Bank, foreign donors and investors, but the crisis had shattered it. The IMF, World Bank and Chuan government, in abandoning support for domestic business in favour of a more

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[14] On these groups, characterised as localist and populist, see Hewison (2000b).

[15] By late 2002, most NGO and civil society groups had abandoned Thaksin. For example, in the 26 November 2002 issues of the *Bangkok Post* and *Nation*, there were stories reporting the disaffection of former supporters among environmentalists, academics, political activists and self-proclaimed nationalists.

generalised support for business, including foreign investors, had shown that they could not or would not put the old consensus back together.

The new social contract has yet to be fully embedded – Thaksin has indicated that achieving his goals might take anywhere from eight to twenty years (see *Bangkok Post*, 28 April 2003). Even so, we can identify its constituent elements. The new social contract involves the protection of domestic capital by the government of the remaining rich, while delivering increased social protection to the poor. While the policies supporting domestic capital have been discussed elsewhere (see Robison, Rodan and Hewison 2002), there has been relatively little discussion of the second element of the new social contract, social protection. The main platforms of this new social contract were the million baht village fund and the 30 baht universal health scheme.

In the developmental contract, the position of rural areas and their populations changed over time. Initially, in the 1960s and 1970s, the rural peasantry was to be controlled to prevent communism while also being exploited to shift resources from agriculture to industry. As the communist insurgency declined, rural areas came to be seen as a source of workers for the expanding manufacturing sectors. This approach considered that rural populations and the urban working class would be drawn out of poverty through economic growth. The crisis destroyed this compact. Rural stagnation, inequality, and poverty offered the possibility of destabilisation and social unrest, and TRT's policy promises were one reaction to this threat. The million baht village fund, for example, was symbolic of domestic capital's acknowledgement of these issues. In supplying a cheap loan scheme for every village, TRT was demonstrating a concern for rural problems that had not been shown by previous administrations. It should be noted that TRT has not attempted to simply support agriculture. Rather, the party's aim seems to be to develop the rural poor as entrepreneurs (see Baker 2002). This focus would appear to make the scheme broadly acceptable and uncontroversial for domestic capital. Business was also keen to receive the consumption stimulus the scheme provided by injecting funds into the rural community (see Connors 2001).

The progress of the 30 baht health scheme has been more controversial. Even though Thailand's health system had been judged relatively successful in meeting the needs of the majority, health costs remained a significant expense for the poor.[16] Where there was prolonged or serious illness, the result was usually a slide into deeper poverty. Prior to the crisis, the World Bank had urged the expansion of the private sector's already substantial role in the heath sector (see Subbarao and Rudra 1996 and Lieberman 1996). As was noted above, the crisis saw the poor having to invest more on their health, and the TRT's election promise of a cheap, virtually universal health scheme was understandably popular. It remained so even as a funding crisis emerged in 2002.

[16] The World Bank has produced a range of figures on public health coverage. While one report noted that up to 40 percent of the population, mainly in rural areas, did not have access to adequate health care, especially in rural areas (World Bank, 1998: 15), other reports were of 26 percent lacking adequate access (World Bank, 2000d: 12).

It soon became clear that the 30 baht scheme had a number of problems, not the least being that it was expensive for government. Some patients suffering long-term or serious injury claimed they were being forced out of hospitals prior to the completion of their treatment. Health professionals argued that the scheme, with its emphasis on curative and institution-based health, was reversing gains that had been made in preventative health care, and was draining funds from areas such as HIV/AIDS prevention and health promotion (interviews, Bangkok, May 2002). Hospitals complained that limited and fixed funding from government threatened their ability to provide adequate treatment. As it became clear that the scheme was threatening the return to profitability of private health providers, the government began to look at ways to modify the scheme.

One response was to bolster the funds available to government by merging the scheme with existing programmes like the Worker's Compensation and Social Security funds. This brought workers onto the streets in protest as they feared that their care would be downgraded and their funds siphoned off to support the 30 baht scheme. As the government sort ways to maintain what was being seen as a 'universal' health protection scheme, debate became increasingly polarised. Some social activists began to urge increased taxation to fund the scheme. Immediately, this was seen by the private sector and some doctors as a move towards a welfare state or even socialism.[17]

Even while making some concessions to the private sector, the TRT government has realised that the 30 baht scheme is a significant element of its popularity, and an essential component of the new social contract. It is for this reason that the government has continued to support the scheme, despite private sector concerns. The growing concern that the scheme is a move away from previous arrangements where private health providers were major elements in the national health system (and where investment received promotional privileges) is likely to be addressed. In the short-term, however, establishing the new social contract and maintaining electoral support for the government of the rich is clearly a stronger consideration.

Conclusion

When the Asian economic crisis plunged Thailand and a number of Asian economies into the deepest recessions they had experienced for decades, it seemed that claims about the superiority of 'Asian Capitalism' had been negated. A range of neo-liberal economists and ideologues, many of them in the World Bank and the IMF, announced the death of 'Asian Capitalism', arguing it was dysfunctional in the age of globalisation. Even before the crisis,

[17] For a flavour of the more extreme version of this see the web site DoctorFreedom.com, maintained by private sector doctor Chotichuang Chutinathorn, where Edmund Burke and Winston Churchill are quoted on freedom, while attacking the welfare state and identifying the 30 baht scheme as the beginnings of socialised medicine and state paternalism, leading to socialism. Citing Marx, the site argues that this scheme aimed to redistribute wealth.

Sachs (1997: 19) had argued that in a globalised world, ‘policies are likely to be more similar.’ With the crisis, the argument for convergence became stronger. The crisis was, in the words of Krugman (1998), ‘… punishment for Asian sins, even if the punishment was disproportionate to the crime.’ The sins were seen to lie in exchange rate misalignments, export declines, weak institutions, moral hazard and cronyism. The market had been distorted by ‘Asian Capitalism’. The solutions involved eliminating such distortions, and in making Asian economies look more like those of the West.

The crisis strengthened the political leverage available to neo-liberal reformers in Thailand. The proposed neo-liberal reforms were not simply about clearing ‘space’ for the efficient operation of the market. Such reforms demanded fundamental transformations in the operation of government and in the ways that business was organised and conducted. Neo-liberal reforms such as privatisation and deregulation aimed to neuter the state’s ability for economic intervention, while political reforms were meant to establish ‘good governance’ and to insulate officials and technocrats from particularistic influences and cronyism.[18] As noted elsewhere, this process might have been political, but the ‘ultimate aim was to empty the state of politics and to replace it with a notion of “governance” conceived as a technically rational and abstracted process’ (Robison, Rodan and Hewison 2002: 2).

In Thailand, neo-liberalism amounted to an agenda for the dominance of international capital. Domestic capital, deeply wounded by the economic crisis, was being prescribed medicine that came to be seen as poisonous. While the tenure of this resurgent neo-liberalism was relatively brief, its impact was significant. Its political and economic defeat by a coalition of domestic capitalists who seized state power through election indicates that the critical elements of an understanding of the political outcomes of economic crisis and recovery are not to be found in neo-liberal policy, but in the responses of domestic economic and political forces.

[18] It is often remarked that Thailand’s reformist 1997 constitution was passed in the midst of the economic crisis, as if this was a major achievement in the face of considerable adversity. In fact, however, the constitution included provisions that were in line with the neo-liberal economic agenda.

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