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# DEPENDENT DEVELOPMENT: A STUDY OF THAILAND'S ECONOMY WITHIN THE WORLD CAPITALIST SYSTEM

TEERASIL TAPEN

[redacted]

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# Chapter One

## 1.1 Background and Implication of the Research

Since Thailand was engaged by the Bowring Treaty with the British Government in 1855 ( Phongpaichit & Baker, 1995:15), the country has been pulled into the circle of world capitalist development. Hewison (1989) has distinguished three phases in the capitalist development in Thailand. The first phase was in the period of the absolute monarchy when a capitalist class (the Royal family and aristocracy) emerged from trading with Chinese and European traders. The second phase allowed the emergence of a petty bourgeoisie and labour class, especially after the Second World War. The bourgeois class grew by the conglomeration between Thai and Chinese tycoons dominating the transaction sectors of banking, manufacturing, and agro-industry. The last phase began in the 1970s with the new generation of capitalist classes. These classes performed their economic activities in high technology and higher value-added manufacturing. At the same time, uneven development can be seen in the disparity between rich and poor, urban and rural area. This unevenness seems to be broader and more severe, from the statistics of Thailand's annual household income by region , between 1962-1995 (Medhi Krongkaew, cited in Rigg 1997:88), the scissor effect in the growth ratio between those in Bangkok and other regions is prevalent.

In this thesis, the focus will be put on the latter of these phases, especially at the beginning of the 1960s - which has been known as the period of Cold War - in conjunction with the launch of the first national economic and social development plan in Thailand. This development will be reviewed until the regional economic crisis in 1997-1998 and some information of IMF assistance to Thailand will be drawn upon to assess the exemplification of the Thai economy as a dependent capitalist development.

## 1.2 Early Policy: Import Substitution

Thailand has paved her way to becoming a Newly Industrialised Country (NIC) since the late 1950s. The early phase of her growth was involved in the World Bank's blueprint for the Thai economy or the report of an International Bank for Reconstruction and Development's mission in 1959. This report explicitly indicated the desire of developed countries to enter Thai economy through capital injection as shown in the confidential telegraph from the US. President Kennedy written personally to Thailand's Prime Minister, Field Marshal Sarit Thanarat, in 1952: 'I would like to ask you to study this document (the IBRD report) seriously. Even though this report does not show the formal US policy towards Thailand, I think it provides the basis of our aid' (Phongpaichit & Baker 1995:127).

The Thai government readily accepted the World Bank's recommendations to turn away from a state controlled economy to a private sector led development. In this report, a strategy of import substitution as a means of industrialisation was strongly recommended and the World Bank's funds were offered to build up infrastructure to support industrialisation. During 1950-1975 the World Bank loan to Thailand amounted to $440 million to support an infrastructure programme - for in stance, highways, transport, irrigation, hydroelectric construction and education (ibid.128).

The import substitution policy led to the emergence of petty bourgeoisies and their growing base in the industrial sector (Suehiro, 1992:53). Basically, even though the domestic market was reserved for the priority of local entrepreneurs, in accordance with World Bank and UN advice, the Sarit government considered multinational corporations as a prime source of capital to expand industrial activities. The MNCs from then on have been seen as conveyors of technological and entrepreneurial skills transfer, and the promotion of foreign investment became a priority of economic policy (Hewison, 1989:59)

The strategy of import substitution had reached its peak in the late 1970s with the GDP growth rate decreasing. Slowdown became crisis in the mid-1980s when the domestic slowdown was exacerbated by the effect of the OPEC oil price rise. In the first nine months of 1985, the Board of Thai Trade reported 100,000 layoffs and Thailand's foreign debt was over $13 billion (ibid: 63). This situation is very interesting because the import substitution did nothing to help decrease import volume and dependence on imported goods. But in fact, this strategy created even more import volume through imported raw materials and technology in its production lines. These industrial productions under the import substitution strategy might be considered inappropriate to Thai economic conditions because they were from the blueprint of western technology which required scarce raw materials which had to be imported. It can be argued, then, that this strategy finally created more severe dependence on outside economy.

### 1.3 Policy Shift: Export Orientation and Foreign Investment

The response to the apparent economic slowdown in the mid-1980s was to turn to export-oriented industrialisation. The World Bank advised the Thai government to emphasise this new strategy, the need to open the economy, and state enterprise privatisation. Furthermore, though there was doubt about the foreign debt situation, the World Bank still insisted on the importance of international flows for development (Hewison, 1989: 73). This advice was put into practice in November 1984 with the Baht devaluation to promote export strategy (Phongpaichit & Baker, 1995:151). One of the most important policies related to international capital dependence was the active solicitation of foreign investment by allowing a hundred per cent foreign ownership in promoted enterprises that exported a hundred per cent of their output (ibid.).

With export strategy functioning as the petrol of the economy, Thailand's growth was seen to be the fastest in the world. This economic boom was reaffirmed by the naming of Thailand as the "Fifth Tiger of Asia" at the World Bank conference in Bangkok, 1991 (World Bank, 1991:6). Besides export promotion, another key factor which had been pushing Thailand's growth since the mid-1980s was foreign capital. Between 1985 and 1990, foreign direct investment to Thailand increased from $178 million to $2.5 billion (Jomo et al., 1977:76). Most of this was Japanese investment, which increased from $124 million in 1986 to $1.2 billion in 1990. In 1990, total Japanese accumulated investment in Thailand was $5.2 billion (BOI 1991:14). Japanese investment pushed Thailand out of the economic depression in the mid-1980s - however, at the beginning of the 1990s, foreign direct investment started to decline. Japanese investment fell from $1.2 billion in 1990 to $578 million in 1993. Total foreign direct investment dropped from $2.4 billion in 1990 to $640 million by 1994 (ibid., 1995:12). In this period, the economic performance of Thailand was declining with the growth rate of its GDP decreasing from 1994-1997. While domestic investment did not drop, the GDP continued to decline, which means that the poor economic performance of Thailand was caused mainly by the drop and outflow of foreign capital (BOT 1998:26). It may be argued that despite shifting the strategy from import substitution to export promotion, the Thai economy was heavily dependent on foreign capital.

**1.4 Economic Crisis**

The poor economic performance of Thailand had turned to economic crisis in 1997 when she was facing firstly, the outflow of foreign capital - especially portfolio investment - from the stock market, and secondly, the unprecedented devaluation of the national currency after using the floating system (BOT 1998b:3). The economic crisis in Thailand, from the technocrats' point of view, originated from a number of factors both external and domestic which, in many instances, were related to one another. One of these was the exceptionally high rate of growth for many years, driven by foreign investment and exports. Overheating led to the persistence and unsustainability of a high current account deficit, and inflated property and stock markets (ibid.,:11). Under the pegged exchange rate regime, the implementation of monetary policy was undermined by an implicit guarantee of currency value. The implicit guarantee, coupled with financial liberalisation, encouraged excessive reliance on external borrowing, due to the low exchange rate risk, resulting in the rapid build-up of short-term external debt (ibid.,:19). Part of the foreign capital was allocated to investment projects in unproductive sectors. Overinvestment in the non-tradable sector, such as property construction and real estate consequently generated an asset price bubble and misallocation of economic resources. Moreover, the moral hazard related to the implicit saving guarantee by the Thai authorities and weak supervision also played a crucial role in investment decisions in the financial system. At the same time, a number of firms diversified from their core business to more risky ones due also partly to a lack of information and transparency which hindered investors' risk assessment (BOT 1998b:20). As a result, the currency had to be floated and it fell by over a hundred per cent to the dollar value. The stock market index fell more than fifty per cent; these indicators showed that a great volume of foreign capital had gone from the country. With a foreign debt of $89 billion, over half of which was a short-term paid loan, Thailand finally went bankrupt and had to accept external assistance (Bello, Cunningham & Li 1998:2).

After the crisis, the Thai government reached an agreement with the IMF to receive financial assistance with the proviso that it would institute a stabilisation and structural adjustment programme. Under this programme there are two issues associated with the dependency concept ( autonomy and domination ). The first one is IMF's endeavour to restructure the Thai financial institutions so that they would be owned by foreigners in cases where the recapitalisation came from foreign sources. The second issue concerns the liberalisation of the Alien Business Law to allow foreigners more liberal investment privileges in the non financial sectors and to revise landownership laws by allowing foreigners to own land ( IMF 1998:197).

It can be argued that the technocrats' views as reflected in the Bank of Thailand Paper were too neoliberal oriented and that they had a marked tendency to believe that this crisis stemmed from technical problems which could have been solved if they had received prior warning - such as the liberalisation of finance or short term borrowing coinciding with the currency devaluation. Instead, this thesis will examine the argument that this crisis was actually an outcome of the dependent development. This means that it was not derived from technical problems but that it is deemed a structural one. All technical problems in this case should, rather, be considered as a set of catalysts or accelerating factors.

In this regard, the concepts of dependent economies will be drawn upon to help clarify the analytical framework to be deployed in this research, because it is known that the approaches to dependency analysis have been rooted in economic studies of Latin America countries, and there are many articles which have been written regarding dependence, development, and underdevelopment in those countries. These approaches can be categorised into three major frameworks. The first is that of those who focus on the external and internal obstacles which confront capitalist development in those backward nations; the second is that of of those who do not accept the possibilities of capitalist development in Latin America, but only the possibility of the development of underdevelopment; and the third is that of those who accept the possibilities of dependent capitalist development in Latin America, relying on the analyses of concrete cases of dependence (Palma, 1978:898)

In this thesis, we will not go on details of the first two approaches but instead the third approach will be elaborated on, because its concepts are associated with the objective of this research.

**1.5 Dependency as Dependent Development**

Dos Santos (in Palma, 1981:47) gives a clear definition of *dependence*

'Dependence is a conditioning situation in which the economies of one group of countries are conditioned by the development and expansion of others. A relationship of interdependence between two or more economies or between such economies and the world trading system become a dependent relationship when some countries can expand through self impulsion while others, being in a dependent position, can only expand as a reflection of the dominant countries, which may have positive or negative effects on their immediate development'

The implication of this definition is that one should not develop a theory of dependent capitalism but should, rather, concentrate the analysis on concrete situations of dependency, the said concrete situations having been created by a general trend of international capitalist expansion. The capitalist expansion in each country did not have the same history or consequences. The differences are rooted in the diversity of natural resources, the different period of incorporation into the international system, and "the different moments at which sectors of local classes allied or clashed with foreign interests, organised different form of state, sustained distinct ideologies , or tried to implement various policies or defined alternative strategies to deal with external forces" (Cardoso & Faletto, 1979: xvii). In brief, this approach attempts to characterise the diversity of dependency within the historical process of world capitalist expansion.

Cardoso and Faletto also give a definition of dependence from an economic point of view that "a system is dependent when the accumulation and expansion of capital cannot find itself an essential dynamic component inside the system" (ibid.,: xx). In capitalist economies, the crucial component for expansion is the capacity to enlarge the scale of capital. This capital accumulation cannot be done without technological progress and an increasing production of capital goods. These economies require financial support through a solid banking system. It is evident that the developing economies do not possess these technological and financial sectors crucial to production and capital accumulation. Thus they are dependent by the definition of Cardoso and Faletto.

Peripheral economies remain dependent even though they are no longer restricted to the production of raw material. Their capital goods production is not financially, technologically or organisationally strong enough to make continuous progress of the system. These economies have to depend on the dominant economies to provide what they need for economic expansion (ibid.,: xxii).

In another aspect, dependent development occurs through frictions, and alliances between the state and business enterprises which mostly are multinational corporations (ibid.,: 203). In this connection the state and enterprises pursue policies that form markets based on the concentration of income and on the social exclusion of majorities. These processes demand a basic unity between these two actors as they confront popular opposition which may be activated when nationalist or socialist movements question the existing social order (ibid.,: xxiii-xxiv).

From the above framework, we find some characteristics of the dependency syndrome in the Thai economy before the crisis. These are:

The first flaw, as we have seen with both import substitution and export oriented policies, concerns the pattern of development which is heavily dependent on foreign capital - both technical and financial - for economic growth.

The second flaw of economic structure is the extent of dependence on the sensitive and fragile export sector which had been decreasing in value before the crisis occurred

The third problem is the poor distribution of wealth leading to widening differences of income between urban and rural areas as mentioned at the beginning of this chapter.

From the review of the history of Thai economic development and the concepts of dependent development, underlying this research is an assumption that Thailand's economic development has long been influenced by outside forces in the forms of international aid, investment, and economic policies. The interaction between the Thai economy and world capitalism has created a dependent condition in the Thai economy. This assumption is related mainly to the following objective in this research.

## 1.6 Objective of the Research

The objective of this research is to analyse concrete conditions, what exists in real time and real space, of capitalist development in its internal and international aspects to conjuncture as a totally Thai economy to answer the question as to why the Thai economy collapsed and how this event is related to its dependent development. In so doing, the crisis in 1997 will be taken as the landmark and the economic conditions of Thailand will be explored in the three aspects related to the abovementioned dependency syndromes :namely, the dependence on foreign capital; the dependence on export promotion; and the concentration of income distribution.

This research will be set in the theoretical context of the analysis of contemporary capitalist development from the perspective of political economy. The theory of capitalist development and nondevelopment with particular attention to dependency analysis will be underlying premises.

**1.7 Period Limitation of the Research**

The research will cover the period from the 1960s in terms of development history review (the first plan for national social and economic development of Thailand was launched at the beginning of the 1960s) but the emphasis will be placed on the period of a decade before the economic crisis in 1997.

**1.8 Methodology of the Research**

The methodology of the research involves an exploration of the official documents, considered as primary sources, and of the research related to the subject matter, the secondary sources of data. For instance, the National Development Plans of the Thai government and the international economic agencies' reports on Thailand are the primary sources of information. These documents provide the concrete facts to be analysed.

Since the methodology is based on the interpretation of documents, the lack of sufficient data, time and resources may limit the scope and significance of the inquiry. However, the analysis will be essentially based on an objective interpretation of the concrete facts available. Therefore, the methodological problem in this research is to link the underlying theoretical premise to the concrete facts.

# Chapter Two

## 2.1 Political Economy of Dependent Development: A Theoretical Consideration

Since the early 1960s there has been considerable debate concerning the nature and causes of national development and underdevelopment throughout Latin America. From this debate with its overwhelming lack of consensus the dependency approach has emerged. Previously, attention had focussed on the domestic factors believed accountable for the lack of socio economic and political development. Emphasis was placed on such aspects as the nonexistence of institutions and technocrats capable of directing the developmental policies. The socioeconomic expansion of developed countries into less developed nations was regarded as inevitable in the process of change. As the alliance for progress to promote the desired level of national development became apparent, however, many social scientists in Latin America began to shift their attention to other neglected elements felt to be related to Latin America's underdevelopment (Bodenheimer, 1971:327-30).

From these various and accumulated efforts of Latin American scholars, dependency theory has emerged as a critique of, and alternative explanation to, the prevailing theoretical foundation of the postwar international economic order. The general field of study of this theory is the development of Latin American capitalism. "Its most important characteristic is its attempt to analyse it from the point of view of the interplay between internal and external structures" (Palma, 1978:898). Dependency writers have sought to identify and analyse the restrictions imposed by the region's historic integration and functions within the world capitalist system. Latin America is believed to be stuck in a network of external control despite having obtained its freedom from colonial rule more than one and a half centuries ago. It is argued that developmental alternatives have been limited by its having joined in the international division of labour conditioned by the capitalist core countries. Dependency theorists thus have questioned the desirability of the capitalist international linkages and the advantages of the western penetration into the developing countries.

The dependency approach has been increasingly studied by social scientists in North America, Europe, Africa and Asia. The importance of the impacts of external forces on socioeconomic and political activities in developing countries is now generally acknowledged by most scholars. However, the dependency literature is still the source of much debate. Most critical has been its Marxist orientation and its determinist view of historical and present events. In addition, it has been criticised as an overly simplistic single explanation of very complex affairs in Latin America. The tendency of dependency theory to neglect domestic forces responsible for blocking the desired level of development is cited as an important weakness (Warren, 1973: 40-42). Its replacement of mode of production and class conflicts with external and internal linkages as the centre of analysis is unacceptable to orthodox Marxists (Cueva, 1976: 12-16). Yet, in spite of these critiques, the use of dependency theory's more comprehensive framework to view the course of events in the Third World has proven very attractive.

### 2.2 Theories of Imperialism and Dependence

Dependency theory has developed from two different perspectives (Leys, 1980:110): on one hand it is a rejection of bourgeois sociology and its interpretations of Latin American history, opposing such theories as that of structural dualism, functionalism, and the developmental approaches. On the other hand it emerges in conflict with, and as an alternative to, traditional Marxism. Confusion comes in when dependency theory criticises bourgeois thinking from a perspective similar to that of Marxism, while at the same time it criticises Marxism-Leninism from a perspective full of concepts taken from non-Marxist social sciences. Thus discussion on theories of imperialism and its conceptual relatedness to dependency theory is useful, not only in highlighting the theoretical divergences between the two schools of thought, but also in helping to clarify the basic outline of dependency analysis.

The theory of imperialism may be classified into non-Marxist and Marxist. Non-Marxist theory tends to associate imperialism with expansionism, addressing itself to political and military explanations. It also dissociates capitalism from imperialism. For Schumpeter (cited in Brewer, 1980: 67), the leading exponent of this view, imperialism is "a heritage of the autocratic state…the outcome of precapitalist forces which the autocratic state has reorganized…(and which) would never have been evolved by the inner logic of capitalism itself". The inner logic of capitalism is free trade and where free trade prevails no class has an interest in forcible expansion; citizens and goods of every nation can move in foreign countries as freely as though those countries were politically their own (ibid.,: 70). In contrast, Marxist theories of imperialism deal with economic explanations and see capitalism as a worldwide network of commercial, financial and other relations that integrates all nations. Most contemporary Marxist theorists of imperialism concentrate their analyses on the dominant relationship between the United States and Latin America. They regard this relationship as one aspect of American capitalism (Bodenheimer, 1971: 347).

It was Lenin who introduced the concept of imperialism into the Marxist analysis of capitalist development. He saw imperialism as a stage in capitalist development, the stage of monopoly capitalism which exhibits five basic features (Lenin, 1979: 89):

1. The concentration of production and capital, developed so highly that it creates monopolies which play a decisive role in economic life.
2. The fusion of banking capital with industrial capital and the creation of a financial oligarchy.
3. The export of capital which has become extremely important, as distinguished from the export of commodities.
4. The formation of the international capitalist monopolies which share out the world among themselves.
5. The territorial division of the whole world completed by the great capitalist powers.

Lenin saw imperialism stimulating the capitalist development of the periphery. He asserted that "the export of capital greatly accelerates the development of capitalism in those countries to which it is exported. While , therefore the export of capital may tend to a certain extent to arrest the development of capitalism in the countries exporting capital it can do so only by expanding and deepening the further development of capitalism throughout the world" (ibid.,: 65). Lenin argued that capital would be exported to "backward countries" because low wages, low rents and cheap raw materials make investment profitable and create the "elementary conditions for industrial development" on the periphery. The expansion of capitalism on the periphery should not upset the centre's privileged economic position because the monopolistic base of the centre economies controlled markets and raw materials. The political structure of colonialism was a reflection of these economic needs. According to Lenin, "colonial possession alone gives complete guarantee of success to the monopolies against all risks of the struggle with competitors" (ibid.,: 82).

While Lenin was interested in the extension of capitalism to the periphery, he did not devote much attention to the capitalist development within the countries of the periphery. Paul Baran, who extended the analysis of imperialism into the peripheral economies, argued that instead of expanding and deepening the further development of capitalism throughout the world, the main task of imperialism was to "slow down and to control the economic development of underdeveloped countries"(Baran, 1957: 197). The penetration of monopoly capitalism in the Third World produces stagnation on the periphery. For Baran, the main interest of the foreign investor is to freeze the international division of labour so that the peripheral countries would continue to be producers of raw materials. By extracting raw materials and removing the surplus from the local economy, these foreign investors cause the persistence of backwardness (ibid.,: 229).

Some observers of capitalist development in the periphery argue that the association of imperialism with stagnation was a temporary event. Bill Warren expressed this well:

> "it can now be seen that the elements inhibiting capitalist industrialization which operated in the period of political control, were comparatively short lived and that the post war period is witnessing the full reemerge of those elements of imperialism conducive to capitalist industrialization" (Warren, 1973: 42).

Theories of imperialism assume an inequality between dominant and dependent nations. Even Lenin's refinement of imperialism took dependency into account. He referred to dependency thus:

> .... "not only are there two main groups of countries, those owning colonies, and the colonies themselves, but also the diverse forms of dependent countries which, politically, are formally independent, but in fact, are enmeshed in the net of financial and diplomatic dependence"(Lenin, 1979: 85).

Lenin makes clear the external impact of imperialism upon many nations, and he combines internal and external forces in his interpretation of the reality faced by dependent nations. Thus, the concept of imperialism provides an excellent theoretical starting point for dependency writers. Many dependency theorists have followed this line of analysis. Cardoso is the one who explicitly tied theories of dependency to imperialism. He notes that the term *dependency* is rooted in the writings of Lenin, and he attempts to relate classical formulations to the dependency literature. Cardoso concludes that modern forms of capital accumulation and imperialism differ from Lenin's earlier conceptions. Capital accumulation, for example is the consequence of corporate rather than financial control. While contemporary international capitalist expansion and control of dependent economies reflects a new pattern, the economic relationship among nations remains imperialist (Cardoso, 1972: 83-95).

Another work that relates imperialism to dependency theory is from Galtung. His approach, referred to as *structural analysis* is derived from stratification theory in sociology (Galtung, 1971). In structural analysis, a uniform and continuous character of interactions between actors is studied and constructed to be patterns or structures for explaining the behaviours of these actors. More specifically Galtung's structural theory of imperialism is based on a centre-periphery model of the international system. He divides the global system into four classes:

1. the elite of the developed countries
2. the elite of the periphery nations
3. the masses of the centre nations
4. the masses of the periphery

This theory of imperialism focuses its analysis on the harmony or disharmony between these four classes (ibid.,: 83):

> "Imperialism is a relation between a centre and a periphery nation so that (1) there is harmony of interest between the centre in the centre nation and the centre in the periphery nation, (2) there is more disharmony of interest within the periphery nation than within the centre nation, (3) there is disharmony of interest between the periphery in the centre nation and the periphery in the periphery nation".

The core of neo imperialism is the first relationship described by Galtung. The increasing gap between the centre and the periphery is hypothesised as a consequence of the system of interaction between the centre and periphery nations sustained by elite ties. In addition to theory construction, Galtung made an important contribution to the operationalisation and testing of theories of imperialism and dependency. The relationships between the centre and the periphery nations were analysed in terms of the vertical and feudal interaction between them. The *vertical* relationship was specified as *the value exchange between nations*. It can be observed as flows of raw material, capital and financial goods and services in either direction. Most important is the comparison in terms of who benefits most. The *feudal* interaction refers to *the concentrated pattern of interaction for periphery in contrast to the diversified pattern of the centre nations* (ibid.,: 85).

### 2.3 The International Context of Peripheral Economies

The peripheral economies are seen as an integral part of the world capitalist system, in a context of increasing internationalisation of the system as a whole. The existence of a peripheral economy cannot be understood without reference to the economic drive of advanced capitalist economies, which were responsible for the formation of a capitalist periphery and for the integration of traditional noncapitalist economies into the world capitalist system. The central dynamic of this capitalist world system lies outside the peripheral economies therefore the options for them are limited by the development at the centre. Stated simply, the centre exists on profit at the expense of the periphery, and the conditions that prevail in the latter can be understood only when its relations with the centre are grasped. In this regard, it can be said that development and underdevelopment are regarded as two components of one unified system. As Sunkel asserts, development and underdevelopment are a single universal process. They have been simultaneous processes that have interacted and conditioned themselves mutually (Sunkel, 1969: 30).

### 2.4 Different Approaches to Dependency Analysis

Dependency as the analysis of obstacles confronting capitalist development

This type of dependency analysis, found principally in writings of Sunkel (1969), is the attempt to reformulate the United Nations Economic Commission on Latin America's (ECLA) analyses of Latin American development from the perspective of a critique of the obstacles to national development. Sunkel studied the internal economic problems and the world capitalist system in an attempt to show that development and underdevelopment were two sides of the same coin. His thesis is that the five themes of development, underdevelopment, dependence, marginality and spatial imbalances, can be seen as interrelated aspects of the same process, the international capitalist expansion (Sunkel, 1973: 132). Sunkel's most significant contribution is his analysis of the process by which international integration leads to greater national disintegration in the developing countries. Sunkel asserts that the international relationships within the traditional centre-periphery system give rise to international polarisation, and the subsequent dependency pattern of import substituting industrialisation. The internal relationships give rise to internal polarisation in which the advanced, modern groups within the dependent, underdeveloped structures derive their high income from (a) their association with activities linked to the developed structures, and (b) internal exploitation of the mass of the population. The advanced groups are more culturally and socially integrated with the developed structure than with the marginalised population of their own countries. This integration and marginalisation tend to cut across traditional class lines; some workers are part of the international system; other workers, unemployed and underemployed, become marginalised. This gives rise to a dual process of transnational integration and national disintegration, which underlies the process of international and internal polarisation (ibid.,: 135-40). The strength of this analysis lay in the use of economic history and in the emphasis on the role of internal and external relationships in conditioning economic structures. Another distinctive aspect of this thought was that it made a basic distinction between economic growth and economic development. According to this approach:

> "Development did not take place when growth was accompanied by (a) increased inequality in the distribution of its benefit; (b) a failure to increase social welfare, insofar as expenditure went to unproductive areas; (c) the failure to create employment opportunities at the rate of population growth; and (d) a growing loss of national control over economic, political, social and cultural life" (Palma,1978: 908).

<u>Dependency as development of Latin American underdevelopment</u>

This line of Latin American thought begun by Frank (1969) also started with a critique of the ECLA model of development. They affirmed that the ECLA thesis failed to examine the specific needs of capitalism at the centre, that it wrongly assumed that development could be promoted by a progressive national bourgeoisie. The essential characteristic of this dependency approach is that:

> "...it attempts to construct a theory of Latin American underdevelopment in which the dependent character of these economies is the hub on which the whole analysis of underdevelopment turns: the dependent character of Latin American economies would trace certain processes causally linked to its underdevelopment" (Palma, 1978: 898).

Frank has made numerous statements concerning the relationship between global capitalism and patterns of development in Latin America. His theoretical perspective can be summed up in the following theses:

1. Economic development in each country does not occur through the same succession of stages. The underdeveloped nations today are not at a stage

which has long been surpassed by the developed countries. On the contrary, today's developed countries were never underdeveloped in this way, although there was a time when they were undeveloped.

2. Contemporary underdevelopment is not a simple reflection of the structures of the underdeveloped country itself. In contrast, underdevelopment is in large part the historical product of relations between the underdeveloped satellite and the developed countries. These relations were an essential part of the structure and evolution of the capitalist system on a world scale. Thus Frank writes:

"To extract the fruits of their labour through monopoly trade, the monopolies destroyed and/or totally transformed the earlier viable social and economic systems of these societies, incorporated them into the metropolitan dominated world wide capitalist system, and converted them into sources for its own metropolitan capital accumulation and development. The resulting fate for these conquered, transformed or newly acquired established societies was and remains their decapitalisation, structurally generated unproductiveness, ever increasing misery for the masses, in a word, their underdevelopment"(Frank, 1969:225)

3. From the above propositions, Frank derives the following hypotheses (Frank, 1966: 23-28):

   3.1 In contrast to the development of the world metropolis which is no one's satellite, the development of the national and other subordinate metropoles is limited by their satellite status.

   3.2 The satellites experience their greatest economic development and especially their most classically capitalist industrial development if and when their ties to their metropolis are weakest.

   3.3 The regions which are the most underdeveloped today are the ones which had the closest ties to the metropolis in the past.

According to Frank, the weakening of the satellite-metropolis network can take place only for reasons external to the satellite economies and there is no real possibility of sustained development within the system. The only alternative becomes that of breaking completely with the metropolis-satellite network through socialist revolution or continuing to underdevelop within it (Frank, 1967: 57-66). This type of dependency analysis has been criticised by numerous social scientists. One of the most outstanding critiques comes from Sanjaya Lall, who argues that the characteristics claimed to be exclusive to dependent economies are also found in so called nondependent economies and that therefore they are characteristics of capitalist development in general. He continues his argument that such analyses are unable to show causal relationships between these characteristics and underdevelopment (Lall, 1975:802-808).

Despite the critiques, this approach to dependency analysis contains various true phenomena that are useful for understanding development and underdevelopment in the periphery as Lall accepts in his critique that "Our argument must not be taken to denigrate the real contributions and the intellectual sophistication of the dependency theorists" (ibid.,: 809).

Dependency as dependent development

As briefly mentioned in chapter one, this thought of dependency will be further elaborated in this part. This group of dependency writers asserts that a real process of dependent development does exist in some countries. Development in this context means capitalist development: the process of productive forces, mainly through the import of technology, capital accumulation, penetration of local economies by foreign enterprises, increasing number of wage earners, and intensification of social division of labour. These processes of dependent capitalist development formed a state which is repressive, entrepreneurial and economically associated with multinational corporations. A repressive state became one characteristic of dependent development because the dominant classes have adopted a rapid growth policy emphasising low wages for the masses and capital accumulation in the hands of the few. Thus, industrialisation in the periphery increases income inequality by raising the income of the elites and keeping the wages of workers low. This process, while producing economic growth, has increased the existing social and economic problems of majorities. From the perspective of the dominant classes, it is the function of the state to keep these depressed majorities under control to maintain a good climate for foreign investment. The substitutive forms of mass democracy or populism are not very compatible with a dependent capitalist state because the masses' interests in economic redistribution make it difficult to implement the requisite policies leading to the expansion of industrial dependent capitalism (Cardoso & Faletto 1979: 195-197). The entrepreneurial aspect brings dynamism to a dependent development state. It leads the state to ally in production with the multinational corporations. To some extent, the state has become a strategic factor that permits capitalism to pass into industrialising peripheral economies. The state has expanded the public sector at the same time that it has intensified relations between the latter and the multinational corporations (ibid.,: 203).

The differences between the second approach and this one is that the second approach tends to be the theory of underdevelopment which focuses on an exploitative system between nations, and denies that these processes are a kind of development while the last approach accepts that these processes are a form of development which is called *dependent development.* In this research, the third approach to dependency analysis will be the main concept to be used in assessing the condition of dependent development of the Thai economy.

# Chapter Three

This chapter is composed of three main parts, namely: 1) the historical experiences of Thailand in the process of being assimilated into the world capitalist economy after the World War Two period; 2) the examination of the causes of the Thai economic crisis in 1997-1998; and 3) the exploration of the dependency syndrome in the Thai economy through the analyses of foreign capital's roles; export performance; and wealth distribution. The first part briefly presents the historical experiences of Thailand with multilateral financial institutions and related agencies, within the framework of the strategy of the United States. It focuses on the role of the World Bank and examines the way in which foreign capital in the form of loans and advice has been structured to influence the role of the state in the process of economic development in Thailand, especially after the late 1950s. In the second part, the analysis of the crisis is examined mainly in a regional context due to the framework of world system theory and the concept of dependent development. The last part covers the examination of the dependency syndrome in the Thai economy.

## 3.1 Historical Background of the Post-World War Two Strategy: Thailand, Foreign Capital within the World Capitalist System.

Thailand's structural changes have been closely associated with the political economic and ideological integration of the country into the world capitalist system. As the singular noncolonial form of articulation with imperialism that it has experienced since the mid-nineteenth century, western academic, government and business writings on Thailand almost invariably distinguish Thailand from its neighbours by its lack of a colonial legacy. On the contrary, Rick Doner (1974: 9) criticises the fact that

> "This mistaken view results from a limited conception of colonialism as direct political control of one country by another. Thailand was not governed directly by a colonial administration primarily because France and England accepted Thailand as a buffer between their colonies and secondarily because of Thai diplomatic efforts to achieve this protected status. But this in no way meant that Thailand escaped very basic economic and political consequences of imperialism. For as a result of a series of unequal treaties in the mid nineteenth century, Thailand's economic base was radically affected."

It can be argued that the political and economic effects of these treaties, which ensured free trade and caused Thailand to move from subsistence rice agriculture to primary export production, generated a state of underdevelopment which characterises the formerly colonised countries today. Given a limited specialisation role in the international division of labour, the old Asiatic mode of production was significantly altered into the monetised agricultural production for the world capital accumulation dominated by the British Empire until the aftermath of World War Two (Elliot, 1974: 26). However, substantial social structural change in Thailand occurred in the post-World War Two era when the world capitalist system entered into a new stage and after Thailand had been interwoven into the fabric of the emerging free world system dominated by the US (Bell, 1978: 51). In the Cold War atmosphere, Southeast Asia had a particular importance in the formulation of US foreign policy. Thailand, in US eyes, was to serve as a military bastion for the defence of the region, and as a model of successful economic development along capitalist lines. Military and economic aid were the instruments of these strategies. The nomination of both bilateral and multilateral assistance institutions has profoundly influenced Thai domestic development (ibid.,: 53). In sum, US influence has been by all means the single most important factor giving coherence to the social, economic, and political history of Thailand since World War Two (ibid.).

The US offensive approach in the 1950s attached particular importance to economic development. Economic modernisation proceeded rapidly after the establishment of the Sarit Thanarat regime in 1957. In this area of development, the United States Operation Mission (USOM) was called into Thailand in conjunction with the World Bank and others. The World Bank had played an important role in providing foreign capital for communications, electrification and other social investments since 1950 and its role became increasingly important in the next decades (Thaxton, 1973: 30). While the 1950s was a period of optimism in the eyes of American officials, the 1960s saw the new cycle of class struggle typified by the growth of rural insurgency led by the Thai Patriotic Front. The US saw this threat so their response was counterinsurgency (COIN): a concept which combined military and economic goals into a single package aimed at countering revolt through social improvement and the weeding out of the subversive elements. Military and economic aid were used to implement the following COIN programmes (ibid.,: 33). This included first, propaganda through mobile units under the auspices of the United States Information Service (USIS); second, construction of new highways and privies through mobile development units; third, a whole scale development programme through Accelerated Rural Development (ARD) in the critical provinces; and fourth, a defensive training programme through village security teams including protection by the border police patrol. The scope of these efforts was unprecedented, yet the insurgency grew in strength year by year. In 1960 six provinces in Thailand had been termed 'sensitive' to insurgency but by 1975, the number had risen to forty encompassing two-thirds of the country's area. The reverse effect of the COIN programmes is expressed by Peter Bell (1978: 64) in the following:

> "In many cases the programmes had a reverse effect to that anticipated, not because they were merely foolish and ill intentioned, but because the opportunities which they created were used spontaneously by rural peasants against imperialism and exploitation, in outbursts of mass discontent and violence. Not only was the programme predicated on the most crude assumptions regarding poverty and its relationship to revolt, but rural life itself was undermined by many of the programmes and the interference led to immiseration and disruption."

In addition to COIN, a second aspect of the cycle of struggle in the 1960s was capitalist development. In the context of the Third World, capitalist development was a planned response to the Cold War and to challenges to the capitalist world order. The development theories that lay behind it constituted an ideological response to the threat of instability from rural poverty and unemployment and to low levels of productivity (ibid.,: 65). In the 1950s, the process of original accumulation of capital led to considerable rural to urban migration, and to the growth of new classes in both rural and urban areas. In the 1960s, this process continued in a modified form: foreign investment replaced the rice surplus as the main engine of accumulation, and private enterprise, fostered by both foreign and Thai capital, replaced state capitalism while the Green Revolution and agribusiness continued to proletarianise the peasantry (ibid.,: 67). The Industrial Investment Promotion Act was revised in 1962, granting highly preferential terms to foreign capital, and along with the continued tendency from past decades, resulting in the development model of import substitution. Along with this development, the World Bank had been still the largest loan contributor to the country. The World Bank's loans committed to Thailand and coordinated with other loan sources, exerted an influence not only upon the economic development directions of the country but also upon the pattern of the state formation as well. The increasing importance of the World Bank can be perceived by the ever increasing amount of loan commitments in the later stage of Thailand's economic development, which have surpassed the commitments of other aid donors, both bilateral and multilateral (AAS 1980: 17). During the two decades after the inauguration of the first national development plan, we can identify the nature of Thailand's integration into the world capitalist system by considering the location of its prime sources of external financing. In this integration period, Thailand borrowed 78.04 billion baht from multilateral financial institutions, advanced capitalist countries on a bilateral basis, and various private foreign capital markets (see Table 1). It is important to consider these sources and the size of the loan from each source as follows:

- World Bank. The World Bank had been the most important source of lending to Thailand's economic development investments in view of its overall loan magnitude and its continuing commitments. Its loans from the year 1961 to 1984 comprised 37.71 % of Thailand's total external debt.
- Japanese government. Another important loan contributor to Thailand was the Japanese government. The loan transactions had been done through financial institution such as the Overseas Economic Cooperation Fund (OECF) and Export Import Bank of Japan. The amount of loans made by this bilateral was about 20.73 percent of Thailand's total debt, or 78.70 percent of total bilateral loans.
- Asian Development Bank. The ADB was another multilateral financial institution which ranked third in its lending to Thailand. The amount of lending was approximately 11.46 percent of the total loans.
- Other bilateral sources. Besides Japan, other advanced capitalist countries such as the US, West Germany, Britain, Denmark, Canada and oil-producing countries such Kuwait had provided soft loans for longer periods.
- Foreign capital markets. These are private capital markets in Europe, Tokyo, New York, and so on.. All are located in the centres of the world capitalist system. There are three types of loan transactions in these capital markets. First is the syndicated loan from private financial institutions, disbursed for the purpose of economic development projects and armed forces development. Second is the loan committed from the sales of bonds in foreign countries, disbursed for local cost financing in order to form an additional part of public capital. It is used to finance governmental projects, state enterprises, or for arms expenditure. Last is the supplier's credit, a credit from foreign traders or suppliers. The suppliers of commodities to Thailand are obliged to propose

Table 1: Foreign Loans Classified by Development Sectors and Contributors, 1961-1984 ( Million Baht)

| Sectors | Contributors | | | | | | | | | | Total | % of Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Bilateral | | | | Multilateral | | Commercial Bank | Supplier's Credit | Syndicated Loans | others | | |
| | OECF | EximBank | KFW | AID | IBRD | ADB | | | | | | |
| Agriculture/ Irrigation ( Hydro electronic Dam) Underground water | 2,722 | -- | 725 | 1,262 | 7,160 | 780 | 37 | -- | -- | 466 | 12,702 | 16.27 |
| Communications/ Transportation/Tele-communication | 4,361 | 1,043 | 439 | 545 | 9,282 | 850 | 4,584 | -- | 650 | 630 | 22,384 | 28.68 |
| Power | 5,321 | -- | 842 | -- | 6,760 | 5,174 | 3,386 | 782 | 1,211 | 2,210 | 25,685 | 32.91 |
| Utilities | 2,534 | -- | -- | -- | 1,592 | 392 | 2,463 | -- | 1,865 | 600 | 9,446 | 12.10 |
| Industry/mining/ tourism | -- | 649 | 455 | -- | 1,385 | 1,300 | -- | -- | 14 | 72 | 3,875 | 4.96 |
| Social development | -- | -- | -- | -- | 420 | 384 | -- | -- | -- | -- | 804 | 1.03 |
| Education | -- | -- | -- | -- | 2,178 | 66 | -- | -- | -- | 19 | 2,263 | 2.90 |
| Health | -- | -- | -- | -- | 110 | 662 | -- | -- | -- | 126 | 898 | 1.15 |
| Total | 14,488 | 1,692 | 2,461 | 1,917 | 29,439 | 8,946 | 10,470 | 782 | 3,740 | 4,122 | 78,057 | 100.00 |

Source : NESDB, Garn Goo Ngern Tang Prateth Khong Thai Gab Garnpatttana Seththagij ( Thailand's Debt Commitments and Economic Development ) ( Bangkok : General Printing House, 1985)

*Notes* : KFW = Kreditanstalt fur Wierderaubau of Republic of Germany and provide lending sources. This kind of loan usually comes from financial institution of the supplier's country of residence. The interest is based on commercial terms. Foreign capital markets made loans amounting to 19.21 percent of Thailand's total debt.

- Other sources. These sources are usually advanced capitalist countries such as France, Belgium, Austria, Italy, and so on, which do not make loans through agencies like the Export Import Bank. The amount of loans made to Thailand in this category formed only 5.29 percent of Thailand's total borrowing.

Altogether, the multilateral financial institutions: the World Bank and ADB were the largest loan contributors to Thailand. Multilaterals provided 49.17 percent of total commitment over the two decades. The external financing for the government of Thailand continued to come predominantly from advanced capitalist countries and institutions controlled by them. The aims were to use external financing to strengthen the private sector and to enlarge investment opportunities for international capital (Saibua, 1982: 35). The location of Thailand's prime sources of external financing together with additional sources from (mostly) advanced capitalist countries, should therefore be an indicator of the nature of its integration into the world capitalist economy. This rough indication of Thailand's dependence on external financing and its sources reveals the status of the peripheral state interwoven into the centre-periphery relation in the world capitalist system.

This state's growing dependence on external financing indicates the increasing degree of the country's cohesive relationship with the world capitalist system. As manifested in each national development plan (http://www.nesdb.go.th), the Thai government has made Thailand's development efforts dependent on foreign capital. During two decades of Thailand's financing of development projects, there was an increase in external financial commitments, namely from 5.9 billion baht during the first plan period to more than 131 billion baht during the fourth plan period (see Table 2). This is an obvious manifestation of Thailand's growing dependence on external sources. Furthermore, Thailand's dependence on foreign capital has been diversified into other forms such as foreign direct investment in the 1980s and portfolio investment in the stock market in the 1990s respectively. This growing financial dependency, however, points to the fact that Thailand failed to extract adequate resources from the process of capital accumulation which has prevailed in the industrialised countries. This explicitly indicates that the development existing in Thailand is, to a large extent, different from those of the developed countries. Thailand's development has been and is still dependent on external capital.

**Table 2: Foreign Loans and Public Development Expenditures in each Phase of the Development Plan**

| Development Plans | Total Development Expenditure (1) | Total Foreign loan (2) | (2) as % of (1) |
|---|---|---|---|
| First 1961-1966 | 28,180 | 5,900 | 20.94 |
| Second 1967-1971 | 57,520 | 6,020 | 10.47 |
| Third 1972-1976 | 100,275 | 25,187 | 25.12 |
| Fourth 1977-1981 | 252,450 | 131,144 | 51.95 |

Source: NESDB, 1985

### 3.2 The Political Economy of the Thai Crisis

In this section, first we briefly examine the sequence of crisis events, and then the neo-Marxist perspective on crisis theory, which is associated with world system theory and the concept of dependent development is deployed to explain the causes of the crisis.

During 1990-1993, Thailand opened up its capital account to world investors by removing almost all regulations on the inflow and outflow of money. Foreign capital responded to this profit opportunity immediately. Western and Japanese investors flooded funds into the Thai economy because of the high interest rate. The form of inflow varied from lending directly to Thai firms to portfolio investment in the Thai stock market (Bello et al., 1998: 20-23). According to economic theory, a country cannot handle both an open capital account and a fixed exchange rate at the same time without losing control over monetary policy (ibid., 18-20). But the Thai technocrats tended to believe that an exchange rate fixed to the US dollar would make Thailand attractively stable for foreign investors. So they resisted the advice to relax control of the rate regime (Phongpaichit & Baker, 2000: 1). With these contradictions, the economy became distorted, the baht was inflated and overvalued due to over inflows and the fixed exchange rate. This led to a lessening of the competitiveness of Thai products in the international market - therefore export declined accordingly. At the same time, the overflows of capital resulted in boosting consumption of imports so that the balance of trade slumped into deficit. Most of the inflowing capital had gone to the project for the domestic market and finally generated overcapacity and falling returns (ibid.,: 1-2). The first crack was in the property business: by 1994 the boom in this sector, which had been profitable since the 1980s, was clearly over - but money still poured in this sector. This led to an oversupply situation and property firms could not pay back their debts to finance companies. In 1997, the largest finance company went bankrupt. Furthermore, international finance speculators saw this economic downturn as an opportunity to make a profit by undercutting the baht. The first attack was in late 1996 and a further attack was made with greater intensity in the following year. The Thai monetary authority confronted this problem by spending international reserves to fix the baht value as much as possible because there was pressure from the companies and finance houses which had contracted foreign debt and did not want the baht to fall because it would have raised the baht equivalent value of their foreign debts. But at last, by the end of June 1997, the reserves were almost depleted through this policy and the baht was compelled to float in later July (ibid.,: 3, Bello et al., 1998: 25-29).

Once this information was out, the currency speculators hammered the baht with impunity and foreign creditors had to withdraw their loans as quickly as possible which caused the baht to drop to under half of its previous value. This means that the debts of companies or finance firms with foreign loans doubled. Many firms went bankrupt as the impact of the outflow eventually trickled down to consumption level. Layoffs increased, sales stagnated, and more companies went out of business. Loans were not serviced or repaid. The economy went into a rapid downturn that continued unabated for eighteen months (Nidhiprabha, 1998: 89).

### 3.3 The Causes of the Crisis

The causes and sequencing of the Thai economic crisis have been widely discussed (Hewison, 2001; Krongkaew, 1999; Haggard & McIntyre, 1998; Jayasuriya & Rosser, 2001; Johnson, 1998; Dixon, 1999; Lauridsen, 1998; Aybar & Milaman, 1999). The arguments from these authors on the crisis event can be summarised into the following four main points.

1) Rapid growth of export-oriented industrialisation from the mid-1980s, aided by a large inflow of foreign direct investment created large structural problems which undermined export competitiveness. First, the supply of

some factors of production was exhausted - particularly skilled labour and infrastructure - leading to supply constraints and rising cost. Second, the capital inflows led to a rise in the price of nontraded goods (property) relative to traded goods causing a misallocation of resources and real appreciation of the currency to the detriment of the export economy.

2) These difficulties had created a slowdown by the early 1990s, but were then masked by financial liberalisation. Deregulation and capital account convertibility in 1991-1993 carried out in the context of excessive enthusiasm in the international financial market led to massive money inflows. Gross domestic investment rose above 40 percent of GDP, more than the economy could absorb. In the absence of any monitoring of these inflows, a large proportion of the debt was short term and vulnerable to market sentiment.
3) Given the structure fall in export competitiveness and structural distortion of tradable /nontradable prices, the financial inflows generated a sharp rise in domestic consumption, a similar sharp decline in the current account balance, an asset price bubble, and excessive investment in property and many domestically oriented industries (steel, automobiles, petrochemicals, and services)
4) Economic policy makers failed to control these forces either by getting loose the baht from the dollar, properties sterilising the inflows, or using other means to manipulate resource allocation. In fact, they compounded the crisis by attempts to maintain the existing policy regime. They sacrificed financial reserves in a useless defence of the currency value, and established the Financial Institutions Development Fund (FIDF) which allowed the financial industry to accumulate massive bad debts.

Among these thoughts, there are variations in the weight given to each of these factors and the implication derived from them. But the general outline of the crisis is not in serious dispute. A noticeable common attribute of these thoughts lies in their emphasis only on market mechanisms and policy adaptation by ignoring the factors associated with the world capitalist system. To fill in missing parts of the jigsaw, in this section a well-kept secret of the economic crisis in 1997 will be uncovered by drawing upon Samir Amin's core-periphery spatial ontology to explain the specific features and development of the crisis. In so doing, instead of taking the hypothetically closed national economy as the scale of analysis, I regard the world economy as a whole as the closed system under investigation.

**Table 3: Summary of Net Effects of the Asian Economic Crisis on Currencies and Stock Markets between July 1997 and August 2000**

| Country | Effect on Currency | Effect on Stock Market |
|---|---|---|
| China | None | >50% appreciation |
| Hong Kong | None | None |
| Indonesia | >50% devaluation | 20-50% devaluation |
| Japan | None | 20-50% devaluation |
| Malaysia | 20-50% devaluation | 20-50% devaluation |
| Philippines | 20-50% devaluation | >50% devaluation |
| Singapore | 10-20% devaluation | None |
| South Korea | 20-50% devaluation | 20-50% devaluation |
| Thailand | 20-50% devaluation | >50% devaluation |
| Taiwan | 10-20% devaluation | 20-50% devaluation |

Source: Calculated from Yahoo! Finance http://quote.yahoo.com/m2?u

At the core of Amin's arguments is a fundamentally Marxist conceptualisation of capital accumulation as centring around the relationship between wages and labour productivity. What makes his approach neo-Marxist is his refusal to start the analysis of developing a country's social formations from the assumption of a closed capitalist mode of production. But Amin defines the periphery as being characterised by the incompleteness of the capitalist mode of production and its interpenetration with other pre-capitalist modes (Amin, 1974: 37-38, 561-2). It is this feature of the periphery that Amin finds distinctive, differentiating its growth from growth in the core where the displacement of other modes by the capitalist mode is more complete.

The differentiation between core and periphery established by the historical process which Amin outlines pivot around the difference between an articulated and autocentric process in the core and a disarticulated and extraverted process on the periphery. An autocentred economy is one that has dense internal economic connections, in which wage growth helps stimulate further investment in production and is not highly dependent upon trade for continued growth and reproduction. On the contrary, an extraverted economy is poorly integrated. Wages are low relative to productivity and are not a source of new rounds of investment. Moreover, trade is the outlet for much of what is produced in the most advanced sectors and the stimulus to the economic growth (Amin, 1974: 288-9, 292-3, 562; 1976: 193-4, 273; 1980: 132-3). The disarticulated character of peripheral social formations is crucial to Amin's analysis of the dynamics of crisis. The argument that capitalist development on the periphery is incomplete and extraverted means that the crisis tendencies which Marxism identifies as central to capitalism are incompletely expressed within the accumulation process of the periphery. For Amin, the periphery has no fully developed crisis tendency of its own (Amin, 1974: 533; 1976: 279). This is not to say that peripheral social formations do not participate actively in global capitalist cycles (Amin, 1974: 513); but they participate in a distinct way, one in which the dynamism driving the economic downturn is not primarily internal to the periphery. Crisis on the periphery represents the displacement of crisis forces from the global core, and they cause particular volatility within the peripheral countries most closely connected to the core (ibid.,: 502-3). Amin (ibid.,: 507) also suggests that in the transmission of crisis tendencies, it is the industrialising countries of the periphery that are most susceptible to suffering the effects of a crisis generated in the core. This transmission can be seen as the multi-staged transmission of crisis tendencies down a hierarchical continuum of networked space. Along this continuum, it is the industrialising spaces at the bottom of the hierarchy that will tend to suffer the worst effects. Moreover, those spaces that suffer the worst effects will pass the pain of crisis on to rural areas and secondary cities, with the degree to which they are able to do so depending on the degree to which the locations in question remain agrarian or relatively disconnected from transnational, networked capitalist space.

In applying this approach to the crisis, first we have to realise that the nature of this crisis is not a phenomenon in one country but that it happened on a regional scale, and the effects varied case by case due to the position of states in the hierarchical continuum (see Table 3). And to understand the development of the crisis, the interactions between the affected states in Asia and the hegemonic powers like the US and Japan should be briefly examined here. For the US, the success of economic resurrection in the late 1980s had created a huge amount of reinvestable funds that could not find market outlets in the US itself, so large amounts of these funds came into Southeast Asia during the 1990s, helping to destabilise underregulated financial markets (Winters, 2000: 37). At almost the same time, the revaluation of the yen in 1985 threatened export competitiveness, Japanese firms therefore, moved their investment to Southeast Asia to contain wage and production costs(Steven, 1996: 125). Later, as Japan's economic growth slowed, more Japanese banking capital was export to Southeast Asia in the form of loans and speculative investment, especially in the stock market. These funds merged with the speculative funds flowing in from the US and elsewhere in the West to generate huge increases in property values and stock prices throughout the region. This process was stimulated by Southeast Asian states' policies that fostered financial liberalisation and encouraged capital flow (Bellow, 1998: 18-20).

To understand the specific form of crisis in Asia within the global economic context, it is necessary to detail the hierarchical structure among those relevant states. The position of those states can vary along a continuum from those that have developed very substantial industrial capacity with a large working class and powerful capitalist classes to those which, in global terms, still have a small proportion of their labour force in industry. In this analytical part, from Amin's concept of the differences between core and periphery (1976: 193-4), two empirical indicators are used to indicate the regional hierarchy. The first indicator is wages as a share of value added. This indicator is a useful measure of social articulation in that it gives a strong sense of the ability of domestic consumer demand to absorb domestic production and stimulate new rounds of investment in the domestic economy. In addition, the relative wage levels between different national economies can be taken as an indicator of the ability of domestic demand to generate linkages to other sectors in the economy (Hart-Lansberg & Burkett, 2001: 416). From Table 4, there is a clear regional hierarchy: it indicates the positions of Japan, the Northeast Asian, and Southeast Asian blocs and also a clear hierarchy among the Southeast Asian countries. The other indicator from Amin's concept is the shares of output and employment in high end industries. This indicator can be taken as a proxy for the degree of sectoral articulation on the assumption that national economies with more advanced manufacturing and service sectors can potentially choose to produce agricultural and lower value-added manufactured goods, whereas national economies with large shares of production and employment in the primary goods sector or lower value added industries cannot

**Table 4: Wages**

| Country | Wages/MVA 1980-85 | Wages/ MVA 1995-99 | Yearly wages of Textile Employee 1994-99 ($US) |
|---|---|---|---|
| US | 40.0 | 35.5 | 27,917 |
| Japan | 34.2 | 28.4 | 15,279 |
| Singapore | 37.8 | 30.4 | 16,510 |
| Taiwan | 40.3 | 45.6 | 12,634 |
| South Korea | 27.1 | 26.2 | 11,084 |
| Malaysia | 29.8 | 27.1 | 4,038 |
| Thailand | 20.8 | 13.6 | 2,910 |
| Philippines | 23.5 | 22.7 | 2,285 |
| Indonesia | 23.6 | 19.6 | 395 |

Sources: UNIDO, online database http://www.unido.org/doc/f50215.htmls

http://www.nlcnet.org/resources/wages.htm

**Table 5: Shares of Employment, Manufacturing Value added**

| Country | Shares of Employment by Sector 1997-99 | | | Shares of Employment in Manufacturing By Industry 1995-99 | | | |
|---|---|---|---|---|---|---|---|
| | Agriculture | Industry | Service | Agriculture RawMaterial | Textile | Chemical, Petroleum, Rubber,Metal | Machinery |
| US | 3.2 | 23.6 | 73.1 | 27 | 7 | 18 | 45 |
| Japan | 5.4 | 33.0 | 61.6 | 15 | 18 | 17 | 50 |
| Singapore | 0.3 | 30.2 | 69.5 | 14 | 3 | 11 | 70 |
| Taiwan | 7.8 | 40.4 | 51.8 | 13 | 13 | 24 | 47 |
| South K. | 11.4 | 31.1 | 57.5 | 15 | 16 | 20 | 48 |
| Malaysia | 17.7 | 33.2 | 49.0 | 23 | 9 | 21 | 46 |
| Thailand | 50.5 | 19.6 | 30.0 | 20 | 47 | 14 | 16 |
| Philippines | 40.8 | 16.3 | 43.0 | 32 | 26 | 17 | 22 |
| Indonesia | 42.2 | 18.0 | 39.8 | 39 | 36 | 13 | 13 |

Sources: ILO online database <http://laborsta.ilo.org/cgi-bin/brokerv8.exe> <http//:www.unido.org/doc/f50215.htmls>

autonomously produce more technologically advanced goods and services (ibid.,: 419). Table 5 shows the general employment profile, with the US and Japan clearly having passed beyond early industrialisation to develop more complex economies with a large industrialised sector and a small primary sector, while the Southeast Asian countries at the bottom of the Asian bloc hierarchy still have very large agricultural workforces by comparison. At the top of the hierarchy, the US and Japanese manufacturing sectors have clearly shifted into production of goods like machinery. The lower countries like Taiwan, South Korea, and Malaysia have also developed substantial output in these industries, while the lowest group (Thailand, Philippines, and Indonesia) continues to have relatively greater output in lower value-added industries such as agriculture and raw material goods. The US, Japan and theso-called NICs have the largest shares of manufacturing employment in machinery or chemicals, petroleum, rubber, and metals production, while the lowest group has the largest employment shares in agricultural and raw materials or textiles. From this hierarchy, it can be said that the severity of the economic crisis within different countries in the region corresponds almost directly to their position in the regional hierarchy as shown in Table 3. To further explain what this hierarchical structure means in relationship to the crisis process, we now can explore what -for Marxist theory - is one of the central indicators of the development of crisis tendencies: changes in the rate of profit (Amin et al., 1982: 88).

**Table 6: Profit Rate for Firms in Asian Countries 1990-1996**

| Country | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | % change |
|---|---|---|---|---|---|---|---|---|
| Thailand | 11.7 | 11.2 | 10.2 | 9.8 | 9.3 | 7.8 | 7.4 | -36.8 |
| Indonesia | 9.4 | 9.1 | 8.6 | 7.9 | 7.4 | 6.2 | 6.5 | -30.9 |
| South K. | 4.1 | 4.0 | 3.9 | 3.6 | 3.4 | 3.6 | 3.1 | -24.4 |
| Japan | 4.6 | 4.7 | 4.8 | 4.5 | 4.1 | 3.8 | 3.6 | -21.7 |
| HongKong | 4.9 | 4.8 | 4.5 | 3.8 | 3.9 | 3.9 | 4.1 | -16.3 |
| Singapore | 4.2 | 3.9 | 5.2 | 4.6 | 4.5 | 3.9 | 4.0 | -4.8 |
| Malaysia | 5.4 | 6.2 | 6.0 | 6.5 | 6.3 | 6.1 | 5.6 | +3.7 |
| Philippines | n.a. | 7.1 | 6.4 | 8.1 | 8.5 | 6.8 | 8.4 | +18.3 |
| Taiwan | n.a. | 5.1 | 6.2 | 6.5 | 6.8 | 6.5 | 6.6 | +29.4 |

Source: Claessens et al. 1998 http://www.worldbank.org/research/interest/wrkpapers.htm

Table 6 shows the changes in profit rate for firms in the most and least affected countries. There were clear downward pressures on profit rates throughout the region, but among the countries deeply affected by the crisis, it was those with the most significant declines in profitability namely Thailand, Indonesia, and South Korea that were most severely hit and forced to seek assistance from the IMF.

The development of the decline in profitability can be explained in terms of an overcapacity problem. It is quite clear that, regionally, there was an important problem of overcapacity and declining terms of trade that had developed by the mid 1990s, precisely as a result of the success of these countries at an export led growth in which foreign markets are required for realisation, and also as a result of the huge inflow of investment capital attempting to ride the wave of the regional export boom (Higgot, 2000: 267). This boom was unsustainable without enough growth to respond in either the global economy or the regional market, and not only these countries but also others in the core of the global economy have attempted to rely on an export-led growth/competitive wage strategy which deters rapid demand growth in the global economy. In addition, China's arrival on the global scene as a base for exports in industries ranging from garments to auto parts has intensified the regional competition for the global market. These pressures could be seen in a dramatic drop in export growth among all countries in the region, started by a combination of the devaluation of the Chinese currency in 1994 and the rise in the value of the US dollar to which most regional currencies had been pegged (Chandrasekhar & Gosh, 1998: 70-71). This intensification of export competition engendered by China's emergence has intensified realisation difficulties and overcapacity problems.

At the same time as overcapacity and realisation difficulties were emerging, these problems were accelerated by the changing international politics in the region. The US had to reposition itself in the region after the Cold War by demanding liberalisation measures to open up new areas for its own and its allies' investments. It was in part in response to this pressure that the liberalisation measures allowing rapid inflow and outflow of capital were implemented in South Korea, Malaysia, Thailand, Indonesia, and the Philippines (Bello, 1998: 18). In this general regional context of incubating crisis and changes in international politics, it turned out to be the outbreak of crisis in Thailand that tipped the region as a whole into inflation, though in the broad regional context it could have been any country that started the process in motion. Certainly, it can be said that there were specific factors affecting the outbreak of the crisis, including national bank policies towards currency and capital flows or any other matters that become crucial to understanding why collapse first occurred in Thailand. But once the crisis process began to work through on a regional level, it is apparent - as above data show - that Thailand was struck largely in proportion to the vulnerability it had by virtue of its position in the regional hierarchy. In other words, it is argued - based on the analysis of the evidence presented here- that this crisis was most fundamentally caused by the deeper crisis of capitalism, not simply by bad financial policies, with the severity of the crisis in different places throughout the region being determined in part by the relatively greater or lesser vulnerabilities that countries and localities had as a result of their positions in the global, regional economic hierarchy.

### 3.4 Dependency Syndromes in the Thai Economy

According to the concept of dependent development as explained in Chapter Two, this kind of development means a process of capital accumulation or growth in developing countries which relies on external forces, especially those from the dynamism or demand in industrialised countries. In other words, what makes a country dependent or peripheral is the greater degree to which its essence of accumulation is structured by forces that do not originate from within social formation itself (Palma, 1978: 909). Whether these dynamics are seen as generating underdevelopment (Frank, 1966, 1967), disarticulation (Amin, 1974, 1976), or dependent development (Cardoso & Faletto 1979), the common understanding shared by these theorists is that accumulation on the periphery will be affected much more fully by developments in the core than accumulation in the core will be affected by developments in the periphery. Inside this process, there is a repressive state in which the elites or dominant classes have adopted a rapid growth policy emphasising low wages for the masses and accumulation in the hands of a few. This process in the periphery increases income inequality by raising the income of the elite and curbing the wages of workers. From the perspective of dependent development, this process of exploitation is necessary because it creates good climates for all types of foreign capital and stimulates the competitiveness of their exports in international markets. These syndromes of dependent development are interwoven and sustain one another.

In this part, the identification of basic features of dependent development in the Thai economy will be made with a consideration of the above concepts and a review of Thai economic history. From the consideration, the features or syndromes of dependent development in the Thai economy can be viewed via three aspects namely, the dependence on foreign capital, the dependence on exports or the adoption of an export-led growth policy, and the uneven development or disparity between urban and rural areas. From here, the examination of concrete evidence of the three aspects will be made to expose their patterns, characteristics and all findings and interpretations will be followed up in the next Chapter.

### 3.4.1 Thailand and Foreign Capital

Normally, foreign capital is remitted to Thailand is in two forms: foreign loans and foreign investment. In the beginning of this Chapter, we have appreciated the process of Thailand's integration into the world capitalist economy by focussing on the pushing roles of foreign loans from various sources. Foreign loans in the early period of Thailand's development since the 1960s played a vital role in social and state formations and also in concrete terms, these loans had created infrastructure bases for the other form of foreign capital: investment. From Tables 1 and 2, the statistics clearly show the magnitude and huge volume of foreign loans to Thailand, especially in Table 2, which showed the proportion of foreign loans to public development expenditures was up to more than fifty percent in the period of the fourth National Development Plan. However, since the 1980s direct foreign investment has replaced the position of foreign loans in the Thai economy.

<u>Foreign direct investment in Thailand</u>

It is widely recognised that Thailand has pursued a liberal policy towards industrial ventures since the 1960s. In 1958, the Sarit regime guaranteed not to engage in any new state industrial activity in competition with the 'promoted person' or to nationalise any private industrial enterprise. In the same year trade unions were banned. A year later, the Sarit regime established the Board of Investment (BOI), whose functions were to facilitate private, foreign and local entrepreneurs and investors under the provisions of the 1954 Act (BOI 1971: 63). Due to its ineffectiveness in either encouraging private initiative or attracting foreign capital and advanced technology, the Act was replaced by the Promotion of Industrial Investment Act of 1960, with the BOI becoming the administrator of the new Act. Again, in 1962, the Act was amended to liberalise the promotion concessions and simplify the legal and administrative procedures. Under this Act as amended by the Promotion of Industrial Investment Act No. 2 in 1965, 'promoted persons' received the following rights and benefits (ibid.,: 67-68).

1) Check punctuation!)Tax incentives. Exemption from import duties, custom tariff, taxes on imported machinery, component parts, accessories and prefabricated factory structure required for industrial production; and exemption from taxes on income derived from operation for five years.

2) Non tax incentives.

   2.1 Right to remit abroad invested capital, profit, foreign loans, and interest, or similar obligations, such as patent rights, incentive agreements, or other services of a third party, and convertibility in foreign exchange, subject to whatever restrictions the Bank of Thailand may impose from time to time for balance of payment reasons.

   2.2 Guarantee against the state's engagement in new industrial activity in competition with that of the promoted firms and against nationalisation of any private industrial activity.

   2.3 Right to own land in excess of the limit permissible under other laws if the 'promoted firm' is a limited company or a partnership registered in Thailand.

   2.4 Right to bring in foreign management, technicians or skilled workers in excess of the quotas provided by the immigration law.

3) Protection and export promotion. Aside from the above rights and benefits, one or more of the following special rights and benefit at the discretion of the BOI and for such period as it considers appropriate:

   3.1 Prohibition against or restrictions of imports of competitive products as those produced by the 'promoted firm.'

   3.2 Protective import duties on competitive imported products.

   3.3 Exemption from or reduction (wholly or in part) of export duty and business tax on the product produced.

In addition, during the 1960s the Thai state employed an open arms foreign investment policy by signing bilateral agreements with foreign countries to avoid double taxation on multinational corporations and to guard against the risk of political instability (Tapen, 1991: 38). By 1971, private investment had increased enormously and had assumed an important role in the capitalist industrial development of the country. In this period, there were a total of 526 promoted firms, with 634 projects and a total registered capital of 7060 million baht. More than half of the promoted firms took the form of joint ventures between foreign and local capital (BOI 1971:33-

35). The existing policy was to encourage more joint ventures on a more equal basis as the local industrial sector became stronger, but in a political and social sense, industrial cooperation in joint ventures was likely to prove more stable and lasting. Foreign investors found it politically wise to have local partners in their ventures in the face of possible rising public resentment against foreign economic domination (Tapen,1991: 46).

In 1972, the Promotion of Industrial Investment Act of 1962 was replaced with the Promotion of Industrial Investment Act of 1972 to stimulate the process of capitalist expansion in another direction: export-oriented industrialisation. This new Act could be divided into two parts: in the first place, general incentives were quite similar to those in the 1962 Act - but in the part which dealt with special incentives, there was a shift of the emphasis on investment promotion to industries which depend on local raw materials and those with high labour intensity. Moreover, location of industries was first integrated into the scheme of promotional privileges. The additional special incentives seemed to fail in motivating foreign investors to utilise more local raw materials and absorb more of the labour force. . This argument was clearly proved in Tapen's research on Japanese investment in Thailand (1991). In that research, the Japanese enterprise which has been, and is still, the biggest foreign investor in Thailand in terms of investment volume invested in the promotional location this accounts for only two percent of their total investment. Most Japanese firms failed to absorb the surplus labour from the agricultural sector due to their kind of being capital intensive industry. In addition, the imported technology deployed in Japanese investment required large quantities of imported raw materials in their production system. In terms of foreign investment profile, Table 7 indicates the net volume of foreign direct investment before the 1997 crisis. The Table shows that Japan and the US have played the largest roles in this foreign capital inflow, while in recent times Japan, Taiwan and Hong Kong have been to the fore. Industry has now become the most attractive sector for foreigners, with electrical appliances taking first place, and in this area the leading countries have been Japan, Taiwan, and Hong Kong respectively. The increase in foreign investment had been dramatic in the late 1980s with a low of 3.8 billion baht in 1980 and a high of 39.4 billion baht in 1989. The major factor was the revaluation of the Japanese yen in 1986 in combination with the revaluation of other major currencies in the region - especially those of the NICs (Falkus,1995: 24).

**Table 7: Net Foreign Direct Investment by Country and Sector 1975-1995**

**(Billion Baht)**

| By country | 1975-1994 | | 1995 | |
|---|---|---|---|---|
| | value | Share % | value | Share % |
| Japan | 21.16 | 32.8 | 14.59 | 52.8 |
| Taiwan | 1.12 | 1.70 | 3.16 | 11.40 |
| USA | 19.19 | 29.8 | 3.13 | 11.30 |
| Hong Kong | 4.35 | 6.70 | 3.05 | 11.00 |
| Singapore | 2.53 | 3.90 | 1.49 | 5.40 |
| UK | 3.45 | 5.40 | 0.88 | 3.20 |
| Germany | 2.07 | 3.20 | 0.62 | 2.20 |
| Switzerland | 1.87 | 2.90 | 0.56 | 2.00 |
| Netherlands | 2.45 | 3.80 | 0.29 | 1.00 |
| Others | 6.28 | 9.80 | 0.4 | 1.5 |
| Total | 64.45 | 100.00 | 27.63 | 100.00 |
| By sector | | | | |
| Financial Institution | 1.39 | 2.20 | 2.18 | 7.90 |
| Trade and Services | 20.06 | 31.10 | 6.43 | 23.30 |
| Construction | 10.66 | 16.50 | 1.94 | 7.00 |
| Mining | 10.16 | 15.80 | 0.47 | 1.70 |
| Agriculture | 0.93 | 1.40 | 0.31 | 1.10 |
| Industry | 24.04 | 37.30 | 16.29 | 59.00 |
| Food | 1.95 | 3.00 | 1.23 | 4.50 |
| Textiles | 4.01 | 6.20 | 1.09 | 3.90 |
| Metal | 1.87 | 2.90 | 1.95 | 7.10 |
| Electrical appliances | 6.36 | 9.90 | 6.31 | 22.80 |
| Machinery | 1.50 | 2.30 | 0.73 | 2.60 |
| Chemicals | 3.62 | 5.60 | 1.09 | 3.90 |
| Petroleum | 2.26 | 3.50 | 0.83 | 3.00 |
| Construction materials | 0.03 | 0.10 | 0.03 | 0.10 |
| Others | 2.43 | 3.80 | 3.04 | 11.00 |
| Total | 64.45 | 100.00 | 27.63 | 100.00 |

Source: Statistics Division, BOI , Thailand.

**Table 8: Foreign Capital Inflow and Outflow in Thailand (Million Baht)**

| year | Capital inflow | Capital outflow | | | | Total outflow |
|---|---|---|---|---|---|---|
| | | profit | debit | service | others | |
| 1981 | 1239.7 | 780.3 | 1715.7 | 874.2 | 636.2 | 4016.4 |
| 1982 | 1057.5 | 1058.5 | 2370.5 | 1001.7 | 654.7 | 5085.2 |
| 1983 | 880.8 | 1257.3 | 3027.8 | 1267.4 | 749.3 | 6301.8 |
| 1984 | 798.5 | 1393.8 | 3445.7 | 1294.5 | 866.7 | 7000.7 |
| 1985 | 1427.1 | 1534.0 | 3362.8 | 1286.8 | 945.7 | 7129.3 |
| 1986 | 1604.9 | 1872.4 | 4085.4 | 1449.4 | 1224.3 | 8631.5 |
| 1987 | 3826.3 | 4023.1 | 4023.9 | 1634.0 | 1393.1 | 9984.1 |
| 1988 | 1744.8 | 3775.9 | 4775.9 | 2735.3 | 2110.4 | 13417.0 |
| 1989 | 1614.1 | 3993.3 | 5015.8 | 3881.3 | 2380.6 | 15271.0 |
| 1990 | 2165.8 | 4515.5 | 5318.5 | 3183.7 | 2236.4 | 15357.1 |

Source: BOT 1993: 20

The figures shown in Table 7 have some interesting points. In the "by country"section, we can see that the value of the investment is highly concentrated - especially with the first four ranked countries, that is more than 80 percent of the total value. And, alone with Japan, Thailand received more than 50 percent of the total value of foreign direct investment. These figures are masking some implications of dependent development and some implications related to the crisis process. This point is discussed in the next chapter.

Another set of figures which is more interesting is in Table 8. This Table not only exposes the anatomy of the foreign investment in Thailand but also it explicitly shows a process of the redistribution of surplus value abroad. The data in the Table indicate the redistributing role of foreign investment. Comparing the outflow of capital in the form of direct investment, the ratio was approximately three to one during the period of 1981-1990. Another key figure lies in the service column which consists of payment for technological services, patents, copy right, management fees and wages. The implications in this regard also are discussed in Chapter 4.

### 3.4.2 Thailand and Export-Oriented Growth

As mentioned earlier, Thailand - like other developing countries - had for a period of time in the 1960s and early 1970s adopted import substitution as a growth strategy towards industrialisation. The strategy of import substitution reached its peak and was running into trouble in the late 1970s with the GDP growth rate decreasing. Slowdown became crisis in the mid-1980s when it was exacerbated by the rise in oil price (Phongpaichit & Baker, 1995: 141). This situation is very interesting because instead of helping to decrease import volume and dependence on imported goods, in fact, this strategy created even more import volume through imported raw materials and technology for its production lines. This phase of import substitution represented, for the capitalist periphery status of Thailand, participation in a new form of international capitalist division of labour and this resulted in an unintended outcome. This strategy exacerbated the dependent capitalist development and dependency syndrome of Thailand. In sum, imports were substituted but within a framework of general dependency for the economy as a whole. With these unexpected side effects of the import substitution policy, Thailand turned to the next step of capitalist development: export-oriented growth. The essence of export promotion is the production of selected intermediate and consumer goods in areas where the peripheral economies would be at a comparative advantage. The degree of capital intensity would be so low that these economies could specialise through the application of labour-intensive technology. These goods would be exported to the markets of advanced capitalist countries (Permtanjit,1982: 46-47). In general, export-oriented industrialisation is expected to solve the structural problems caused by the past industrialisation strategy of import substitution.

Actually, compared to other Southeast Asian countries, Thailand had several important economic advantages in the shift from import substitution industrialisation to export-oriented growth during the 1970s. These include (Bell,1996: 53) :

- abundant agricultural commodities which could be exported : natural resource-based exports accounted for 27 per cent of total exports in 1993 compared to over 60 per cent in 1980;
- Thai industry enjoyed a relatively low level of protection, which generated fewer economic inefficiencies than other countries; and
- the relatively large size of the economy permitted economies of scale to be enjoyed.

The advocates for the change of strategy were among the most powerful and influential figures in Bangkok business. They were supported by many technocrats and these supportive voices asserted that "the current strategy based on domestic market protection had run to its limits, and that Thai business was now mature enough to compete in the world" (Phongpaichit & Baker, 1995: 143). This desire was officially acknowledged in the third National Economic and Social Development Plan (1972-1976), as industrialisation and trade strategy began to change from import substitution to promoting exports. Special promotion privileges were provided, particularly for export-oriented firms. Policies to promote exports continued to be emphasised in the following plans. In the fourth plan (1977-1981) large-scale exporting firms and trading companies were encouraged, and export processing zones were established. The fifth plan (1982-1986) placed a new emphasis on industrial adjustment and encouraged small scale industries. In the sixth plan (1987-1991) the emphasis was on restructuring tax incentives. Attention was also given to agro-based industries and the diversification of manufactured products and export markets. In the seventh plan (1992-1996), the export oriented policy continued with an additional reference to the diversification of export markets as well as industrial location (http://www.nesdb.go.th)

In addition to the pressure from local businesses and technocrats, recommendations proposed by the World Bank played a vital role in pushing Thailand into international economy under the scheme of export promotion. The World Bank initiated a series of studies of the Thai economy in 1980 producing an economic review of Thailand (World Bank, 1980), concluding that the impact of external shocks (oil price rises, falls in commodity prices and market for manufactured exports) had only exposed contradictions of the development process and the failure of the previous governments to adjust to changed economic circumstances. To correct the situation a five-year programme of structural adjustment was needed. Under this programme, specific recommendations must be practised which included several strategies of export promotion as follows:

- raising domestic energy prices to the international level;
- ending other fuel and transport subsidies;
- reducing government expenditure;
- reviewing government organisations with a view to reducing waste;
- ending the import substitution policy for industry;

- placing emphasis on export-oriented industry;
- reducing import taxes;
- removing all export taxes and restrictions;
- substantially reducing foreign exchange controls;
- imposing strong deflationary monetary and fiscal policies;
- privatising state controls;

The World Bank (ibid.,: 19) saw structural adjustment as necessary in order:

> "To shift the pattern of growth from one based on the extension of land under cultivation and on import substitution to one based on increasingly intensive use of land and industries producing for domestic and export markets under competitive conditions".

These recommendations were claimed by the World Bank to stabilise the economy by aggregating it more fully to the international economy and reducing the state developmental role. In contrast, if we consider the World Bank strategic thrust through the lens of dependent relationship between centre and periphery, it can be argued that this situation was no longer stabilising the Thai economy (periphery) but rather it helped strengthen the dominating relationship of the centre (the US, Japan and other developed countries) over the periphery (Thailand).That is, by eradicating all possible constraints and obstacles (what the World Bank called *structural adjustment*) to enhance free flow of capital from the centre or relocate their investment bases from the NICs to Thailand to maintain their comparative advantage through lower real wages. So the form of Thailand's development under the export promotion strategy which had been essentially related with foreign capital inflow can be considered as only a by-product of capital proliferation from the developed countries. It is, therefore, merely a dependent development or a development on others' coattails.

Like other newly industrialised countries in Asia - such as South Korea, Taiwan and Hong Kong - the development of manufacturing exports in Thailand began with labour-intensive manufactured products. The rapid expansion of manufactured exports has - to a large extent - been the result of an increase in local competitiveness, and - to a lesser extent - commodity composition and growth in demand for Thai exports in overseas markets. Thailand's rapid export growth of labour intensive manufactured products began in the mid-1980s. One of the reasons for this was a change in relative costs in East Asian NICs where real wages increased rapidly. This caused a decline in the competitiveness of their low skill labour intensive products (Suphachalasai, 1995: 67).

Since the mid-1980s, manufactured exports have been the most important source of Thailand's foreign earnings. The average export output ratio of the whole sector doubled from 10 per cent in 1972 to 20 per cent in 1985 (Tambunlertchai, 1987: 6).

**Table 9 Structure of Thailand's Export 1981-1995 (Billion Baht)**

| | 1981 | 1985 | 1988 | 1990 | 1995 |
|---|---|---|---|---|---|
| Agriculture | 73.0 | 73.4 | 104.5 | 100.0 | 110.7 |
| Labour Intensive Manufactures | | | | | |
| Textiles | 14.7 | 26.6 | 64.1 | 92.3 | 129.6 |
| Jewellery | 5.2 | 8.7 | 23.7 | 34.9 | 41.0 |
| Footwear | 0.6 | 2.4 | 9.7 | 20.2 | 27.9 |
| Total | 22.6 | 41.5 | 118.7 | 185.1 | 257.2 |
| Medium high technological manufactures | | | | | |
| Machinery | 0.3 | 2.5 | 16.5 | 45.4 | 90.8 |
| Electrical Appliances | 0.6 | 1.4 | 6.3 | 32.5 | 62.6 |
| Electrical Circuit | 6.2 | 8.2 | 29.9 | 32.8 | 75.6 |
| Vehicles | 0.1 | 0.3 | 3.8 | 5.5 | 16.5 |
| Total | 7.9 | 13.7 | 61.7 | 130.3 | 281.4 |
| Total Manufactures | 54.7 | 95.6 | 265.6 | 440.4 | 752.6 |
| Total Export | 153.0 | 193.4 | 403.6 | 589.8 | 935.9 |
| Manufactures % of Total Export | 35.8 | 49.4 | 65.8 | 74.7 | 80.4 |

Source: Statistics compiled from http://www.bot.or.th

From Table 9, it can be seen that exports in 1985 amounted to 193.4 billion baht, representing more than 20 per cent increase over the previous year. In 1988, exports grew more than 100 per cent over the volume in 1985, which was the fastest growth rate of exports ever recorded. This happened during the time when world trade was growing at only about 7 per cent a year (Suphachalasai, 1995: 68).

In contrast to the situation in the 1960s and 1970s, when agricultural products occupied the biggest share in export volume, the largest component is now manufactured products which - in 1990 - accounted for more than 70 per cent of total export value. This represents a drastic change in the composition of Thai export structure as prior to 1985 the share of agriculture had been higher than the share of manufactured products. Starting from 1985 the share of manufactured exports began to overtake that of agricultural exports. (This turning point misled most economists at the time to understand that this positive trend of growth would be sustained and was a threshold to be overcome by Thailand in order for it to become the "Fifth Tiger of Asia"). In detail, the major manufactured exports are textile products, integrated circuits, jewellery and processed food - especially canned tuna and pineapple. Most of Thailand's manufactured exports are destined for industrial country markets. The EU, Japan, and the US are the major markets accounting for around 50 per cent of total exports (Table 10).

**Table 10: Trade by Destination and Source 1989-1995 (Percentage Share)**

| | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 |
|---|---|---|---|---|---|---|---|
| Export Destination | | | | | | | |
| The US. | 19.7 | 18.1 | 18.6 | 20.0 | 21.7 | 22.7 | 21.3 |
| EC | 18.0 | 20.0 | 20.6 | 19.3 | 17.6 | 19.8 | 18.8 |
| ASEAN | 14.5 | 14.3 | 13.6 | 11.7 | 11.5 | 11.4 | 11.8 |
| NICs | 7.5 | 8.3 | 7.0 | 7.9 | 7.0 | 7.8 | 8.0 |
| Japan | 13.4 | 14.2 | 14.9 | 16.0 | 17.0 | 17.2 | 18.1 |
| Australia | 1.7 | 1.8 | 1.8 | 1.9 | 1.9 | 1.6 | 1.6 |
| Others | 25.2 | 23.3 | 23.5 | 23.3 | 23.3 | 19.5 | 20.3 |
| Import Source | | | | | | | |
| The US. | 11.3 | 14.3 | 12.5 | 13.6 | 11.3 | 10.9 | 10.6 |
| EC | 13.6 | 13.9 | 14.7 | 14.6 | 13.0 | 12.7 | 13.0 |
| ASEAN | 18.2 | 14.2 | 15.3 | 12.2 | 12.4 | 12.4 | 12.5 |
| NICs | 6.3 | 7.5 | 7.6 | 8.2 | 9.2 | 9.7 | 11.1 |
| Japan | 26.5 | 26.4 | 26.0 | 29.0 | 30.3 | 30.7 | 29.4 |
| Australia | 1.7 | 1.8 | 1.7 | 1.7 | 2.0 | 1.7 | 1.8 |
| others | 22.4 | 22.0 | 22.2 | 20.8 | 21.7 | 22.0 | 21.7 |

Source: Statistics compiled from http://www.bot.or.th

Since the end of the 1980s, we can see that the volume of economic transactions among Thailand and her trading counterparts has been concentrated amongst a group of countries, namely the US., Japan and western Europe. In these transactions, Thai exports form a very small part of the total developing countries' exports to those industrial countries, and a small part of apparent consumption of manufactured goods in industrial countries. At the beginning of the 1990s, Thailand's exports constituted only one per cent of industrial country imports from developing countries, compared with 3-4 per cent for Malaysia and Singapore, and 14 per cent for Taiwan, the Republic of Korea and China (World Bank, 1995: 16). Another interesting point about Thai export data is the ever-increasing ratio compared to the Gross National Product. Table 11 shows the consistently increasing ratio of exports in GNP for the six years before the Thai economy turned into crisis from just over one-third in 1990 to almost half of the GNP in 1995.

**Table 11: Thailand's Ratio of Export in Gross National Product (Million Baht)**

| | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 |
|---|---|---|---|---|---|---|
| GNP | 2,156,107 | 2,469,744 | 2,767,953 | 3,108,922 | 3,578,705 | 4,124,495 |
| ExportValue | 745,286 | 901,494 | 1,046,659 | 1,198,862 | 1,408,699 | 1,749,309 |
| Ratio (%) | 34.56 | 36.50 | 37.80 | 38.56 | 39.36 | 42.50 |

Source: Calculated from key indicators of developing Asian and Pacific countries in ADB (2003: 378-379).

From the above export performances, it can be said that Thai exports exhibit some dependency syndromes according to the definition of export dependency proposed by Permtanjit (1982: 43):

> "export dependency is the dependence of a peripheral economy on a high ratio of export in their Gross National Product, with the concentration of these exports in a small number of commodities and with a few powerful trading partners"

With these aspects of export dependency, the Thai economy has been made sensitive or dependent to a large extent on external shocks as happened in the 1997 crisis. There are three main reasons why export dependency produces this vulnerability. First, export dependency subjects the peripheral nations for commodities they export and makes the economies vulnerable to a drop in the international price. Secondly, there is the conception of the declining terms of trade for agricultural commodities exported in comparison with manufactured goods imported. Lastly, export dependency causes the vulnerability of peripheral economies to substitutions either through changes in the commodity used or through consumer taste substitution (ibid., 44).

### 3.4.3 Thailand and Wealth Distribution

In a dependent economy, one of the most distinctive indicators of dependence is the malfunction of income or wealth distribution. Lall (1975:801) asserts that in most less developed countries or the periphery, income distribution tends to be highly skewed and concentrated and in most of these countries wealth distribution worsens with economic growth. So in this section, we examine these characteristics in the Thai economy to indicate the scale or extent of dependence through the aspects of uneven development and the disparity between urban and rural areas.

From 1960 until the crisis in 1997, Thailand had a remarkable record of high growth. During the 1960s the average growth rate of the GDP was around 8 per cent per annum. In the following decade it slowed to about 6.7 per cent. During the early 1980s, despite the international economic recession experienced by many countries, Thailand had growth rates of around 3-7 per cent, with even higher rates towards the end of the decade. Between 1988 and 1990, it was higher than 10 per cent which was the fastest growing rate in the world at the time. Before the crisis, the average annual growth rate at the beginning of the 1990s was still satisfactory, say around 8 per cent (Tinakorn, 1995: 218; Dixon, 1999: 113). As Hewison (1989: 1) notes:

> "tourism has boomed, manufactured exports have skyrocketed, and economic growth statistics are regularly being revised upwards"

Behind this growth lies the other part of Thailand where change and improvement of life is much slower. The benefits from the growth have not trickled down to every part of society on an equal basis. Many parts have been left behind, especially those which are found far away from the area of Greater Bangkok. Dixon (1996) notes, Thailand's designation as a near NIC has more characteristics of a newly industrialising city than country. Nearly four-fifths of Thailand's manufacturing value-added emanates from the capital city and the regional distribution of income is skewed in favour of the economic core. There is also evidence that income disparities have increased during - and as a consequence of - the boom years (Hewison & Brown 1994). As Samudavanija and Paribatra (1993:124) state:

> "the overall picture of Thailand is that of a dynamic country that has been able to take advantage of the growth of the world economy and at the same time to cushion itself from the worst vicissitudes arising therein, but also a country faced with problems of equity and distribution, of poverty and lack of opportunities for advancement for many of its own people".

Before we get deeper into the details of Thailand's uneven development, the concept of uneven development should be clarified here. *Uneven development* is the *manifestation in space (such as between places, sectors and people) of the problem of unequal access to natural, social, political and economic resources* (O'Connor,1989:2). Uneven development may be a predominantly economic phenomenon but it is not essentially an economic problem because the problem rests with society and particularly the disadvantaged areas and people who tend to be left behind or overlooked as development proceeds. It may be 'endemic of capitalist societies' (Hudson.1988: 484), and although a perfectly even pattern of development may be impossible to achieve, if it is viewed in value rather than factual terms, its existence and persistence are unacceptable (Lummis, 1992:38). It is important to emphasise that uneven development is not a static phenomenon but an ongoing, dynamic process as Hadjimichalis (1987: 85-86) expresses in his view that:

> "uneven regional development is not a simple and static reflection of the geographically uneven distribution of productive forces within a particular social formation. It is rather a dynamic process acquiring various forms of intensities, depending on the specific historical conjecture in the social formation under question"

In the case of Thailand, this dynamic process of uneven development can be clearly identified in the disparity between Bangkok and the rest of the Kingdom in terms of regional per capita GDP as shown in Table 12. This Table reveals that the benefit from economic activity under capitalist development in Thailand is highly skewed and concentrated in the area of the capital city. From 1980, the distribution of wealth had become more and more polarised; only Bangkok was prosperous, leaving other regions with less and less economic turnover and in decline.

**Table 12: Regional per Capita GDP at Constant Prices as a Percentage of the National Average**

| | Bangkok | Centre | South | North | Northeast |
|---|---|---|---|---|---|
| 1980 | 296.4 | 111.9 | 83.6 | 65.1 | 42.4 |
| 1981 | 292.0 | 86.7 | 82.5 | 65.8 | 42.7 |
| 1982 | 289.1 | 85.9 | 81.7 | 65.3 | 45.1 |
| 1983 | 287.2 | 81.7 | 75.1 | 62.3 | 43.4 |
| 1984 | 285.4 | 87.4 | 74.1 | 65.4 | 43.2 |
| 1985 | 283.0 | 88.2 | 74.9 | 65.7 | 44.3 |
| 1986 | 290.0 | 90.0 | 74.7 | 63.3 | 39.2 |
| 1987 | 307.8 | 86.5 | 71.9 | 59.9 | 39.1 |
| 1988 | 315.4 | 86.0 | 68.9 | 56.3 | 38.2 |
| 1989 | 311.4 | 81.6 | 70.4 | 55.3 | 34.9 |
| 1990 | 323.9 | 77.4 | 67.9 | 52.1 | 33.7 |
| 1991 | 323.9 | 79.3 | 65.6 | 52.1 | 33.3 |
| 1992 | 325.1 | 78.7 | 64.3 | 51.8 | 32.0 |
| 1993 | 340.6 | 78.3 | 60.2 | 47.9 | 31.1 |

Source: Dixon,1999: 215

In addition to per capita GDP, in 1988 the Bangkok region contributed up to 50 per cent of Thailand's Gross Domestic Product even though its population amounted to only 10 per cent of that of the whole country (Kaothien, 1991: 1027). Not surprisingly, a similar situation pertains in relation to the distribution of income and the provision of infrastructure. Under the sixth development plan (1987-1991), the Bangkok region attracted almost 92 per cent of total investment in infrastructure and 96 per cent in transport (Ratanakomut et al., 1994:206). Bangkok also has the highest concentration of universities, hospitals, doctors, industries, financial organisations, telephones and private cars (Rigg, 1991: 156).

Disparities exist not only among regions but also between rural and urban areas. Before the crisis, Thailand had a population of 60 million with the minority of around 30 per cent living in urban areas. The urban sector gained the larger portion of the benefit of development. It benefited to a greater extent than the rural sector in terms of the provision of infrastructure, financial services, educational and health facilities (Ratanakomut et al.,1994: 212). To understand rural-urban differentials, it is necessary to focus on government policies. Tonguthai (1987: 185) states that the pattern of development in Thailand conforms to the urban bias model in which the development decisions of the government reflect the interests of the urban elites. Rural areas were neglected by state elites which systematically allocated resources to urban areas, particularly Bangkok because of the greater efficiency of resource use which was expected to occur here. The government's emphasis was on large-scale industries that concentrated around Bangkok and the central plain. A service-led growth strategy further accelerated the expansion of Bangkok as a primate city. A Thai economist, Prayong Netyarak has a very conclusive expression on government policies (cited in Gohlert, 1991: 21) that:

> "Government policies relating to rural development failed to achieve its objectives because it was determined in an urban context. The government spent very little on rural development - some 6 % of the entire national budget – and enforced policies which effectively brought down the income of farming families and further widened the gap between rural and urban populations".

The uneven development in the Thai economy has appeared not only in spatial aspects but also within the same sectors such as the urban economy, the income skew increased. At the top end, a few became rich as businesses boomed and urban land inflated in price during the late 1980s. Some became very well off because they had the education and skills which were needed. But at the bottom end, others had little skill or education, which tended to give them little chance for better wages (Phongpaichit & Baker, 1996: 208). From 1981 to 1992 , the average income of the top 10 per cent of the nation's households increased almost three times while those of the lowest 30 per cent were almost stagnant. The gap between these two groups expanded from 17 times to 38 times. With this skewed income, Thailand in the early 1990s ranked high amongst those countries with the most skewed distribution. And by 1994, it ranked in the top five surrounded by Latin American countries which were integrated into the capitalist world economy and had skewed distribution rooted in such integration (ibid:, 208-209).

From the exploration of the dependency syndrome in the Thai economy in this chapter, it has been found that Thailand was integrated into the world economy through the influx of foreign loans and foreign investment. This foreign capital played a vital role in promoting economic growth, while at the same time creating a state of dependence of the Thai economy on the source of foreign capital to pursue and maintain that growth. In this pursuit, Thailand lost huge benefits through the redistributing role of foreign investment, where profits were, of course, repatriated to the countries whence the investments had come. The export industry, which relies heavily on foreign capital, exhibits characteristics which have made the Thai economy very susceptible to external shocks. In terms of the benefits from industrial development which have been associated with the involvement of foreign investors and transnational corporations (Dixon, 1996: 28), the distribution has been highly skewed, creating uneven development in the country. In the next chapter, aspects of the dependency syndrome identified in this chapter will be more fully analysed to explain how they have produced significant detrimental effects on the Thai economy.

# Chapter Four

As demonstrated in the preceding chapters, Thailand is a classic example of an economy exhibiting the dependency syndrome. Capitalist development in Thailand after the late 1950s was a manifestation of the imperialist strategy in which the World Bank and multinational corporations were important actors. That is, industrialisation occurred in the dynamic of Thailand's growing dependence on foreign capital both in technical and financial terms. Under this international pressure, the state relaxed its direct industrial production and changed its role to become a facilitator of capitalist development through the medium of private capital accumulation. In other words, the state induced dependent development through an open door policy, as reflected in the nature of state policies and laws such as development plans, industrial investment promotion laws, and structural adjustment programmes, including the liberalisation of capital inflow and outflow at the beginning of the 1990s.

These state policies were not, in general, independent state instruments used by the Thai state in pursuit of a particular development strategy. In fact, they were dependent variables responding to many factors. This thesis argues that they were pressured and shaped by external powers, especially multinational corporations, to serve their own needs through the mechanism of foreign aid institutions (the World Bank and IMF in this case) (Thomas, 1984: 109). At this point, it can be said that the general conditions imposed on the Thai state by the financial and technical dependence on those international aid agencies and multinational corporations have set in motion dependent capitalist development. In short, dependence on foreign capital, both financial and technical, at the state level provides inevitable conditions for the basis of dependent development to emerge and develop at the level of the national economic structure.

It is within the above theoretical proposition that this chapter extends analysis of the mechanism with regard to the dependent industrialisation process in Thailand. This chapter also examines the series of negative consequences that follow from the process of dependent industrialization and finally seeks to demonstrate that the process of industrial capital accumulation in Thailand has not been able to achieve independent industrialization due to a series of constraints created by the process of dependent development.

## 4.1 Technological Dependence and Continued Dependency on Importing the Means of Production

The industrialisation process in Thailand was part of an externally induced growth process. A series of factors led to the creation of some industries whose products would substitute for imports. The substitution model was thus determined by the set of imported goods and characterised by advanced technology imported to assist the industrial capital accumulation for foreign investors. This implied a reliance on imports of capital goods, inputs and foreign skilled workers. The dependency syndrome, therefore, manifested itself in the high degree of reliance on these factors of production which - when taken all together - implied a technological dependency. Imports were substituted within the framework of the dependency syndrome. On the other hand, this dependency was in itself related to a certain degree of reliance on foreign industrial and financial capital.

The research by Tapen (1991), whose data come from the Board of Investment survey in 1989, demonstrates the degree of import dependency on those factors of production in both import substitution and export-oriented activities. In the research, Tapen assesses the relative capital intensity of foreign and domestic firms by calculating the ratio of value in fixed capital or assets (land, buildings, machinery, etc.) to the number of employees for foreign and domestic firms. The result is that foreign firms were in general more capital intensive than were domestic firms. The capital-labour ratio for foreign firms was higher than that of domestic firms in every industry group. The high concentration in the capital-intensive activities of foreign firms also reflected the high degree of import dependence of large-scale manufacturing production in the economy, since production of machinery for use in manufacturing activities did not exist in Thailand and a great proportion of the basic capital inputs had to be imported.

The situation of the high degree of import dependence has not changed much since the second survey by the Board of Investment in 1995 (BOI 1995) which shows a similar performance of import dependence. The average percentage of imported to total machinery and materials was broken down into foreign and domestic firms in each industry (see Table 13). The import component of all firms was 86 per cent of the total machinery and materials. Moreover, in textiles, chemical products, rubber products, electrical appliances, and motor vehicle parts, the imported capital inputs were more than 90 per cent with some approaching 100 per cent. Foreign firms appear to create more dependence on imports than do domestic firms. As to the source of imports, the evidence reveals that the foreign firms depend very much on the supply of intermediate materials from their home countries and in the joint venture enterprises, the firms with a high degree of foreign ownership tended to secure a higher proportion of imports from their home countries (Tapen, 1991: 64).

**Table 13: Percentage of Imported to Total Machinery and Materials**

| | Percentage of Imported to Total and Materials | | |
|---|---|---|---|
| Industry/type | Joint Venture | Foreign Firms | Thai Firms |
| Metal and mineral products | 80.9 | 91.0 | 69.4 |
| Food | 67.6 | 89.4 | 42.2 |
| Textile | 97.5 | 98.1 | 93.4 |
| Wood products | 89.1 | 98.9 | 88.7 |
| Chemical products | 97.3 | 98.1 | 89.6 |
| Rubber products | 93.2 | 93.5 | 79.6 |
| Electrical appliances | 93.0 | 93.0 | - |
| Non metallic mineral products | 75.3 | 96.2 | 71.5 |
| Motor vehicle and spare parts | 95.0 | 94.7 | 96.3 |
| Total | 86.0 | 95.3 | 74.2 |

Source: BOI 1995: 16

This is clearly supported by the figures in Table 7 and Table 10 which show that while Japan was the largest foreign investor in Thailand, at the same time it was the biggest source of imports to Thailand. This undoubtedly indicates the correlation of the Japanese investment in Thailand and its dependence on imported machinery and raw materials. On the whole, manufacturing industries in Thailand depended largely on imported materials and the degree of dependence did not decrease with the passage of time.

The high degree of dependence on basic capital goods and material inputs implied, in part, technological dependency. Other indicators implying the state of technological dependence were the purchase of technology in the form of patents and royalties and the importing of skilled workers of foreign firms. In the next section, the detrimental effects of decapitalisation for the outflow of surplus value for the purchase of technology are discussed.

## 4.2 Decapitalisation of the Thai Economy Through the Redistribution of Surplus Value Abroad

Another constraint to internal capital accumulation in Thailand and at the same time sustaining its dependence, was the decapitalisation of the economy or the redistribution of internally produced surplus from the country. This redistribution came from several sources. In the first place, the basic source was the unequal exchange between the centre and peripheral countries based on the low cost of labour in the latter (Cypher & Dietz, 1997: 191-192). Another source is new forms of decapitalisation, linked directly to industrial activities which began to increase their importance in the Thai economy. One of these new forms was a financial term, which originated from balance of payments deficits and was exacerbated by the externally induced industrialisation. During the period from 1981 to 1990, according to data from Table 14, the negative balances of the commercial, capital, and technical accounts all increased significantly. The movements of commodities, capital (repatriation of profits, dividends, and interest on foreign investments and loans) and technical services (wages, management fees, and payment of patents and royalties) contributed to the increasing deficits in Thailand's balance of payments.

**Table 14: Decapitalisation of Capital and Surplus (Million Baht)**

| Year | Trade Balance | Capital Services Balance | Technical Services Balance |
|---|---|---|---|
| 1981 | -10,424 | -553.6 | -87.9 |
| 1982 | -11,257 | -724.1 | -95.3 |
| 1983 | -12,237 | -854.0 | -137.2 |
| 1984 | -9,519 | -962.8 | -170.8 |
| 1985 | -8,384 | -962.7 | -191.9 |
| 1986 | -9,958 | -1,138.2 | -242.3 |
| 1987 | -14,245 | -1,865.5 | -280.3 |
| 1988 | -21,828 | -2,554.2 | -330.0 |
| 1989 | -12,080 | -2,514.6 | -413.7 |
| 1990 | -25,599 | -2,665.6 | -534.5 |

Source: BOT 1993: 18

The decapitalisation role of direct investment was briefly mentioned in Chapter Three (Table 8), and the data in that section show an increasingly important component of the service debt (in service column) which is payment for technological services. This reflects the continued technological dependency syndrome. Decapitalisation, or redistribution of internally generated surplus through payments for technology, increased rapidly. Between 1981 and 1990, direct payments for patents and copyrights accounted for 1,704.7 million baht; management fees totalled 760.3 million baht; and wages totalled 590.9 million baht (BOT 1993: 22-24). This did not, however, include an indirect cost of foreign technology in the form of *transfer pricing* which "charges more than the international price for purchase of inputs and machinery required by the technology contract" (Mcintyre & Papp, 1986: 44).

### 4.3 Concentration of Industrial Capital and Surplus

In general, capitalism is inherently an expanding system, for capitalists must constantly accumulate and reinvest their capital in order to maintain it. They must continually expand to remain intact; if they did not they would be destroyed by competitors. In such a system, the accumulation process leads to concentration of capital by the larger capitalists gaining what the smaller capitalists lose. This centralisation of capital is the dynamic element in the accumulation process which is reinforced by economies of scale (falling average costs with increasing size). This gives advantages to the already large capitalists or firms over the smaller ones, enabling the larger to beat the smaller (Gurley, 1979: 41-43).

The capitalist development in Thailand is not an exceptional case by the above definition. In the Thai economy, concentration of capital and surplus has been derived from two main sources:

1. In the process of industrialisation, monopoly expansion was created and facilitated by the elements of state policies and laws - for example, the industrial investment promotion laws, especially the protection measures, gave the "promoted firms" a better monopolistic position in the appropriation of surplus value and accumulation (Marsouk, 1972: 61). When entering into the economy, foreign firms - with their superior competitive power, advanced technology and economies of scale - were in a superior position to wipe the domestic firms out of business and gain a higher degree of monopoly and concentration (Ramanwong, 1994: 84). For instance, in the textile industry, the establishment of modern textile plants under the promotion programme destroyed hundreds of small-scale textile manufactures (ibid.,: 88). The

existence of large and technologically developed foreign firms precluded the possibility of a domestic firm's entry into the industry (ibid.,: 89). In investigating the relative sizes of the firms by assets and sales, Ramanwong finds that there was a high degree of concentration of large firms in almost every industry group. A few very large firms controlled a very large portion of sales, for example:

> "the four largest companies in metal and mineral products accounted for over 80 per cent of total sales, and the single firm with the largest sales in this industry alone accounted for 60 per cent of the total sales. The seven firms which had sales figures over 100 million baht in textiles also accounted for over 80 per cent of the total sales in that industry. In rubber products, three big tyre companies accounted for over 80 per cent of sales in the same industry group. In non-metallic mineral products, the single largest cement firm accounted for over half of the sales in the industry. When the sales figures of three other firms in the same industry group were added, the share of sales of these four companies combined accounted for 97 per cent of the total sales figures of all firms in the same industry group" (ibid.,: 90).

The above examples of the firms under the investment promotion programme revealed the high degree of concentration of surplus in a few hands in each industry. It can be said that these firms should be in a superior position compared with the firms outside the programme. This fact suggests that the concentration of capital in the dependent industrialisation was strengthened even more and the monopolistic attempt was inherent in the economy as a whole.

2. The alliances between multinational corporations and local capital: joint ventures between foreign and local capitalists were a common practice in the dependent industrial capital accumulation in Thailand owing to various political and ideological factors mentioned in Chapter Three. These joint venture corporations dominated industrial production in a series of key branches of industry, they also concentrated capital as conglomerate integration (Buranabhand, 1990: 102). For example, the Italthai in cooperation with the Siam Cement Group controlled all the construction industry. With their strong relationship with the international and joint venture bank group, they could expand their economic activities and because of this broad range of investment these two groups had pervasive effects on dependent development (ibid.,: 96). During the same time, Japanese corporations have dominated the textile, the automobile assembly, and the glass sheet industries. Of the total 380 textile plants, twenty firms controlled the industry but only seven firms had

sales figures over 100 million baht, in combination these seven firms accounted for over 80 per cent of the total sales of the industry (ibid.,: 98). The Japanese domination of the textile industry was strengthened by their alliance with certain Thai ruling elite. This argument is confirmed by the fact findings in Tapen's (1991) research. It was found that the ruling Thai elite group, ranging from the Prime Minister (Chatchai Choonhavan), and the Minister of Industry (Praman Adireksarn) to six senators at the time, were affiliated with the eight largest Japanese firms in the textile industry (Tapen,1991: 110-112).

The alliance between the multinational corporations and local elites is a quid pro quo relationship where one depends on the benefit of another. For instance, a foreign capitalist may seek for a political favour from his politically influential partner and the latter depends on the technological and managerial superiority of the former. This pattern of relationship can be conceptualised by an idea of Galtung (1979) on the mechanism of imperialism which considers local elites as the centre in peripheral countries functioning as a spring board or bridge for the penetration of foreign capital. The benefits between centres and local elites are on a reciprocal basis, the characteristics for being such a "bridge" can be viewed from their high ranking or influential positions in economic or political domains (ibid.,: 156). On the whole, these alliances contributed to the concentration and centralisation of capital and surplus into fewer hands, and eventually strengthened the process of dependent industrialisation. As concentration and centralisation became the interests of a few groups, this tended to decrease economic dynamism or competition because of the barriers to entry for other Thai capitalists.

### 4.4 Limitations of the Export Led Growth Model

In addition to the above detrimental effects of dependent industrialisation in Thailand, the export led growth model which has been adopted since the 1980s has also created some negative consequences in Thailand's development as follows:

1. The relative neglect of agriculture in favour of urban-based manufacturing projects: The development model in Thailand has long been premised on the extraction of agricultural surplus for use in the urban areas (Bell, 1990). The rural areas provided a large surplus by transferring resources (mostly in the form of rice tax) to urban areas, accounting for 23 per cent of GDP in the second half of the 1970s and 15 per cent in the 1980s (Siamwalla, 1987: 34). This is a continuation of the

historic pattern resulting from the particular structuring of the fiscal system, pricing policy and trade policy. Banks have maintained a consistently urban-biased policy. The banking system transferred through voluntary deposits around US$280 million in 1975 and US$1,400 million in 1982 from the rural to urban areas, the aim of these policies was to shift resources to the corporate sector for the promotion of an export-oriented industrialisation (Jansen,1989: 8-9). Not only the transfer of resources from rural to urban areas, but also the neglect of agriculture has caused the displacement of agricultural labour. This problem leads to landlessness and underemployment. Much of this surplus labour has ended up in petty services in urban areas, especially Bangkok, while others go working overseas, for example in the Middle East. There were an estimated 200,000 Thai women working in the sexual services industry in Europe alone in the 1980s and Thai women were reportedly working in night club and sexual service outlets in Japan, New Zealand and Australia (Kanjanauksorn, 1987: 20, 24).

2. Export-oriented growth requires relatively cheap labour to compete in the highly competitive world markets for manufacturing goods. This curbs the wage rate below minimum subsistence and means that workers are forced to rely on other sources to live their lives at minimum levels. In this way, they subsidise the capitalists who do not pay the full costs of maintenance and reproduction of the labour they use. The conditions of this new class are far from ideal; it is claimed in 1996 by high a ranking source that 60 per cent of more than 250,000 factories around the country paid their workers less than the minimum wage specified by law (Bello et al., 1998: 78-79). One of the most interesting problems associated with Thai labour during the period of export promotion is squeezing labour for international competitiveness. While facing the competition of labour-intensive production from lower wage countries like Vietnam and China, instead of shifting to high-tech production with a more skilled work force, Thailand's manufacturers took the easy way out by relying on cheaper labour such as temporary or migrant workers, and some companies laid off hundreds of workers then replaced them with new workers (ibid.,: 86-87).

3. The global markets for manufacturing goods are highly competitive. This fragile nature not only leads to a reorientation of economic resources to the needs of external markets but also shifts in comparative advantage can have a profound effect on export demand. This was a situation with which Thailand was faced before the crisis in 1997 due to the emergence of cheaper labour markets in China and Vietnam,

and it caused the decrease in international competitiveness and export volume accordingly (Phongpaichit & Baker, 2000: 14).

From the analysis in this chapter, we have investigated the process of industrial development in Thailand in the context of dependent industrialisation. It has been demonstrated that this process is unlikely to achieve independent industrialisation due to a series of constraints generated by the process of dependent industrialisation itself. These impeding factors are as follows:

- The production of import substitution and export promotion required mostly capital intensive techniques from the advanced capitalist countries. As a result of the specific pattern of industrialisation, the degree of import dependence on capital goods, inputs, foreign skilled workers and technological services were strengthened and increased over time, simultaneously with the absence of an internally developed technology. The dependency syndrome developed and continued in the process of industrial capital accumulation.
- Internal capital accumulation was hindered by increasing decapitalisation of capital and surplus through the high degree of import dependence on means of production, payments for capital and technological services, repatriation of profit and the like.
- As dependent industrialisation continued and expanded, it led to the concentration of capital and surplus and a small number of corporations with monopolistic positions in the economy and this situation further sustained the dependency syndrome.
- The nature of the export-led growth model adopted by the Thai government exhibited unsustainable characteristics and created some contradictions in the Thai economy. With its highly competitive nature, this model did not allow internal capital to accumulate through higher wages and this vicious circle made the country rely or depend on reinvestment from external sources.

In relation to the crisis in 1997, if we draw upon our finding and discussion on the causes of the crisis in consideration together with the above dependency syndrome and its detrimental effects on the Thai economy, it is possible to postulate that the dependency characteristics created and sustained the status of the Thai state in the regional and world economy. This status in the regional hierarchy rendered the country vulnerable to the crisis in the world capitalist system. Under such vulnerability, depending on foreign capital and international markets as fundamental problems, Thailand had a decline in manufacturing profitability which resulted from increasing competition, and limited capacity for technological improvement due to technological dependence.

These underlying tendencies paved the way for any upcoming incident to develop into economic crisis which happened in 1997 and which has been examined in preceding Chapters.

# Chapter Five

## 5.1 Conclusion

This thesis is an analysis of what existed in real time and real space with regard to the economy of a dependent capitalist developing country in its internal and international conjuncture: the Thai economy and the world capitalist system as a whole. By taking the 1997 economic crisis and the manifest effects described in Chapter One as the most obvious manifestations of the dependency and insustainability in the Thai economic development process, this thesis investigated, in retrospect, realities which had influenced the consequent development of various sectors over this period. The period emphasised covers the era of intensive national development efforts and increased expansion of influential external forces such as foreign aid and investment since the 1960s. On the whole, the thesis is a specific economic history of the limitations on the peripheral state in the process of integration into the world capitalist system and has demonstrated the fundamental theoretical premise that Thai economic development can be understood in the context of dependent development within the world capitalist economy.

It becomes evident in the course of an historical analysis of the Thai economic development that Thailand is the epitome of dependent capitalist development and of the dependency syndrome. The Thai pattern of dependent development can be formulated into the following generalised framework:

Dependent capitalist development in Thailand is the historical consequence of the formation and expansion of the capitalist world economy. It was shown in the first part of Chapter Three that foreign aid from the Word Bank constitutes and influences the patterns of economic development and in the same Chapter, various sets of historical data indicate that the dependence on foreign capital and technology provides the necessary conditions for dependent capitalist development and the dependency syndrome to consolidate and persistently develop at the level of economic structure or in the process of capital accumulation. And in Chapter Four, it was shown that when the process of dependent capitalist development is in motion, a series of negative outcomes result which are inherent in the capitalist growth process. More foreign capital is necessary to cover past debts and to maintain existing economic growth, thus keeping dependent industrialisation going. Therefore, this logic of economic liberal views seems to be an entrapment into the vicious circle of dependency relations and the dependency syndrome. At the same time, continued and growing dependence on a certain degree of the externally induced industrialisation process is also an entrapment into the vicious circle of financial and technical dependency.

As a consequence of these intertwined vicious circles, the dependency relations and dependency syndrome inevitably lead to profound contradictions and tensions which threaten the stability of the process of economic development. The new industrialisation strategy is unable to break the vicious circle of dependency. On the contrary, it strengthens the process of dependent capitalist development, for the strategy requires even more foreign aid and investment in the capital accumulation process. The new strategy thus strengthens the economic linkage with the world capitalist system. The decapitalising role of the export promotion industrialisation is significant and undoubtedly contributed to Thailand's almost going bankrupt in 1997. Thailand in the new millennium is very likely to encounter another economically catastrophic event again unless the linkage with the capitalist world economy is weakened, and unless the development strategy and efforts are directed towards a structural change from the prevalent conditions of existing power relations and distribution towards the development needs of the marginalised masses.

## 5.2 The Thai Pattern of Dependent Capitalist Development and Suggestion for Further Studies

The conclusion of this research, in fact, represents an introduction to further inquiry into the problems of the political economy of dependent capitalist development in Thailand. Many related issues were not examined in this study. However, the study is conclusive in itself, given the objective of focussing on the genesis and external causes of the dependent capitalist development in Thailand. Nonetheless, the pattern of dependent capitalist development investigated in this thesis may serve as a theoretical framework of reference to generate more research. It is not an exaggeration to say that most of the assertions have been substantiated by a historical analysis of the Thai economic development process and its concrete outcomes. This dependent pattern helps to explain: first, how modern Thai economic history took place as a result of external forces, second, where these forces came from, and third, how these external forces became operative through internal mechanisms.

Furthermore, the dependent pattern is a useful explanation of the fundamental relation between external influences and internal movements. The problem lies in the fact that external circumstances exert an enormous influence and still, the contradictions of the inner structure basically determine the particular form and direction of the effects which external influences exert. It is possible here to acknowledge the sources of unexamined problems that would complete the study of dependent capitalist development in Thailand.

1. Much of the analysis was directed towards the framework that dependent capitalist development in Thailand is a function of the political economic and ideological integration of the country with the world capitalist system, and that foreign financial capital limits the capacity of the state to realise the economic development process as happened in industrialised countries. The internal characteristics of the political economy of the state, which constitute the basis for the dependency syndrome, have not been integrated into this thesis. The following questions are pertinent with this argument: 1) What were the internal sources impeding the development of independent capitalism in Thailand? 2) What were the major characteristics of class structure that contributed to the weakness of the local bourgeoisie in comparison with foreign capitalists? 3) Why were the local bourgeoisie unable to gain a hegemonic position in the political economy?

All of these internal causes and movements may already have been studied by a number of students of Thai political economy, but none has been developed fully in conjunction with the empirical and theoretical arguments on the external causes of the dependent capitalist development. Additional questions about the state are important, especially in relation to the internal characteristics of class structure and the failure of independent capitalist development. The historical development of the Thai state and bureaucracy, in my opinion, might have been one of the main factors inhibiting the full development of the local bourgeoisie and capitalism in Thailand. All of these questions will lead to an acknowledgement of the problem of dependence in the context of a whole range of interactions rather than the specific calculation of dependence as a function of external causes alone. The effective operation of the external forces implies a state of dependence where there is no - or little - internal dynamic to function in this political economic system. A high degree of political economic dependence significantly manifests the conditions induced by both the external linkages and the internal causes of its own weakness. In sum, the internal causes of the historical failure of independent capitalism to develop must be substantially incorporated into a more solid root of dependent capitalist development in Thailand.

2. The perceived internal weakness can be attributed to the state formation and bureaucracy in Thailand. An attempt should be made to relate analytical categories of the structure and function of the state and bureaucracy to historical changes in the nature of dependent capitalist society, by paying more attention to the empirical characteristics of state activity. At this point, a question arises: Could the capitalism predominant in Thailand during the outset of the First National Economic and Social Development Plan, develop and function effectively as an independent, autonomous system in the following periods, with an absence of foreign aid and investment? This question requires a normative value, in view of the future possibility that the Thai state will attempt to break the vicious circle of dependency. However, a number of specific problems about the dependent capitalist state pertain to its capability and apparent weakness in manipulating the political economic system. The following questions relate to the internal mechanisms which impede the state's function as an independent and autonomous entity, with regard to foreign aid and capital:

1. What is the level of technical and evaluative capacity required to determine the preferred role of private capital, especially foreign capital, in the overall development plan and investment policy?

2. What is the level of administrative and political ability necessary to implement the preferred investment strategy?

3. What is the source of the elite's failure to act in accordance with needs of the majority of the people?

These questions are important to the state and bureaucracy's administrative and political capacity to implement development strategy. There is also another set of questions related to the state's economic and financial limitations. As a dependent capitalist state, what are the causes of its failure to mobilise domestic savings and taxation? This dependence on external economic factors implies an inability to countervail any adverse movement in the factors away from economic independence and national autonomy. These problems limit the state's degree of freedom to expand its administrative and organisational capacity in its relations to foreign aid and capital.

3. As of my own interest, the initial objective of this study was mainly to focus on the trends towards uneven spatial development. The lack of adequate data, however, made it shift from my central focus to become an indicator of the dependency syndrome instead. With proper time and adequate data from field research, this uneven spatial development issue is believed to constitute an attractive and useful research agendum. However, it has to be bound within the context of the political economy of dependent capitalist development and in conjunction with the historical development prior to the country's cohesive integration with the capitalist world economy. Implicit in the analytical part of the process of dependent capitalist development is the fact that industrial capital accumulation and capitalists' pursuit of larger surplus value lead to the geographical concentration of the means of production in industrial urban centres. Regarding this, important questions are:

1. What are the implications of the industrialisation strategies for the spatial contradictions in the political economy?

2. What and how do the strategies affect the urban-rural contradictions?

3. How are the strategies related to the location policies and decisions of the industrial bourgeoisie and others?

4. Do the state's investment and location policies affect the tendency for geographical concentration and contradiction?

These are a few examples for a future research agenda. More importantly, concrete findings will increase the understanding of the process of dependent capitalist development proper.

### 5.3 Theoretical Precautions

From this thesis, it should be noted that dependency theory, by its nature and explanatory intention, is unlike modernisation theory because the explanatory power of dependency theory does not lie in the problem of how a country can be developed but it focuses on why some countries are developed and others remain poor or underdeveloped. This is the central point of dependency theory's advance over modernisation theory.

It should be mentioned here that dependency theory, by its explanations, opened up a new world view of development and underdevelopment after the dualistic approach of modernisation theory. As O'Brien (cited in Leys, 1983: 31) asserted, because of the progressive ideas of dependency theory, "the international economy is likely to prove a more seminal starting point for understanding development and underdevelopment than, e.g., traditional and modern society, stages of growth, achievement motivation". The major achievement of dependency theory has been redefining the object of study. As Hulme and Turner (1990: 53) expressed their views, under the modernisation approach the academic focus had been fixed on happenings within the boundaries of the developing nation. The dependency approach broke out of this strait-jacket and identified the world economy as the principal object of analysis. The relations among nations determined development status. With its theoretical contributions to development area though, there are some weak points in its theoretical components which can be discussed as follows:

According to Lall (1975: 800-809), the characteristics of dependence are unclear. If we explore the economic conditions of some developed countries we can find some characteristics of the dependent economy in those countries, such as the foreign capital dependence of Canada and Belgium; and the technological dependence of some developed countries upon the more advanced technology owners. So this situation should be considered as interdependence or a scale rather than a unique condition of dependence. It is evident from the emergence of the NICs that the dependence on the export of primary commodities in some underdeveloped countries is not permanent. Those newly industrialised countries can develop and integrate themselves into the world capitalist system. Another syndrome which is claimed to belong to dependence and underdeveloped countries is the consumption pattern of the elites which has been diffused from the metropolis. In this regard, this pattern is not only found in, and confined to, the dependent economy but - according to the history of capitalist development - this pattern could also be found in the now developed countries at the beginning of capitalist development. It is normal in the sense of the relationship of class and mode of production in a certain period.

With regard to unequal exchange, this syndrome is also found within the metropoles or in between the areas which have different or unequal wage rates, so one can get unequal exchange between two regions of a country or between two metropolis. Therefore, the argument of dependency theorists about the particularity of the unequal exchange between the metropolis and satellites should be taken into consideration case by case. Another claimed characteristic of dependent economy is the increasing inequality of income and unemployment in urban areas. This phenomenon is not only confined to the underdeveloped countries because it also happened in the process of capitalist development such as in the US in former times. So scholars must be aware of this point to be able to differentiate the causes of the inequality of income; those in the US and those of Thailand are totally different.

For theoretical inadequacy, it is found that dependency theory has some imprecise concepts which may lead to the problem of methodological operationalisation. First, the concept of dependency is not adequate, or is too broad, to precisely categorise and distinguish the underdeveloped from the developed countries. A classic example is the case of developed countries which are dependent on exporting primary products such as Australia, New Zealand, or Denmark; these countries are categorised by dependency writers as capitalist centres (Ponter, 2003:70). Besides, dependency theorists tend to explain underdevelopment in the Third World by the single factor of having a relationship with the developed countries, while ignoring the local economic, cultural and political structure in Third World countries. This is a problem that has been attacked and rejected by fellow Marxists such as Laclau (1971) who proposed the idea of the mode of production in explaining the phenomenon of underdevelopment in the Third World. In this case, Laclau believed that the object of analysis (the international exploitation through surplus expropriation) of the dependency school could not properly explain underdevelopment. This point of dependency theory is also criticised by Leys (1983: 33) who argued that the dependency school is too economic oriented, tends to explain everything based on international economic status or relations, and overlooks the social classes, politics and ideology existing within states. Regarding this point, as I mentioned earlier, we should not focus on dependence as an outcome of external force alone in looking for identifying features.

Another important characteristic of dependency is mechanicism (Leys, 1983: 33). This means that 'processes tend to be presented as resulting from a logic of mechanism, a system of vicious circles reinforcing each other... this resulted in accounts which appear curiously static, underdevelopment can appear as inescapable'. From this logic, most policy makers or developers take the view that the policy to develop a country while the country is still in this world capitalist system is by no means viable or effective. This impasse implies that very utopic revolutionary action is necessary for underdeveloped countries to break out and dissociate themselves from this system, so they can be set free from all obstacles to their development.

But this thesis has shown, and I argue that, we have to accept that there is dependent development in developing countries, and to cope with this, a ‘do or to die policy’ as above should instead be replaced with multiple-sum solutions. That is, recognising and acknowledging the position of dependency and its structural causes and consequences is the first step towards developing policies and structures to reduce that dependency. For instance, a long-term plan to strengthen national economies by reducing dependence on outside sources and aiming at a self-sufficient economy is necessary. This can be started from the community level as King Bhumipol suggested in his remarkable speech on his birthday in December,1997:

> “It was not important for Thailand to become an economic tiger … what mattered was Thais should live a life that would make them have enough to eat and capable of supporting themselves financially” (Bello et al.., 1998: 8).

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