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# Coalition Politics and Reform Dynamics in Thailand

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## ABSTRACT

This article provides an explanation for Thailand's long-term policymaking patterns from 1980 to 2011, with particular reference to macroeconomic and industrial policies. It develops a typology of reform orientations in Thailand, conditioned by government type (strong or fragmented) and ruling-coalition type (unelected or elected elites). When under strong leadership, reform was substantively implemented; its orientation was forged into fiscal tightening and "exclusive industrial policy" when ruled by unelected elites (Prem, Anand, and Surayud), but into an expansionary budget and "inclusive industrial policy" when ruled by elected elites (Chatichai and Thaksin). In contrast, when under multi-party governments, political leaders were less capable of pursuing meaningful reform and ended up with either internationally dominant discourses (Chuan and Abhisit) or pork-barrel projects (Banharn and Chavalit). It is further argued that government type hinges upon constitutional design while the two-elite struggle has resulted from the political turmoil of the prior decade. The assessment of reform outcomes requires a rethinking of the relationship between inflation, macroeconomic stability, and growth; and of institutional prerequisites for industrial policymaking. Policy suggestions entail constitutional redesign and the redressing of macroeconomic and industrial balance.

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## Introduction

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Up until the 1970s the modernization approach had dominated the literature on Thailand's political economy by characterizing the country as a "bureaucratic polity" (Riggs 1966). Subsequently, the power of civil and military bureaucracy was depleted by popular uprisings and organized business (Morell and Chi-Anan 1981; Anek 1988). Since then, the country has undergone dramatic change. Despite being one of only 13 countries that have sustained growth of more than 7% over at least 25 years (Commission on Growth and Development 2008), Thailand was ground zero for the 1997-8 Asian financial crisis, then rapidly recovered against all odds, before ending the 2000s in political turmoil. Neoclassical, Marxist, dependency, and institutionalist schools have been in competition for conceptualizing post-1980 dynamism (see review in Hewison 2006). In line with the institutional turn across the social sciences, the institutionalist accounts have gained wider currency over time in Thailand. However, the dominant institutionalist explanations are seriously flawed in two ways. In terms of political analysis, they do not consider institutions as, at least temporally, prior to individuals, thereby downplaying the role of constitutional design in shaping human behaviors (e.g. Doner and Ramsay 1997; Khan 2010; Kuhonta 2011). In terms of economic analysis, they are based on mistaken assumptions about the relationship between inflation and growth; and about the institutional prerequisites for industrial policymaking (e.g. Christensen et al. 1993; Doner and Ramsay 1997; Doner 2009).

This article provides an alternative institutionalist explanation for Thailand's long-term policymaking patterns and their economic consequences from 1980 to 2011, with particular reference to macroeconomic and industrial policies, and the relationship between them. The discussion breaks down into four sections. It begins with an elaboration of the background of my two institutional variables, that is, ruling-coalition type and government type. The second section demonstrates the four economic reform paths alternated in the past three decades: (a) fiscal tightening and "exclusive industrial policy"; (b) an expansionary budget

and “inclusive industrial policy”; (c) international conformism; and (d) provincial, pork-barrel projects. Following this is the re-examination of the economic consequences of such reforms. The thinking of past performances and future prospects requires a debunking of the linear relationship between inflation, macroeconomic stability, and economic growth, as well as the overstatement of institutional prerequisites for industrial policymaking. The last section summarizes the findings and places them within a more general debate about the determinants of within-country growth patterns.

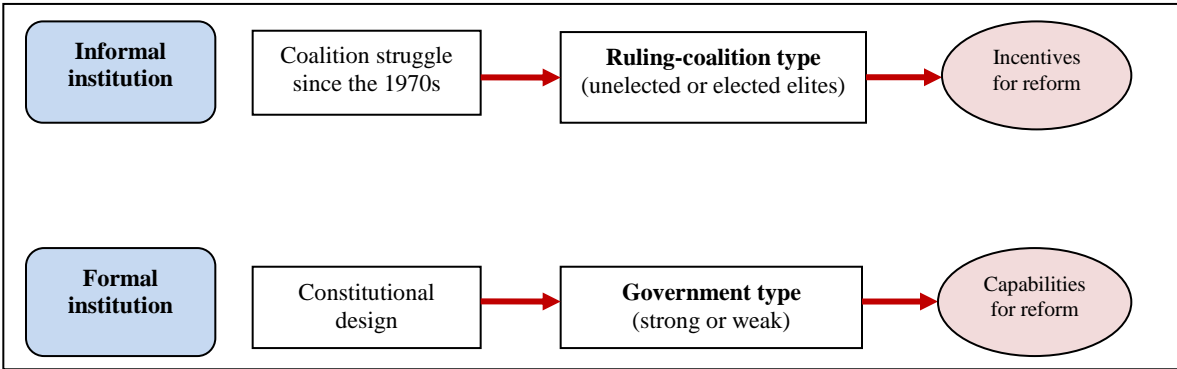
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## I. Coalition and Constitutional Dynamics in Post-1980 Thailand

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My explanation for the variation in Thailand’s reform paths rests on two institutional variables, that is, ruling-coalition type and government type. This section elaborates on the background of these two factors. Regarding ruling-coalition type, the tussle between the unelected and elected elites has been the fundamental *de facto* institution that shapes post-1980 Thailand’s political landscape. The ruling coalitions during the past three decades have been led by either type of elites, both of which have differing incentives for reform. Regarding government type, it is constitutional design – a key *de jure* institution – that determines the capability of a government to implement reform at will. Put together, my framework can be schematically summarized, as shown in Figure 1.

Figure 1 Institutional variables shaping incentives and capabilities for reform in Thailand



## **1.1 Elite Struggle and Ruling-coalition Type**

As a result of Thailand avoiding being fully colonized<sup>1</sup> in the late nineteenth century, the traditional elite, centering on the monarchy, has long maintained its power and prerogative. The 1932 revolution toppled the absolute monarchy and plunged the country into the “bureaucratic polity”, in which the state apparatus and policymaking were controlled by military and civilian bureaucrats. Not until the chaotic 1970s were the unelected elites challenged by non-bureaucratic groups, especially college students, peasants, and the urban middle class.

### ***The emergence of the two-horse race***

The so-called “semi-democratic” regime emerged in 1980 as a compromise between democratic movements and the monarchy–military alliance. However, it was the local businessmen-turned-politicians – not students, workers or peasants – who seized most of the power distributed from the unelected elites, mainly because of their coordination with the status quo in suppressing mass politics. On the one hand, provincial businessmen allied themselves with the military in supporting the campaigns against communism led by the state-initiated Village Scouts (Bowie 1997). On the other hand, they reinvested their profits in the social services (e.g. sponsoring funerals, subsidizing schools, money lending), supplementing the state’s sparse provision and paving their way to parliament. The proportion of businessmen in the House of Representative grew from 19.2% in 1933 to 37.2% in 1979 (Anek 1988).

Amid the messy democratization process, Thai politics has been characterized by the ongoing struggle between the two groups of elite. The traditional or unelected elite is the alliance between the monarchy, military, legal and economic technocrats, and the Democrat Party. The unelected elite comprises elected politicians, provincial businessmen, and local

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<sup>1</sup> Siam/Thailand should be categorized as a “semi-colonial” state (see Thongchai 1994).

mafias. With different power bases, the reform incentives of the elected and unelected elites vary to a significant degree. The basic characteristics of the two groups of elite are summarized in Table 1.

Table 1 Comparing basic characteristics between the two groups of elite, 1980-2012

	<b>Elected Elites</b>	<b>Unelected, Traditional Elites</b>
<b>Leading Coalitions</b>	Elected politicians, provincial businessmen and godfathers	Monarchy, military, technocrats, Democrat Party
<b>Sources of Power</b>	Elections, parliament and provincial administrative organizations	Constitutions, senator, <i>coups d'état</i> , and judicial politics
<b>Political Exchange</b>	Mainly material benefits suited to local demands, ad hoc moral support	Moral support, ad hoc material benefits to selected people
<b>Communication Channels</b>	Local connections, vote-canvasser networks, local media	Mass media and education system
<b>Criticisms</b>	Money politics, pork-barrel policies, crony capitalism	Morality without accountability, unconstitutional power
<b>Common Characters</b>	Preferences toward centralized state with ambiguous regulation (to retain discretionary power), the neglect of human rights, freedom of speech and environmental issues	

Two caveats should be noted within this two-elite struggle theme. First, the two elites by no means play a zero-sum game at all times. They are not always competing with one another. As previously asserted, both groups coordinated in suppressing the mass movements of the late 1970s. Thereafter, competition, collaboration, and compromises have all been observed. Moreover, both camps not only have internal contradictions and cliques within but they also share overlapping social networks such as having common family and school ties. Second, this also means that institutions are more determining, at least temporally, than individuals, because when actors change camps, their political stance and strategy are likely to adapt according to changed legitimate bases of power. Thaksin Shinawatra is a case in point. As a business tycoon, Thaksin arrived on the political scene when his satellite concession was granted by the 1991 *coup* leaders (Pasuk and Baker 2009). In contrast, when he was leader of the ruling party overthrown by the 2006 *coup*, he became the

“democratic” figurehead of the anti-*coup* demonstrations.

### ***Two types of ruling coalition***

It would be misleading to consider all Thai governments as entering office through the same routes. Of the 15 governments between 1980 and 2011, 7 were led by the elected elites who won the elections (the Chatichai, Banharn, Chavalit, Thaksin I and II, Samak, and Somchai governments). The rest (Prem, Anand I and II, Suchinda, Chuan I and II, Surayud, and Abhisit) assumed office with the assistance of the monarchy–military–technocracy alliance. Prem Tinsulanond, Suchinda Kraprayoon, Anand Panyarachun, and Surayud Chulanont attained premiership via *coups d'état* or at the King's discretion (see Kobkua 2003; Handley 2006). Chuan Leekpai and Abhisit Vejjajiva were leaders of the Democrats and received *indirect* assistance from the establishment, with the case of Abhisit being particularly obvious (see McCargo 2005; Dressel 2009).



Table 2 The two-type governments and the proportion of the military in cabinet and expenditures, 1980-2011

Constitution in Use	Prime Minister	In Office (mm/yyyy)	Duration (months)	Proportion of (Ex-) Military in Cabinet <sup>(a)</sup>	Military Expenditures (% of GDP) <sup>(a)</sup>
1978 Constitution	<b>Prem</b>	<b>3/1980-8/1988</b>	<b>100</b>	<b>27.0%</b>	<b>3.63%</b>
	Chatichai	8/1988-2/1991	30	23.9%	2.63%
	<i>Coup d'état</i>	24 February 1991			
1991 Constitution	<b>Anand (I, II)</b>	<b>3/1991-2/1992</b>	<b>13+3</b>	<b>22.8%</b>	<b>2.55%</b>
	<b>Suchinda</b>	<b>3/1992-5/1992</b>	<b>2</b>	<b>14.0%</b>	<b>2.60%</b>
	<b>Chuan (I)</b>	<b>9/1992-6/1995</b>	<b>33</b>	<b>14.2%</b>	<b>2.43%</b>
	Banharn	7/1995-11/1996	16	15.6%	2.25%
	Chavalit	11/1996-11/1997	12	5.5%	2.15%
	<b>Chuan (II)</b>	<b>11/1997-2/2001</b>	<b>39</b>	<b>8.0%</b>	<b>1.75%</b>
1997 Constitution	Thaksin (I)	2/2001-3/2005	49	10%	1.35%
	Thaksin (II)	3/2005-9/2006	19	10.5%	1.16%
	<i>Coup d'état</i>	19 September 2006			
	<b>Surayud</b>	<b>10/2006-1/2008</b>	<b>16</b>	<b>11.1%</b>	<b>1.30%</b>
2007 Constitution	Samak	1/2008-8/2008	8	7.6%	1.40%
	Somchai	9/2008-12/2008	3	5.2%	1.40%
	<b>Abhisit</b>	<b>12/2008-7/2011</b>	<b>32</b>	<b>5.5%</b>	<b>1.80% <sup>(b)</sup></b>
Average duration of the government			<b>25</b>		
Average duration of the <i>unelected elite-led</i> governments			30		
Average duration of the elected elite-led governments			20		

Source: Author's compilation, except (a) from Chambers (2009) and (b) from Pasuk (2011).

Note: (1) The shaded areas represent the unelected elite-led governments.

(2) Anand was in office twice during March 1991 and April 1992, and June and September 1992.

## 1.2 Constitutional Design and Government Type

### *Deficiency by design*

The existing literature usually considers multi-party governments along with intra-party factionalism to be the result of politicians' misbehaviors and personal incompetence (e.g. Suchit 1996; Kuhonta 2011). Delving deeper into the politics of the electoral system, I argue that Thailand's fragile, multi-party governments are the result of constitutional design. Constitutional structures have functioned as the key *de jure* institution determining the capabilities of Thai political leaders for policy implementation. The power to overhaul constitutions has virtually always been in the hands of the unelected elites. To retain the upper hand, the most significant tools designed to perpetuate fragmented politics in parliament and to impede party institutionalization are: (1) the multi-member plurality electoral system, widely called the Block Vote; (2) the appointed Senate; and (3) the relaxed regulations for party-switching. All three regulations featured in all but the 1997 Constitution, as summarized in Table 3.

Table 3 Comparing the major themes of the four constitutions used between 1980 and 2011

	1978 Constitution	1991 Constitution	1997 Constitution	2007 Constitution
<b>Source</b>	Adapted from 1976 Constitution by <i>coup</i> makers	<i>Coup</i> makers appointed National Legislative Assembly	Parliament appointed a drafting commission	<i>Coup</i> makers appointed Constitutional Drafting Assembly
<b>Elected MPs</b>	301 members through Block Vote	360 members through Block Vote	400 constituency MPs and 100 party-list MPs Single-member districts	320 constituency MPs through Block Vote and 80 party-list MPs
<b>Party-switching</b>	Allowed	Allowed	90-day membership requirement	Allowed
<b>Senators</b>	Appointed 225-member	Appointed 270-member	Elected 200-member Only to amend or approve a bill	76 elected; 74 appointed Given more power than the 1997 Constitution
<b>Duration</b>	12 years and 2 months	6 years and 7 months	8 years and 11 months	6 years on
<b>Cause of Termination</b>	<i>Coup d'etat</i>	Promulgation of the new constitution	<i>Coup d'etat</i>	

Source: Author's compilation.

Note: Further amendments of the four constitutions during their uses are *not* included.

First and foremost, with the Block Vote, voters have as many votes as there are seats to be filled in their district (e.g. three votes in a three-seat constituency). While parties are obliged to field a full team of candidates for any district they contest, voters can split their votes between candidates from different parties. The literature on electoral systems asserts that the Block Vote not only induces intra-party infighting but also undermines the value of the party label, particularly in transitional democracies (Larsrud and Taphorn 2007; Hicken 2009).<sup>2</sup> The second regulatory tool is the appointed Senate, which is clearly an attempt by the unelected elites to counterbalance the elected in the legislative process. For example, in the late 1980s, up to 85% of senators were from the armed forces and police (LePoer 1989: 187). Third, to shore up the power of the unelected prime minister (as in the Prem era) and to force political realignment (in the way Abhisit went to office), party-switching is facilitated. Individual and factional politicians were allowed to switch parties without risk of becoming ineligible to run for re-election. Before the 1997 Constitution took effect, an average of 38% of sitting and former MPs switched parties ahead of elections in 1983, 1986, 1988 and 1995 (Hicken 2004).

Distinct from others was the 1997 Constitution, designed to create strong party and stable government. It changed the electoral system to the single-member districts, which effectively reduced the intra-party conflicts and drew voters to policy issues. In addition to the 400 single-seat constituencies, there were 100 MPs selected via proportional representation from party lists, with a 5% threshold. Senators were all elected. Party-switching was discouraged. Put together, the party leaders had far greater leverage over members of their own parties. Being sidelined by Thaksin and his single-party government, the old oligarchy and the monarchy staged the coup and redesigned the 2007 Constitution

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<sup>2</sup> As stated in Larsrud and Taphorn (2007: 44): “The Block Vote is common in countries with weak or non-existent political parties. In 2004, the Cayman Islands, the Falkland Islands, Guernsey, Kuwait, Laos, Lebanon, the Maldives, Palestine, the Syrian Arab Republic, Tonga and Tuvalu all use Block Vote electoral systems.”

to weaken political parties and the elected yet again (Ginsburg 2009; Hewison 2010).

### ***Predictable outcomes***

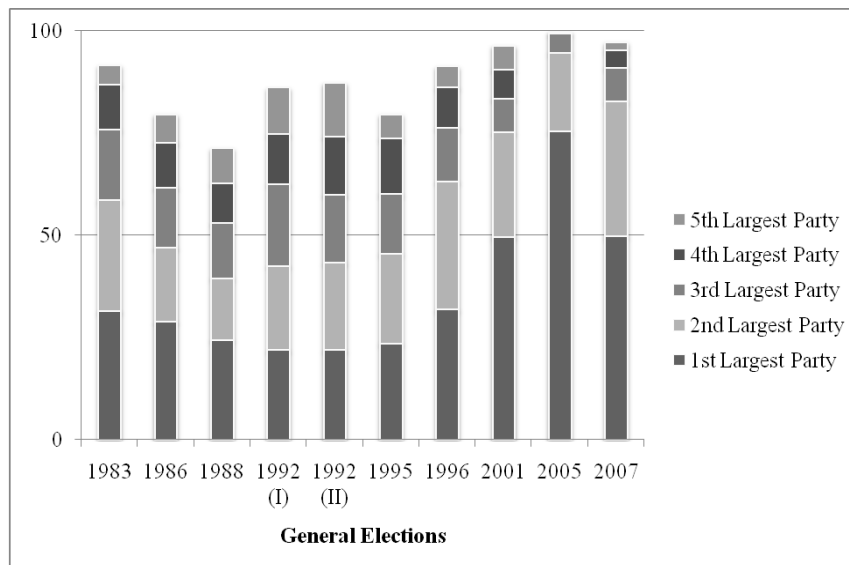
In eight general elections held between 1979 and 1996, no political parties attained a majority. The largest parties won between 21.9% and 31.8% of all MPs' seats. On average, there were 16 political parties competing in an election, with the effective number of coalition parties around 6.0 (Chambers and Croissant 2010). With the Block Vote, split returns occurred in over 50% of the districts (Hicken 2009: 97). Factional conflicts, both intra- and inter-party, led to the downfall of 5 of 11 governments. Cabinets in the 1990s lasted an average of only nine months (Kuhonta 2011: 167). Moreover, each leading coalition party lost the subsequent elections because of deteriorating cohesion and financial problems (Tamada 2012).

The 1997 Constitution almost had a perfect design since politicians and voters responded to the new rules of the game in predictable ways. Thaksin's Thai Rak Thai Party (TRT) won two elections in 2001 (49.6%) and 2005 (75.4%).<sup>3</sup> The 2007 Constitution also led to predictable results. The seats won by the Thaksinite party (People's Power Party) dropped from 75.4% to 48.5%. From the single-party government, a further two parties were allied to form the government. Factions have re-established their important role, as before 2001, in the making and breaking of parties and cabinets (Chambers and Croissant 2010: 9).

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<sup>3</sup> A counter-argument is the "Thaksin factor", in favor of Thaksin's personality and resources rather than constitutional change. Nonetheless, TRT is not Thaksin's first party. Under the 1991 Constitution, he was head of the Palang Dharma Party but the electoral results during his leadership were mediocre.

Figure 2 Percentages of elected MPs from the five largest parties, 1983-2007



Source: Author's calculation from the Election Commission of Thailand.

## II. Thailand's Four Reform Paths, 1980-2011

The institutional interaction of coalition politics and constitutional design has shaped the incentives and capabilities of Thai political leaders. Even though Thailand's economy has shifted toward export-oriented industrialization since the early 1980s and the interest of the nation has become the interest of capitalists (Pasuk and Baker 2002; Hewison 2006), there are subtle variations within this general course. The typology of four reform paths depicted here is conditioned by two factors: (a) government type (strong or fragmented party); and (b) ruling-coalition type (unelected or elected elites). When under strong governments, reform was substantively implemented; its orientation was forged into fiscal tightening and "exclusive industrial policy" when ruled by unelected elites, but into an expansionary budget and "inclusive industrial policy" when ruled by elected elites. In contrast, when under fragmented, multi-party governments, political leaders were not capable of, and deterred from, pursuing meaningful reform; instead, they either resorted to internationally dominant discourses or provincial, pork-barrel projects.

Table 4 Typology of reform paths in Thailand, 1980-2011

		GOVERNMENT TYPE	
		Single Party or Dominant Leader	Multiple Parties
RULING-COALITION TYPE	Unelected Elites	<i>Fiscal tightening and exclusive industrial policy</i> (Prem, Anand I and II, Surayud)	<i>International conformist approach</i> (Chuan I&II, Abhisit)
	Elected Elites	<i>Expansionary budget and inclusive industrial policy</i> (Chatchai, Thaksin I and II)	<i>Provincial focus and pork-barrel projects</i> (Banharn, Chavalit)

Note: Excluded from the table are dysfunctional governments in office during turmoil (Suchinda, Samak and Somchai).

## 2.1 Fiscal Tightening and Exclusive Industrial Policy

If industrial policy is ideally defined as “a policy aimed at affecting particular industries (and firms as their components) to achieve the outcomes that are perceived by the state to be efficient for the economy as a whole” (Chang 2006: 109), then Thailand has never implemented any industrial policy. To make it more relevant, I further identify exclusive and inclusive industrial policies. “Exclusive industrial policy” takes place when sectoral policies were made to favor only a couple of firms that are close to the government. The policymaking in this case may entail some efficiency-driven aspects, such as measures to ensure scale economies, but it is neither formulated openly nor announced publicly as part of a national development strategy. More importantly, as praised by the World Bank (1993: 7), whenever selective interventions have threatened macroeconomic stability, the latter takes precedence over the former. This policy character is found in the unelected elite-led governments of Prem, Anand, and Surayud, albeit to various extents and depths. Lacking electoral mandate, these administrations leaned on macroeconomic technocrats, usually from the Bank of Thailand (BOT) and the Ministry of Finance (MOF), as a legitimate

excuse, and therefore set fiscal reform as the overriding priority. For most macroeconomic technocrats, industrial policy has been considered a market-distorting measure that adversely affects price mechanism and resource allocation. However, the unelected elites either have their own business (e.g. the Crown Property Bureau – CPB) or have an intimate relationship with a handful of tycoons. When necessary or being requested, certain privileges would be granted to these crony firms.

### ***Prem, 1980-1988***

The Prem premiership represents the strongest form of this reform path. During 1979-81 the current account deficit widened to 7.1% on average, while inflation climbed up from 9.9% to 19.7% and 12.7%. After trial and error,<sup>4</sup> the technocrats were vested with the autonomy and authority necessary to maintain macroeconomic stability. The baht devaluation, and subsequent pegging to a basket of currencies in 1984, was regarded as “the single most important policy step since abandoning the multiple exchange rate system in 1955” (Bowie and Unger 1997: 143). The government also liberalized restrictions on agricultural commodity exports, instituted a system of rebates on export taxes, raised some energy prices and state enterprise levies, and increased state revenue. From a current account deficit in 1978, a surplus resumed again in 1986. Inflation remained approximately below 5% throughout the regime (Thitinan 2001).

The regime’s less known ingredient was exclusive industrial policymaking, exemplified in the cases of the public–private forum, petrochemicals, and Surathip. To begin with, the Joint Public–Private Consultative Committee (JPPCC) was founded in 1981. However, the JPPCC differed markedly from its East Asian counterparts because only matters of general interest were discussed and technology issues received scant attention (Felker 2003; Ohno

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<sup>4</sup> In the first year of his government, Boonchu Rochanasathian, the leader of a coalition party and former president of the Bangkok Bank, was designated deputy prime minister in charge of economic affairs. However, Boonchu’s preference for the active role of the state in economic development proved to be politically risky for Prem.

et al. 2011). More importantly, behind the stage, Prem “carefully select[ed] some business elites to join their regime on a limited basis” (Chai-Anan 2002: 129).<sup>5</sup>

Second, a well-planned policy toward petrochemicals was pursued as part of the country’s most notable mega-projects, the Eastern Seaboard Development Plan (henceforth ESDP). The ESDP provoked controversies when the Thai economy suffered from macroeconomic difficulties, with most sub-projects being delayed or diverted. However, compared to other projects, the petrochemical complexes enjoyed fewer delays of implementation. As detailed in Lauridsen (2008), the sectoral policy was strategically planned to ensure economies of scale of indigenous firms. The initial plan was a “one-company, one-product” strategy, even though it turned out to be “two companies, one product” in actuality. Tax incentives, upstream–downstream coordination, and optimal use of the country’s natural gas resources were encouraged. The Petrochemical Institute of Thailand was set up to provide a source of local expertise. Upstream production was controlled by the state-owned Petroleum Authority of Thailand and the National Petroleum Corporation, with 49% and 15.9% owned by the PTT and the CPB respectively. State intervention in petrochemicals earned Brownie points even from a neoclassical account (Christensen 1992), and led Lauridsen (2008: 606) to conclude that “the Thai state was able to perform its demiurge and midwife roles in petrochemicals in a much more coherent manner than was normally the case in most other industries”.

The last example is the case of the Surathip Group, manufacturer of Chang Beer, owned by Charoen Sirivadhanabhakdi. Despite winning a 15-year concession for 12-zone provincial distilleries, Charoen’s liquor business was dead in the water and by 1986 Surathip owed 14 billion baht to the banks and 6 billion to the state. Prem and the bankers’ association stepped in to help Surathip, merging two players in the industry into a national

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<sup>5</sup> Businessmen serving as cabinet ministers also complained that they could not implement their policies because the bureaucrats did not give adequate support (Chai-Anan 2002: 123).



monopoly and restructuring the contracts to reduce annual burdens. With competition under control and the financial burden lifted, the company amassed a fortune. From the mid-2000s Surathip has become a regional player, while Charoen is Thailand's richest individual (see Nualnoi 2008). Charoen has a direct connection to Prem and the monarchy, particularly the Queen (Handley 2006: 376). This economically unjustified bail-out was made during the time Prem put off the ESDP projects for fiscal reasons, and neglected the request from the then-biggest Thai electronics firm, which inherited 630 million baht and asked for a soft loan.<sup>6</sup> State intervention and industrial policies were carried out by the Prem government, but in an exclusive manner.

### ***Anand, 1991-1992***

Under Anand, a technocrat-turned-businessman, reform was also made in the direction of fiscal tightening and exclusive industrial policy, albeit to a lesser extent than Prem. The pre-eminent reform was the introduction of value added tax (VAT) to broaden the country's tax base and to eliminate the ubiquitous business tax evasion. Antitrust laws were strengthened. Dozens of price controls on consumer items were lifted. Financial reforms were also prominent. Furthermore, interest rate ceilings were removed to foster competition among financial institutions. The ASEAN Free Trade Area (AFTA) was initiated (Bowie and Unger 1997).

With regard to industrial and trade policies, the Anand government reduced duties on raw materials and ended bans on imports and new factories. Quotas in the textile industry

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<sup>6</sup> Established in the late 1950s, Tanin was competitive enough to export televisions and radios to Europe, the UK, and China. In 1983 it had a turnover of 800 million baht and was ranked third largest in domestic market shares behind two Japanese brands. The baht devaluation, an 18% growth-limited bank loan adopted by the BOT in 1984, and fiercer international competition led Tanin to liability for 630 million baht. In 1986 Tanin, with its 2,000 workers, requested a soft loan from the Prem government, which was rejected. The lender banks conditioned Tanin not to reinvest in the new production lines but to sell existing assets (from *Manager Monthly* various issues from 1984 to 1990).

were reallocated using a more transparent system and aimed at rewarding firms exporting to new markets. The BOI's Unit for Industrial Linkage Development (BUILD) was initiated to encourage the development of supporting industries. More importantly, it significantly liberalized the automobile industry by cutting tariffs and ending import bans. Yet this was implemented in an exclusive fashion. Most auto firms were ripe for a more open, export-oriented strategy after a few protectionist decades. However, the Anand government did not hold a consultation with the private sector over the pace and magnitude of liberalization (Doner 2009: 248-9).

Further, as it was the unelected-led-government, the bureaucratic reform was steered toward the "pro-bureaucrat and anti-politician" direction (Bidhya 1994: 158). For example, the power of ministers to appoint and to transfer senior officials was reduced, whereas the permanent secretary was given more authority to reshuffle the directors of line departments. Rules and regulations were also changed in bureaucratic favor, such as increasing its authority to delay any implementation of government policies.

### ***Surayud, 2006-2008***

Surayud stepped down from the Privy Council to become prime minister. With the monarchy and military being the accent, budgets were dissipated on the ideological promotion of "sufficiency economy" and "gross national happiness". The military budget was increased by 34% and 28% in 2007 and 2008 respectively (McCargo 2008: 351). It also endorsed the Defense Ministry Administration Act of 2008 to limit the elected politicians' authority to appoint high-level military officers.

There was an outstanding macroeconomic bill, however. In December 2006 the BOT launched the 30% reserve requirement, Thailand's strongest anti-speculation measure, which was considered by foreign investors to be a "capital control". In use until February 2008, it ordered financial institutions to deduct 30% as a reserve requirement from short-term (less than one year) foreign exchange transactions against the baht. The goal was to

curb the sharp rise of the baht that was continuously hurting Thai exports. The measure slowed the baht's appreciation and triggered a 15% plunge in the stock market, thereby forcing the authorities to rescind some of the measures in the following days (*Bangkok Post*, October 1, 2010). Pridiyathorn Devakula, Finance Minister, argued that: "Of the two types of investment, investing in setting up a company in Thailand or investing in the Thai stock market, we must prefer the first type" (*Nation*, January 24, 2007).

The government also pursued industrial policy, with scale economies target, toward the Eco-Car project (budget cars with no more than 1300cc for benzene and 1500cc for diesel models). It was a step forward in Thailand's attempt to strengthen its position as the regional automotive production hub. Coaxed by the Industry Minister, the Board of Investment (BOI) launched the incentive scheme subject to certain requirements, most important of which was the firm's output, which was expected to reach 100,000 units by its fifth year in production (*Bangkok Post*, January 11, 2008).

## **2.2 Expansionary Budget and Inclusive Industrial Policy**

The term "inclusive industrial policy", which I use in the case of elected elite-led governments, is closer to the ideal definition of industrial policy. The policy formulation is based more on the country's international competitiveness, with relatively open state-business consultancy and more concern over technological development of indigenous firms. As the traditional elites are extremely picky in choosing their "business partnership", those excluded from the establishment's network usually resort to elected politicians who are more open and willing to make a deal on a case-by-case basis. Despite pervasive backroom deals and lobbying, industrial policy under elected leaders is less exclusive. A typical ingredient of this reform path is expansionary budget to invest in infrastructural megaprojects. Rent creation for their partisans is a clear incentive. Some infrastructural projects, however, rest on an economic rationale, particularly after being put off by austerity schemes of the unelected administrations.

## ***Chatichai, 1988-1991***

Chatichai Choonhavan was an elected prime minister who took office for the first time since the 1973-6 democratic spell. Although being in operation under the 1978 Constitution, elected politicians were relatively consolidated in taking power back from Prem and the military.<sup>7</sup> His cabinet positions were mostly politicians or party backers. Together they fought against technocrats over budgets, economic plans, and the rules for stationing senior officials. The government shifted funds from the military to support its schemes to promote growth, particularly in the provinces.

To expand the economy, the Chatichai government raised the fiscal budget by 10% and lifted the limit on public-sector foreign borrowing from US\$1 billion (under Prem) to US\$2.5 billion in 1990 (Doner 2009: 123). The Finance Minister argued that the government needed to “accommodate economic expansion” and that it was “not important whether it’s a balanced budget” (Christensen 1990: 179). The minimum wage was raised by 25%. The Southern Seaboard Project to build deep sea ports gained preliminary approval (but was called off after the 1991 *coup*). Further endorsed large-scale infrastructure projects included: a second-stage expressway; Bangkok’s railway system (known as the Sky Train); and an advanced telecommunications scheme for 3 million landlines. The last one was then the largest investment ever to be made in Thailand (Christensen 1991: 200-2). Even foreign policy was oriented toward economic growth by converting Indochina from “a battlefield into a trading market”.

Notwithstanding valid claims of corruption and cronyism, industrial entrepreneurs and associations had a louder voice. As the Federation of Thai Industries (FTI) called for the reduction of import taxes on capital goods and machinery, most of the tariffs were reduced

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<sup>7</sup> The consolidation of elected politicians under Chatichai was much higher than Banharn and Chavalit, but far less constitutionally supported than Thaksin.

to 5% in 1990, “marking a major policy revision.” (Christensen 1991: 203). The BOI, for the first time, launched an R&D tax incentive in 1989 by enforcing technology-transfer mandates in return for promotional campaigns (Felker 2001). Although the government was poised to dissolve the BOI in 1990 due to the decline of investment applications, pressures from business groups talked the government into shifting the BOI’s thrust from investment promotion to industrial development by focusing more on promoting Thai industries abroad and developing local subcontractors (Shain 1993).

### ***Thaksin, 2001-2006***

Thaksin Shinawatra is a tycoon-turned-politician who made his fortune through state concessions in telecommunications. His government represents the strongest form of this reform path. With the 1997 Constitution, TRT oversaw a period of unprecedented single-party-dominance executive stability. The government provided fiscal stimulus through a number of grassroots programs such as a debt moratorium program for farmers and the One-Million-Baht Village Fund. The Thai economy had grown at an average of 5% per annum during his tenure.

In terms of policymaking, the Thaksin administration was the first government that systematically formulated selective industrial policies and forcefully placed science, technology, and innovation high on the agenda (Lauridsen 2009; Patarapong 2011). The National Competitiveness Committee chaired by the prime minister was inaugurated, with the overarching concept of “cluster development”. Five industries were set as the target for further support (automotive, fashion, food, tourism, and software) with the electronic/electrical appliances sector added afterwards. Moreover, a special investment package to promote socially desirable activities of Skill, Technology, and Innovation (STI) has been initiated by the BOI. The most successful outcome was seen in automobiles. The four-year master plan was clear and detailed, and all the objectives, such as producing 1 million cars per year and achieving localization of 60%, were achieved in 2005, one year ahead of schedule (Ohno 2006: 39-40). Another major shift took place in the hard disk

drives industry, as the long-standing paucity of university–industry linkages was partially remedied (Lauridsen 2009).

The Thai bureaucratic system, notorious for its bloated structure and functional duplication, underwent a radical transformation for the first time since the 1890s. The long-awaited downsizing plan was aimed at reducing the public workforce by 500,000 through the early-retirement scheme. At the end of the first-round reform in 2004, a survey by the Office of Public Sector Development Commission claimed to cut 30-50% of red tape and procedures, while approximately 70,000 civil servants opted to retire early (*Bangkok Post*, October 10, 2005). Budgetary management was also reoriented. The Bureau of the Budget (BOB) was ordered to replace the old system with a new policy of Strategic Performance Based Budget System, shifting the procedure of budget allocation from (a) the bottom-up approach from line ministries to the top-down approach from the prime minister and the ruling party, and (b) the function-based budget allocation to the agenda-based one (Suehiro forthcoming).

Yet, though the new policy framework for building indigenous technological capabilities bore fruits in certain sectors and agencies, the Thaksin government failed to institutionalize the mechanisms to enforce, monitor, and evaluate policy outcomes. Most importantly, the TRT was composed largely of the group of so-called concessionaries, mostly in services. The Thaksin government therefore protected the interests of his own and these big businesses by, for example, delaying the privatization of telecommunication agencies and the establishment of independent regulatory commissions, and writing off substantial amounts of bad debts for close allies (see Pasuk and Baker 2009; Lauridsen 2009).

### **2.3 International Conformism**

The Democrat Party is ideologically conservative whose founders were royalist and aristocratic (Kuhonta 2011: 168). The party has never won an outright majority, thus relying heavily on multi-party coalitions and traditional elite for political support. Under

the Democrat-led governments, reforms were carried out in accordance with the world's dominant discourse of the time, namely, neoliberalism in the 1990s and Keynesianism in the late 2000s.

Chuan began his first term (1992-5) after the May 1991 clash that slashed the military power. Despite high expectations of reform, the government turned out to have a “legalistic and plodding decision-making style and a pronounced tendency to compromise rather than push for real change” (King and LoGerfo 1996: 105-6). A few milestones included the opening of the Bangkok International Banking Facility (BIBF) to facilitate lending by foreigners to Thai firms. In exchange for the IMF's support package after the 1997-8 Asian financial crisis, Chuan's second government (1997-2001) committed to neoliberal reform, especially in the financial sector, to the neglect of falling real sectors (Hewison 2005: 315). In terms of industrial policy, a series of skills development was initiated. The most ambitious effort was the Industrial Restructuring Program to upgrade 13 sectors, which ended in failure owing to weak business association involvement and the ministries' reluctance to give up resources to the quasi-autonomous institutes (Doner 2009: 128-9).

The Democrats took office again in December 2008, at the height of the global financial crisis. The Thai economy shrank by 2.3% and exports fell by 14%. Long criticizing Thaksin's expansionary programs, Abhisit called his 115-billion-baht stimulus package the Keynesian policy, arguing that: “This is...Keynesian policy which everybody is doing. I don't know of any country that is not pursuing this line. I don't know any school of thought that says we could be doing otherwise” (*Nation*, February 23, 2009). Key policies included the 15-year free education scheme, the skills' training scheme, the 500-baht monthly allowance for the elderly, excise and value-added tax waiver for diesel, and further subsidies for electricity, water, and transport. The military budget rose by 50% in the Abhisit government to reach a record high for the 2000s. Yet, the Abhisit administration also witnessed certain radical reform attempts such as the Land and Building Tax Bill. However, with strong resistance from both elected and unelected elites, the bill was not

submitted to parliament until the end of his government.

## **2.4 Provincial and Pork-barrel Projects**

The least productive reform was witnessed when Thailand was ruled by the weak coalition governments of Banharn and Chavalit. But this reform path is not totally futile. Road-building projects, usually regarded as a pork-barrel policy, are a key means to integrating remote areas to the national and the world economy. Yet, compared to other paths, they yielded limited impacts.

As an MP for Suphaburi province, Banharn Silpa-archa raised 0.5% of the total state fund for highway constructions that the province received in 1966 to 11.9% in 1980, making him a source of collective pride among provincial voters (Nishizaki 2001). However, national politics saw him as an unprincipled opportunist functioning as “the walking ATM”, as the corruption reportedly amounted to half of all budget project funds (Doner 2009: 124). Overall, policies of the Banharn government (1995-96) were driven by the logic of patronage and particularistic connections. His government was also involved in the Bangkok Bank of Commerce scandal, which heralded the 1997 financial crisis. Having benefited from defections from Banharn’s party, Chavalit Yongchaiyudh constructed a six-party coalition government (1996-97). Even though the cabinet looked more economically competent than its predecessors, the capacity for any reform was institutionally constrained by fragmented politics. A tighter fiscal stance was proposed before the financial crisis, but caused intense opposition within the cabinet because they threatened to eliminate prized pieces of legislative pork (MacIntyre 2001). As summarized by Thitinan (2001: 375), both the Banharn and Chavalit governments “proved unable to arrest the runaway banking and non-bank insolvencies...Neither management overhaul and capital reduction nor closures and liquidations of insolvent financial institutions were undertaken during 1996-97 until they were required by the IMF loan conditionalities.”



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### **III. Economic Consequences of Reform Politics**

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Assessment of any reform hinges upon the economic theories that one uses as an analytical lens. With a focus on macroeconomic and industrial policies, this section seeks to redress the balance of both policies in the interpretation of Thailand's past performance and the thinking of future prospects. On the macroeconomic side, the assumed linear relationship between inflation and growth is fundamentally flawed, while on the industrial side the importance of institutional prerequisites is overstated.

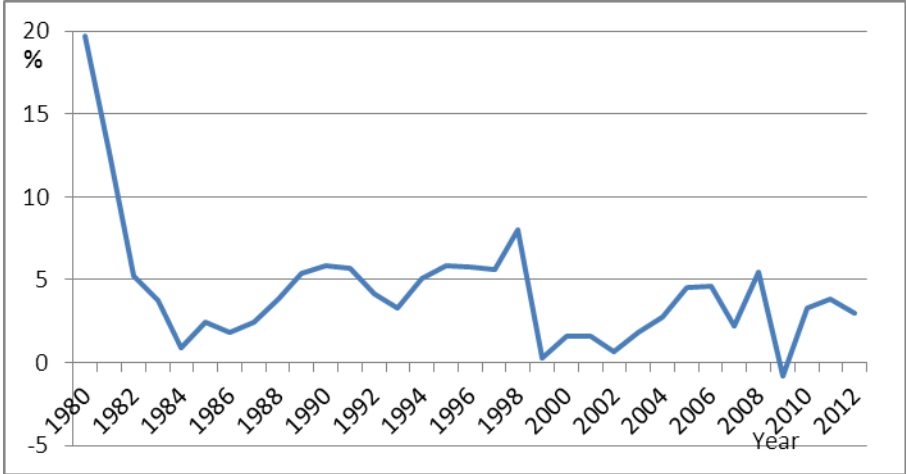
#### **3.1 Rethinking Macroeconomic Management and Consequences**

Taking into account the varying reform paths discussed in the previous section, this article maintains that Thailand's relatively successful economic development has resulted from the combination of: (a) macroeconomic stability; (b) certain industrial policies; and (c) ad hoc bureaucratic and infrastructural restructuring. The realization of this combination really matters in the taking-stock-and-looking-ahead task, as it runs contrary to the conventional wisdom that considers "low inflation and hard budget constraints" to be Thailand's recipe for growth.

Many Thai specialists from either institutionalist or neoclassical traditions characterize the Thai political economy, mainly from 1980 to 2000, as the *bifurcated state* (e.g. Christensen et al. 1993; Warr and Bhanupong 1996; Doner and Ramsay 1997; Unger 1998; Thitinan 2001; Khan 2000, 2010). The Thai state is bifurcated because it had institutionally been "divided between a centralized, insulated, and efficient set of macroeconomic agencies on the one hand and more politicized, fragmented sectoral agencies on the other" (Doner and Ramsay 1997: 248). Even though sectoral policies were operated within a clientelistic setting, Thailand managed to achieve rapid growth largely as a result of conservative fiscal and monetary policies championed by the BOT and MOF. With "corny capitalism" being blamed as the cause of the 1997 financial crisis, macroeconomic stabilization has since been given further justification. The BOT has put inflation targeting

as the dominant framework since April 2000 and successfully retained the low rates very much as targeted. If peak years (due to external shocks such as oil crises) were removed, the average rate of inflation in Thailand in the long period of 1970-2005 was around 4% per year (Jansen and Choedchai 2009), which is exceptionally lower than that of most other developing countries, including East Asian ones during their catching-up periods.

Figure 3 Inflation rate in Thailand, 1980-2012



Source: Author’s calculation from World Bank data.

***The economics of inflation targeting***

Developing countries have been convinced that macroeconomic stability is defined by low inflation, with a target of 1-3%. To “inflation hawks”, controlling inflation is a means to achieving faster, more stable, and more equitable growth. This is, however, a downright myth. The relationship between inflation and economic growth does not proceed in a linear fashion. In the economics literature it is always about *threshold*.

Many studies show no statistically significant relationship when inflation falls below a certain level. For example, Barro (1997), a veteran macroeconomist, finds no significant relation between economic growth and inflation when inflation falls below 8-10%. A more recent dynamic panel threshold model even concludes that, for developing countries,

inflation hampers long-term economic growth only when it exceeds 17% (Kremer et al. 2013). Historically, moderately high inflation is compatible with rapid economic growth in many countries. For example, during the 1960s and 1970s, annual per capita income in South Korea was growing at 7%, in parallel with an average inflation rate of around 20% (Chang 2010). For Korean policymakers at that time, the ultimate goal was economic growth, believing that “[l]ow growth increases unemployment and in turn political instability” (Haggard et al. 1994: 42). In contrast, there is strong evidence that excessive anti-inflationary measures can adversely affect economic growth, output growth, employment rate, and poverty reduction. For many countries, the periods of low inflation have been among those with the slowest rates of economic growth, such as Argentina in 1994-2001 and Brazil in 1996-2003. After all, inflation is just an intermediate variable, less important in its own right and more important for its impact on variables that are of greater concern, such as stability and growth (Stiglitz et al. 2006).

### ***The politics of inflation crediting***

Acknowledgement of the non-linear relationship between inflation and growth can have a more profound implication in political terms. To begin with, the bifurcated state argument, even applied to the pre-2000 period, overrates the “low inflation and hard budget constraints” factor in assessing Thailand’s past performance, while the costs and negative impacts thereof, particularly on industrial upgrading, have not been taken into full consideration. For example, in the early 1980s, the National Economic and Social Development Board (NESDB) pushed the tariff restructuring plan, but the MOF was unwilling to cooperate on the grounds of fiscal health (Muscat 1994: 198). A more recent example is the appeal from the Federation of Thai Industries in 2013, asking the BOT to help export sectors that had been hit hard by the unprecedentedly strong baht. Manufacturing production continued to contract in line with restrained consumption and exports. The proposals included slashing the policy rate, controlling capital inflows, and

switching from inflation targeting to exchange-rate targeting (*Bangkok Post*, April 27, 2013).<sup>8</sup> All were firmly opposed again without a thorough investigation into the limitations and opportunity costs of maintaining exceptionally low inflation and hard budget constraints (e.g. the adverse impacts on exports and economic growth, the impediment to industrial restructuring).

Furthermore, even assuming away the limitations and opportunity costs of maintaining low inflation, this reform path has never come as a single piece, but offered within a more comprehensive package. With the unelected governments of Prem, Anand, and Surayud, fiscal tightening was pursued alongside pro-bureaucratic regulatory changes, delayed infrastructural upgrading, and considerable increases in military budgets. The resource misallocation and growth-impeding characters of this *package deal* should, at least, partly refute the bifurcated state claim as well as the political credibility lent to the macroeconomic agencies for Thailand's past economic development. In contrast, with allegedly more corruption-prone and populist packages, it was the strong governments run by elected elites that oriented the country into bureaucratic and infrastructural reforms, with a more systemic industrial policymaking.

Of course, this is not to say that the unelected administrations were economically worthless and elected politicians more worthwhile. Corruption and excessive expansionary programs led by elected politicians can do more harm than good, too. The point I am trying to make here is that the relative economic success of Thailand should not boil down largely to the "low inflation and hard budget constraints" factor. Industrial policies and ad hoc bureaucratic and infrastructural restructuring should be given greater weight, while the costs of a low-inflation regime demand careful scrutiny. Macroeconomy is a crucial part of sustaining growth. But if the ultimate goal is to maintain macroeconomic stability, there are a host of alternatives to inflation targeting (more on this below).

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<sup>8</sup> The NESDB forecasted *zero growth* for Thai exports in the year 2013 (*Bangkok Post*, November 21, 2013).

### **3.2 Rethinking the Institutional Prerequisites of Industrial Policy**

With the rise of new institutional economics, the institutional prerequisites for industrial policymaking, rather than industrial policy itself, have become a matter for major concern. As Doner (2009: 56) states: “The question is not whether industrial policies...can promote growth, especially upgrading. They clearly can, but often do not...[A central point is]: more targeted policies require significant institutional strengths” (also in World Bank 1993). In the case of Thailand, inefficient bureaucracy and fragmented politics have been considered the two fundamental institutional deficiencies. Remedying these deficiencies is a *sine qua non* for effective industrial policymaking, the thinking goes. This part raises two neglected points in response to the overstatement of institutional prerequisites.

#### ***Institutional deficiencies and human defiance***

To begin with, I argue that there are various political routes to overcoming institutional difficulties, even within one country. In the case of Thailand, the current success of petrochemicals and automobiles are mainly the result of industrial policy implemented in prior decades. For petrochemicals, the key political drive was the unelected elites, while in automobiles it was business associations and elected politicians.

In petrochemicals, the dominance of royal-owned Siam Cement Group, founded by King Rama VI in 1913 and now 30% owned by the CPB, plays an important role, “in particular during periods of close collaboration between the prime minister and the royal family, as during the Prem period” (Lauridsen 2008: 605). Under political and bureaucratic fragmentation, CPB-owned companies can glue policy-makers together. Moreover, such fragmentation was not totally damaging. The third-party evaluation report of the ESDP by Shimomura (2000: 17) concludes that: “The military, the splinter parties, the technocrats, the conglomerates, the mass media and other groups continued to restrain each other in a unique web of checks and balances, and accordingly no single group was able to wield excessive power.”

With no royal influence, automobile associations lobbied for policy changes through elected politicians. For example, in 1983 then industry minister mooted the idea of a “Thai Vehicle” project aimed at increasing local contents to 100%. The project was welcomed by local part manufacturers, but faced strong resistance from carmakers and neoliberal technocrats. The “rough and tumble” of politics is not always bad, as the resulting compromise was the local production of diesel engines for one-ton pick-up trucks, two decades later the country’s most exported vehicles. On the whole, political fragmentation led to a consensual approach to policymaking in Thai automobiles, which “created stable expectations and confidence in the overall business environment” (International Trade Center 2010: 12).

### ***Capability vis-à-vis priority***

The confusion between priority and capability also deserves consideration. Often, institutional capability has already been there, waiting for the “right” priority to be identified. In a middle-income country like Thailand, bureaucratic capacity is typically underestimated in several ways. One example is the increase of tax collection by the Revenue Department in 2004 and 2010, which was the result *not* of institutional turnaround, but of buying new technology and changing priority.<sup>9</sup> In 2004, despite the economic slowdown, the Revenue Department collected 23% more taxes than in the previous year, mainly because of the launch of the “e-Revenue” system and regulatory amendments to transfer pricing guidelines and swap payments. In 2010, a year of political turmoil, the Department brought another 320,000 people – who were supposed to have been counted in the first place – into the tax system and clamped down on tax evasion in certain sectors,

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<sup>9</sup>Tax revenue in Thailand is relatively low. In 2009 total tax revenues in Thailand accounted for 15.1% of GDP, compared to, say, 11.4% in Indonesia, 25.6% in South Korea, and 46.4% in Sweden (World Bank Data). In Thailand, the Revenue Department is responsible for collecting taxes regarding individual income, corporate income, value added, specific business, stamp duties, and petroleum income - all of which account for more than half of the country’s total tax revenues.

resulting in 11% higher tax collection (see Veerayooth 2012: 161-6).

Another graphic example is the capacity for acquiring information for better policymaking. In Taiwan, during the catch-up period, the Ministry for Science and Technology spent time and budget monitoring the input–output matrix of electronics components, collecting daily information about what had been imported into Taiwan in the previous 24 hours and by whom. This information enabled industrial-policy officials to compare the quality and price of imports with the domestic products and to judge the performance of domestic producers in receipt of industrial-policy assistance (Wade 1993). Could Thai officials not effectively monitor and collect detailed information for national purpose? Indeed, the Thai counterparts could and did perform the task even more seriously, not in the area of industrial policy, but in *lèse-majesté* enforcement. From 2008 to 2010 the Ministry of Information and Communications Technology set up a pilot team to monitor and record *all* internet users in Thailand. They blocked at least 113,000 webpages on *lèse-majesté* grounds. The minister declared that his “highest priority is the protection of the monarchy” (*The Economist*, July 5, 2009). That said, the capacity of Thai bureaucracy to monitor and process the information is high – it is just employed for a purpose other than economic development. If only industrial policymaking (as well as other thorny issues, say, illegal activities and tax evasion) were taken as seriously as a national problem as *lèse-majesté* by policy-makers, Thailand’s economic development would have gone further without the need to improve bureaucratic capability.

In summary, since North (1990: 3) defined institutions as “the humanly devised constraints that shape human interaction”, most of the institutionalist literature has been directed toward the study of *institutions as constraints*. Accordingly, together with the rise of new institutionalism is the overestimation of institutional factors as the explanatory primacy for political–economic phenomena and the underestimation of the role of human agency (see theoretical discussion in Veerayooth 2012). There is plenty of room for agents to make deliberate choices, although the range of choices that agents make is limited by the

ideas they hold and the structures they live in. Deliberate political actions have played a key role in overcoming deficient institutions throughout catching-up histories (see examples from Korea in Chang 1994). Moreover, the relationship between political fragmentation and effective policymaking is not a linear one, as multi-party governments can provide a set of *credible constraints* on policy disruption and therefore bolster confidence among private actors (see Nooruddin 2011). Greater attention should be paid to “exceptional” cases that cannot be explained by structurally determined conditions. In addition, changes in formal institutions, such as constitutions in Thailand, can improve capability for policy formulation and implementation.

### **3.3 Escaping from the Middle-income Trap**

The findings and perspectives discussed thus far have led us to two critical suggestions as to how Thailand can move from middle- to high-income status. First and foremost, given that manufacturing competitiveness and export composition of high local value-added are the key attributes of successful catching up (see Veerayooth and Patarapong 2013; Felipe et al. 2012), Thailand needs to tip the macroeconomic–industrial balance in favor of the latter.

On the one hand, macroeconomic stabilization is a necessity. However, apart from a problematic inflation-targeting regime, there are various options that can provide the overarching theme of maintaining macroeconomic stability. For example, maintenance of a competitive real exchange rate; implementation of capital management techniques; an explicit statement of output and employment goals; and incomes and anti-monopoly policies to limit inflation to moderate levels. To the extent possible, economic policy should focus on the variables of ultimate concern, such as efficiency, growth, and equity, rather than an intermediate variable like inflation (see Epstein and Yeldan 2009; Stiglitz et al. 2006). On the other hand, industrial policymaking should be posited on the same level as other types of policymaking, be it education, health, or social policies, in the sense that it will certainly be confronted by problems and difficulties in terms of implementation, needless to say wasteful outcomes. But the tasks of policymakers and academics are to



minimize such problems and to maximize the benefits. Moreover, almost all policies in reality *inevitably* favor certain sectors and actors over others, and therefore have discriminatory effects that amount to targeting (Rodrik 2008). In Thailand strong governments of both unelected and elected elites had implemented industrial policies, mostly in an unsystematic manner. Therefore, designing it in a methodical way, with an explicit yardstick and exit strategy, should be a more productive and accountable enterprise than deploying it with blind prejudice.

Last but not least, effective economic reform demands constitutional change to support strong administration. Short-lived, multi-party governments in the post-1980 period have been a product of constitutional design, rather than a result of social norms or a lack of threats. The 2007 Constitution has been designed to turn the country back to a “bureaucratic polity” amid the rise of electoral democracy, by undermining the power of the executive branch and strengthening that of the traditional elites. Appointing and reshuffling civil and military officials by the cabinet has been made stiffer. In post-1980 history, this sort of regulation has formally impeded the capacities and incentives of political leaders for reform, and informally forced the compromise between the two elites. As seen in the Yingluck government (2011-14), forced compromise discounted the possibility of bureaucratic reform, industrial upgrading, tax reforms, and military budget cuts. To please its constituencies without alienating its constitutionally empowered enemies, the Yingluck government, albeit with a landslide election victory, moved toward more populist policy packages, including the rice-pledging scheme, farm debt moratorium, rebates and tax cuts.<sup>10</sup> If institutions are seen – as most institutionalists believe – as being temporally prior to individuals, the current constitution is functioning as a reform obstruction.

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<sup>10</sup> However, the Yingluck government also endorsed the 300-baht minimum wage (40% increase), the second phase of Eco-Car project, and investment plans for high-speed railway and infrastructural megaprojects.

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## **IV. Conclusion: Within-country Growth Dynamics**

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Since the 1980s Thailand has undergone political–economic dynamics beyond the single-dimensional concept like a “bureaucratic policy” can capture. This article provides an institutionalist explanation for reform politics and economic consequences between 1980 and 2011. My explanation rests on the institutional interplay of coalition struggle and constitutional design. Conditioned by ruling-coalition type and government type, the reform has alternated across four paths in the past three decades: (a) fiscal tightening and exclusive industrial policy; (b) an expansionary budget and inclusive industrial policy; (c) international conformism; and (d) provincial, pork-barrel projects. As a consequence, the country’s relative economic achievement should be attributed to the combination of macroeconomic stability, certain industrial policies, and ad hoc bureaucratic and infrastructural restructuring. The appraisal of reform outcomes, as well as political credibility to be lent, should be made in a more balanced manner between the unelected and elected elites. The bifurcated state concept, the relationship between inflation and growth, and issues regarding industrial policy and institutions, all require a rethink.

In more general terms, this article carries implications for the recent debate over within-country growth dynamics. The existing literature on the politics of growth usually compares countries based on their average growth of per capita income, thereby overlooking the fact that most countries undergo dramatic fluctuations in growth. As pointed out by Sen (2013), there is a need to shift from the determinants of long-run average economic growth to an understanding of the determinants of within-country growth patterns. Two dominant theories representing this analytical shift are those of Khan, and of Acemoglu and Robinson. Focusing on the distribution of power and informal institutions of patron–client networks, Khan (2010) characterizes Thailand between 1970 and 2001 as “competitive clientelism”, with 2001-08 being the “unproductive dominant party” period. This article hopes to offer a more subtle reform variation than characterized by Khan, and sheds more light on the constructive role of a formal institution like constitutions in shaping

reform capability. In line with Acemoglu and Robinson (2012), my explanation for differing reform paths is based on the interaction between *de jure* (constitutional design) and *de facto* (coalition politics) institutions. However, this article contends that growth-enhancing behaviors can take place despite – and sometimes because of – deficient institutions. Moreover, regarding underlying economic theory for interpreting growth outcomes, I find the dichotomy of “inclusive” and “extractive” institutions too simplistic, to the neglect of state intervention and industrial policies observed widely in East and Southeast Asia. In a nutshell, the Thai case studied here is supportive of the emerging research agenda on within-country growth patterns, but provides an alternative approach to analyzing the politics and economics of policy reform in developing countries.

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