



**EE301 Thai Economic History  
Lecture Notes (เอกสารคำสอน)  
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**Dr.Thorn Pitidol**

**Faculty of Economics,  
Thammasat University**

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# 1. Demystifying Late Ayudhaya and Thonburi

## Topics

- Late Ayudhaya period: General conditions
- Trade and war in Ayudhaya
- The fall of Ayudhaya
- The rise and fall of Thonburi

### 1.1 Late Ayudhaya general conditions

#### **Ayudhaya's Geography: Low-land basin and forest hinterland**

Lowland-basin: Most cities, including Ayudhaya, located along the river basin and coastal rim. Such a location was important for the rice production

Hinterland: Beyond the rice basin were hinterland of forests, swamp, and hills. Forests were filled with dangers such as malaria and wild animals. But forests also provided highly valuable products for trade with foreign countries

The two types of areas facilitated the Kingdom's two crucial forms of production

- (1) Rice production to feed population and soldiers
- (2) Collection of forest products for trade.

#### **Ayudhaya Society**

Wealth of rulers in Ayudhaya came from resources from rice-basins and forests. Rulers extracted agricultural production through taxes and levies. They also extracted labour to facilitate the maintenance of the city and the collection forest products. **Ayudhaya's ruling system was made to accomplish these tasks of extractions.**

*Ayudhaya's feudalism consisted of Phrai, That, King and Nobles*

#### Phrai (indentured peasants)

While King formally owns land, Phrai were granted occupancy rights. Phrai's land was not transferrable. Phrai were levied taxes from their productions and were forced to provide labour. Phrai Luang (Royal Phrai) and Phrai Som (Lords' Phrai) provided free labour and military service

#### That

That were mostly immigrants, prisoners of war, and those who committed crimes. That were full time servant to owners. There was trade in That, but there was no market for the trade. That were not used as slave-labour.

#### King and Nobles

King and nobles were rulers and traders. Their wealth came from trade activities.

To rulers, the control of "people" was the most important thing. Despite the King's allocation of control over people to nobles. Competition over labour between King and nobles was apparent. The control of scarce labour represented a crucial administrative problem. Legal system functioned to serve this main purpose.

## **1.2 Ayudhaya's trade and war**

### **Trade**

Trade of forest product was crucial to the wealth of rulers. Establishing power and control over other cities was related to the importance of trade. Control over other cities allowed trade routes to be secured, and gave supplies of forest products through tributes.

Ayudhaya's relationship with other cities facilitated trade. Ayudhaya tried to impose tributary relationship on subordinate centres and set up provincial outposts act as collection points of products. Rulers in hinterland levied taxes and extracted labour from people in hinterland, then paid a share of their forest produce as tribute and war booty.

Because Kings and nobles of Ayudhaya were also traders. The essential aspect of the Kingdom's power was the ability to control and to facilitate trade. Foreign traders were accommodated by the rulers to enabled access to the world market. In late Ayudhaya, tribute was paid to the Chinese emperor to secure the King's a favorable treatment as trading partners.

### **Wars**

Wars in Ayudhaya's period were means to gain control over other cities. The control was not at all about gaining territory. It was to gain control over trade and taxes, and also enabled rulers to add to scarce labour by getting war prisoners

Scarcity of population was always a major problem. With this condition, wars were not attempt to kill, but to conquered through demonstrating the superiority of power.

- Turveil's estimation: 1840 population of Bangkok and the central plain = 410,000. Another estimation for the whole Siam, approx. 3 millions.

Common misunderstandings about wars in Ayudhaya's period

1. Wars were about expanding territories. No concept of geographical territory existed yet.
2. Control over other cities were absolute; cities cannot held allegiance to more than one Kingdom.
3. Kingdom and cities in Ayudhaya period had in fact related to each other in a mafia-like relationship.

## **1.3 The fall of Ayudhaya**

The weakness of late Ayudhaya was due to several factors. The most crucial were (1) the internal conflicts between King and the rising power of the nobles. (2) the losing of support from strategic cities

Pasuk and Baker (2017) also observed how Ayudhaya's growth and prosperity has shifted the focus of Ayudhaya's nobles toward wealth, and led to the decline in its capacity to wage war. In comparison to the Burmese Konbaung's growing military power, Ayudhaya was perhaps no match anyway.

#### **1.4 The rise and fall of Thonburi**

As Ayudhaya was falling, a number of nobles left to established their own "Chum-num", referring to the self-protected unit functioning mainly for survival. Taksin established himself as one among the leaders of many other Chum-num. But what set him apart as from other leaders of Chumnim was that he had a plan to revive the Kingdom.

##### *Taksin – the Chinese King*

Taksin was a son of Teo-chew Chinese merchant. He was likely to be born in Ayudhaya, but built himself as a merchant who travelled to trade in Tak. Taksin's Chinese background would become a major factor of his downfall.

#### **The challenges of Thonburi**

The strength of Taksin was in military skills. He was a fierce and ruthless leaders. He excelled as a leader of a Chumnum. But as he became the King of a newly revived Siam, he had to face with another challenge, which was to reestablish the ruling system of Ayudhaya.

Another crucial challenge faced by Taksin was to revive the badly destructed economy, and also to re-established trade routes.

- Tight control over the labour supply was made.
- His military campaign targeted to cities crucial for trade. Especially, the campaign to the East and Cambodia, in order to fight off Vietnam's influence.

#### **The fall of Thonburi**

Taksin's position as the ruler of Thonburi was destabilised the most by the Ayudhayan system that he tried to revived.

He eventually had to accomodated the Ayudhaya's nobles in his royal court. But tried not to give them control over people. Among the nobles who associated themselves back to Ayudhaya, Taksin –a Chinese who lacks proper background – had no credentials to by their King.

Moving on to Bangkok period, there were continuing challenges from Thonburi

- Scarcity of labour
- Expanding trade
- Rebuilding the society
- Reviving the royal court

### Reading

- Pasuk Phongpaichit and Chris Baker (2002). *Thailand: Economy and Politics*, KL: Oxford University Press. (Chapter 1, 3, 7)
- Chris Baker and Pasuk Phingpaichit (2017) *A History of Ayutthaya: Siam in the Early Modern World*, Cambridge: Cambridge University Press (Chapter 5,6,7)

## 2. Early Rattanakosin Period - Politics and Trade

### Topics

Early Rattanakosin (Rama I – Bowring Treaty)

- Overview
- Trade and taxes
- The development of markets and the middle class in early Rattanakosin: perspective from Nidhi's Pakgai-Bairua

### From previous chapter

Ayudhaya's ruling system was about managing trade, scarcity of labour, and the extraction of labour via the ruling system

After the fall of Ayudhaya, Thonburi faced the challenges in reviving the trade, managing the scarcity of labour, and restoring structure of society (ruling system)

### 2.1 Early Rattanakosin: overview

The challenges faced by Thonburi continued to early Rattanakosin: rebuilding the state and society, overcoming the scarcity of labour, reviving the trade

But these challenges were transformed by additional factors including; (1) the inflow of Chinese (2) the changing nature of the economy

#### The rebuilding the state and society

Early Rattanakosin was a relatively peaceful period with no major wars. Siam elites gathered to rebuild the capital, and began by adopting Ayudhaya's system. This happened until the changing nature of trade and domestic economy obliged them to change.

Ayudhaya's system thrived on trade of forest products with China, but trade with China would eventually recess in early Rattanakosin. The ruling class would have to compete more for extraction, until they moved to a different social system.

#### Overcoming the scarcity of labour

The wars from Ayudhaya and Thonburi period caused severe scarcity of labour. Bangkok areas were almost vacant. The ruling system of early Rattanakosin had to enforce a very strict control of labour. The use of tattooing system was strongly enforced. Tests were required for monks. Punishments were raised for fleeing.

Another crucial means to increase labour supply was wars. From 1770s, Bangkok waged wars with nearby states to gain war prisoners. Control was made over Lanna, Vientiane, Cambodia. Prisoners of wars were moved to help build Bangkok. 5000 Laotian to work in construction, 10,000 Kmers to dig canals. Malays prisoners settled in the East BKK. Some, such as the a large group of Mons in 1815, also came voluntarily. These inflow helped reduce the scarcity, enabled Bangkok to build palace, temples, and canals.

### Reviving the trade

The revival of international trade was mostly with "China". This is because during the period, European traders shifted their activities to India and Indonesia, where they were able to colonized.

During 1810-1820s, BKK established control over Northeast to increase the flow of forest products. Junk trade (การค้าด้วยเรือสำเภา) between Thailand and China boomed. Chinese traders were accommodated in Bangkok to help facilitate the trade.

### Factors transforming the challenges (1) The inflow of Chinese

A crucial factor contributing to the change in early Rattanakosin was the arrival of the Chinese migrants. Not only were the Chinese accomodated to facilitate trade, they were looked upon as the important solution to labour shortage.

Bangkok benefited from the economic and political troubles in Southern China, which propelled the Chinese to flee their country. As Mulloch noted in 1850s with reference to the Chinese in Siam; the Chinese were "pleased with the country and their prospects".

The Chinese became a special group of labour. They were exempted from levies (ส่วย) and corvee (เกณฑ์แรงงาน). Chinese settlements expanded along the rivers and canals, helping populated the East and West of Bangkok. Chinese helped dig canals, and the expansion of canals expanded their settlements. Important canals that the Chinese helped construct include, for example: Mahachai canal in 1820s, San-saeb canal in 1830s.

The Chinese also brought with them skills in farming, expanding newer types of agricultural production. Chinese functioned as farmers, lenders, and merchants. They expanded to dominate cities such as Chacheongsao, Nakorn-chaisri, Mae-klong, and Chantaburi. Expansion of production of products such as sugar and rice formed the new platform for the Thai export after the trade in forest products recessed.

### Factors transforming the challenges (2) The changing economy

Although trade with China was important in the early period, it eventually declined. Due to wars and the threat of colonisation faced by China, trade between Siam and China was in decline from 1840s. This was to be replaced by the trade with the European, which was rising from 1820.

Colonisation turned rural farmers in Western colonies into labour in plantations. This expanded demand for imported food product such as rice, sugar, pepper, tobacco. The rising demand was contributed by the West's better ships. The rising demand for agricultural production from the Western colonies expanded Siam trade with the West, and subsequently caused crucial change in the Siam economy.

## **2.2 Early Rattanakosin: Trade and Taxes**

Bangkok was a new city. Its economic development was greatly helped by the inflow of outsiders, especially the Chinese.

Accounts in Rama II period mentioned the Chinese outnumbered Siam by 2:1 ratio.

The assimilation process of the Chinese was an aspect of the success. It was made possible partly because of the lack of Colonisation's divide and rule process.

Early Rattanakosin King and nobles participation in trade was dominated by the Chinese merchants. By early 1830s, among 82 Siamese owned ships operating out of BKK, King owned 9, Nobles 25, Chinese 48. Chinese merchants dominated junk trade btw Siam, China, and Singapore.

Also a crucial feature of this period was the dominant power and wealth of the nobles. Within the Siam royal court, Bunnag family dominated Phra Klang. Dit Bunnag (เจ้าพระยาคลัง - สมเด็จเจ้าพระยาบรมมหาประยูรวงศ์) was the largest operator in the private junk trade.

### *The rise of tax-collectors*

With the boom in trade, and the growth in domestic markets, pattern of extraction changed. King withdrew from active participation in trade, and gain wealth through taxing trade and production.

The collection of taxes also no longer had to be "in-kind". Tax-farming became the new source of income for the king, the nobles, and the Chinese.

Chinese merchants facilitated tax collections on production and on range of activities such as gambling, opium, and liquor. They built their wealth and supported the expansion of production they could earn taxes.

To aid tax-collection, King granted special police power to "nai-akorn" (tax-farmer).

With tax-farming allowed the Chinese merchants to develop their dynasties in provinces, the nobles also turned toward tax-farming. Controlling Phra-Klang, Bunnag family controlled 31 tax-farms. From 1850s, they secured sugar tax-farms in Petchaburi, and moved to settle there as the base of their power.

Tax-farms functioned not only for tax collection. Tax-farmers were also primitive entrepreneurs, investing in businesses that would allow them to eventually collect taxes.

But the revenue from tax-farms would accumulated mostly in the hands of the nobles and the Chinese merchants.

The Crown would eventually reacted by trying constrain such an accumulation. Westerners were brought in to counter their prominence.

### **2.3 The development of markets and the middle class in early Rattanakosin: perspective from Nidhi's Pakgai-Bairua**

#### Context

The change in trade provided context for the market system in early Rattanakosin

Most of Ayudhaya's trade was "passing through" trade. Forest products originated from Lanna, Cambodia, or Vientiane etc. They were sent to trade with products from China, Japan, and from Indian ocean.

Ayudhaya was center of trade between East and West. King of Ayudhaya benefited from both monopolising trade products and owning junks. Extraction was done mainly on "trade" and not on "production". The trade pattern of Ayudhaya had limited effect on wider society, as phrai did not participate in trading activities.

Trade has changed in early Rattanakosin in terms of quantity and products. The nobles of early Rattanakosin and the Chakri dynasty all had background in trade activities.

Chakri dynasty consolidated power with great nobles through marriage. Trade activities, by nobles and Chinese, were seen as normal. Consolidated relations meant King did not have a reason to prevent nobles from trade.

Quantity of trade was greatly expanded by the opening of China and the development of sea transportation.

But forest products would become less important, while agricultural products such as rice and sugar gained significance. The influx of Chinese assisted the production of these goods.

#### Trade and taxes

As mentioned, the changing types of trading products caused changing pattern of extraction. **The main point of extraction was changed to "production".**

Suai and monopoly remained. But the aim was only to filled the royal junks. Beyond such an aim, the government did not seek profits from monopoly and allowed trade to be relatively free (especially Rama III).

Taxes from production gained a much larger share in gov't revenue. To increase such revenue from taxes, Rama III supported people to engage more in production for trade. All types of traders were valued as means to link the world with production in Thailand. Rama III, even without any intervention from the West, was already supportive of free trade.

#### Market system in early Rattanakosin

##### Merchants

There were two major groups of merchants in early Rattanakosin. (1) King and nobles; and (2) Chinese with connection to Thai sakdina

King and nobles owned junk. Royal junks gained benefits from selling suai. High-ranking nobles gained political power through success in junk trade. Chinese merchants with some connection to the ruling system also participated actively in trade, and were major group of traders connecting Siam and China.

### *Chinese migrants*

Chinese in early Rattanakosin were drivers of changes. The inflow of Chinese was a crucial factor in the economic changes of early Rattanakosin. The Chinese who came to Siam were willing to work hard to earn profit, in order to help their family back in China. But most of them were without financial capital, and also were from lower classes in China.

Chinese who migrated to Siam were divided into two groups.

1. The first found success in being part of sakdina system, and eventually adopted sakdina life.
2. The second limited their roles in trade and kept Chinese identity; their way of living contrasted with the locals who were still living in subsistency.

Thai ruling class was able to benefit from the Chinese, who helped becoming the front man in their process of extraction.

Market-based production were brought over by the Chinese. These new production activities were crucial for the trading boom in early Rattakosin.

Agricultural production (for exports).

Farming of sugar-cane and the production of sugar was brought in by the Chinese. Production of sugar expanded in the Eastern region of Siam. Local Thais were turned from subsistency to be the farmers of sugar-cane. Thai government also sought opportunity to operate a large scale sugar production.

Other agricultural products produced mainly by the Chinese include pepper and tobacco. Rice production started to expand, but was held back by domestic needs.

Mining: Tin-mining, especially in the South, was operated mainly by the Chinese. Steel mining operated by both Thais and Chinese.

Ship-building: The Chinese utilised woods in Siam to assemble junk. This also led to the expansion of logging.

### *Expansion of domestic markets in early Rattanakosin*

The growth of population who engaged in production beyond subsistency contributed to expansion of internal trade.

Chinese traders were allowed to travelled freely. They distributed necessities such as rice, salt, and textiles. They sold luxury imported product, in exchange for domestic products that can be exported. Better transportation (especially through canals and sea) played a crucial role in enabling the expansion of domestic markets.

Effects: The expanding markets also affected the local Thais in dragging them to some extent away from their subsistence way of living. The use of "money" also gained significance. Thai elites turned to the use of money to hire Chinese labour. The increased significance of money also allowed new tax system to developed.

Limits: But the expansion of markets was within limits. The lack of "money", in terms of quantity, limited the expansion. More importantly, despite the development of capitalism in early Rattanakosin, Sakdina system was able to adapted and prolonged itself because the capitalists were also those who gained privilege from the sakdina system.

### The emergence of the middle class

The emergence of independent middle class (bourgeoisie), in the Western context, is seen as a product of capitalist development. Nonetheless, for the Thai context, economic development was the outcome of the state's trade policies and the influx of Chinese migrants.

The emergence of the middle class in Thailand was not independent from the state and the sakdina system

Some of the ruling class and the Chinese who got blended into the sakdina system were the early Rattanakosin bourgeoisie. Their lifestyles were filled with love of luxury and Western products. Their search for material well-being through trade seen as legitimate. Their engagement with trading activities helped them to be "rational" and to search for new knowledge and technologies. They put emphasis on education.

But the development of Thai bourgeoisie was also limited by (1) the limited expansion of markets; (2) the Chinese's reliance of privilege from sakdina also reduce incentives to invest and compete. The way that the bourgeoisie was developed prolonged the sakdina structure. Moreover, the sustained Phrai system in turn prevented the benefits from further development of bourgeoisie such as an expansion of craftsmanship.

### **Readings**

- Pasuk Phongpaichit and Chris Baker (2002). ***Thailand: Economy and Politics***, KL: Oxford University Press. (Chapter 1, 3, 7)
- Nidhi Eoseewong ***Pen and Sail: Literature and History in Early Bangkok***, Bangkok: Silkworm Books. (Chapter 1 Part 3: Bourgeoisie in Export Economy)

### 3. The Thai Village Economy in the Past (Chattip Nartsupha)

#### Topics

- Primordial village communities
- Subsistence village communities under the sakdina system (1455-1855)
- Shifting away from subsistence economy (post-Bowring)

#### 3.1 Primordial village communities

Thai primordial communities were mainly rice producers, occupying low-land basin. They did not settle in mountainous area. This is in contrast to some tribal communities in the nearby area, who were highland farmers, and grew products other than rice.

##### *Social structure of primordial communities*

Ownership of land belongs to the village. The leader of a village allocated entitlement to different families. But the entitlement can be reallocated.

Villages have their own ruling system. The elders had roles in resolving conflicts. Self-rule by the communities were sought for. The peasant rebellions in later times, for example, always sought to re-establish villages' independence from the state.

#### 3.2 Subsistence village communities under the sakdina system (1455-1855)

The relationship between the Sakdina system and the villages is characterized by the Sakdina system trying to establish itself over village communities. The King claimed to own land and allocate land to nobles. Commoners did not have entitlement over land. Their status was more or less like renters. They had no ownership rights, and could not sell land. Commoners lost entitlement to their land if they did not use it.

But the sakdina system was not actually interested in owning the land. Their claiming of land was more to legitimise their extraction.

Communities were bonded in their subsistence production, but needed to give suai and their labour to the state.

The sakdina system, therefore, did not penetrate into the village. It only acted at the surface level. Thai sakdina only extracted suai and corvee. But did not act as actual landowner like the European owners of manors (as in European feudal system). The lack of direct encounter between nobles and villagers helped prolonged the Thai sakdina system.

##### *Thai village communities under sakdina*

Thai villages communities, even under the sakdina system, continued to be self-reliance. Their production lacks use of technology. It was labour intensive and relied on natural source of water (river and rain). In addition, other forms of productive activities were also self-reliance, such as hunting and

weaving. Textile weaving was an important activity for every household. Women had to be able to do weaving. Each village weaved their textile for their own use.

Villagers produce mostly for their own consumption, only little were for exchange. The only activity beyond self-reliance was collecting forest products to pay *suai* for the state to trade.

As observed by Ammar Siamwalla, this allowed the trade in Pre-Bowring times to have little impact on the domestic economy. International trade co-existed with subsistence economy.

#### *Villages' production under sakdina*

Crucial to the villages' production system was "labour". But there was limited division of labour, and no selling of labour. Plenty of land enabled villages to sustain their subsistence by cultivating new land. Villages' production relations were characterised by (1) inner cohesion; and (2) state's extraction.

(1) Villages' inner cohesion signified by villagers helping and sharing with each other.

Whole villager moved together. Membership of a group was crucial in a village's allocation of land. Family ties were important. Thai families extended their lineage through women. The sense of community was more important than the sense of being individuals. The strength of inner cohesion meant there was not much division in villages. Divisions was mainly villages/state and peasants/nobles. Landless farmers were rare.

(2) State extraction happened crucially through the extraction of labour.

Corvee was feared by villagers, as they had to face risks in travelling through forests. Some villages flee together as a whole.

Villagers' beliefs indicate the significance of their self-reliance and self-rule. "Ghosts of ancestors" were important. They had ghosts for their own villages. But there was no "national-level ghosts". Buddhism was used to justify the right to rule of the elites. The teaching of Karma helped justify the extraction.

But villagers' everyday life still dominated by non-Buddhist beliefs.

#### *Implications of this period*

- Bourgeoisies did not develop from villages. Villages did not produce merchants or craftsmen.
- Even travelling traders were doing it only as supplement jobs.
- Interaction between villages occurred, but only to help each other.
- It was only until the Chinese settled that the domestic trade grew. But the Chinese did not expand to all regions and to rural areas.

### **3.3 Shifting away from subsistence economy (post-Bowring period)**

#### *The Central region in the post-Bowring period*

Bowring treaty led to free-trade. The Western demand for rice led to Siam's increased rice production. Rice increased from 5% of export to 50%. The land used to produce rice increased from 5.8 millions rai in 1850 to 9.2 millions in 1905.

The central plain was the main production area. Production was increased through expanding land use. Farmers were brought to settle along newly dig canals. The replacement of corvee by cash payment created new need for cash. With the newer settlements, the common ownership of land started to lose significance.

But evidence suggested that Thai village communities tried to remain subsistence. They did not fully embrace the market system. They still produce for self-use. They did not search for new production technology.

It was mainly the Chinese who engaged in market activities. Chinese became the middlemen who linked villages to capitalism. They made villages more dependent on the external markets in both production and consumption. The Chinese played role as lender. Peasants who failed to pay loans and interests to the lenders had to become landless. The emergence of landless farmers, in the long-run, would caused the villages to disintegrate. Landless farmers will have to leave their villages to make their living.

Parasitic-capitalism (Chinese merchants + Thai Feudal), therefore, was the main threat to the self-sufficiency of village communities.

### *Northern region*

There were export of timbers and forest products, but these did not affect village communities. The difficulty in transportation slowed down the penetration of the market system. But the building of train would eventually change this.

### *Southern region*

Main export was tin. But operation of tin-mine was owned by outsiders (Chinese and Western capitals). Subsistence economy existed until WWII, when rice production, fruits farming, and rubber planting grew.

### *Isan region*

Highest degree of subsistence. Trade in Isan was mostly trade in forest product. The access of Chinese merchants were limited. Isan peasants were the most rebellious to the penetration of the state and market.

### **Summary and critiques**

Village economy in the past was subsistence economy. Village communities were dragged into capitalism, but they resisted. State and markets were aliens to the village communities. Villagers resisted the extrusion of state and market. Thai capitalism was parasitic of state. Their extraction relied on privilege, and limited their effect in changing rural communities.

### **Counter-arguments to Chattip**

Overall criticism: Romanticising rural life by putting too much emphasis on persistence, rather than on transformation and adaptation. His stressing of the value of “subsistence” becomes too normative. Both the timeline (400 years+) and the source of information (oral history) are loose.

J.Kemp (The dialectics of village and state in modern Thailand): village communities was in fact more of the unit of public administration that began after Rama V reform. The system actually born out of the reform of public administration, and were means to rule peasants.

### **Reading**

Chattip Nartsupa (1999) *The Thai Village Economy in the Past* Bangkok:Silkworm Books

## 4. Canals, Landlords, and Peasants: Post-Bowring Transformation of Thai Peasants

### Topics

- Post Bowring: changing context
- Canals and landlords
- Peasant colonization
- The decline of forced labour
- The two regimes structure

### 4.1 Post-Bowring: changing context

With China facing problems, the trade with China slumped in 1840s. The King (and nobles) responded by encouraging the growth of European trade. Bowring Treaty in 1855 gave the British trading rights and imposed limits on trade dues. Similar rights were later expanded to other European nations.

Initially, it was thought the main trading commodity would be “sugar”. But Bangkok could not compete with the cheaper Javanese sugar. Rice then became the main exporting product.

The boom in rice export started from mid 1870s. Over the next 60 years, rice export increased 15 times from 100,000 tons to 1.5 million. The boom in rice export instigated a crucial change in Thai peasants. Paddy tract expanded to cover almost the whole of Chaopraya Plain. New agrarian society of individual peasant proprietor was born.

### 4.2 Canals and landlords

The increased revenue from rice production made “land” much more valuable. From 1850s, king, aristocrats, and peasants contested to own the newly cultivated land for producing rice.

The original condition of the lower-delta in the central region required earthwork for draining away excess water. The area was in fact a jungle of swamp grass populated by crocodiles. Therefore, the key for transforming the area for rice production was building canals.

Before 1850s, canals were built mainly as highways, with some benefits for cultivation. But after 1850s, canals became projects for Kings and nobles to claim property rights over land alongside canals. Klong Mahasawat, Klong Damnern Saduak, Klong Premprachakorn were digged and land rights were distributed to Kings and nobles.

With rising rice export demand, the process of cultivating new land accelerated. Prospective tenants also were flocking into the new canals tracts. Areas around Klong Sansaeb, for example, became populated between 1878-1885. With plentiful supply of tenants, the nobles petitioned for rights to build canal and own lands.

With increased importance of land, “property rights” eventually gained legal status, contributing to rise in land value. Receipts of land tax could be used as a proof of land ownership. Sale of land was enabled. Land along Klong Prawet in 1877, for example, cost 1-1.5 baht per rai.

It seemed a system of landlords and tenants was going to be created. But the creation of the system of landlords and tenants, especially by the nobles, faced opposition from 1) peasants; and 2) king

(1) Peasants settlers were not easy to control. And the nobles were not skilled in managing their land. It was not long until the canal tracts fell in disorder. Landlords and peasants disputes were so widespread.

(2) The King and nobles were competing in trade, collection of taxes, and control of people. From mid 1870s, the King attempted to stop nobles from expanding land ownership. King also turned to support colonization by individual peasant households. Land in Royal scheme were distributed for peasants'

The King and his closer circles of nobles continued to expand the control over new rice tracts, but deny other nobles from doing the same. Royal related companies such as Siam Land, Canals, and Irrigation Company, built a gigantic Rangsit project on 1.5 million rai.

With the King and close associates taking control of canals building, they were able to accumulated land. This pushed for a new legal rules for land ownership. They rejected the use of tax receipts to end challenges from tenants. Land registry and certificates started to develop. But this new system applied only to the land claimed by King and nobles.

#### **4.3 Peasant colonization**

In the 1900s, investments in canal-building ceased. But the frontier moved beyond the canal tracts. Outside the land owned by King and nobles, the legal framework favoured individual peasant settler. For the lands not claimed by King and nobles, certificates of tax payment remained in used to claim rights to use land, to support customary rights to jab-jong.

The irrigation department was created. Dutchman, Van der Heide, was hired as its first director. Large-scale irrigation project was neglected, but the smaller drainage projects were expanded, especially around Rangsit area.

With the government undertaking irrigation roles, the roles of landlords declined. Colonizing peasants moved to use the areas.

Peasants moved into land even beyond irrigation. By 1900, the frontier created by peasants moved much beyond the canal project lands. Swamp and jungle were cleared and turned into paddy land. Every area in Chaopraya Delta eventually turned into paddy field. Settlers travelled by boats along river to find new sites.

Frontier society of peasants was highly mobile. They moved to find new opportunities. They abandoned places with difficulties in production. Many families made several moves in a single lifetime.

In 1900, 98% of rice export came from the central plain. It was only after WWI that process extended to other regions such as the North and the Northeast.

Due to the difficulty in transportation, the North initially did not face early impact of paddy expansion. But this eventually changed with the train. The northern rulers, however, were allowed to “grab” lands with little restraint from Bangkok.

In the Northeast, the railway link to Korat opened up some paddy cultivation, making Korat the center for rice trade. But area further away were beyond reach, and developed as suppliers of livestock.

The frontier surge led to the rapid increase of population in Chaophraya Delta, contributed by falling death rates and mass immigration. Captives from military campaigns, and voluntary migrants sought for opportunities by moving into the new areas. Northeasterners who moved to take labour jobs also settled. Terwiel estimated that in 1830s, population of central plain was 375000. By the 1920s, the number was 3.3 millions.

#### **4.4 The decline of forced labour**

The expanding frontier prised people away from the corvee systems of labour control.

Phrai actually were always resentful of corvee. Scarcity of labour in early Bangkok period led to the tightened of control. But despite numerous attempts, including the reduction of the corvee period, the system still failed. By 1870s, as much as 80 percent evaded corvee.

From 1870s, the King initiated the process to end the corvee system. This was contributed by the broader attempt to restraint the power of the nobles. Corvee for phrai-som was gradually being replaced by the cash payment. The king demanded such payment from the nobles. Eventually, all of the corvee system was replaced by the cash payment. In a similar fashion, the King announced the end to the That system.

#### **4.5 The two regimes structure**

In the late 19th century, with Rama V attempt to create power for his absolutism, the result was the two regimes existed side by side.

- 1) a society of landlords and tenants developed in early canal projects and northern valley
- 2) A new peasantry of independent cultivators, growing beyond the canal areas.

##### *In the society of landlords and tenants*

Landlords held over 90% of land. Three families held 1/3 of total area under tenancy in 4 provinces around Bangkok.

Land ownership in this area were legalised through land deeds. Productions were closely connected to export. Landlords usually employed managers to help, but conflicts with tenants were frequent.

Tenants in the landlords system faced insecurity of tenure and occupancy rights. Many had set up their own protection system, asking for help from nak-leng to fight against landlords and others. Military expeditions had to quell riots and perform the role as policemen.

Tenants also faced uncertainty from drought (as canals were mainly for drainage), and from the fluctuation in international price for rice. Thus, they were prepared to leave during bad times.

*In the society of independent cultivators*

In districts beyond canal tracts such as Supanburi and Chantaburi, over 90% of population were independent cultivators. They avoided holding a large piece of land to avoid paying land taxes. Most holding were in the range of 12-25 rai.

Independent cultivators allocated land through the family system. Landless farmers and import labour were rare. Production was for self-consumption first before the surplus was sold to market. Their holding of land not legalised through deeds. Older system of using tax-payment certificate was used. The village control allocation of land. The lack of legal framework prevented the land from being bought.

**Summary and implication**

*The co-existence of two regimes*

Landlords controlled land that produced most exports. But independent cultivators expanded their settlement, quickly controlling more area of cultivated land. The two regimes were connected through migration of peasants. They moved to settle as tenants in years of high prices. But when faced with failures from price and weather, they fled to be independent cultivators. Until the tax collectors forced them to come back to produce for market.

*The poor but not disintegrated peasants*

Under the two regimes structure, Thai peasants faced limited changes from the market expansion. With low yields, they are not particularly successful economically. But with the state lack of support for expansion of smaller landlords and rice merchants, peasant society still do not face destruction from markets. They were still not turned into landless farmers, and the internal division remain limited.

**Reading**

- Pasuk Phongpaichit and Chris Baker (2002). *Thailand: Economy and Politics*, KL: Oxford University Press. (Chapter 1)

## 5. City, Trade, and the Dawn of Absolutism

### Topics

- Cities and Trade
  - The Westerners' Businesses
  - Capital accumulation of the Chinese and the Royal household
- The Dawn of Absolutism
  - The competition between King and nobles
  - Domestic and external challenges
  - The beginning of absolutism

### Prior context: The time of tax collectors and Chinese merchants

The trade with China decline in 1850s, but the Chinese merchants already turned to find wealth from becoming tax collectors. They provided wealth to the nobles, and in return they gain privileges from Sakdina. They built their connection with nobles through marriage and business

The cooperation between tax collectors and the nobles prospered in provinces outside Bangkok. The King, however, lost out from this growing wealth. For a long while, the system was beyond the King's control. Despite the growing economy, the government only had little share of the tax income.

The King invited the Westerners in to counter balance the system.

### 5.1 The Westerners' businesses

Britain started building its empire from 1800s. Seeing what happened in Burma and China, the British envoy was welcomed by Siam.

In 1820, British came with the argument for "free-trade". Henry Burney negotiated for the reduction in tariffs. But trade in Siam was still controlled more by the Chinese. Britain wanted to renegotiated the trade agreement. One of their main goal was to find new destination for the trade in opium. That eventually led to the Bowring Treaty of 1855.

*Bowring Treaty* -- playing a crucial part in negotiating the treaty was Bunnag family, who wanted the benefits from the opium tax. The Bowring Treaty:

- Granted extraterritorial rights to British subjects
- Allowing the British to trade freely in Siam
- British can own property in Bangkok.
- 3 percent tariff for import and export
- Sharing profits from opium. No import tariff for opium, but the sale of opium done opium farmer

Despite the Bowring Treaty, Westerners' enjoyed only limited success in their businesses in Siam. They set up businesses in banking and insurance, and had most success in trading.

But the Westerners were unable to break through the Chinese's network in rice production/trade. They only had brief success in logging of teak and tin-mining. Their attempts at planting rubber was limited by

legal framework for land ownership. The customer base for the European imported products remained small.

The Westerners' investment in Siam, in comparison to other countries in the region, was much smaller. It was only 1/3 of investment in Malaysia. 1/10 of investment in Indonesia. Chinese investment was 4 times more. The difference explain by their inability to gain full support like in their colonies. But their roles in pushing through political reform would be more important

## **5.2 Capital accumulation of the Chinese and the Royal household**

From 1870s onward, the trade in Siam was growing. Rice trade led to canal building, even roads were constructed.

The Chinese tax collectors also invested in new businesses that came with Westerners' access to Siam. For example, a very successful tax collector, Akorn Teng, had businesses that included rice mills, sawmills, etc. His son became a partner in founding the Siam Commercial Bank

But the benefits from the rise of the businesses of tax-collectors did not accrue much to the King. Rama IV's ascend to the throne was traded with allowing the Bunnag to gain strong control over the taxes. As Rama V ascended, the financial status of the King was in a bad condition. The King even had to get loans from the Bunnag.

Yet, from 1900, the King was trying to expand his share of the growing wealth. Rama V attempted to gain control over the tax system.

Rava V also set up "Privy Purse Bureau" (กรมพระคลังข้างที่) to manage the wealth of the Royal Family. The Privy Purse Bureau (PPB, now more related to Crown Property Bureau) managed the land held by the King. As much as 1/5 of Land in Bangkok belonged to PPB

The PPB also invested in a number of businesses. Joint ventures were preferably done with Westerners. PPB businesses include, for example, Siam Land and Canals Company, rice mills & shipping businesses, Siam Cement, Siam Commercial Bank.

With the crown centralising control over taxes, the power of Chinese tax collectors was slowly constrained. But they would be compensated by the chance to gain access to Sakdina ranks.

With the reduction in their share of tax collections, tax-collectors' wealth eventually declined. Their adjusted by sending their Children to be part of the newly formed bureaucrats. This was the origin of a number of big families such as Sarasin, Huntrakul, Vejajiva, Na Songkhla

## **5.3 The early steps toward absolutism**

### *The competition between King and nobles*

As the Thai economy transformed, the competition over wealth and power between the King and the nobles also got intense. The competition over control for labour led to the end of phrai and that

But the main area of competition was in the tax system. As benefits from the tax systems replaced the benefits from trade. Nobles and tax collectors kept the majority of the share from the tax income

Powerful nobles controlled the Kalahom, Mahadtai, Phra-Klang. Bunnag family had a major say in Royal succession and in crucial issue such as the Bowring Treaty. During the Regency of Si-Suriyawongse, revenue to the royal government was declined from 4.8 millions baht to 1.6 millions baht.

### *Domestic and external challenges*

The domestic and external challenges in governing Siam also created the requirements for the reform.

The external threat from colonisation was apparent. But two domestic threats also created from changes in Early Rattanakosin: peasants and Chinese immigrants. These two groups provided a major challenge for the governance system.

Peasants tend to organised their own self-governance. With limited state protection, peasants used "nak-leng" to provide security. But nak-leng also engaged in conflict with each other, and often rebelled against the nobles and the state.

The Chinese provided another unique challenge. Urban Chinese provided valuable source of labour. The Chinese also assisted in the Sakdina system. But many of the Chinese, especially the labour, also had their own system. Secret societies (or Ung-Yee) provided them with securities. Ung-Yee entered into conflicts with each other, and also rebelled against the government.

With a large number of Chinese in Bangkok, the government was even concerned that the Chinese could take over the capital.

Finally, colonization threats came close. Britain and France extended their control in the region. They could argue for their need to extend their control to Siam, especially to protect their own people. Siam tried to contain the Westerners within the realm of Bangkok, but the Westerners still tried to extend their reach to logging and mining businesses.

All these threats provided the reasons for a group of reformers to establish a modern system of bureaucracy.

*The beginning of Absolutism in Siam (see Kullada K.Mead "The Rise and Fall of Absolutism in Siam")*

Rama V understood that, to gain control over the reform, it was important to gain the control over tax system. Only when the tax system was centralised, that the centralised government can be established.

But the ruling class of Siam was divided in response to Rama V attempt to reform. This had led to a tension that culminated in one of the most crucial event in Rattanakosin period, Wang-na crisis (1874-1875)

Rama V reform caused Siam ruling class to be divided into (1) Old Siam, (2) Conservative Siam and (3) Young Siam

- Old Siam: Want to preserve the old system. Resisting modernisation and Westernisation.

- Conservative Siam: Want the benefits from foreign trades, but did not want to lose controls over taxes.
- Young Siam: Want to modernised the government, expand the trade, and centralised the tax collection.

Conflicts between the three fractions escalated as Rama V set up “auditing office” (ho-ratsadakorn-pipat) to oversee the tax collection of the nobles, and the "privy council" to consolidate his rule. Rama V made a move to check the Bunnag family's corruption of tax collection. But a crucial event called the Wang-Na crisis would tilt the balance of power toward him.

#### Wang-na crisis (1874-1875)

Prince Vichaicharn, Wang Na and the leader of Old Siam, was worried about the King's attempt to centralised power. Prince Vichaicharn was appointed by the Bunnags. He inherited the title of Second King from his father, Phra Pinklao.

He had his own army, and enjoyed a large share of tax-revenue. Tension between him and Rama V grew. Both suspected another of accumulating forces.

The conflict reached climax when a mysterious fire broke out in the Royal Palace, leading to confusion between the forces of Wang-na and the King. The king called for help from a middle-man, Si-Suriyawongse, who tried to manipulate the situation to his benefit. But Wang-na called for the intervention from the British consulate, whom he had close relationship.

The situation culminated in the arrival of the British Governor of Straits Settlement, Sir Andrew Clarke, who turned out to be a strong supporter of Rama V's reform. After the Wang-na crisis, Prince Vichaicharn was deprived of his power. Si-Suriyawongse withdrew from politics.

Rama V consolidated his regime with the appointment of his brothers in all important positions. The position of Wang-na was abandoned and replaced the position of the heir to the throne

#### **Implications from the pattern of capital accumulation during Rama V**

Capital accumulation were under three groups: Chinese, European, and Royal households. The Chinese dominated the rice-based trading economy. European capitals only had little share of domestic economy Royal households invested mainly in land ownership.

The domination of the Chinese led to a particular pattern of development called “trade-expansion with no industrial development” (Akira Suehiro, 1996). The Chinese were merchant capitals, rather than industrial capitals. They expanded through relying on privileges, and aimed to develop trade, not industrialisation. Compounded by the roles of 3% tariff, manufacturing sector in Siam did not have much room to grow. Investment in such a sector unattractive.

#### **Reading**

- Pasuk Phongpaichit and Chris Baker (2002). *Thailand: Economy and Politics*, KL: Oxford University Press. (Chapter 3 and 7)
- Kullada Kesboonchoo Mead (2004) *The rise and decline of Thai absolutism*. New York : Routledge Curzon, 2004

## 6. The Rise of Absolutism in Siam

### Topics

- Centralising the tax system
- Building a new group of nobles
- The building of the modern (absolutist) state
  - Defining the borders
  - Building forces
  - Constructing ideologies
  - Building bureaucracy

With Rama V able to establish his power. His reform to make Siam a modern state took place, leading to the rise of Absolutism in Siam. This lecture looks into the various aspects of Rama V reform.

### 6.1. Centralising the tax system

Rama V's centralisation of the tax collection enabled him to build his absolutist state centering in Bangkok. With institutions including the full-time military, policemen, bureaucratic system, sangha, and the education system. A large amount of funding was attained from the expanding group of cultivating peasants.

After his second coronation, Rama V gained control over taxes from Bunnags. The leading members of Bunnags were old and started to pass away. Rama V gained control over Phra-Klang, and expanded Phra-Klang control over taxes. The reformed tax system produced enormous wealth for Rama V. In 30 years (from 1890s), government income from taxes increased 35 times.

The structure of the taxes also changed. Initially the taxes on liquor, gambling, and opium were not under control by the government. As the government felt strong enough to challenge the Chinese, it made gambling illegal. Opium tax farm was abolished, but the government continued to sell opium through concessionaire system. The newer bases for taxes were the production and income of peasants. Capitation tax (ratchupakarn) and land taxes. Other sources of government's income were from logging and mining concessions.

### 6.2 Building the new group of nobles

Rama V's centralisation of taxes led to the loss of power by the nobles, especially the governors in the provinces. These nobles were already losing their share of benefits from trade. The capitation tax also made them lost control over manpower.

Rama V started building his own new group of nobles to replace the older generations. Members of the Royal family were sent for education abroad. Younger group of nobles from families such as Saeng-Xuto and Bunnag became Rama V's loyal supporters. Together they formed a group called "Young Siam"

Rama V reformed the country's administration by adopting the Western system of ministries. The control of the ministries was given to members of royal family, who at this point had expanded in large number.

### **6.3 Building the modern (absolutist) state**

#### *Defining the borders*

At first, the Bangkok government did not understand the significance of drawing the borders. They eventually realised the importance of borders, especially in relations to trade. By 1880s, Bangkok enthusiastically started drawing borders and expanded control over the enclosed areas.

In the mid 1870s, Thesapiban (protection over territory) system was created especially to protect the frontier. The system was created after studying the colonial systems in Malaya, India, Java, and Singapore. Bangkok appointed commissioners in the frontier areas. Most commissioners were Rama V's military trained relatives.

From 1870-1900, Siam engaged with France and Britain over the drawing of borders. Competing ownership of areas that had multiple allegiance, or belonged to no-one. Britain was kept as alliance to Rama V, most borders with Britain done through negotiation. But the relationship with France was more difficult. The clashed between Siam and France led to use of Maekhong as the border line.

As borders were defined, the new form of direct rule was created over the local rulers of the tributary state, and eventually the governors of provinces. Commissioners sent from Bangkok to control local revenue.

Rama V gained control over Kalahom and Mahatthai and reformed the two major ministries. The reformed Mahatthai became the Ministry of Interior under Prince Damrong, and controlling all the provinces.

With Bangkok sending the commissioners, benefits were exchanged to local rulers and old nobles to make them accepting the new system. They were allowed to hold on to their titles, given high salaries, and allowed a share of the government's revenue. Their descendants were sent for education in Bangkok, and eventually became part of the newly formed bureaucratic system.

The reform of the governance had gradually extended until the new centralised system was completely established.

Mahatthai became the new governmental system, replacing sakdina. Mahatthai controlled the police, forestry, health, judicial, port. The governance of the provinces adopted a pyramid structure from the center down to the villages.

#### *Building the state's forces*

Bangkok faced resistances to its expansion of control and centralisation. Peasants rebelled against the rise in taxes and the control. Rebels arose in Isan, the North, and the far South. Many of the rebels were actually supported by the ousted local rulers or nobility. Some rebels tried to assert allegiance to rulers other than Bangkok.

Phu-mi-bun rebels in Isan and Phaya Phap rebel in the north reflected the clash between the rural world and the intruding central authority. The leaders of these rebels acted as local moral leader to liberate the locals from external oppression. Mo-lam was adopted as means to communicate the story of imminence catastrophe followed the rise of savior.

In fighting the rebels, the government saw the need to establish a full-time military forces. Prior to the period, the army was lacking personnel and training. Rama V had his own siblings leading the reform of the military, facing the resistance from the nobles and the financial constraints. The earlier attempts in fighting the French, using force from the corvee' system, ended in a humiliating failures. This resulted in the perception among the nobles that Thai military would never match the West.

But the task of the newly formed military was more about repressing the rebels and the protests by the Chinese and the peasants. Siam military was created more to deal with internal affairs, not to fight external threats. Military units were created to function in the rural areas. Conscription system was proposed. Full-time military finally in place as the government's finance improved.

The centrally controlled police force was also developed. Policemen had earlier existed in Bangkok and some provinces, but they were considered to be full of low quality nak-leng. Early proposals to create the police were opposed. But as Phra-Klang needed force to help close down gambling den, the use of police became more necessary. The Police Department was finally created.

Along with the creation of the police, a new centralised judicial system was created. Earlier, judicial roles were decentralised to nobles and local rulers. The new centralised judicial system brought all citizens under one system. Courts that used to be under different ministries were all brought under the newly created Ministry of Justice. Law school and bar association were formed.

### *Constructing the state's ideologies*

In order to create the longer-term stability to the new governmental system, other institutions were needed. Siam was actually a very diverse society. Tributary states had different races and identities. Their rebels emphasized the differences. To create cultural integration and allow the government to govern, state's ideological apparatuses were needed. The state's ideological apparatuses were religion, language, education, and the new concept of "nation"

Buddhism reform already started from Rama IV with his reform leading to the creation of Thammayut Sect. The center of the Thammayut was in Bangkok, and the governance of Sangha resembled the Mahatthai pyramid. Monks rose through hierachical ranks; exams used to qualify them to higher position in the hierarchy.

As temples also functioned as schools, education was reformed in the same way as Buddhism. From the differentiated system, using various languages, a standardised system was developed. A standardised syllabus focused on teaching a standard Thai language, arithmetic, and Buddhism. The control of the schools was eventually handed to Mahadtai. The school system expanded rapidly, and played a crucial role in establishing the more unified Thai culture.

A new idea of one nation under one King was also developed. Rama IV actually started establishing the historical roots to the dynasty. Prince Damrong furthered the task by developing the concept of the

“Thai” or “Siamese” people. The Siamese history traced back to Sukhotai and their tradition of Kingship can be traced back to the beginning of their history.

A new idea of Tai race glossed over the ethnic diversities of Siam comprising of Lao, Khmer, Mon, Vietnamese, Malay, and Chinese. Facing the challenge over borders from the Western powers, the notion of “Thai-ness” was broadened.

Laotian, Shan, and Thais considered to be of same race, and all respected the King. Older names of provinces that signified non-Thainess, such as Lao, Khmer, and Malay, got replaced.

The new concept of “Chat” was invented. Chat previously meant an idea of birth, race, and ethnic identity. But a new concept of chat meant a “nation”, a population enclosed within a given territory, owing allegiance to a single authority (King).

This shift reflect a change in relationship between King and the people. The relationship between the King and the people became direct. This differs from under the sakdina where people only related to the King via nobles. Royal rituals, for example, were changed to make them more accessible by the people.

This provided the basis for Rama VI to subsequently consolidate the new idea of Thai nationalism through the concepts of "Nation, Religion, and King". Allowing the King to become the embodiment of the Thai nation.

#### *Building the state's bureaucracy*

The centerpiece of new absolutist state was the civilian bureaucracy. Bureaucracy was created and directed to perform their tasks “in the service of the King”. The head of system were new aristocrats defined by the Royal blood. The large size of the royal family allowed the members to attain all important positions at the core of the system. With limited competition for its power, the bureaucrats in Siam became exceptionally powerful.

The lower ranks positions of bureaucracy were more opened for wider social segments. Between 1890 and 1919, the number of salaried officials grew from 12,000 to 80,000. Modern education system was expanded to accommodate the training of bureaucracy, especially for the higher ranks. Civil service training school and the military academy were founded. But most of the attendances to these institutions remained members of royal family and aristocrats' families.

Recruitment to higher-ranks was carefully limited to “phu-di”. Outside the royal and aristocrat families, the other two groups who can access higher-ranks were descendants from the rich Chinese families and those from provincial nobles’ families.

Nonetheless, some provincial nobles were overlooked. Those from Isan were not trusted and their local rulers not seen as powerful. Malayu seen as too different, and Bangkok did not put much emphasis in the region.

But as the bureaucratic system eventually expanded, a divergent of ideas occurred. The core of royal and aristocratic bureaucrats shape the culture and ethos of “Kha-ratchakarn” (the servant of the King). But some started to attach rather to the idea of them abiding texts and rules (lak-wicha). The contradiction between lak-ratchakarn and lak-wicha would later create crucial tensions in Rama VI period.

The formation of the full-time military also led to the development of “military caste” and “military families”. The senior-ranking military commanders put their sons in the army. The military started developing its independent power.

The newly created bureaucrats also contained a number of old culture from sakdina time such as; (1) the culture of self-renumeration (kin-muang), and (2) the culture of patronage

1. The culture of self-renumeration continued from earlier time when the nobles took commission from revenue passing through them. Under Rama V such practices were actually allowed to continue as the salaries system was incomplete. Kin-muang also helped attract people to lower-ranks positions and the positions in far-away provinces.
2. The culture of patronage also continued from sakdina. Nepotism dominated promotion. Lower ranks officials sought senior patrons to help them rise. Higher ranks bureaucrats gathered followers to secured their position. The system of “phak-phuak” caused fragmented bureaucracy.

Patrimonialism continued to be the core of Thai bureaucracy. System worked through patronage and exchange of favors, and the power from civil society did not exist.

### **Evaluating the success of Rama V’s reform**

While Rama V had great success in introducing centralised bureaucracy, his achievements also came at costs. Rama V more than often used compromise as the strategy. The old local rulers and nobles continued to earn benefits even under the new bureaucratic system where they have little roles. This led to an oversized and inefficient bureaucratic system from the start

The modern bureaucrats was not yet developed, preferring to let the old culture persisted. This explain the persistence of the culture of corruption in Thai bureaucracy. The aim to have blood-line underpinning access to high-ranking position contradicted the eventual development of professional bureaucrats. This led to tensions facing subsequent Kings.

### **Reading**

- Pasuk Phongpaichit and Chris Baker (2002). *Thailand: Economy and Politics*, KL: Oxford University Press. (Chapter 7)

## 7. Rice farmers and New Merchants at the Dawn of Revolution

### Topics

- The persistent poverty of rice farmers
- The rise of new merchants: the rice barons and the urban entrepreneurs

### 7.1 The persistent poverty of rice farmers

The cultivating regime expanded by the peasants had one particular problem "low yield".

Peasants had earlier been migrants, phrai or that. They had limited capital. Their production technology was centuries old. They relied mainly on the use of labour. Their only capital was cattle. The natural condition also did not help. Clay were heavy. There were unreliable monsoon and supply of water

The persistent poverty of rice farmers. The yield of Thai peasants was very low by international comparison. This came as a result a varieties of paddy that could survive. The yield per capita increased a little in the latter half of 19th century But the change was not immense.

#### *The question over low yields*

A higher yield could be attained, but only if there were investment and extractive pressure. In many regimes, the pressure can come from (1) the combination of government tax demands, landlord extractions, and merchant exploitations; and (2) the intrusion of urban capital that pressured peasants toward differentiation and proletarianization. But Siam did not have much of these conditions.

#### *Government Exploitations of Peasants*

Government actually tried to exploit the rice economy through the universal poll taxes and land taxes. Large sum of revenue gained from poll-taxes. The rates of land tax were hiked many times (1900, 1905, and 1909). The government enforced strict supervision of tax collection. Failing to pay land taxes resulted in losing land and enforced labour

The taxes were resented by farmers. They fled the taxations. Petitions were sent by farmers to the king citing the unfairness of poll-taxes, and the lack of supports on irrigation and credits. Global recession in 1929 led to a sharp increases in peasants' petitions. To the extent that the King responded by reducing the taxes.

Despite the government exploitation through taxes, government did not provide infrastructure and credits to peasants. Plan for large scale irrigation was proposed, but the project was not chosen. Government's supports were limited to drainage works and seeds distributions

#### *Merchant Exploitations of Peasants*

Merchants exploitation had more influence on the peasants. But even such a pressure was also limited. Chinese merchants that were involved in domestic rice trade were mostly small merchants with limited capital. They did not invest but focused on trading activities. They travelled ups and downs lands and rivers, purchased and transported rice, and selling some imported and locally made products.

The merchants also provided lending to peasants. By 1910s, it was estimated that most cultivating peasants were indebted. Rising debts seemed to almost break down the peasant society. Lenders could dispossess peasants' land. But even in 1930s, large scale land losses and destruction of peasantry did not occurred. Debt continued to rise, and peasants dealt with recession by retreating into subsistence.

Indebtedness only played a limited role in putting pressure on peasants. The lack of land deed limited the extent of lending and debts. The recession from WWI and the great depression also caused economic problems to the rice merchants.

Thus, merchants exploitations only created modest pressure on rice farmers. Up until 1930s, Siam peasants only had limited differentiation. Small peasants continued to dominate the peasant society, with their labour intensive and low yield production.

Overall, the following factors sustained Siam peasant society.

- Large supply of land
- Unclear property rights over land
- Low yield caused limited chance for accumulation.

## **7.2 The rise of new merchants: the rice barons and the urban entrepreneurs**

From 1920s to 1950s, 80-90 percent of Thailand's export consist of rice, teak, tin, and rubber. Rice contributed 70 percent in 1910s, but 50 percent in 1950s.

In the 1920s, two new merchant groups emerged: (1) the rice baron; and (2) the urban entrepreneurs. Both of them had similar development and faced similar challenges

### *Rice barons*

During the early boom of rice trade, a steady accumulation of capital from rice trade was difficult. There was an internal challenge from the lack of land titles, and an external challenge from fluctuation in price.

The rice merchants faced unfavorable global economic climate from 1919-1929. Yet, in 1930s, a new group of Chinese families dominated rice trade. 5 big Chinese families including Wanglee, Lamsam, Bulasuk, Bulakun, and lamsuri. They became major corporate dynasties of modern Thailand.

This new group of Chinese rice entrepreneurs differed from the past. They descended from Chinese migrant, but most were not tax-collectors. The older generation of Chinese families, by this time, faced downturn in their businesses, or turned to be a part of bureaucrats.

The new group started from lower-level trading activities, moved into rice milling, and expanded to rice exports. They had to carved their own successes. They faced difficult context. Colonial firms dominated shipping, banking, and insurance. The government did not help, and tended to give priority to the

Western businesses. The strategy used by them was to build integrated businesses. They integrated different aspects of rice trade. Gaining more profits and reducing uncertainty.

Lacking government supports, the new group of rice entrepreneurs relied on the network built by the Chinese communities. A large scale Chinese business associations were founded through supports by big Chinese families, for example, the Teochiu Association, the Hakka Association, and the Cantonese Association. The families also intermarried to forged alliances.

### *Urban Entrepreneurs*

Another new group of merchants developed their business in the urban areas. They benefited from the rise of urban-based demand for goods and services. Consumers products had earlier been imported by European trading agencies.

Imported products such as textiles, beer, wine, soaps

New urban entrepreneurs tried to compete with import products. Goods they produced range from ice, soap, drinks, beer, textile, and cooking oils. Their path to prominence similar to the rice barons. Most were of Chinese origin. But they were not from families of Chinese tax collectors.

### Prominent Urban Entrepreneurs

- Nai Lert: imported cars, manufactured ice, and set up bus service
- Nai Boonrawd: Worked for Kim Seng Lee. Traded timber and set up ferry service. Eventually produced beer.
- Mangkorn Samsen: Rice mills, coconut oil plants, and a sugar factory
- Koson Huntrakul: Ice and carbonated-water factory

The urban entrepreneurs also faced the unfavorable context. With low tariff, colonial imports gained advantages over them. They sought more protection for local industries. They also asked government to provide loans. But their petitions for government supports failed.

From 1910s, the urban entrepreneurs formed their own business associations to put pressure on the government. These associations include, for example, Samosorn Phanit Jin Sayam and Samakom Phokha Thai. These associations advocated for government support for domestic industries based on grounds of nationalism and sound economics.

The urban entrepreneurs criticised that the privilege given to the Western businesses limited Siam growth prospect. The situation they faced contrasted with the emerging idea of modern and independent nation. The source of these problems was the Bowring Treaty, signed by the monarchy. Their disappointments with the government led them start criticizing Absolutism for its bias toward the Europeans and the incompetency in economic management.

### *Urban entrepreneurs and 1932 revolution*

Although they played no part in the 1932 revolution, the urban entrepreneurs welcomed the result. They donated money and food to those involved.

It had seemed that the 1932 revolution would favoured economic nationalism. The People's Party showed resentment toward the monopoly of power and wealth by royal and related families. Thus, the merchants tried to participate in the drafting a new national economic plan.

Pridi consulted with Mangkorn in writing his economic development plan. But it turned out that most of Pridi's plan overlooked the urban entrepreneurs. Pridi's plan gave priority to the well-being of the masses, most of whom are the poor farmers. Pridi's 1933 economic plan involves the creation of the state/cooperative system that employ every Thais who are willing to work. The primary goal of the plan was to promote the well-being of "all Thais". But his plan failed after facing resistance.

The failure of Pridi's plan led to an alternative plan of the People's Party being implemented. The alternative plan had some supportive elements to the urban entrepreneurs such as the support for the formation of the Siamese Chamber of Commerce. But the focus of the plan remained the rural sector and the peasants. Both Pridi's plan and this plan envisaged Siam as a society of peasants organised by bureaucrats. Urban businesses did not received the emphasis.

#### *Toward Economic Nationalism*

The domestic entrepreneurs who supported 1932 revolution found themselves to be neglected or even considered the threat by the revolutionaries. Private ownership of businesses was seen as promoting conflicts. State ownership was favoured. The middlemen and Chinese seen as causing hardship to peasants. The main task of the government was seen as improving the fortunes of peasants.

#### **Reading**

- Pasuk Phongpaichit and Chris Baker (2002). ***Thailand: Economy and Politics***, KL: Oxford University Press. (Chapter 4)

## 8. The Fall of Absolutism and 1932 Revolution

### Topics

- The fall of absolutism
- Opposition to absolutism and 1932 revolution
- The shifting political landscape after 1932 revolution

### 8.1 The fall of absolutism

It only took less than 2 decades for absolutism to fall. The bureaucratic reform and the change in economy led to the new social groups that resented the royal monopoly of power

The challenges faced by absolutism stemmed from the two main factors; 1) the monopoly of power by royal clan and their close associates; and 2) the mismanagement of the economy

#### *The monopoly of power*

In early 20th century, top positions in the state were given only to the members of royal family and top aristocrats' families. Rama VII seemed to want to lessen the royal hold of power by establishing the Supreme Council of the State, and more importantly the Prime Minister. Yet, he did not envision the members to these positions to come from anyone except those in the royal inner circle

Members of Supreme Council of the State consisted only senior members of royal family. Rama VII ideas in appointing the PM was opposed by all sides. Prince Damrong thought it would reduce the authority and prestige of the King. For the BKK based newspaper, such an attempt seen as the effort to protect benefits of upper class

Rama VII's Constitution did not perceive Siam as ready for having representatives. From both drafts (1926 and 1932), the King held legislative power, and power to appoint PM. Parliament members came from appointments and indirect elections. King also held veto power over the parliament.

#### *The mismanagement of the economy*

The monopoly of power by the King and his close associates also meant they had the responsibility in managing the economy. They had to make decisions on taxation, government expenditure, and international economic policies. And they were not seen as capable in the management, especially when faced with economic recession.

Since the King controlled the spending, Rama V richness led to a large royal expense by Rama VI. Although Rama VII restrained the spending, he had to face a difficult challenge of managing the great depression. Trade value was in decline. Siam stayed with the gold standard in managing its currency, only to find its currency over-inflated, and export declined.

Rama VII decided to manage the fall by increasing taxes and reducing expense. Taxes were raised from salaries of bureaucrats and employees of private firms. But taxes were not raised on profits from trade and land, signifying the bias for nobility.

Military budget cut to one-third. Leading to lay-off and resentment from military. There was also a continuation of taxation on farmers even during recession

Economic recession exposed the King's role as the manager of national economy. He carried the responsibility in selecting who will bear the negative impacts. This responsibility destabilised absolutism

## **8.2 Oppositions to absolutism and 1932 revolution**

### *Oppositions to absolutism*

From 1900-1930, two main lines of resistance to absolutism developed in Bangkok. The first came from the urban-based businesses who were frustrated by the advantages held by Western businesses, and saw such an advantages as caused by the Royal Family. They asked the government to provide more support to domestic industries.

The second from the middle-level bureaucrats. The new group of bureaucrats came from commoners or minor nobles.

They rose through education. Got chances to go abroad for professional training. This group bureaucrats found contradictions between the values of merit, service, and achievements in modern administration VS the subordination of bureaucracy to absolute monarch

To the middle ranks bureaucrats, they were the importance principles and rules, and expects returns for their professional capability and efficiency. But they were disappointed to find that the priorities were given rather to birth, patronage, and loyalty. They faced the contradiction between "*lak-wicha*" and "*lak-ratchakarn*"

Resentments of absolutism also came from the ideas of "humanism" and "nationalism". Aristocratic domination seen as resulting in the lack of emphasis on human talents and education. This held back Siam development, and its ability to compete with other nations.

Oppositions to absolutism found its space in the growing circles of Bangkok educated elites, especially through newspaper. Criticism of the focus on birth and absolutism found also in popular writings such as the novels of Kularb Saipradit. Nationalist sentiments provoked the perception that Thailand needed modernisation to match its status as world's major nations.

### *1932 Revolution*

Resistances to absolutism led to a number of attempts to overthrow absolute monarchy. The 1912 Rebel consisted of mostly military officers. The core of the group was junior officers. They resented royal monopoly of power. The 1917 rebel was also from military

1932 revolution had a wider network of supporters. Although started by young bureaucrats, the movement drew in established members of bureaucrats and military officers, businessmen, intellectuals, and organised labour.

The core of 1932 movement was French-educated young civilian and military officials "Pridi Banomyong", a young lawyer with some Chinese blood, came from a mixed of peasants and bureaucrat background. "Plaek Kitisungka" (Phibulsongkram) came from farmers background, but excelled in his time at the military academy.

Khana Ratsadorn ideas combined economic nationalism with humanism. They sought to change absolutism to Constitutional Monarchy. Absolutism seen as barrier to realisation of nationalism and economic nationalism

Guarantee equality for all. Rejected privilege by birth. Promote well-being of everyone.

Khana Ratsadorn made connection with senior military officials who helped provide the required force for the coup

The senior military officials were also dissatisfied with royal's hold of power in military, and the cut on military spending and pay. With the absolutist power held in limited hands, 1932 revolution was made easier.

### **8.3 The shifting political landscape after 1932 revolution**

Following the coup senior royal princes either fled or withdrew from politics. Senior bureaucrats and military officials from of old regime removed. Provisional constitution limited the King's power. The first constitution, drafted 6 months after the revolution, and barred anyone above the rank of *mhom jao* from membership of assembly or government.

On the other hand, the merchants and labour group sought participation in reforming the economy. Proposals made such as property taxes on aristocrats, promotion of domestic industries, and government supports to rice farmers.

But the old power also tried to counter the changes. Many bureaucrats only sided with the people's party due to their dissatisfactions with the monopoly of power by the royal family. But they still want to maintain the bureaucrats' power.

They were also not totally opposed to the monarchy as the ideological cornerstone of bureaucracy's power

Khana Ratsadorn understood the need to gain cooperation from the monarchy, in order to gain acceptance from the bureaucrats. They showed their respects to the King, sought pardoned for the revolution. They allowed some high-ranking figures from previous administration to take leading positions in the new government. The notable one was Phraya Manopakorn, a member of Privy Council with some relations to the queen.

Khana Ratsadorn's accommodation of the King and conservative bureaucrats provided opportunities to reverse the revolution. Phraya Manopakorn and other senior bureaucrats sought alliance from senior generals who supported the 1932 revolution only with short-term discontent, and not due to ideology.

The seniors bureaucrats also distrusted the young members of Khana Ratsadorn. Rama VII backed this alliance.

Accusations of Khana Ratsadorn for being "communists" were spreaded through conservative newspaper. The clash between Phraya Manopakorn and Khanaratsadorn reached height when Pridi proposed his economic plan. Phraya Manopakorn accused Pridi for being communist. The Assembly was closed. Pridi had to leave the country. Manopakorn passed law against communism, with communism associated with attempts that affect property ownership. Manopakorn also brought back generals from the old regime

In 1933, Pahol and Phibul staged another coup to sustain the revolution. Pridi was called back. Prince Baworadet staged a major rebellion in 1933, but failed. Rama VII left Siam after the Baworadet rebel. And after refusing to sign a number of bills especially those limiting his power, Rama VII abdicated in 1935. The government chose Ananda Mahidol as the new King. But Thailand would be without the King residing in the country for 15 years.

Attempts to oppose the People's Party government remained. But the defeat of Baworadet rebel allowed Phibul and Pridi to attain commanding positions.

10 years after 1932, Thai politics became dominated by 2 fractions; 1) Phibul and his military fraction; and 2) Pridi and his bureaucrat fraction. They cooperated against the royalists. But actually had different ideas. Under the political volatility of WWII, the two fractions would start to openly clash.

### Reading

- Pasuk Phongpaichit and Chris Baker (2002). *Thailand: Economy and Politics*, KL: Oxford University Press. (Chapter 8)

## 9. Post 1932 Politics: the rise and fall of Khana-ratsadorn

### Topics

- Phibul's military nationalism
- Pridi's social revolution
- The rise of Sarit Thanarat

### 9.1 Phibul's military nationalism

#### *The rise of military*

The events of 1932-3 (1932 revolution and 1933 Baworadet rebellion) revealed the critical importance of the Bangkok garrisons. The control of military units in Bangkok became crucial to the control over the Siamese state.

Occupying the center of power, the military consolidated and extended its power. From 1933-1937, military budget accounted to around 26% of national budget. In 3 years after 1932, military personnel almost doubled. Military set up its own radio stations, using them to broadcast its new political ideas: "Your country if your house, the army is its fence".

The rise in military power was not held back by the core group in the government, Khana-Ratsadorn, who wanted to remain the guiding force in post 1932 politics. 1933 Constitution only had half of the representatives assembly elected, and the election was indirect. Political parties were forbidden. The government could control the assembly through appointed portion. Latter changes in 1937 and 1940, both toward expanding the roles of direct elections and the parliament, were resisted.

For almost a decade after 1932, Khanarat, who swore to be together, effectively controlled political power. The reformists who supported 1932 also hoped to participate. Businessmen who eventually formed Chamber of Commerce.

Labour leaders, journalists, progressive Buddhist Sangha. But a more open political system and radical social changes did not arrived. Reformist in fact were neglected or suppressed under Phibul's military nationalism.

Phibun who emerged as the political leader of the military government after taking a leading role in crushing Boworadet rebel. Phibul rose the position of Minister of Defense. He developed the ideology of the military as the central institution of Siam. Phibun consolidated his power over the army, and subsequently assumed the power of the PM. He concentrated the army power in Bangkok, and having his allies controlling the key positions. Raise military budget and refused to reveal details. Phibul's power eventually led him to neglect other fractions of Khanarat.

#### *Military nationalism*

The rise of military power brought with it the ideology of military nationalism. Military-bureaucrats portrayed as those who bring progress to the nation. The core of military nationalist ideas combined Fascism and absolutist nationalism. These ideas include, for example; the importance of fighting for territories, economic nationalism, and Rattthaniyom culture.

Luang-Wichit Wathakarn had a crucial role as a chief ideologist of Phibun. His ideas were borrowed from Fascists in Europe and Japan (Bushido), combined with Thai nationalism built under absolutism. Military as expression of popular will, promotion of anti-Chinese sentiment

Luang-wichit tried to justify military dictatorship arguing that the Thai nation needed strong leadership to oppose internal and external threats. There was a requirement for people's complete subjection to power.

Thais as fundamentally militaristic people. Luang-wichit composed songs and plays to spread this idea.

Economic nationalism was promoted. The idea supported gov't intervention in the economy to promote prosperity and self-reliance. Government intervention was poised against the role of Chinese in Thai economy. Gov't promoted to control trade, distribution, industries. Jobs were reserved for Thais.

The idea of "lost territories" was used to arouse nationalism. Khmer, Mon, Shan, became parts of the "golden peninsula". Based on Hitler's model, Phibun promoted the idea of "Maha-anachak-Thai", and put the Thais among the big races in the world. Military campaign to recover lost territories from France, invasion of Burma and Chinese to reclaim Shan territories.

Another core of Phibun's nationalist ideologies is "Ratthaiyom". This idea came as Phibun promoted his role as "the leader", also gaining power to pass laws and having power over press and unlimited arrests. At the height of his power, Phibun set out to undermine Royalism and old order. He abolished royal titles, and against the Royal privileges of Thammayut.

Phibun promoted the cultural project of "Ratthaniyom", redefining Thailand as a modern nation. He prescribed Western standard for dress, discouraging local habits. He supplanted conventions of royal courts, created national events in place of many royal-focused festivities.

## 9.2 Pridi's social revolution

Phibun's reign was interrupted by the invasion of Japan. This came after his power had also faced challenges, especially from groups who aspired to reform Siam in pre 2475 time including the merchants, leaders of labour, urban intellectuals, and provincial notables. Against Phibun, they galvanized under Pridi Banomyong.

Pridi's ideology differed from Phibun. He envisioned the overthrow of absolutism as opening up participation in economic progress and politics. Against exploitation of absolutism, Pridi's vision intended to give "freedom, equality, and security to all". Promote economic development and provide "the greatest education possible".

Pridi's economic plan envisioned a complete restructuring of the economy. The plan aimed at socialisation of agricultural land (sale of land back to the state, voluntary?), creation of inheritance taxes. This went direct against the core of royalty and aristocrats wealth. Pridi also set up Thammasat as alternative to Chulalongkorn. Thammasat as the institution educating modern bureaucrats (in contrast to bureaucrats who served the Crowns.)

### *Pridi's alliances*

Pridi eventually (re)built alliances with merchants. Initially neglected the urban entrepreneurs who supported 1932, Pridi moved closer to them after the failure of his economic plan. He played crucial roles in renegotiating unequal treaties, eventually allowing import tariffs to be raised. He also supported joint government-business ventures. Pridi's political faction eventually relied on business enterprises to provide supports.

Pridi's another crucial group of allies was the politicians from the North-eastern region. The Isan MPs resented the centralisation of power and wealth in Bangkok, the treatment of North-east and Laotian as inferior, the neglect of North-east, and the portrayal of Isan as poor region. Isan MPs requested for equal treatment of Isan people, diversion of funds to Isan provinces. They also protested against Phibun's control of press and his military spending.

### *Seri-Thai*

Pridi's opportunities to build resistive force against Phibun came under the special circumstance of Japan's invasion.

"Seri-Thai" became opposition to Phibun's alignment with Japan. Seri-Thai consisted of 2 fractions; 1) Seni Pramoj's international fraction; 2) Pridi's domestic fraction

Pridi's Seri-Thai fraction (domestic operation) combined different forces who came together with varied reasons, such as Pridi's civilian group, some naval officers, Isan MPs, some Bangkok-Chinese. The Isan MPs, for example, envisioned the independence of Laos or gaining back of Laos territories.

### **9.3 The end of Khanarat and the rise of Sarit Thanarat**

As WWII ended, political conflict and debate broadened. The contest between Pridi and Phibun was absorbed to a wider contest, sparked by the revival of royalism. The central debate became: "socialism VS royalist restoration". Pridi was pulled to his radical alliances, while Phibun was dragged to the army alignment with royal causes.

Pridi's enjoyed only a brief leadership after WWII, as he was propelled to power to negotiate favorable peace deal. Pridi took the opportunity to also limit the military's power. He appointed Seri-Thai to key position in the military. He also made assembly and senate completely elective.

The influence from Russia led to the repellent of anti-communist law. CPT entered election, found supports among students, labour, and had its own newspaper. Labour leaders expanded roles and carried out strikes, while Isan MPs supported Indo-Chinese nationalist groups.

### *The re-emergence of Royalism*

Following their Seri-Thai cooperation, the Royalists and Pridi initially cooperated. Pridi released royals imprisoned by Phibun, and invited those in exile back. The royalists had opportunities to re-expanded their ideas that the "King" is the core institution of Thailand. King was presented as righteous and representing the whole Thais. Royalist groups, led by Khuang Aphaiwong, Seni and Kukrit Pramoj, formed the Democrat Party.

But the royalist quickly ended their cooperation with Pridi. They shifted their alliance to the army. Fraction in the army, especially those sent to reclaimed lost territories in Shan states, was still angered by the neglect they received from Pridi's government. The alliance between the army and the royalists was alarmed by the victory of the Communist Party in China. Growing urban disorder seen as prelude to the rise of communism in Thailand was linked to Pridi. Pridi's political future ended with the mysterious death of King Ananda Mahidol.

### *The return of Phibun*

As US pledge to support gov't that opposed communism, Phibun returned to power with 1947 Coup that overthrew Pro-Pridi government. But Phibun was no longer the leader with full power. He required supports from various fractions.

Khuang, Kat Katsongkram, Phin Choonhavan, Phao Sriyanond, an Sarit Thanarat. Royalists gained their influences over this new Pro-Phibun alliance.

Phibun's return to power in the 2nd time was marked with different ideology. The group who conducted 1947 Coup provided the rationale that they wanted to uphold the honour of army, resolve the question of royal assassination, get rid of communism plot, restore efficient administration. And most importantly, to install the gov't that respect "nation, religion, and King". Phibun had to reject his earlier political position. The military assumed new role of the guardian to the King.

The military-aristocrat alliance designed constitution to limit the power of the elected assembly. They reintroduced appointed senate, and increased the King's power. Control of military power became control of the government.

The return of Phibun saw the use of military power to destroy all oppositions.

### *Suppressing Oppositions*

Pridi's failed attempts to return to power (Palace Coup, and Manhattan Rebel) led to his exile for the rest of his life. The navy was stripped of its power and resources. The leading Isan MPs were arrested and killed. To end their power, Phibun finally conducted another Coup to suspend cabinet, constitution, assembly, and political parties.

Phibun's purge of Pridi's allies expanded. Seri-Thai associates of Pridi, including Tieng Sirikan, were assassinated. Dissent from far south was crushed. Enforced assimilation against Islamic in the South. Captured and assassination of Haji Sulong Tomina. Suppression extended to labour leaders, Chinese community leaders, and intellectuals.

### *The rise of Sarit*

As Pro-Phibun group consolidated their power, the real power actually belonged to two groups: (1) the police led by Phao Sriyanonda, and (2) the army led by Sarit Thanarat

Phao's police force played a crucial role in destroying Phibun's oppositions. They received US support, and had weapons and capacity equivalent to the army. Sarit Thanarat consolidated control of the army under the "First Division". Also expanding his force through US military aid.

Phibun's final attempt to hold on to power was through holding election and positioned himself as populist leaders. But his time in Thailand ended with Sarit's coup in 1957. Sarit consolidated all power under the army. He took control of the police, purging air-force, navy. He dissolved the parliament, suspended the constitution. Sarit assumed position of Prime Minister, Supreme Commander, Commander in Chief of the Army. Thanom Kittikachorn became the Ministry of Defence. Praphas Charusathien became the Ministry of Interior. He continued the violent oppression of the resistance from the far south and Isan. The accusation of communism continued to be used as his political tool.

**Reading**

- Pasuk Phongpaichit and Chris Baker (2002). *Thailand: Economy and Politics*, KL: Oxford University Press. (Chapter 8)

## 10. Post 1932 Urban Economy

### Topics

- Phibun's economic nationalism
- Pridi and the reorientation of government and business
- The Effects of Economic Nationalism (A.Suehiro)

### 10.1 Phibun's Economic Nationalism

The military faction in the People's Party, who dominated Thai politics in mid 1930s, had anti-capitalist ideas. Urban business seen as exploiting peasants. Chinese seen as foreign. As Praya Songsuradet mentioned: "We now dominate the Chinese, who have to do whatever we want them to"

The gap between the Khanarat's military faction and the Chinese business community widened through different attitude toward Japan. Business leaders were dissatisfied with influx of Japanese imports. They also supported Chinese political causes against Japan

On the other hand, Luang-Wichit and Phibun were impressed with Japanese Fascism. Luang-Wichit revoked Rama VI comparison of Chinese with Jews

The military group also launched policies to free peasants from the domination of businesses. They advocated the government to drive out foreign (Western and Chinese) businesses by forming government's own enterprises. New industries were founded under government direction. Government invested in cotton and paper mills to supply the army, and slaughterhouse and silk plant to supply local market.

#### *Campaign to exclude the Chinese*

The campaign "a Thai economy for the Thai people". Thai peasants selling rice to and buying manufactures from organizations run by Thai government to exclude the Chinese.

From 1937-9, government imposed more measures to control the economic presence of Chinese immigrants. Immigration fees raised, registration of immigrants required. Law and regulations were made to exclude Chinese from economic activities. For example, salt and tobacco trades were placed under government monopoly.

#### *State's control of urban economy*

The government also embarked on a plan to control urban economy by controlling the rice trade, the distribution networks of goods, and investing in import-substitution manufacturing. Under this plan, government eventually set up or took a stake in a number of businesses.

To dominate the rice trade, government established "Thai Rice Company" to replace the role of Chinese middlemen. Thai Rice Company also expanded ownership over many rice mills. Government also took a stake in shipping business and set up banks and insurance company. To dominate distribution of goods,

“Thai Niyom Phanit” company, was set up to distribute import and locally made goods from city to villages.

From 1930s to 1940s, government started a number of industrial enterprises under full or partial government ownership. Founded industries included those that provided public utilities such as railways, electricity, and water works. And also producers of consumer goods such as textiles, soaps, paper, cigarettes. These products replaced European imports disorganized by depression and war.

As economic disruptions occurred through the war, the government further justified its increased control over the economy. Government kept increasing the number of state enterprises, investing further on businesses such as match, hotel, gold dealing.

### **10.2 Pridi and the reorientation of government and business**

Despite the military rulers attempted to have the government control of the urban economy, Bangkok-based Chinese businesses still grew significantly during 1940s. Their growth was eventually assisted by the civilian faction of the People's Party, who had a contradicting approach to the military faction.

The civilian fraction of the People's Party played a role in bringing back protective measures for domestic businesses, and used government funds and power to help promote private businesses. War led to retreat of colonial businesses and gave room for the expansion of domestic capitals. This eventually led to a dramatic reorientation of the relationship between business and the government in 1950s

#### *Khanarat's Civilian Faction Approach*

The civilian leaders of Khanarat handled the implementation of economic nationalism differently from the plan the military envisioned. They promoted joint ventures between the government and private businesses. They wanted government to facilitate Chinese businesses by helping with capital injection, political protection, and sometimes monopolistic privilege. In return, politicians get share of the revenue from the businesses.

After the failure of his economic plan, Pridi revised his earlier vision of economics managed by a benevolent bureaucracy. Pridi turned to support the proposals made by his earlier urban entrepreneurs allies. Through his role as the foreign minister, he renegotiated the trade deals to enable the import tariffs to be raised. And through his role as the finance minister, he played an instrumental role in founding the central bank.

In contrast to the military attempt to take industries under the state's control, Pridi group brought state's capital to join with private businessmen. Pridi took private businesses as partners to state's companies such as Thai Rice Company and Thai Niyom Panit. Big five families controlling rice business (such as Wanglee, Lumsum, Bulasuk) cooperated as partners and sub-contractors. He also used state's funds (Thammasat) to set up banks such as Bank of Asia. Pridi's group founded Bank of Ayudhaya

#### *New State-Business Relationship*

The state-private business partnership resulted in the newly founded "reciprocal relationship" between those who held political powers and businesses. Pridi supporters and his business partners occupied

position of board of directors in government enterprises. In return, members of Pridi's group were invited onto boards of the private companies of his business partners. Through such a relations, Pridi's group was able to gain affluence and support for their political power.

As war and Japanese invasion arrived, Western businesses and European trade were in decline. Thailand's domestic capitals would found opportunities to expand rapidly. They took the chance to produce products in substitute for the declined import goods. Domestic businesses such as ice factories, water plants, and oil factories expanded.

Many trading and retailing businesses of the second generation Chinese began to rise. The examples of this new group include:

- Sukree Potirattangkun's textile
- Thiem Chokwattana's consumer product business
- Uthane Techaphaibun's banks and liquor business
- Chiratiwat's retail business
- Betagro and Mitrphol

Domestic banks were founded through the emerging network of Chinese businesses and their pool of assets. The services of these new banks went beyond the earlier banks owned by rice barons. Bangkok Bank provided the key example. Other banks founded also from new group of businesses. For example, Srinakorn Bank, Saha-Thanakarn Bank.

#### *Military-Business Relations*

As Pridi and his group was ousted from power, the new military group followed the path that Pridi took. The Ratchakru group also allied government with private businesses. They removed Pridi's group from positions in government enterprises, formed new companies, and took over banks owned by Pridi's groups.

The military leaders forged close relationship with banks, especially with Bangkok Bank. Bangkok Bank made into the largest local bank. Members of military group invited to sit on the banks' board in return. Chin Sophonpanich help Ratchakru group extended their power over a number of enterprises. Military leaders skimmed revenue of enterprises through fees, dividends, and bonuses. They also formed companies through foreign aids that the government received, and formed industries that supplied uniforms and arms to government

The new era of the military politicians extending their power to gain business opportunities began. Entrepreneurs responded by inviting military politicians to act as advisors or board of directors. The tradition of "special shares" set aside for "benefactors". For example; 7 of the promoters of 1947 Coup occupied a total of 91 directorships. Members of 1947 Coup group involved in 101 companies. Major businesses and banks had forged alliances with key figures in 1947 Coup.

### 10.3 The Effects of Economic Nationalism (From A.Suehiro's Capital Accumulation in Thailand 1855-1985)

*Who were the "Thais" that benefited the most from "Thai Economy for Thai People"?*

The policies led to the emergence of the new group of "bureaucratic capitalist" who dominated the structure of ownership and directorship of major state enterprises. The benefits fell to bureaucrats and political groups.

"Bureaucratic capitalists" signify this realignment of the military and bureaucrats role in capitalism.

*How far the "Thai Economy for Thai People" policies did negatively affected the Chinese?*

In fact, the state enterprises required cooperation from the Chinese big players, especially in rice trade. The policies forced the realignment of the Chinese, rather than excluding them. The Chinese who are willing to be assimilated as Thais became the new partners of the bureaucrats.

*Bureaucratic Capitalist Development (1947-1957)*

The interval b/w Phibun second return and Sarit rise (1947-1957) saw the continuation of economic nationalism, with an even faster rise in the number of state owned enterprises with military leaders sitting in the board.

The newly emerged group of Chinese "bankers" as new domestic capitals, who became crucial partners to the military.

The implications of the aforementioned development during 1947-1957 include 1) the continuation of bureaucratic capitalism causing the under-development of Thai industrial sector; 2) the industrial sector was dominated by inefficient state enterprises, with the bureaucrats capitalists having no incentive to improve them; and 3) the new Chinese bankers' were founded still on families' and personal network, and should be seen as an extensive form of family-business.

The European businesses eventually returned to Thailand, but they did not resume their old businesses. They found the banking and insurance business to be taken over by the Chinese. They had to divert their business to import of consumer products, and they started to manufacture toiletries, sanitation, and pharmaceutical products. With their new businesses, they became the "pioneer" in Thailand's industrialisation.

#### Reading

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## 11. The Politics of Sarit's Era

### Topics

- Thailand in the Cold War
- Businessmen and generals
- The restoration of the monarchy

### 11.1 Thailand and the Cold War

#### *Cold War in SE Asia*

Between 1945 and 1950, South-East Asia emerged as one of the key arenas of the cold war. US initially wanted to use the old colonial power to reoccupy the region, with Thailand and Philippines as their base of influences. March 1947, President Truman proclaimed US intention to block communism at all cost, and announce supports for any country resisting the expansion of communism

The initial attempt by Thai military to press for aid was refused by the US. But as communism won in China and gained strength in Vietnam and Malaysia, the US changed their strategy. "Domino Theory" became their concern. US intervened in Vietnam to prevent the dominos falling, and Thailand became US's front-line state.

#### *US supports to the army and police*

Korean War provided Thailand with the opportunity to show support to the US. Thailand quickly sent personnel and food support to the war, and the US quickly provided support to the Thai army in return

From 1950, US started supplying arms and equipment to Thailand. US military advisory set up in Bangkok to provide training. US military aids rose to 2.5 times the Thai military budget. The CIA also became the main supporter of the Thai police, supplying arms and training. As KMT army unit fled to the border in the North of Thailand, CIA trained them as a counter-move against Chinese Communist Party. CIA trained paramilitary unit and Border Patrol Police to provide border security

With the defeat of French in Vietnam, US became even more involved in wars in Indo-China. Thailand grew as the base for US military operation. US increased their aids and supply of weapons, help building roads to the Northeast region. Civil war in Laos led to the start of US stationing of their troops in Thailand. As Laos and Cambodia fell under the influence of Vietnam, Thailand became the base for US air-strikes. The number of US personnel and hardware in Thailand escalated from 1964.

The US also increased its support to the Thai police to fight the spread of communism into Thailand. In response to the spread of communism in remote forests of North, South, and N-E regions. From 1962, US provided arms, ammunition, vehicles, and aircrafts to the Border Patrol Police, supports were provided to paramilitary and provincial units. Between 1965-1968, Thai police force increased from 51,000 to 80,000. 50% of US economic aid estimated to be channeled to the police

The two decades with US support and resources flowing to the Thai army and police made them highly powerful. The more US involvement in Indo-China, the more that Thai military can bargain from US. From 1951-1972, US military assistance were more than 50% of Thai military budget. Additional aid

provided to Thai police and through USAID. Thai military domestic defense budget increased from US\$20million per year in early 1950s to US\$250million per year in early 1970s.

### **11.2 Businessmen and Generals**

During the 1930s and 1940s, the businessmen and generals were on opposing sides. But in 1950s, as the generals abandoned state capitalism; they turned to share profits with the businessmen.

The new alignment paved way for the reorientation of economic policies under Sarit, which swung the power of the state behind the private enterprises. The US oversaw the change, but the basis of change also came from the growth of private capitals.

The generals used the state power to amass their private fortunes and political funds. Generals sat on the board, made money from directors' fees, patronage contracts, and various illicit techniques. Post 1947 Coup saw the increase in the number of state enterprises, with the board of these enterprises were filled with military men and politicians. These state enterprises already showed sign of inefficiency.

#### *The Generals' Businesses*

The military squeezed profits out from gov't expenditure. They took commission from contracts or concessions.

Sarit took control of the Lottery Bureau, using it as his political fund. Sarit and Phao set up companies to conduct business with gov't departments. The most attractive source was gov't construction contracts. Companies owned by them simply secured contracts to sub-contract to other companies. Their other source income were mining and mineral concessions, purchases of arms, and the recreational services provided to the US military.

The military leaders involved in illegal activities, most notably the opium trade. In the late 1940s, the "golden triangle" became the World's major opium producing area. Thailand became the main exporting point of opium. Sarit and Phao competed in trafficking opium.

Another source of revenue was timber. Military's logging businesses assisted by the construction of damn and highways. The construction of highways also allowed military leaders to gained ownership of land along the newly constructed roads. Lands along Mittaphap road, for example, were shared among the military leaders

#### *Generals New Roles in Capitalism*

With all the sources of income, in 1950s, the generals have turned to play a more sophisticated role in Thailand's capitalism. Following the path of Pridi, they took ownership of banks and the Thai Rice Company. They developed partnership with bankers. They sat on board of banks, while bankers helped them run their enterprises. The growing orientation of Thai military rulers toward private sector provided the basis for the subsequent change in economy strategy toward the promotion of market and growth, supported by the US.

### **11.3 The Restoration of the Monarchy**

From 1935-1950, when Rama IX ascended to the throne, Thailand had been without resident monarch. There remain a strong royalist element within the bureaucracy, especially among the old bureaucratic families. From late 1940s, the bureaucrats and the generals allied to form a new social force with a net set of ideas.

Apart from Phibun, the leaders of the 1947 Coup had a close relationship with the royalists. They returned to the idea of defending "Nation, Religion, King". They increased the formal powers of the King in constitution. And they handed back to the monarch the control over the royal property. Crown Property Bureau grew in wealth from their land holding in BKK and investment in numerous businesses.

#### *Sarit's special relations*

Sarit had a special relationship with the palace. In 1957 Coup, he was made "Defender of the Capital". Under Sarit leadership, the monarch was restated as the symbolic head of the nation. National day was changed to the King's Birthday. Rak-na-kwan ceremony restored. The King and Queen made the tour of the rural area, especially in the Northeast. They also made visits to foreign countries. The government promoted the display of these events.

#### *The Restoration of the Monarchy*

The royal family quickly increased their visibility throughout the country. There were 4 times increase in the number of ceremonies, functions, and audiences attended by the King. The monarchy re-established ceremonial relationships numerous groups including business communities, middle-class, and army. They played part in fund-raising for those in the countryside. Royal sponsorship for marriages of top families. Royal presence in degree ceremonies. Royal family was projected as modern family who excelled in all aspects.

The importance of royal family to the military and Buddhism was restored. King and Queen were asked to be the honorary commanders. Royal flags ceremony was staged and Sarit talked of the army as "the army of the King".

The King's role as the patron of Buddhism was promoted. Royal Kathin ceremony was revived. The importance of Thammayut Sect was restored. Sarit supported monks to travel to rural and hill areas to spread Buddhism, and also to promote gov't idea of rural development. Sangha encouraged to play a part in preventing the spread of communism.

#### *New Political Ideology*

Under Sarit, the role of chief ideologist still belong to Luang Wichit. But the ideology in support of the military dictatorship was transformed. Military and its leader no longer projected as the sole power carrying the will of the martial nation. Army transformed into the "army of the King", deriving its power from above.

A concept of Thai state under absolutism was restored. Thainess as relating to the key importance of the monarchy.

But the difference was the summit was no longer the King but the "government headed by the King".

The army played a key role in the gov't, carrying responsibility for controlling politics and governance. The army is portrayed as being distinguished by special, semi-religious form of merit. The army is portrayed as brave, clean hearts, worthy of honours, and therefore suitable to be the leaders.

The political ideology made by Sarit left no room for civilian politicians. Military officers became "Rattaburut (Statesman)" and not Nak-Karnmuang. "Politicians think of elections, while the statesman think about the future of the nation".

The new political ideology promoted the theme that bureaucrats and soldiers were more suited to rule the country as they lack personal interests, which characterised politicians.

The concept of "Thai Style Democracy" was invented. Farang democracy, emphasizing on "representatives", have been misguidedly promoted in Thailand since 1932. The assembly full of military appointees was justified by stressing the importance of honesty and scholastic competence, without the influence from political party or the desire to win elections.

The traditional ideological role of the King was divided. The Crown assumed passive role of spiritual and moral leadership, while the military dictator took active role in governing the polity.

The military turned justification of its rule to fighting internal threats. That internal threat was summed up as "Communism". Communism became a shorthand for any dissent against the military and its view of the Thai polity.

#### Reading

- Pasuk Phongpaichit and Chris Baker (2002). *Thailand: Economy and Politics*, KL: Oxford University Press. (Chapter 8)

## 12. Urban Economy in Sarit's Era

### Topics

- US Capitalism and Sarit's Development
- Banks and Capital Mobilisation
- Import-Substitution and Foreign Investment

### 12.1 US Capitalism and Sarit's Development

#### *US Capitalism*

From 1950-1970, the world entered two decades of economic and trade boom. Driven by the growth in US and Europe, world demand for primary produce expanded, capital became more internationally mobile. Rising international trade, capital inflows, and US intervention in SEA had dramatic impact on Thai economy

The US political intervention in Thailand to oppose communism provided the context for US influence on Thai economy. US policymakers believed the best recipe for resistance to communism was strong gov't and economic growth based on private capital. US channeled their support to Thailand's military leader in exchange for their anti-communism fervor. US also pressed Thai military leaders to start econ.dev based on support for private capitalism

Thai military leaders responded enthusiastically in following US's capitalism. They were already involved as partners to local capital. With the post-Korean war domestic recession, the local businesses also asked the gov't to give more favour to private business. Facilitating the Thai economic adjustment was the US's aids. The immense amount of aid eased Thailand's balance of payment position, stimulated local demand, and raised gov't revenue.

#### *Sarit's Development*

Phibun was more ambivalent in following the US and supporting Thai domestic capital, but Sarit had always been more supportive of these. Sarit rose to power came from him drawing US support to the military. US also convinced him of developing Thailand with the assistance of foreign investment. Sarit also involved in arms deals and in setting up his own businesses such as in shipping, construction, insurance, shipping, etc.

As Sarit rose to dictatorship, he informed his followers that Thailand needed a stable anti-communist regime to gain more US aid. He justified his coup as a preparation for launching a plan of "national development". Under Sarit, the strategic interests of the US, the dictatorial aim of Thai military, and the business interests of Thai new entrepreneurs converged. Sarit proclaimed "our important task in this revolutionary era is development".

Sarit started on a major restructuring of Thai economy in favor of the growth of domestic capital. The restructuring began with the World Bank's report that criticised the inefficiency of state enterprises in Thailand. SOEs were collapsing, operating at losses or debt. The World Bank recommended the scaling down of SOEs and promoting manufacturing under private ownership by improving legal framework, infrastructure, and credit system, and by establishing institutional structure for econ.dev. With US

assertion, World Bank's recommendations were adopted. No more SOEs created except for public utilities.

Institutional infrastructure for promoting economic growth were created. They included the Budget Bureau, National Statistical Office, NESDB, and BOI. These organisations staffed with US trained bureaucrats. World Bank also provided funding support for building infrastructure such as highways, irrigation, electricity, and education. 1st-3rd National Development Plan were drafted with US advisers, prioritising growth driven by private sector.

### *A New Strategy for Growth*

The creation of Board of Investment (BOI) signify the shift to support foreign investment. Investment Promotion Act provided tax and tariff incentives to promote local and foreign investors. Foreign firms gained more favourable treatment, allowed to repatriate profit and occupy land. Labour unions were suppressed.

Tariff protection were set to protect domestic manufacturers of consumer goods. This came more from pressure from domestic capitals. To promote domestic industry, tariff on capital goods were set low, while tariff on consumer goods high. Wages were kept low to help domestic industries, facilitated by supply of labour from booming population.

Thai technocrats in BOT and MOF prioritised economic stability with tradition of conservative fiscal management and support for open economy. External aid and loans helped fiscal deficit and limited inflation. Stable growth came at 6.6% without much inflation. The new strategy was successful in drawing in foreign investments.

The impact of the new strategy on domestic capitals even more dramatic. Rising world's demand for primary goods sparked a boom in Thailand's export of primary commodities. From 1960-75, agri.exports rose 10% per year.

Tariff regime, the end of economic nationalism, and the better infrastructure, provided incentives for Thai capitals to expand in domestic markets, especially in the countryside. Foreign firms flew in but did not substitute local firms. Most chose instead to partner with local firms.

### **12.2 Banks and Capital Mobilisation**

The Thai banks formed in 1940s rapidly came to dominate Thai business world. Their rise based on the role they played in mobilising capital to take advantage of new opportunities under Sarit.

Chinese immigrants became the main beneficiaries. They had migrated in for generations, but apart from a number of big successes, most remained in small businesses. Significant portion of money sent back to China, small amount invested in pawnshops. The expansion banks provided them with location for savings. Gov't restrictions and problems in China led to fallen remittance and channeled the saving to banks. Between 1962-81, total deposits in Thai Banks grew from 8 millions to 299 million bahts.

The rise of Thai banks also helped by other two factors: political connections and the extensive business networks.

From 1950s, all of Thai major banks had forged close links with Thai military leaders. Bangkok Bank with Ratchakru group and eventually with Sarit. Mahagaruna group (Union Bank of Bangkok), Sri Ayudhaya Bank, and Kasikorn Bank, all had solidified their relationship with the military leaders. The connection led to laws made to prevent new entrants and foreign competitors in banking sector. Banks' Cartel was created and had not been challenged for 3 decades.

Successful banks also possessed extensive connections within local and overseas business communities. The major banks came from dominant Teochew group. They competed but also cooperated in the Chamber of commerce. They forged relations through marriage. Many benefited from having relatives scattered in other Asia's business cities. Beyond providing funds, they also provided business services to client by helping them build business alliances, brokered deals, and found markets.

For example, Chin Sophonphanich dominant role in Bangkok Bank was based on his extensive network built with Chinese communities through trading activities and from organising the sending of money back to China  
Chin built Bangkok Bank overseas branches, and created network with leading Chinese entrepreneurs throughout the region

The banks dictate the economic expansion in Sarit's era, enabling hundreds of companies to emerge. Bangkok Bank dominated the task of promoting new ventures. As the rice trade was released from gov't control, Bangkok Bank helped the rice trading families with new opportunities such as in the textile industry. Bangkok Bank also facilitated the expansion of agribusiness, most notably that of CP.

Kasikorn Bank continued to play key role in crop exports. They expanded their business to joint venture with foreign firms such as Dole and Firestone. Other banks also expanded their own businesses into other sectors especially in manufacturing. The number of firms that the banks were involved with grew significantly.

In 1958, Bangkok Bank, Kasikorn Bank, Bank of Ayudhaya, and Union Bank involved in 51 firms. In 1973, the number became 173, and in 1979, 295. Bangkok Bank financed 42% of total export and 26% of imports.

Connection with banks, and connection with the military generals, were crucial ingredients of newly successful businesses. Sukree Potiratanangkun start building textile business from securing contract as a military supplier.

Thaworn Pornprapa's Nissan benefited from gov't decreed that taxis must be Nissan. Uthane Techapaibool gained monopoly in distilling whisky. Kirati Srfuengfung glass making business started through connection with ratchakru group. In turn, the generals held positions in extensive amount of private firms.

### **12.3 Import-substitution and foreign investment**

With growing domestic market, cheap labour, gov't assistance, and foreign investment, industry began to grow.

The major areas of expansion were agricultural processing, basic manufacturing such as textile, and variety of assembly industries supplying consumer goods to domestic market.

Agri-business was expanded to wide-range of processing. Rice business revived after freed from state's control, benefitting from better irrigation, high-yield seeds, and better cultivation system. The major rice trading families entered into new crops such as cassava, and also new opportunities for processing such as silos and warehousing. Metro group started manufacturing fertilizer.

Other expanded agri-business included suger milling and feedmill. Big sugar milling firms -Thai Roong Ruang, Bangpong, Kwang Soon Lee, and Mitrphol- expanded rapidly and formed cartels. Export of suger increased more than ten times.

With massive growth in production of maize and cassava, forms moved into feedmill business.

CP began as importers of seeds, fertilizers, and other agricultural inputs. Later moved into feedmill and other livestock business Through joint venture with a US company, CP started its chicken industry. As the Thai gov't ended its monopoly on slaughterhouse, CP created integrated chicken business. It used the contract farming system and expand its business to other animals. CP set up range of associate companies covering all aspects of its agro-business and expand to other countries.

### *Import-substitution*

New manufacturing industries founded in 1960s under tariff protection range from glass factories, cement works, iron and steel plants, and paper manufacturing. The most important was textile. By 1979, textile accounted for 19% of value added in manufacturing, and 6% of export. Across all the new industries, the entrepreneurs started from being trader and importers, before moving into manufacturing as a result of tariff protection and gov't incentives.

The tariff structure levied high rates on finished goods while low rates on parts and components encouraged assembly type business to supply domestic markets. Assembly operations covered consumer goods such as household durables and automobiles. Firms joined with overseas supplier to manufacture products that used to be import under tariff walls.

Pornprapa's Nissan "Siam Motors" is a good example of such an assembly business. Other automobile joint venture, Toyota, Mazda, Mitsubishi, all emerged similarly.

Joint ventures between importers and foreign firms also emerged in assembly operation of consumer durables such as radios and TVs. Tanin Co. began as importers. After receiving gov't promotion and technical assistance overseas partners, it produced cheap TV sets and exported to Europe.

### *Foreign investment*

The final aspect of Sarit's restructuring of Thai economy was foreign investment. Through investment promotion regulations, foreign investment flew in at 1 billion baht a year in late 1960s, and around 1.5 billions a year in 1970s. The first investors were from US, who invested in 100% ownership in areas such as petroleam and chemical businesses.

Then Japanese investments started to grow in late 1960s, surpassing the US in 1973. Thailand's trade with Japan also rose significantly during the same time.

At first, Japanese increasing role in Thai economy provoked tension among technocrats and businessmen. They feared that Japanese firms would seek to dominate Thai economy. Japanese gov't attempted to sooth things by reducing duties on many Thai goods, increasing loans to Thai government.

Japanese gov't also encouraged joint ventures between Japanese and Thai firms. Japan increased aids to Thailand. By 1980s, Japanese aids amounted to 2/3 of all aids Thailand received.

Japanese investments in this period were of two types. First, tariff jumping assembly operations, mainly in the area of consumer products. Second, investment in manufacturing for exports, mainly back to Japan. Japanese investments accelerated by the rising wage in Japan, causing Japanese to look for cheaper labour elsewhere.

Japanese investments in Thailand started in textile business through joint venture. In contrast to US investors, Japanese investors often choose the path of joint-venture. This was partly due to the Japanese themselves wanting to avoid political opposition. And also due to the gov't requiring foreign investors (other than US) to have a Thai majority partner. But equally important was the Japanese firms wanting to use domestic firms to gain access to knowledge about local market. Joint venture also helped Thai firms gained knowledge and technology transfers

*In sum*

Sarit's development era came with business opportunities enabled by tariff protection, better raw material supply, foreign assistance and technological transfer, political connections, and capitals provided by banks.

### Reading

- Pasuk Phongpaichit and Chris Baker (2002). ***Thailand: Economy and Politics***, KL: Oxford University Press. (Chapter 4)

## 13. The Economy of Thai Peasants in the Post WWII Era (1950s-1980s)

### Topics

- Post WWII changes in the society of rice peasants
  - The changing roles of the gov't
  - The disintegration of rice peasant's society
- The expansion of upland peasants
  - Cash crop boom and peasant colonisation of upland frontier
  - Government and Agribusiness
  - Land and Poverty
  - Closing the frontier

### 13.1 Post WWII changes in the society of rice peasants

After WWII, the rice economy undergone dramatic transformation contributed by realignment of gov't and merchants in their relation with rice peasants. Rice peasants had long been protected from changes, but post WWII saw the protection ended and impact was rapid.

From, 1950s-1980s, the rice paddy expanded from 35million rai to 59 million rai. Expansion in the Northeast was due to the new road connections. Frontier moved into Mun-Chi and Mekhong river areas. The relatively egalitarian society of small peasants disintegrated into the society of commercial farmers and wage labour

#### *Transformed Villages*

Initially, the villages were still with basic pattern of a frontier settlement dominated by independent small holders using exchange labour and traditional tech. But the villages later turned into differentiated society. Lands were under tenancy, dependency on wage labour increased, the exchange of labour disappeared. Peasants used new strain of rice seeds together with fertiliser and other chemicals. Tractors and water pumps were common. The speed of change contrasted the view of rural society as fixed, unchanging, and traditional.

New Relationships began between peasants and the external actors. The change of peasants arose from commercialisation and the new relationship between gov't and the countryside.

In 1930, Chinese rice barons dominated rice trade. Local traders were organised into networks. In 1940, gov't partnered with rice barons to raise efficiency of rice trade, build better distribution networks for consumer goods. In 1960, the local trading agents of rice trade became much more integrated into the village economy. Middlemen performed functions in lending, advancing supplies, own and rent land, selling consumer goods, and transporting products.

### **13.2 Changing roles of the government**

The gov't changed its relationship to the peasants' economy. It tries to enlarge urban economy by extracting from countryside to boost urban's capital accumulation. This is done via fiscal arrangements and support to urban capitals.

A crucial policy adopted to extract peasants was "rice premium". Post WWII, gov't had to pay war repatriation in the forms of rice exports. Gov't monopolized rice exports, setting up local system to buy supplies at low price. Even after the payment for war finished, gov't continued the practice to gain revenue.

The side effect of rice premium was to keep domestic price for rice low, thereby protecting urban consumers from higher international price. Equivalent to taxing rice peasants to support gov't and urban consumers. In 1956, rice premium yielded 17% of gov't tax revenue. In 1969, 7%. In mid 1960s, premium represent 45% tax on value of rice production for export. Extracted 25% of rural income. The rice premium only ended in 1985.

The extraction from the countryside was also done by manipulating the term of trade. Tariff imposed higher rates on consumer goods and on inputs for agricultural production. While, rice premium pushed down product price. The cost of fertiliser in terms of rice faced by Thai peasants was 5 times higher than Japan.

The gov't also set out to expand the rice production by improving irrigation, improving new technology, and expanding ownership rights over land. From 1950, gov't raised investment in irrigation and in other form of infrastructure to boost agricultural output. Government promoted the adoption of new rice technology and seed, also issuing full deed (NS4) or Occupancy Deed (NS3). By late 1970s, these certificates were issued for 20 million rai in central plain.

The position of village leaders was shifted to support the intrusion of central gov't and the merchants. Earlier, village headman came from local selection and was not part of the bureaucracy. But from 1960s, gov't extended administration into villages by coopting Kamnan and Phuyaiban into gov't pyramid of admin. The leaders became the channels for external business to conduct business with villagers.

### **13.3 Disintegration of peasant society**

The government's new roles led to crisis and opportunity for different elements in peasants society. Increased extraction turned low survival margin and high uncertainty in causes of crisis. Bad weather, market fluctuation, and illness can led to debt and loss of land.

Some peasants can still retreat by finding new frontier, but others turned into tenancy and landlessness. Khai-fak system became an indication of the transformation to landlessness.

The balance of landlord/tenants relations shifted toward landlords. Landlord used new methods of collecting fixed rents

With growing pool of tenants, landlords could collect higher rent in advance. Some landlords also prefer operating their farms using wage labour.

The number of "**landless farmers and wage labour**" rose. 1970s estimation found landless families in Chaopraya Delta to be in the range of 10-25%. Small landholder supplement their income with trade, crafting, and wage labour

Opportunities provided by new infrastructure and technology, and new sources of capital, also enabled some to become "**commercial farmers**". The commercial farmers invested in improving their production. New rice strains allowed double cropping. The uses of fertiliser and pesticides increased. Tractors helped improve yields and enlarge plot size.

Impact of green economy accrue more to the rich farmers, who could make use of new capital investments. Returns were better for those who could afford the whole package of land improvement, seeds, chemicals, and machinery. More credits were provided through BACC and commercial banks, but credits went more to the rich farmers.

The exchange of labour rapidly declined due to the more intense cultivation and the water control via irrigation.

Better irrigation, uses of fertilizer, better rice strains, led to rising yields, especially in the central region. But the yield remained below countries with more intensive method such as Japan, Taiwan, and Java.

From 1950s to 1980s, the structure of Thai rice peasant society totally changed. The earlier 2 systems of landlord/tenants and small cultivating peasants no longer mattered. In landlords' area, tenants settle down. Old aristocrats sold their land. In the frontier land, villages disintegrated into societies of commercial farmers and mobile wage labour.

The changes resulted in three strata agrarian society.

- Old landlords and commercial farmers owning more than 40 rai. (30% of population): Use tenants or wage labour. Invest in other businesses such as service industries and crop trading.
- Middle peasants owning 15-40 rai. (40% of population): Offspring from old cultivating peasants. Combined market production and subsistence.
- Landless farmers or small farmers with less than 15 rai (30% of population)

Post 1970s, saw even more intensified changes, leading to a more contrasting differences within peasants' society. 1970s-1980s saw commercial peasants adjusting to new opportunities. They became owner of fruit orchards, fish and prawn farms, to serve new agribusinesses. But the small scale rice grower found more difficulty. From late 1970s, they faced bad prices and rising input price. By late 1980s, rice price support became major political issue. More and more rice peasants finally turned into wage labour. Many migrated to urban area to find works.

#### *Summary of changes in peasant society*

Only in one generation, the small cultivating peasants no longer dominated the society of rice peasants. Peasant society rapidly changed into one occupied by commercial farmers and wage labourers. The marginalised members of this new society begun search for opportunities in the city.

### **13.4 The expansion of upland peasants**

#### **Cash crop boom and peasant colonisation of upland frontier**

Before 1950s, most of the people of Siam settled in deltas. Uplands occupied by hill people. Population of upland were extremely sparse. Villages in upland functioned to facilitate trade route. Agriculture in upland areas was difficult.

From 1950s, a new agrarian frontier of cash crops opened in upland areas. Roads built as strategic highways in the fight against communism helped the expansion.

The open up of uplands carried over from the expansion rice frontier, many new settlers were those who moved from being the rice farmers. Driving the expansion was also the government promotion of agricultural business. Expansion was much faster, more than 100 millions rai planted with maize, cassava, kenaf, cotton, and other cash crops.

Process of expansion began with loggers, settler moved in together with the contact from crop trader. Upland farmers were different from rice farmers. Their growth was much more connected to urban capitals. Small holders dominate the settlement. But they did not have any sustained phase of subsistence. They produced to feed factories, and were dependent of capitals, inputs, and links with agribusiness.

#### *Cash crop boom*

From 1950s, world trade in agricultural goods entered a boom period for almost 3 decades. Network of highways built to connect Bangkok to Isan and other regions became the channels of distribution for cash crops. The economic importance of road became more acknowledged, and the gov't started constructing feeder road. The conquest of malaria contributed to allow the settlers to enter newly opened areas.

The initial expansion was to produce **kenaf**, in order to be the input for gunny sacks (krasob). Other crops were destined for exports of agribusinesses, including maize, sugar, cassava

**Maize:** a new variety adopted to be more suitable to Thailand. Production expanded from the upland b/w central and the north region, and expanded to Isan.

**Sugar:** In the late 1950, gov't support sugar export industry. Gov't built its own sugar factory and banned sugar imports. Private firms later entered the business, owning sugar mills and support expansion of sugar production area.

**Cassava:** became the most widespread of upland crops. Cassava boom replaced the decline of kenaf. Cassava exports eventually overtook rice in terms of value.

Other expanded product include soya-beans, cotton, oil seeds, etc. Pineapple growing to supply for production of canned pineapple. Upland in Korat became the places to raise cattle and develop dairy farms. Tobacco production expanded in the north, while rubber plantation expanded in the south. Commercial forests of eucalyptus to feed fibre, pulp, and paper industries.

#### *Peasant colonization of upland frontier*

Between 1950-1980, number of farm holdings increased very quickly, especially in the area outside the central region.

Villages combine migrant population from various places (Central Thai, Isan, Karen, etc.). Plantation of maize and cassava extended from areas near to the river into the forests and hills.

Labours working on roads stayed on and had their families and friends joining. Others settler followed. Similar settlement also arose in the area near dam and mining construction.

Most of the upland peasants used to be tenants or landless labour in farms, labour who had moved to city to raise capital, or even robbers or other who flee from authority. Settlers usually moved in groups. Some upland peasants were actually successful cultivators who sought to expand to produce other crops.

The initial expansion was driven by the good price for export crops. During this time, production method was crude, land cleared by burning and the use of hoe and bullock. The crude method only allowed good yield in beginning years before the quality of soil eventually drop. The peasants tend to abandon their old plot to find a new one if their land was no longer in fertile, or if they faced debts or disputes with locally powerful. Many settlers moved several times in their lifetime.

Use of 4 wheeled tractors help defeat imperata grass and maintain soil. Mid 1960s, 3000-4000 units of tractors imported per year. By 1970s, the extension of maize production was under control of tractors owners.

After the initial phase, the key figure of the upland frontiers became the "**agrarian entrepreneur (traders)**". Most cultivations were capital intensive, requiring extensive uses of tractors, fertilisers and chemicals, and hired labour. Farmers had to finance these through lending. Agrarian entrepreneur became source of lendings and capitals. They took over the land of settlers who failed to payback and reallocate to others who are willing to work more intensively.

The production of cassava and maize expanded under the system where traders allocate land, advance settler with inputs, and buy products at pre-settled price. While the production of sugar were linked more directly with mill owners and their network of traders. The traders mobilised a large amount of wage labour for harvesting season.

Hirsh study of upland frontier villages in Western region found 3 stages of changes.

- First stage, 1950s, gradual development of shifting cultivation. Many inhabitants were hill people and Lao.
- Second stage, 1960s-1970s, peasants moved in from lowland, clearing forest areas. Most ended up facing crisis from reducing soil fertility.
- Third stage, from 1970s onwards, traders and agribusiness moved in to organise settler and put them in more market oriented form of cultivation.

### **13.5 Government and Agribusiness**

From 1960s, with the export of cash crop playing a major role in the balance of payment, Thai gov't turned to promote the expansion of cash crop production. Tax breaks and duty privilege to agribusiness firms.

From 1976, agri-business given priority in investment promotion. First group of firms that received promotion were those that processed cash-crops such as cassava, maize, and soya.

Through investment promotion, firms found opportunities to expand their business. CP, for example, expanded from feedmill to cover the whole system of raising livestock. The gov't also encourage foreign joint investment between Thai agribusiness and foreign firms. CP joined by a US firm. Dole in foodcanning. Dutch and Danish in dairy. Taiwanese firms in prawn and fish farming.

The gov't increased the availability of capital to agribusinesses. BACC promoted to give lendings to cultivators. Commercial banks regulated to set certain percentage of lending to agriculture, but this rarely reached small and medium peasants

Agribusinesses developed a variety of techniques to gain more secure and effective relations with small farmers in their production. The system of "contract farming" was introduced in variety of products. Sugar mills built networks of agents to manage cultivation.

### **13.6 Land and Poverty**

#### *Forest and Land*

The lives of upland peasants were affected by the gov't policies toward forests. In 1961, gov't estimated that 53% of the country covered by forest and aimed for the number not to fall below 50%. But in the next 20 years, forest areas would continue to decline very quickly through expansion of upland farmers.

From 1950s, logging businesses expanded at rapid rate to supply industries such as matches, plywood, parawood, paper etc. Loggers sell all kind of timbers. Villagers set up their own small logging firms. The army encouraged peasants to settle in new villages along the road within 1 km radius policy. But the actual settlement went further.

Giving concession to logging companies was also another policy to fight insurgent. Although there was the replanting requirement; such condition was not effectively policed.

In 1964, the gov't passed the National Forest Reserve Act, but did not have both the will and the ability to effectively implement the policy. Between 1961 and 1988, total area covered by forest reduced from 171 million to 90 million rai. Most of the lost area turned into cropped area. While the gov't actually prepared to sacrifice forests for political-economic purposes, they used the idea of protecting forests in influencing the society and economy of upland peasants.

The 1964 National Forest Reserve Act aimed to keep forest area at 40%. In 1985, Forestry Department mapped the area designated as "forest reserves", covering 42% of the country. But the designation of area was not related to the actual condition. At least 1/3 or even 1/2 of all cultivated land situated in forest reserves. The designation of forest reserves had crucial consequences on land rights of upland peasants, who became illegal occupants.

The illegal status of upland peasants also contributed by the gov't limited effort to provide them land certificates. The survey of land by the gov't concentrated mostly in the central region. The registration of NS certificates were slow.

Most upland settlers had only a SK-1, which gave them no legal ownership.

In 1974s, 5-6 millions people estimated to live in untitled land in forest reserve. By 1990s, this rose to 10-12 millions. Despite promoting the agribusiness, the gov't ended up giving no legal backing and assistance to peasant settlers.

### *Poverty and Dominance*

Most of the settlers of the upland frontier were poor. Some were originally hill people, while many were labourers from road construction, or landless peasants fleeing debt. Needing to cover high cost of land clearing and cultivation, most started out with loans from crop traders. Without access to formal land certificates, they had no access to formal and cheaper loans. The lack of secure land title means limited incentive and capital to invest in higher productivity.

The poverty incidence among upland peasants were high. Estimation in 1962-3 placed 57% of total population below poverty line. In the rural north-east, the number was as high as 77%. Rapid expansion of upland frontier and rising crop price helped reduced the number. In 1981, poverty incidence in NE fell to 36%. The subsequent decline in agricultural prices in 1980s eventually caused the number to rise back. Villages identified by gov't as poorest were mostly in the upland tract, and in 3/5 in Isan.

Even with the boom of agriculture in the upland, the export of labour from the tracts also accelerated. Cultivation throughout the upland dependent on monsoon rainfall, and limited to a single season. Most upland cultivators had long off-season period. They had to rely on off-season works to supplement their income. From 1960s, the migration of upland peasants, especially from N-E, became more intensified and more complex. Their destinations range from paddy, fruit orchards, other cash crop areas, local towns, and Bangkok.

But together with the poor, there were also small elites who acted as agents of agribusinesses. These elites include the early settler, traders, financiers, tractor owners, and local officials. They had control over the new settlers. The process of claiming and allocating the land was influenced by loggers, traders, and military. Without the formal documents, access to land was subjected to influence from these powerful actors. Traders and loggers could use their influence over gov't officials to gain land titles at the expense of peasants.

As the upland frontier matured, the dominants were ones that controlled the production from the field to agribusinesses. Power tended to lie within (1) those who owned capital or (2) those who had official positions. The few villagers who had access to capitals and market channels were able to act as trading agents, acquired ownership of tractors, trucks, or plantation. Those who had access to official positions such as Kamnan gained market privileges. They had better access to capitals, more secured land titles, and were favoured as agents for traders and agribusinesses.

Turton's depiction:

*We find, in the village after village, a small minority -perhaps 5% more or less- of households which possess a degree of wealth, control of resources, prestige and power which sets them apart from the majority....they include....larger landowners, commodity dealers, shopkeepers, village officials, some teachers, rice millers, money lenders, owners of small-scale transport and machinery, large-scale employers of wage labour etc. They derive advantage from their external connections and alliances and from their roles in 'linking' the majority of villages with state and market structures...*

### 13.7 Closing the Frontier

In the 1980s, the role of agriculture in the Thai economy declined significantly. Rather than wanting to benefit from the peasant economy, urban capitals would be more interested in using land to plant industrial inputs, and in turning rural people into their supply of labour.

The rapid decline was partly a result of falling prices and falling world trade. The post war boom in primary products came to the end in 1970s due to oil crises, chaos in currency market, and the rise in protectionism especially in US and Europe. In rice market, China and Vietnam emerged strongly, other countries became more self-sufficient. From 1980-85, world rice prices declined by around 50%.

The importance of agriculture was replaced by the rising roles of manufacturing. In the late 1970s, role of agri-export as main driving force of economic growth was taken over by garments, electronics, auto-parts, gems, etc. In 1990, manufacturing exports grew to become 4 times larger than agri-exports. The Rangsit area were taken over by factories, suburban homes, and golf-courses. As industrial sector rose, rural sector became providers of cheap labour.

Against this changing background, the land frontier in the forest was closed. The closing was gradually done through the decade of 1980s. The closing came about after the end of communist insurgency. The army no longer had interests in pushing the frontier. However, the expansion remained, driven rather by interests in logging business. But as the issue of preserving forests gained widespread public attention in 1980s, the logging business subsequently shifted their operations to forests in neighboring countries. Gov't eventually pressured by environmental groups to revoke all logging concession.

The closure of forests caused intense competition to control land and forest resources, especially in the so called "degraded forests". Degraded forests covered 20% of country's area, occupied by 7-12 million people. The peasants in the area wanted to stay on. But the Forestry Dep't made degraded forests available for plantation of trees that can be used as inputs for industries. Eucalyptus identified as fast growing "economically valuable" trees. Commercial plantation included as part of the targeted amount of the forest areas.

#### *Conflicts in the forests*

While the gov't extended supports to paper mills, pulp companies, and plantation firms, the Forestry Dep't attempted to move peasants out of degraded forests to make way for reforestation. The settlers objected the gov't attempts, which was often backed by agribusiness. Conflicts arose between the peasants and the businesses, as demonstrated through the objection of eucalyptus planting.

In late 1980s, the military step in with a massive plan to move 9700 villages out from forest. The scheme was called Khor Jor Kor. Khor Jor Kor raised tension and violent conflicts between settler and authorities. Some settlers felt they were actually helping the army in fighting the communist insurgents.

In 1991, the army implemented the removal in around 20 areas. The resettled villagers found themselves relocated to dry and barren lands, or in other settled villages. The large wave of protests by villagers, activists, and students, finally led to the suspension of Khor Jor Kor.

*Pleng-Luk-Thung*

The changes of peasants lives, especially the problems and opportunities they faced when they moved into the city, were expressed in “pleng luk thung”. Pleng luk thung reflected the appearance of new media that knitted rural audience and their common concerns when confronted with the city. Some songs gave supports to the migrants to the city. Reflecting the contempt they faced, and their desire to return homes. Some even reflect the conception of state-politics.

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## **14. Thai Urban Economy from 1980s to 1990s: From Import-substitution to Export-oriented**

### **Topics**

- Import-substitution or export-oriented
- Recession and devaluation
- Golden Age
- Industrial relocation and the development of export industries
- The changing shape of domestic capitals

### *Overview*

The reorientation of economic strategy under Sarit regime led to 2 decades of rapid expansion of urban economy. Capitals accumulated in banks, industries, and agri-businesses. In the late 1970s, the growth slow down, the strategy was facing its limit. Growth based on domestic protection seen as no longer working.

The business community and the World Bank pressed for changes in economic strategy. The gov't resisted changes for many years, until it faced economic recession in early 1980s. The change in strategy came with a dramatic result. Thailand's growth became one of the fastest in the world. The economic miracle was underpinned by relocation of industries from East Asia, and another boom period in domestic market. Thai economy became fully capitalism.

### **14.1 Transition: import-substitution to export-oriented**

In Sarit's era, the economy was driven by 2 engines: (1) expansion of agricultural exports; (2) the inflow of foreign aid and investment. Surplus was transferred from agrarian economy to urban economy. Domestic economy expanded through domestic market

The strategy worked in attaining impressive growth (approximately 8%) for almost 2 decades, helped by good world agricultural prices. Yet, the growth under Sarit's import-substitution strategy depended on the expansion of domestic market

At the global level, the trend of economic strategy changed. The failure of Latin American's import-substitution strategy was contrasted with the success of East Asian's export-oriented strategy. World Bank and US economists developed economic theory supporting export-oriented strategy, advocating lower tariff and undistorted factor markets. The changing ideas also influenced some of Thai technocrats. But the outcome was mixed

Despite showing interests in export-oriented strategy, Thai gov't actually could not turn away from import-substitution. NESDB recognised the need for export-oriented, but stated that protection could not be abandoned. 1972 Investment Promotion Act started to give incentives for export-promotion, but overall strategy was still protectionist.

Little was actually done to promote export in 1970s, due to a number of constraints. Import-sub fundamentally worked against export, as tariffs raised the costs. The Baht was tied to Dollar, and appreciated with dollars in 1970s

MOF wanted still import tariff as tax revenue. The army wanted strong baht to reduce price of arms. Ministries also sought power from the ability to give protection, while firms tended to look for more protection as the easy solution to the fall in profits.

Instead of reducing protection, from 1970-1980, gov't actually raised protection. Effective protection almost doubled. In 1975, to aid recovery from the oil crisis, gov't economic packaged combined higher tariff with policies to increase rural incomes. Reflecting a continual belief in protecting infant industry, and the attempt to sustain it by stimulating domestic demand. Gov't also sought to expand import-substitution into capital and intermediate goods

But in the late 1970s, the underpinning of Thailand's import sub economy started to shake loose. From 1974, world's market for agriculture in decline. Terms of trade that Thailand faced deteriorated. Agri-export slowed down leading to deceleration of domestic demand and current account deficit. Problems were added by (1) the gov't decision to carry the burden of oil price rise, resulting in budget deficit; (2) the withdrawal of US from the region, leading to the fall in foreign aid.

To deal with problems, public sector's borrowing from foreign sources grew. Military borrow to substitute the reduction of aid. Gov't borrowed to invest in large infrastructure to replace energy imports. Gas pipeline and plants, hydroelectric dams. Another oil crisis in 1979-80 contributed further to the problems. Oil bill rose to 30% of import. External foreign debt grew from 21% to 38% between 1973-1986

To solve the growing problems, Thailand asked for the World Bank's loans. The World Bank pushed Thailand to restructure its economy toward export-oriented.

Yet, even in the early 1980s, the adjustment was slow. Baht was not devalued in the fear of rising debt. Gov't still tried to deal with problems by reducing imports. Gov't also promoted export of labour and tourism

#### **14.2 Recession and devaluation**

Thai business community were actually more sensitive to the recession, and moved to pressed for changes. Until mid-1970s, domestic capitals concentrated on opportunities from domestic market. But In the late 1970s, they organised to press the gov't. Thai Bankers Association (headed by Boonchu Rojanasatien from Bangkok Bank), Thai Association of Thai Industries (headed by Pramarn Adireksarn), and Chamber of Commerce worked together to pressed the gov't to adopt strategy of supporting exports.

The textile industry, the largest manufacturing sector in the early time, also pushed government for direct concession to improve export. BOT to give credit for export. MOF to grant refund of taxes and tariffs. Other industries followed.

In 1980, after an election was held, Boonchu and Pramarn joined the coalition gov't headed Prem. They pressed for more co-operation between gov't and business The Joint Public Private Consultative Committee (Kor Ror Or) was formed as a result. Through Kor Ror Or, the business pressured for changes in export procedure, simpler custom procedure, and easier access to gov't incentives for exports.

The final push for change arrived in 1983-4, as gov't dealt with oil crisis by restraining demand through strict fiscal discipline. Stock market and financial institutions were in decline, others suffered loss and difficulties. The downturn forced the gov't to devalue the baht in November 1984. Baht also separated from Dollar. The devaluation signaled the complete shift toward export-oriented strategy.

In addition to devaluation of Baht, the gov't also introduced other reforms. Taxes for input to exports were reduced, as well as several export taxes. BOT and BOI gave support for exporters. Other two crucial factors also contributed to reorientation of Thai economy at this time: 1) The oil price dropped; 2) The appreciation of Yen: 100% devaluation of Baht against Yen between 1986-1989

### **14.3 The Effects of Change: the Golden Age**

The combination of the change in gov't strategy, the fall in oil price, and the adjustment of Yen led to the "golden age" of the Thai economy. From 1985, Thai economy changed gear. Growth was more than 10% until the end of the decade.

Growth driven by exports of manufacture and services. Between 1985-1991, total export increased 4 times, manufacturing export rose 6 times. Manufacturing share in total exports rose from 1/3 to 2/3. Export of labour and tourism also grew strongly.

During 1980s, Thailand changed from an exporter of agriculture to become an exporter of manufacture and services. But the rapid rise of GDP growth did not provoke much inflation due to: the fall in oil price, the ability of labour market to respond to demand, and careful macroeconomic management of MOF and BOT

The growth came with real wage being kept low. Millions were drawn out from their villages into urban-workforce

With limited supervision from the gov't, and weak labour organisation, real wages were low despite rising demand for labour. Even as labour supplies tightened in early 1990s, additional supplies came from illegal workers from neighboring countries, and child labour.

Gov't managed current account by relying on surplus from export of services. Budget deficit was offset by rising indirect taxes. Yet, in a broader sense, the role of the gov't in the economy was in retreat. Businesses lobbied to end Sarit's apparatus of license and control. NESDB was relieved of role in supervising of all gov't investments. More roles were given to private sector.

Thai economy was also left more to the market forces. For example, NESDB stepped away from the policy of dispersing industrial growth away from Bangkok, allowing industries to choose their location freely.

### **14.4 Industrial relocation**

The devaluation of Baht against Yen in 1980s made Thailand attractive for industries moving from East Asia searching for lower costs. In 1970, Japan first choices in moving their production were Taiwan, Singapore, and Hong Kong. The change in Yen also affected other currencies in East Asia, leading to the moving of Japanese firms toward new destination like Thailand, Malaysia, Indonesia, and Sri Lanka.

Relocation came in different forms. Relocating production of parts requiring high labour input OR relocating assembly operation. Transfer of production to subsidiary companies established originally to

avoid import-sub, and encourage sub-contractors to also move. By 1987, the number of Japanese firms establishing overseas subsidiaries or joint venture risen to over 1400.

After mid-1980s, Japan capital led the rising flow of investment into Thailand, followed by other East Asian countries. From 1988-91, annual inward flow of investment from East Asia 10 times more than first half of the decade. From 1986-91, investment from East Asia 2/3 of all inward flow. Thailand attractive not just by low wages, but the experiences of Japanese firms in Thailand, Thai gov't careful fiscal management, good infrastructure, openness to foreign investment, free-market attitudes, and political stability.

The new wave of Japanese direct investment expanded from the assembly of consumer goods in earlier times. Their investment from 1980s diversified into intermediate goods industries and exports. Share of Japanese direct investment devoted to manufacturing rose from 32% in 1984-5 to 72% in 1988. Most went to metal products, electrical products, machinery and transport goods, etc.

The influx of foreign investment after mid 1980s also correlated with high rate of capital accumulation of Thai domestic capitals. Many factors combined to produce this. Big businesses benefited further from the joint venture with incoming capitals. Siam Cement, CP, Saha Union, etc. These firms could access their partners' export market, technology, and skills.

Capitals market also developed new institutions that helped capital mobilisation. Finance and securities companies emerged and grew faster than banks. From 1987, Thai Stock Exchange also grew rapidly.

#### *The development of export industries*

The relocation of foreign industries facilitated development in Thai export industries. Textile had relocated from East Asia to Thailand since 1970s. The rise in Yen caused Japanese joint-venture firms to raise their capacity. They also expanded production in Thailand to avoid US import quotas.

Labour-intensive segment of high-tech industries, such as semi-conductor production, rose quickly in 1980s. Minibea from Japan expanded from manufacture of steel, to computer components, etc. Seagate and IBM also moved production of computer parts to Thailand. Other manufacturing moved to Thailand include toys and footwear.

The joint ventures were transformed from serving domestic markets into production platform for export. Japanese electronic and automotive firms used Thailand to produce specific parts or components, but spread their production network across different SEA countries. From 1988, the fastest export growth came from medium tech products such as computer components, auto-parts, and electrical goods.

Agribusinesses and other resource-based industry also grew. Growth in exports of fruit, seafood, animal feed

Firms started processing imported material. Firms producing food-canning started using imported ingredients such as Tuna. Those who produce furniture for export used imported woods, jewelry also relied on supply of stones from Thailand and neighboring countries.

#### *Domestic market boom*

By 1988, the growth in exports and influx of foreign investment created a secondary boom in domestic urban market.

From 1986-1990, per capita real GNP rose 44%. In 1980s, GDP of Bangkok grew at double of the rate of the rest of country. Increased urban spending fuelled booms in real estate and retailing, also indirectly sparked growth in sectors such as financial services and telecommunications. Thai domestic capitals also benefited from these opportunities.

Bangkok real estate market started to grow rapidly from 1987. The Karnchanapas family (Muang-Thong Thani) was the most aggressive player in the real estate boom from 1988. By the early 1990s, they were estimated to be the wealthiest business family in Thailand. Anant Asavabokin and his Land and House Company. The retailing boomed with department stores, supermarkets, shopping malls, and convenient store. Japanese shopping malls like Daimaru, Sogo, Isetan, etc. Central Department Store, and CP's Seven Eleven.

#### *Thai businesses taking on the world*

Domestic capitals also began to moved overseas. A few Thai firms were able to use their skills and experience from domestic market to enter foreign markets. Hotel business including those of Imperial, Central, and Dusit Thani Group.

From 1980s, technological change led to world-wide market in computer, telephone, and television. Gov't opened new telecommunication projects for privatisation. Local companies took this opportunities. Shinnawattra's computers and satellite businesses Samart's satellite dishes. Jasmine and Ucom. CP's Telecom Asia. All expanded to neighboring countries, and countries such as Indonesia, India, and China.

### **14.5 The Changing Shape of Domestic Capitals**

In Sarit's era, the growth of Thai domestic capitals was dominated by banks and a small number of large conglomerates. They relied on their networks and connections. They benefited from foreign partners, and from access to banks' capitals

But the post-1985 boom caused this structure to change. Domestic market was replaced by foreign markets

The financial sector has changed. Big banks found new source of competition from the new types of financial companies, and also from overseas. Thai banking industries adapted by turning themselves into portfolio investment companies. They entered the stock market, and shirked their funds into investment companies taking stakes in real estates, retailing, etc.

The expansion of domestic businesses stemmed from strong export demand, new sources of capitals, and from easier availability of technology. Joint venture still provide important route for tech. transfers. But new ways also include reverse engineering, and buying of technology (such as in telecom industry). The new wave of entrepreneurs (Pin, Anan, Thaksin) had skills to operate in a more internationally oriented economy, and responded more quickly to domestic opportunities. Some older generation like CP adapted, but many failed behind

The new nature of domestic capital caused a shift in the relationship between business and the government. In Sarit era, businesses relied on political connections and protection from international

competition. But business in export-oriented economy wanted improvement of infrastructure, good management of foreign relations and confidence, upgrade of education system, fiscal and political stability, etc.

The business-bureaucrat relations also underwent changes. Their separation began to dissolved. The two groups used to be separated, having different culture. Descendants of business spread into bureaucrats. The two built connections through marriage, friendship, education. The business also invited senior bureaucrats to sit in their board of directors. The growing connections allowed new channel to lobby policies without relying on cabinets, parliaments, and electoral politics

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