

Corruption, Governance and Globalisation

Lessons from the New Thailand

THE CORNER HOUSE

In January 2001, the Thai electorate gave the biggest-ever majority victory to a new prime minister, Thaksin Shinawatra, one of the nation's richest individuals. Shortly before the poll, it was found that Thaksin had failed to include in his statutory declaration of assets billions of baht (40 baht = US\$1) listed in the names of his housemaid, driver, cook and gardener. If the Constitutional Court found that he had intentionally failed to declare these assets, he could have been debarred from politics for five years.

Thaksin insisted the failure to report was an "honest mistake", a sort of clerical error by his wife, his secretary, his sister — one of the women in his entourage. He argued that he himself was not corrupt because he had plenty of money. He distinguished himself from Thailand's money politicians. They, he said, treat politics as a business from which they can make money. He, by contrast, had made his money honestly in business before he entered politics. Indeed, as part of his party programme, he declared a "war on corruption".

The Constitutional Court's judgement came very close to farce. The chief judge read out the preamble of the judgement, then stopped short. He didn't seem able to bring himself to announce the verdict. A journalist had to prompt him. But it hardly mattered. One of the judges had already leaked the decision, reportedly so that some people could have a last-minute gamble on shares in the Prime Minister's firm before the stockmarket closed.

The verdict was split 8–7, the narrowest of possible margins, in the premier's favour. None of the judges had yet provided the written rationale for their decision, and it was soon clear that the reasons were inconsistent. The press hinted that some judges had been bought. The chief judge later called Thaksin "a product of the past" who had never explained how he became so rich so quickly. A Democrat Party politician and Interior Minister in a previous government who *had* earlier been disqualified in a similar case, Sanan Kachornprasart, collected 50,000 signatures to impeach four judges over the Thaksin verdict. This led to a wonderful legal muddle over whether the Counter Corruption Commission can investigate the judges of the Constitutional Court over a verdict in a case in which the Counter Corruption Commission was the plaintiff.

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“Good governance” was a 1990s World Bank buzz-word signifying the opposite of “corruption”.

This incident is just one episode in the ongoing saga of political change in one medium-sized South-East Asian country. But it may provide a useful starting point for some reflections about corruption and money politics in an age of globalisation, not only in Thailand, but elsewhere around the world.

The Craze for “Governance”

“Governance” was one of the big political buzz-words of the 1990s. The craze began when agencies like the World Bank, International Monetary Fund (IMF) and Asian Development Bank realised that their loans and grants were often less effective than they might be because large parts leaked away. These agencies began to include administrative reforms to control corruption among the conditions demanded in return for the loans. From there, the anti-corruption business took off. The term “good governance” was invented to describe the opposite of “corruption”. Administrative reforms became a larger and larger element in World Bank and International Monetary Fund (IMF) packages. The World Bank funded studies of corruption in various parts of the world.¹

By the time of the Asian financial crisis of 1997, legal, administrative and political reforms had become at least as large an element in the World Bank-IMF crisis programmes as fiscal and monetary measures. Indeed, it sometimes seemed that the international organisations’ enthusiasm to highlight corruption and cronyism was one way they undermined the legitimacy of national governments, and increased the legitimacy of their own interventions. The crusade for good governance took on some of the functions of the “civilising mission” in colonial times — although of course this crusade was adapted and modified by interested local parties in various parts of the world (*see* Box: “Good Governance” Discourse in Thailand, p.7).

But how well did the World Bank and other international agencies analyse corruption in all its awkward complexity? And to what extent

1. Characteristic early emanations of the World Bank’s work on “good governance” include *Sub-Sahara: From Crisis to Sustainable Growth*, World Bank, Washington, 1989 and *Governance: The World Bank’s Experience*, Development in Practice Series, World Bank, Washington, May 1994.

Some Economic Costs of Corruption

Corruption gives rise to a number of economic distortions.

Public infrastructure projects which give monopoly benefits to businesses and commission fees to officials and politicians are often of little public benefit and result in inflated costs to the taxpayer. Seats in parliament, ministerships and high bureaucratic offices are often bought in order to get access to this corruption revenue. Ordinary people have to pick up the costs of kickbacks, monopoly pricing, substandard goods and serv-

ices, and misuse of public funds.

Illegal super-profits are often laundered through speculative, if legitimate, markets in real estate, stocks and entertainment businesses, magnifying boom-and-bust tendencies in the economy. Honest businesspeople are discouraged when faced by competitors who have access to large reserves of cheap funds. Saving, inflation control measures and the work ethic are further undermined when extravagant illicit profits are spent on luxurious consumption.

Income distribution suffers. Gambling transfers money from a

mass of often poor punters to a handful of wealthy entrepreneurs. Drug trafficking benefits the rich at the expense of students, youth, workers and vulnerable groups such as sex workers and slum dwellers.

The human impact of illegal businesses is high. Drug abuse, AIDS and child abuse characterises the sex services trade, which, with the enticement of high earnings at an early age, also prevents people from educating themselves.

was their conception of “good governance” capable of addressing it? A close look at one concrete case — that of Thailand — suggests the need for a broader inquiry into the connections between business and politics.

An Orthodox View

International agencies such as the World Bank and IMF tend to think of corruption in at least three ways.

First, international agencies suggest that, where it exists, corruption tends to be pervasive within administrative and political systems, and that it results in the failure of government to deliver public goods at all levels. Their model is classic bureaucratic “squeeze” operating at every level of government from the front-office clerk in the district office demanding a petty bribe, up to the general wanting ten per cent commission (or more) on the purchase of weapons.

Second, they argue that corruption inhibits economic growth, because it distorts markets and misallocates resources.

Third, they see corruption as a kind of administrative failure which comes about when the rules, institutions, punishments, checks and balances for preventing it are inadequate. The solution, therefore, is to create appropriate rules, punishments and so on. Organisations such as the World Bank regard as crucial the top-down institutionalisation of a better legal framework to ensure transparency and accountability in public administration. One suggestion is that economic globalisation helps deliver such a framework. Typically, the issue of political reform is not touched on.

A Different View

Thailand suggests a rather different, and more complex, picture. First, in Thailand, corruption is not pervasive throughout the system. It mainly occurs at the intersection between business and politics. Businesses buy opportunities and favours. Office-holders sell them. Most corruption money comes in the form not of petty squeeze but of big bribes and commercial collusion between politicians, high officials and business.² The vast majority of people do not have to pay squeeze money at government offices, public utilities and similar places, and generally they are satisfied with the services they receive. Rather, bribe-taking is concentrated in a small number of offices that have influence over significant monetary transactions — the Land Department; the Tax and Customs offices; the Transport Department, which controls vehicle licensing; and the police. These five offices account for 95 per cent of total corruption income in Thailand.

The police are a particularly important force in the illegal economy. In many instances, police effectively license illegal activities, for example, casinos, in return for a regular fee or informal tax. In other cases, police help organise illegal activities themselves. In recent press reports, policemen have appeared as importers and traders of amphetamines; shareholders in gambling enterprises; kingpins in human trafficking; and agents and entrepreneurs in the sex services trade. Such

***But how well does
the World Bank
understand
corruption?***

2. In 1999, a survey of household experience of corruption was carried out over a representative sample of more than 4,000 households all over the country. The survey found that only 10 percent of households said that they had paid bribes when visiting public offices, averaging 1,000 baht per year per household (about US\$22). See Pasuk Phongpaichit, Nualnoi Treerat, Yongyuth Chaiyapong and Chris Baker, *Corruption in the Public Sector in Thailand: Perception and Experience of Households*, Political Economy Centre, Chulalongkorn University, Bangkok, 2000.

Money Politics and the Illegal Economy

In Thailand, parliamentary candidates invest huge sums in getting elected and usually expect massive returns. Party leaders, too, have to offer cash to attract good electoral candidates.

So-called "fertiliser formulas", like "5-10-10-20", indicate the sums in millions of baht a candidate will receive when expresses interest (five million); when he or she signs up to join the party (10 million); when he or she succeeds in getting elected (10 million); and so on. Leaders also have to pay retainers to keep their parties together; money also has sometimes been paid for votes on parliamentary motions. All these expenditures have to be recouped. Senior posts in the bureaucracy are often also up for sale, and again such investments need to be recouped.

The amounts involved may seem bizarre given the potential revenues available from political office. By some estimates, the

total unofficial expenditure on a Thai general election is equal to the official expenditure in a US presidential campaign. But it must be remembered that political figures' status, contacts, networks and so on enhance their capacity to earn money completely outside the money flows in the political system, including in the illegal business sphere, which has the highest levels of profit and huge revenues.

A conservative estimate is that during 1993-5, just six illegal activities — drug trafficking; trading in contraband arms; smuggling of diesel oil; trafficking labour in and out of Thailand; local prostitution and three forms of illegal gambling — generated 286-457 billion baht (US\$11-18 billion) of value added, a figure equal to 8-13 per cent of GNP.

With the exception of contraband arms trading, moreover, all these sectors have a tendency to grow, because of their high profitability and the ineffectiveness of law enforcement. If other illegal activities are included — such as

trafficking of people to third countries, smuggling goods other than diesel oil, trading in protected animals and plants, and illicit logging — the figure could jump to 20 per cent of GNP. Increasingly, these activities are linked together in organised crime networks. Guns are exchanged for drugs. Gambling profits are invested in prostitution. Routes for smuggling drugs are adapted for traffic in people. Protection networks span across the whole range of the illegal economy.

Some of the most important connections in money politics are with such activities, whose revenues, used to buy votes and attract and retain MPs' support, are dependent on protection from elected officials and bureaucrats. Politicians and operators of illegal businesses are often even the same people. The ranks of recent MPs include hosts of the underground lottery, oil smugglers, alleged traffickers in drugs, investors in casino businesses, suspected traders in contraband arms, and

Corruption in Thailand has been compatible with fast economic growth.

businesses have special needs for the kinds of opportunities and favours which politics can provide (particularly protection, status and immunity). Hence they contribute significantly to political investments.

Second, corruption in Thailand, at least from the 1960s through the 1990s, has been compatible with high levels of economic growth. Because Thailand has a rather weak rule of law and rather primitive capitalism, illegal or semi-legal business activities have been significant for the process of capital accumulation.

Third, corruption in Thailand is not simply a matter of lack of rules. Of course, there have always been informal rules. Procedures for offering bribes and negotiating amounts are well-known and understood, and most bribe-givers are confident that their gifts will have the desired results. The important point, however, is that the growing importance of formal rules governing the ways in which businessmen gain access to state power for their own purposes through both the parliamentary and bureaucratic systems is compatible with continuing corruption, even when it no longer goes under that name.

International organisations are right, of course, that countries need rules, institutions, punishments, checks and balances to control corruption. Thailand's own 1997 constitution, like those of many other countries, has helped by introducing new and appropriate innovations. But rules and institutions on their own are only part of the story. Understanding the rest requires a much broader look at the connections between business and politics and the significance of political reform and social movements working from below.

others involved in illegal logging and cross-border trade. One recent study found that some 20–30 MPs in recent governments were prominent figures in the illegal economy, through direct participation, protection or financing.

Vote-Buying

The rapid growth of money politics can also be linked to illegal businesses. While money politics are not new in Thailand — vote-buying can be traced back to the 1957 elections — the amounts involved have increased enormously. A by-election in Roi-Et province in 1981 is often cited as a landmark in the development of elaborate systems for buying votes through professional vote-banks. In this one constituency alone, competing parties sank some 57 million baht. Thereafter, the practice of buying votes became more pervasive and more systematic. The sums spent were estimated at 300–400 million baht in the 1986 general election;

rising to 4–5 billion in 1988; 10 billion in March 1992; 17 billion in July 1995 and 20–30 billion in November 1996. Thirty per cent of voters admitted to pollsters they had been offered money for their votes, averaging 700 baht per household.

The illegal economy's networks not only contribute their super-profits to politicians' coffers. They also help organise vote-buying directly. The influence wielded by middle-level agents in the drug, lottery, casino and sex services trade makes them especially valuable as vote-bankers. In the 1996 election, the head of the largest underground lottery in the north-east told the press openly that he would use his network of lottery agents to assist a major political party.

Profits from the illegal economy have also contributed to the rise of "dark influences" (*itthiphon muet*) and provincial "godfathers" (*jao pho*) in Thai politics. Not all local barons described by these terms are engaged in illegal businesses.

But many of them are, and use their influence to gain lucrative concessions and contracts from the government. At the same time, they enhance their position in society by helping build local infrastructure, donating to temples and welfare services and entertaining important local and national politicians.

Sources: Pasuk Phongpaichit, Sungsidh Piriyaarangsarn and Nualnoi Treerat, *Guns, Girls, Gambling, Ganja: Thailand's Illegal Economy and Public Policy*, Silkworm Books, Chiang Mai, 1998; Pasuk Phongpaichit and Sungsidh Piriyaarangsarn, *Corruption and Democracy in Thailand*, Silkworm Books, Chiang Mai, 1996; Pasuk Phongpaichit, Nualnoi Treerat, Yongyuth Chaiyapong and Chris Baker, *Corruption in the Public Sector in Thailand: Perception and Experience of Households*, Political Economy Centre, Chulalongkorn University, Bangkok, 2000.

Rent-Seeking and Economic Growth

Economist Mushtaq Khan has recently illuminated business-politics connections such as those evident in contemporary Thailand by putting some theory around the relationship between corruption — or, to use a term from institutional economics, "rent-seeking" — and economic growth.³

The international organisations' model, as noted earlier, contends that corruption inhibits economic growth. But in that case, if Thailand is corrupt, how come its economy grew at a rate of 6–8 per cent a year for almost half a century? An easy answer, of course, is that Thailand would have grown even faster if it had not been corrupt. But unfortunately we cannot rewind and replay history to test if that is true. Mushtaq Khan's approach is different. He compares models of corrupt, rent-seeking behaviour in different countries, and questions how the varying patterns of money flow impact on the economy.

Khan's idea, summarised very quickly and crudely, is as follows. Those holding political and administrative power have the ability to create what are called "rents", particularly in the form of abnormally high levels of business profit. They can do this in many ways: by creating monopolies; by providing protection against foreign competition; by sheltering illegal businesses; and so on.

The impact of these rents on the economy depends on how big they are, but more importantly on how they are used. Rents excite the animal spirits of entrepreneurs and encourage them to invest. If the

Political powerholders can create rents in many ways — for example, by licensing monopolies.

3. Khan, M. H. and Jomo K.S. (eds.), *Rents, Rent-Seeking and Economic Development: Theory and Evidence in Asia*, Cambridge University Press, Cambridge, 2000, especially chapters 1 and 2.

What matters for economic growth is whether rents are invested productively (as in South Korea) or dissipated (as in Bangladesh).

rents are structured in such a way that rent-seeking entrepreneurs invest a large part of the rent income, and invest it in productive areas (such as in innovation, in adapting new technology and knowledge and in good management), then the result will be economic growth.

But the rent-seeking entrepreneur may not innovate. Instead, he or she may decide to buy himself a yacht; or the politician may grab a large share of the rent and decide to spend it in Las Vegas; or the rents may get distributed to petty bureaucrats who consume but do not invest. In all these cases, the rents will not contribute to economic growth.

In brief, Mushtaq Khan concludes that South Korea's economy grew very fast during the 1960s-1980s because the political leaders allowed the entrepreneurs to make high rents, but also forced them to reinvest them in productive ways. Also, rents were not dissipated by being redistributed to groups outside the business sector. By contrast, the economy of Bangladesh goes nowhere because the rents are spent on luxury consumption, or dissipated among petty bureaucrats and those outside the business groups, with little left for investment.

Thailand in the 1970s and 1980s was in the middle. The government created quite high rents, largely by manipulating licences and favours to allow only a few companies to dominate a sector. But it was totally ineffectual at telling the rent-seeking entrepreneurs how to use them.

However, Thailand's political system was not a dictatorship, but a sort of oligarchic competition, with power spread between different bureaucratic and political factions. These factions vied with each other for the rent-seeking opportunities. In the 1940s and 1950s, for example, major banks would change hands whenever different factions got enough political power to seize them. After the sector settled down, competition was more for licences, investment privileges and other favours. The process was often quite subtle. And if you could show you had good political connections, then you were a good partner for foreign investors. Japanese investors, who understood this world very well, were very careful about picking their partners along these lines.

The successful competitors then allocated rent-seeking opportunities to their group of business friends. Oligarchic competition at the political level was then reproduced within the ranks of business groups. The favoured entrepreneurs were motivated to invest a high proportion of the rents in order to stay ahead of their competitors, and thus remain in the market to capture more rents in the future. The system has been described nicely as "competitive clientelism". In the end, more of the rent gets dissipated than in the Korean case; but enough of it gets invested to deliver higher economic growth than in Bangladesh.

Most of Thailand's very high pre-1997 rate of investment (around 30 per cent of GDP) was locally sourced. The result was that the country's economic growth, before the 1997 crisis, was well above the average for Southern countries, although still below that of the East Asian economies. Leading the way were corporate conglomerates such as the Charoen Pokphand (CP) agribusiness group, the Bangkok Bank group centred on the Sophonpanich family, the Thai Farmers Bank group centred on the Lamsam family, the Pornprapha auto-

mobile empire, three big family businesses in sugar led by the Asadathon group, and the Bulakun group, which moved from rice into other agribusiness interests and property development. All such conglomerates invested in gaining privileges from government, but in most cases were competing oligopolies rather than monopolies.

Assuming this picture is roughly correct, it still rather abstract and theoretical. It does not tell us much about the nature of rents. It concentrates on economic growth, without considering the wider political and social consequences of rent-seeking.

"Good Governance" Discourse in Thailand

Like many other modern or recently-invented political words, the term "governance" proved difficult to translate when it was tossed into Thai social debates in the late 1990s, largely as a result of the World Bank's use of the term.

The first stab at interpretation produced *thammarat*, an assemblage of *thamma* (dharma), the Buddhist term for truth or virtue, and *rat*, a word for rule or state. This was challenged on the ground that it could easily be misinterpreted as meaning something like a "holy state". One suggested alternative was *thammapiban*, with the second part now a word meaning administration. However, this form appears clumsy and smacks of officialese. Besides, some also felt that the usage of *thamma* gave the new term too strong a Buddhist connotation. Finally, others felt that both these efforts relied wholly on Sanskrit (rather than Thai) words and hence belonged to old bureaucratic high culture.

In 1998, while these linguistic squabbles were going on, a group led by Anand Panyarachun, a career technocrat and ex-premier, and Thirayudh Boonmee, a veteran ex-student leader and prominent social critic, began to educate people about "governance" through speeches, radio broadcasts, seminars and so forth. From this process emerged two very different interpretations of "governance" or *thammarat*/*thammapiban*.

For one group, championed by Anand, governance was interpreted in a way close to its new conventional international meaning: as meaning greater

efficiency in government and business through better information, improved transparency and accountability, and more attention to rule-based systems and laws. In other words, it meant a further step on the road towards modernity, especially through a resuscitation and renovation of the state.

A Different "Governance"

Meetings of NGOs, activists and local groups called by Thirayudh to discuss *thammarat* came up with a different meaning, as a result of their distrust of state-based culture.

This culture, in their view, has helped construct forms of domination which are themselves a problem for governance. They argued, for example, that the state's adoption of the colonial-era myth identifying a nation with an ethnic group (thus turning Siam into Thai-land), has resulted in "non-Thai" groups — Lao, Chinese, Malay, Karen, Hmong and so forth — being treated as less than full members of the nation. They noted that state policies have resulted in the capital, Bangkok, becoming oppressively dominant economically and culturally. They suggested that the influence of the court, the aristocracy, the Chinese, the Americans and the Japanese have increased male dominance in the family, politics and administration. And they pointed out that elites' enthusiasms for "modernity" — visible in the nobility's defence against colonialism at the end of the 19th century, the urban response to the period of high US influence in the 1960s and 1970s, and the more widespread belief in

the decade of economic boom from 1986 to 1996 that foreign investment was Thailand's opportunity to become a fully qualified, urbanised member of the modern world — have been prejudicial to many ordinary people.

People who find themselves at the "wrong" end of these axes opposing "Thai" to "non-Thai", city to village or forest, men to women and "modernity" to "tradition", the critics charged, have often suffered from forms of civil disability, political disenfranchisement, social exclusion and cultural suppression.

Examples include women in hill communities, ethnic minorities, forest gatherers, and the poor living on the fringe of degraded forests that city dwellers would like to claim as sites for hydroelectric dams, waste-disposal systems, factories, or leisure facilities and national parks.

Accordingly, activist critics claimed, "good governance" ought to mean expanding civil society at the expense of the state. They advocated decentralisation and increased autonomy of local communities and administration, especially in the management of local natural resources. They wanted to keep more surplus produce within rural communities and to get more recognition of cultural rights. Sometimes showing little interest in ideas like transparency and accountability, they were concerned with ways to make the state more responsive to local needs and with reinterpreting history, redefining communities, and revisioning future societies in ways ordinary people want.

Corruption includes both petty graft and monopoly profits made possible through political influence.

Rent-Seeking and Politics

Another simple formula may help push the analysis a bit further:

$$V = A + B - K.$$

Here V is the total rent or final net corruption revenue. It is made up of two sorts of income, A and B , less the costs incurred, K .

Of the income, A is a kind of “corruption tax”, which politicians and bureaucrats collect by taking petty commission fees, padding expenditure budgets, skimming expenses, and so on. This is simple theft, and very familiar.

The second type, B , is more complex. This is the corruption or “rent” which politicians and their friends earn from businesses that are able to charge high prices through creation of a favourable political environment. Some of these are illegal businesses, like oil-smuggling or prostitution. Some are businesses which have been granted monopolies, such as mining or liquor concessions. Some are just businesses which have been given privileged or favourable treatment. They may include transnational corporations based in Europe, North America or Japan.⁴

Thus, suppose a company acquires a licence to operate a mobile phone system. Suppose there are so few such licences that the companies conspire to charge monthly fees higher than almost anywhere else in the world. Then that company might make such high profits that its owner, like Thaksin, becomes a multi-billionaire in five years.

K represents the costs of rent-seeking or corruption. This also has two parts. First, there are the costs of getting caught. Under a democratic system of government with a judicial system, corruption has costs. Corrupt politicians might get caught, tried, fined or jailed. They might be barred from politics for a certain number of years. Second, they might lose office and face social derision. They might fail at the next poll and thus lose the benefits of the “externalities” attached to political office.

Net corruption income equals, roughly speaking, commission fees plus monopoly profits less costs. Once in power, political parties will try to maximise their corruption revenue by increasing the amount of A and B . They will also do several things to ensure that K is minimised. They will try to control the judiciary and suppress sources of opposition such as the media, opposition parties, and activist elements in civil society, as well as trying to redefine how corruption is perceived.

A Business Triumph Dependent on Politics

Thaksin Shinawatra was probably the single most successful entrepreneur of Thailand’s 1986-1997 boom period. A member of the fourth generation of a Chinese-immigrant family prominent in business and local politics in the country’s north, he earned master’s and doctor’s degrees in criminal justice from obscure US universities before carving out a career in the national police department. He then rose from

4. See Hawley, S., “Exporting Corruption: Privatisation, Multinationals and Bribery”, Corner House Briefing 19, June 2000; Hawley, S., *Turning a Blind Eye: Corruption and the UK Export Credits Guarantee Department*, The Corner House, June 2003, www.thecornerhouse.org.uk.

Overhauling the Police: The Challenges

Suppressing or controlling Thailand's illegal economy will be impossible as long as its income flows are crucial not only to the funding of politics but also to the remuneration of the police. As the scope of money politics is reduced, the police must also be overhauled — an equally difficult job.

Politicians are currently reluctant to challenge the power of the police. Often they are themselves involved in the same networks, or at least in the same culture of influence. The illegal economy currently acts as a subsidy towards state support of the police.

Police are poorly paid, junior policemen especially so. They become accustomed to corrup-

tion for simple survival, and "earning enough to perform regular duties" provides a rationalisation for fee gathering at all levels of the force.

The top of the hierarchy, in addition, has too many levels with too little to do. Authority is very centralised, facilitating corruption, nepotism and abuse of power, and preventing good relations between local police units and the communities they serve.

There is no outside monitor of police performance, and police are very rarely punished for wrongdoing. At worst, they are transferred elsewhere. The officers involved may thereby be separated from their established income streams, but for the society as whole this represents no gain. Bad apples are

simply circulated around the barrel, and other policemen are not deterred from wrongdoing.

Branding an activity as criminal but then failing to suppress it effectively creates a high profit rate. The profits have a distorting impact on the economy and a corrosive impact on police and politics. This in turn breeds distrust of police and politicians.

Partly because of this distrust, many people do not support decriminalisation of adult prostitution and gambling. They believe this would just lead to their increase, while leaving still-criminalised sectors such as child prostitution, trafficking in women and contraband arms trading untouched.

being a struggling vendor of computer equipment in the late 1980s to, by the mid-1990s, a tycoon whose personal worth was reckoned at between three and four billion US dollars (at then current exchange rates).⁵

Thaksin's rapid success came from two things. First, he secured four telecoms concessions which gave him monopoly or oligopoly rights — in particular, the first Thai mobile phone concession and the first Thai communications satellite. Second, he raised money on the Thai stock market, which was on a rise from 200 in 1986 to 1750 at its peak.

From the start, Thaksin's triumph was dependent on politics. He got his four telecoms concessions at a time when military influence was strong. He had to lobby generals to get them, and he had to reward them. In one famous instance, he gave a general a Daimler.⁶ At the launch of his communications satellite, he said "I could not have this day without Big Jod," the nickname of General Sunthorn Kongsompong, the head of a junta which briefly took control of the country in a coup in 1991. On the other hand, he lost some contests (especially a three-million-line telephone contract in 1991) because rivals had better political connections at the right time.

In 1992, the army lost influence, and politicians began to enjoy more control over concession awards. In 1994, Thaksin entered politics, choosing the party which controlled the communications ministry. He immediately used his position to angle for another telecom contract and also expanded into highway concessions.

But in 1995–6, Thaksin lost his influence over the ministry of transport and communications. A competitor got a new telephone line contract. Another got a second mobile phone concession, undermining Thaksin's monopoly. The military began making plans to put up a satellite to compete against Thaksin's. The government signed the World Trade

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5. Ukrist Pathmanand, "The Thaksin Shinawatra Group: A Study of the Relationship between Money and Politics in Thailand", *Copenhagen Journal of Asian Studies* 13, 1998.

6. Chang Noi, "Political triangle takes shape", *The Nation* [Bangkok], 7 October 1996. Although Thaksin allegedly told the general involved, Sombun Rahong, to keep quiet about the 8-million-baht gift, Sombun was so proud he drove it to Parliament next day and told the first reporter who asked him about it that it came from Thaksin.

Social Movements against Corruption:

Where weak law enforcement allows corruption to proliferate, an active civil society is needed to push for reform. The movement to rewrite the Thai constitution in 1997 and to create new institutions to combat corruption is one example. The movement merged two social strands.

One consisted of heirs to the student movement that had dislodged the military dictatorship in the 1970s. This strand was frustrated at the failure of the subsequent parliamentary system to break down the power of the central state, protect human rights, ensure greater media freedom, and reverse the growth in money politics.

Another strand consisted of "enlightened conservatives": senior technocrats and other officials and leaders of modern businesses hoping to contain the development of "money politics" within parliament by raising the risks, reducing the rewards, and strengthening judicial institutions which act as checks and balances.

Working Together

Working together, the two strands pushed parliamentarians to instigate reform, captured the key posts in the assembly drafting the new constitution, and worked hard to build political support.

By organising public hearings all over the country to solicit suggestions and to review the draft, the drafting assembly instituted a new kind of process which was arguably as important as the resulting document itself — a process which suggested ways ordinary people could control politicians.

The final constitution, passed in September 1997, requires the state to enact policies fulfilling many human,

civic and community rights — freedom of information, freedom of the press, community rights over local resources and so on.

It gives one quarter of the total MPs or 50,000 qualified voters the right to request the senate to remove the prime minister, a cabinet member, an MP, a senator, a chief justice or a high ranking bureaucrat from office for corrupt conduct or for an unjustifiable increase in wealth.

The constitution also tries to reduce vote-buying by transferring spending decisions affecting local areas from the national budget process to local bodies, empowering local people to monitor local budget decisions and see that more tax monies go toward reducing poverty instead of having to become clients of MPs and their canvassers.

Beginning in fiscal year 2001, at least 20 per cent of the national budget must be disbursed through local government. This proportion is to increase to 35 per cent in fiscal year 2006.

The new constitution also adds 150 new seats to parliament, to be elected on a "party list" system (a national vote by party); requires ministers to resign their parliamentary seats; and makes pork barrel politics more difficult.

Not least, the new constitution sets up a strengthened, more independent National Counter Corruption Commission (NCCC) as well as other institutions aimed at curbing corruption, including:

- A new Election Commission empowered to order re-counts of votes, publicise the assets of families of MPs, senators, cabinet members, and high government officials, on each occasion of taking or vacating office; disqualify candidates; bar from politics for five years those found to have concealed assets intentionally; and demand re-polls. In the senate election of 2000, the Commission initially rejected 78 of the

200 successful candidates, and ordered new elections four times in some provinces due to electoral cheating. In the general election of 2001, some seven constituencies in six provinces were ordered to hold re-elections.

- A National Human Rights Commission investigates acts or omissions which have led to violations of human rights and compiles an annual report.
- A Constitutional Court adjudicates complaints involving actions or laws which may contradict the constitution, as well as disputes over the power and duties of state organisations created under the constitution.
- A Public Finance Audit Commission is a more independent, senate-appointed body replacing the Office of Auditor General, which was under the supervision of the Office of the Prime Minister.
- A Parliamentary Ombudsman investigates complaints against government officials and employees of government or state agencies, state enterprises or local administration. The Ombudsman has so far been ineffective; few people grasp its function.
- An Administrative Court gives ordinary Thai citizens the right to sue government agencies regarding agency behaviour, local administration and officials' performance of duty.

The senate has been converted from an ineffective law-making body into a monitoring institution to which, for example, the Election Commission reports.

Using the Constitution

A popular campaign waged in 1998-9 is a good example of

Creating and Using a New Constitution

how a social movement made use of the new constitution to fight a specific example of corruption.

On 15 June 1998, the chairperson of the non-governmental Rural Doctors Society (RDS) sent letters to its members warning them about a new public health ministry directive on the budget for welfare services to low-income people. After the warning was published in the press, people sent information about corruption in the public health ministry to mass media outlets.

A provincial hospital official told a television reporter that:

"Two months ago I was told by the provincial health chief that this year the hospital would get a one million baht budget for drug purchases, a substantial increase from the initial amount of 600,000 baht. But I was also told that we had to place orders with companies named by senior persons in the Public Health Ministry, for example, the Siam Green Cross Supply".

Under this scheme, drugs and medical equipment were to be bought at fixed prices which in some cases were two or three times higher than normal. For example, a pair of surgical gloves were sold at 220 baht rather than the normal price of 100 baht, and a syringe at 160 baht instead of 80 baht.

The RDS called on district hospital directors not to accept this special budget and to return the money to the government rather than participate in an obviously corrupt scheme.

The RDS also urged doctors to send documentation to the Counter Corruption Commission and the office of the Auditor General for investigation.

The Public Health Minister denied any irregularities and refused to set up a committee to investigate the case, claiming he did not want to be accused of persecuting permanent officials.

Some 67 Thammasat University lecturers then signed an open letter calling for an

independent investigation into the scandal. In September 1998, an independent committee led by a retired public health official was appointed to investigate.

At the same time, the permanent secretary of the ministry asserted that the rural doctors had raised the issue only because they had lost 10 per cent commission from drug and medical supplies purchases, provoking an RDS protest.

The RDS campaign was supported by 30 NGOs, who called for the resignation of the minister, his two deputies and other top officials, including the permanent secretary. They called on the government to protect doctors and pharmacists who had already made purchases at inflated prices so that they could serve as witnesses without becoming scapegoats.

Resignation

Under pressure from the media, the Public Health Minister resigned, but a deputy minister from the same party refused to follow.

The media carried accounts from several public hospitals of how senior officials had ordered them to buy medicine and supplies from certain companies at inflated prices. The RDS and other NGOs held press conferences to dramatise the issue and catch public attention.

In late September 1998, the fact-finding committee concluded that certain politicians had collaborated with top officials to force state hospitals to abuse the 1.4 billion baht budget for purchasing medicine and medical equipment.

Its report was sent to the prime minister who forwarded it to the National Counter Corruption Commission (NCCC). The government set up a disciplinary committee to investigate implicated officials. The permanent secretary was transferred out of the ministry.

The NGOs meanwhile collected the 50,000 signatures

required for senate investigation of the minister under the new constitution — the first exercise of this provision in the 1997 charter.

The NCCC and a disciplinary committee ruled that two senior officials should be charged with corruption offences. In the end, as a result of the campaign, two ministers were forced to resign, seven officials were sacked or asked to leave, 23 other officials were reprimanded for misconduct, a widespread scam was closed down, and several other high officials still face charges.

The RDS and other NGOs also pushed for further investigation of the role of ministers and other senior officials, although these efforts were hindered.

Finally, in October 2003, the former Public Health Minister, Rakkiat Sukthana, was sentenced by the Supreme Court to 15 years in jail for taking a bribe from a drug firm. In a separate judgement, he was ruled to have become "unusually rich" while in office, and his assets were subject to seizure.

These judgements were a landmark victory. However, Rakkiat had already fled and his assets had disappeared. NGOs insisted that officials in the health ministry still be brought to account.

Sources: *The Nation* [Bangkok], 2 September 1998; Nualnoi Treerat, 'Fight against Corruption', *Asia Solidarity Quarterly* [Seoul] 3, 2001; Pasuk Phongpaichit, 'Good Governance: Thailand's Experience', Paper for Asia-Pacific Finance Association annual conference, Bangkok, July 2001; "Rakkiat Gets 15 Years for Taking Bribe", *Bangkok Post*, 29 October 2003; "NGOs: What about the Others?", *The Nation*, 29 October 2003.

Thaksin's telecoms interests have benefited from his rise to political power.

Organisation (WTO) agreement to liberalise telecommunications and other services by 2006.

Clearly, the future success of Thaksin's business depended crucially on political decisions: who would get what concession; who would be in the right position to manage telecom market liberalisation in 2006. He needed political power for commercial survival.

When the financial crisis struck in 1997, Thaksin and his rivals in the telecom industry reacted very quickly. They realised that in the new, tougher circumstances, they had the option of either fighting one another to the death or pooling resources for survival. They chose the latter. Thaksin and his biggest competitor, Charoen Pokphand (CP), Thailand's biggest conglomerate, merged their cable TV networks and agreed to co-operate in other areas. In 1998, Thaksin re-entered politics, started a new party, Thai Rak Thai, and launched his bid for the premiership. CP became one of his biggest backers. By the time Thaksin became prime minister in February 2001, all four of the big Thai telecom companies were represented in his party and in the Cabinet. He was endorsed by the Bangkok Bank, Thailand's largest, and his Thai Rak Thai party was studded with other big business families which had survived (or even profited from) the 1997 economic crisis, including, most prominently, firms in the service sector — telecoms, media, finance, hotels, property, construction, infrastructure. If the past is any guide, these groups will use their influence to protect these areas, but also to engineer favourable joint ventures with foreign providers of technology and expertise. They will also need the export economy to underpin growth, so they will work with the multinationals which dominate this area.

Since Thaksin came to power, the government has taken several steps to help the telecoms industry in general and Thaksin's interests in particular. The 1997 constitution mandated an independent commission to manage and liberalise telecom frequencies, but the process to establish the commission became buried in litigation, which the government has done nothing to disentangle. As a result, Thaksin's companies continue to enjoy market advantages resulting from the concessions granted over a decade ago. Parliament passed a resolution restricting foreign ownership in telecom firms to 25 per cent — a level met only by Thaksin's group — although it had to reverse the resolution after a huge outcry.⁷ When the Thailand Development Research Institute, an independent think-tank, proposed a scheme by which telecom firms would pay off their future contractual concession fees prior to WTO-mandated liberalisation of the industry in 2006, the government instituted an excise tax instead. This shifted the burden from telecom firms to consumers.⁸ Despite the entry of new firms (Hutchison, Orange) and hence some price competition, the sector continues to make massive profits from high margins, and the Shin Group (the new name of the Shinawatra family companies) retains a 60 per cent-plus market share.⁹ Thaksin's relatives made almost 1.8 billion baht from mid-year dividends in 2003.¹⁰

From the beginning of his premiership, moreover, Thaksin has made it clear that he will not be satisfied with a single term. This is an odd declaration given that no previous elected premier has survived even

7. "Cabinet Backs 49% Foreign Shareholder Cap", *Bangkok Post*, 15 May 2002.

8. "Furore over Tax Decree", *The Nation* [Bangkok], 22 January 2003; "Telecom Excise Decree Passed", *The Nation*, 15 May 2003.

9. The government is also crippling state telecom bodies prior to privatising them to prevent them from competing with telecom companies such as Shin. These bodies will probably get bought up. See "Policy Confusion Clouds Plan", *The Nation*, 15 July 2002.

10. The dividend payments were made to members of Thaksin's and his wife's families from AIS (a mobile phone subsidiary of the Shin Group) and from the Shin Group itself. See "Peace Dividend", *The Nation*, 11 September 2003.

one full four-year term. But it makes sense in that Thaksin and his allies need a second term to ensure they are in charge through the critical period of WTO telecom liberalisation in 2006.

Regularising Corruption

Thaksin, as earlier noted, insists he is not corrupt and tries to distance himself from conventional “money politics”. In the usual sense in which these words are used in Thailand and elsewhere, maybe he is right. He does not collect *A* (petty graft) – merely arranging things so that he gets *B* (rents gleaned through structuring a favourable political environment). And he gets it, increasingly, according to rules. Moreover, beginning with his personal investment of an enormous sum to found his political party, Thai Rak Thai, and lead it to victory, he has taken money politics to a new, more regularised stage.

One way to view his rise is as part of an institutionalisation of the interface between business and politics. In the histories of most democracies, phases can be identified when rules are made to regulate the relations between business on the one hand and those who wield state power on the other. An example is the United States in the early

But Thaksin, like many US politicians, insists he is not corrupt.

Corruption, Land Rights and the World Bank

The World Bank tends to see corruption as detachable from processes of economic globalisation. This oversimplification encourages projects and policies which foster corruption and undermine the Bank’s stated concern with “good governance”.

A good example is the Bank-supported Land Titling Programme (LTP) in Thailand, which has won a number of awards including the Bank’s own Award for Excellence in 1997.

Implemented in four phases since 1984, the LTP is one of the Bank’s largest land titling programmes, having disbursed US\$183 million in loans and issued 8.7 million titles. But in its attempt to foster land markets by placing a simplistic, uniform, “globalising” grid of land titles over a complex system of rural land tenure, the programme has paved the way for corrupt acquisitions of land by speculators, undermining villagers’ tenure security and causing widespread rural conflict.

The accelerated titling fostered by the LTP led to a rapid increase in land values and made

it easier for wealthy financiers and land developers to buy up and hoard vast tracts of land previously used as village farmlands and commons, particularly during the economic boom of the 1990s. The developers mortgaged these lands to commercial banks for loans that were then used to fuel successive waves of property speculation.

Often they did so through fraud made easier by the trimmed-down survey procedures introduced by the LTP, which dispensed with safeguards requiring documents of occupancy or land claim reservation certificates. With the collusion of state authorities, wealthy families were easily able to acquire title to land they treated as source of possible future profits from resorts, plantations or construction. Many title deeds were issued on the basis of incomplete survey information or under false names. Many individual sellers listed on title deeds now in the hands of the rich have been discovered to be non-existent or long dead. In the northern province of Lamphun, titles to extensive areas were issued during the height of the economic growth period in 1990-

1993 without any knowledge of local communities, who became aware of the situation only when fences started appearing in their fields. Some wealthy individuals hold as many as 250 title deeds.

When the bubble resulting from overinvestment in real estate development burst in 1997 and land prices plunged, the banks seized many such properties in lieu of loan repayments. Local-level movements of the poor then attempted to take back many of the abandoned and idle lands, exacerbating strife with the authorities. In April 2002, Prime Minister Thaksin Shinawatra’s government issued a resolution that resulted in police arresting and imprisoning many farmer leaders seeking land for the communities’ survival.

Source: Rebecca Leonard and Kingkorn Narintarakul na Ayutthaya, “Taking Land from the Poor, Giving Land to the Rich”, *Watershed* [Bangkok], Nov. 2002 - Feb. 2003, pp. 14-25.

“Populism” as a Check on the Costs of Corruption

At the beginning of his rise to power, Thaksin Shinawatra had no rural programme and appeared uninterested in the rural majority’s problems. But he became increasingly aware during his campaign that the rural masses were a possible source of K, or costs to be subtracted from gross rent income, and that to succeed with his pro-business policies, he would have to keep the countryside happy. Thailand is, after all, a country where 10 per cent of people are in the modern economy, 50 per cent are right out of it, and the rest float in between.

Many rural dwellers, in addition, have become both more squeezed and more vocal in recent decades. Until the 1980s, agriculture was still growing because of the expanding land frontier, heavy investment, and rising international prices. At the same time, rural society was kept under firm political control. The army destroyed political organisations, and rural leaders got shot. Political leaders were sensitive to rural demands, but they adopted a strategy of benign paternalism: don’t make trouble; we will look after you. But in the 1980s, agriculture lost its buoyancy because the land frontier ran out; investment was diverted to industry; and the world terms of trade turned against agricultural goods. With the ending of the Cold War, the army’s role in Thai politics diminished, and the attempts to suppress rural politics relaxed.

By the early 1990s, two streams of rural protest had emerged. The first was located among advanced, market-oriented farmers who had led the earlier phase of agricultural-export-led growth. They protested mainly against falling crop prices and rising rural debt, complaining that market-oriented agriculture was no longer profitable. A second stream of protest came from farmers at the edge of the land frontier, many in ecologically fragile areas. The government had failed to recognise their land

rights and often tried to move them off their farms in areas the expanding urban economy wanted to exploit for dams, factories, waste sites or plantations for the pulp and paper industry. Many had a history of resistance to central authorities, and protests flared claiming local use-rights over land, forest, and rivers and attempting to defend local ways of life.

In 1978, the government counted 42 incidents of protest. In 1994, the figure was almost 1,000. Most of these were rural, and around half about control over land, water and forests. In 1992, farmers marched on Bangkok, and have repeated the same tactic frequently since. In 1995, the Assembly of the Poor was formed to co-ordinate protests and negotiate directly with the central government.

Financial Crisis

The financial crisis changed the intensity of these protests. Initially farmers did well in the crisis because agricultural prices (in local currency) rose. But from mid-1998 onwards, much of the impact of the crisis was dissipated through rural society. The international price of rice dropped by a half. The cost of imported inputs rose. Remittances from family members working in the city shrank. Rural migrants lost their jobs and were thrown back on the support of their rural families. The number in poverty rose by three million.

In early 1998, when government wanted to implement IMF measures to sort out the financial sector, farmers got together to protest for debt relief. They argued: if the government can help the rich, why doesn’t it help the poor? This protest was repeated in 1999 and 2000. At the same time, many farmers groups protested for price support. Paddy farmers invaded Bangkok’s northern suburbs and blocked roads. Cattle farmers started marching on the capital with herds of cows. Cassava farmers threatened to build a bonfire in the city centre. During a big UN conference in late 1999, the police had to block radial roads to prevent sugar trucks invading the

city. There were scattered movements by unemployed workers to occupy land — both land in forests and unused land held by speculators.

By 2000, every large project which needed to appropriate land, forest, or water was blocked by some form of protest. This included two power plants, a gas pipeline on the Malaysian border, at least eight dams, an experimental nuclear project, an industrial waste scheme for Thailand’s most polluted province, and urban waste schemes for the two largest cities.

Hence when in early 1999, rural protests for debt relief, price support, and land were peaking, Thaksin asked his people for ideas about agrarian reform. They recommended an old student activist from the 1970s who now ran an orchard. Thaksin called him up. The old activist faxed back a two-page plan. Thaksin’s team did some research and boiled the proposals down into a three-point plan which appeared on election posters throughout the country: a debt moratorium for farmers, a million-baht credit scheme for each village, and universal health care with a 30-baht charge for any hospital visit.

There was nothing genuinely populist about this program; at bottom, it was in the tradition of the old-fashioned paternalism. And it accompanied the older strategy, which Thaksin also followed, of making alliances with the provincial business barons who had come to dominate government by the 1990s. What was new was Thaksin’s idea of asking the largest element in the electorate what they wanted from government, and then offering that as a platform. No one had tried that before, largely because rural society had not previously had the means to express views and make demands. The approach got results. Thaksin spent his first day in office having lunch with the Assembly of the Poor, the biggest rural protest organisation, after which they closed down a protest encampment occupied for the previous two years.

20th century. These rules outlaw certain sorts of payment and set the conventions for others. In other words, societies which have both free-enterprise capitalism and parliamentary democracy have at some point to *institutionalise* the ways in which business gains access to state power for its own market purposes. In the US today, parliamentarians and other politicians also insist they are not corrupt, although they or their associates earn *B* from businesses that gain favourable official treatment — for example, from construction or weapons firms who gain monopoly or near-monopoly rights over government contracting.¹¹

In place of the scrappy, unregulated market for political favours of all kinds, Thaksin would like to create a more discrete and regulated market. Almost certainly, he would like this market to operate through a dominant majority party. As part of this project, he will have to clean up the petty, furtive, *A*-type corruption if only because, in the recent past, this corruption has created an atmosphere of scandal in which governments have been driven out of power. The result, presumably, would look something like the US Republican party, in which Thaksin has several friends.

Difficult Consequences

However, this transition to a more stable system of rent-seeking will have some consequences.

To return to the Mushtaq Khan framework, the new system may not be so good for economic growth, for two reasons. First, it may result in more monopolies, and hence may undercut the competitive character of past Thai rent-seeking behaviour, which seems to have sustained a fairly high level of investment.

Second, going over to the new system of rent-seeking may mean dissipating rents to other political clients to buy their acquiescence. This has already happened through Thaksin's so-called "populist" programmes to gain the electoral support of the rural mass, whose demands have become increasingly difficult to ignore due to its precarious economic status, growing demand for political goods, new and effective forms of agitation, and increasing competition over natural resources. Programmes to placate this rural clientele include a debt moratorium for farmers, a million-baht credit scheme for each village, and universal health care with a 30-baht charge for any hospital visit (*see* Box: "Populism" as a Check on the Costs of Corruption, p. 14).

In addition, despite the populist gloss of such actions, Thaksin's approach to reducing the costs of corruption, *K*, is in general unfavourable to democracy. Thaksin and his allies have already taken out insurance against criticism by blunting media freedom and obstructing media liberalisation. The press has been tamed by money, again along the lines of the US model. The process for democratising control of the electronic media laid down in the 1997 constitution has been sabotaged. The first independent TV station, which in its first two years took news reporting and investigation in Thailand to new levels, is now majority-owned by Thaksin, and has been lobotomised. Serious

Cleaning up petty graft can go hand-in-hand with institutionalising a deeper kind of corruption.

11. One notable recent example of the US business-politics nexus is the link between Vice President Dick Cheney and Halliburton, the world's biggest oil-services company (market value US\$18.2 billion). As a Congressional representative from 1978 to 1989, Cheney co-sponsored a measure to open the Arctic National Wildlife Refuge to oil drilling and also opposed the Clean Water Act, which required industries to release their toxic emission records. After serving as Secretary of Defense under the first George Bush, he took the helm at Halliburton. Since 1992, the firm has contributed US\$1.6 billion to the campaigns of Washington-bound politicians, and has received special consideration for contracts in postwar Afghanistan and Iraq. *See*, for example, "Greasing the Machine", *New Internationalist*, June 2001.

political comment and debate has disappeared from TV, and been dulled on radio. Opinion pollsters have been subjected to intimidation. Journalists, NGOs and opposition politicians have had their assets investigated by the anti-money laundering office.

A harsh anti-drug-trafficking crusade unveiled in 2003, moreover, gave police an expanded licence for extrajudicial murder and opened

Managers of Globalisation:

It was inevitable that globalisation — and especially the rather intense phase of globalisation of the 1990s — would evoke reactions among groups in the South which saw that it needed to be managed. Many new Southern leaders have appeared in response to these pressures. Mexico's Vicente Fox and Venezuela's Hugo Chavez are examples on the American continent. In Asia, examples include the Philippines' Gloria Arroyo and Indonesia's Megawati in addition to Thailand's Thaksin Shinawatra.

However, while Megawati, Arroyo and Thaksin all reflect the desire of established elites to remain in place, Thaksin represents a new shoot off the old stock and responds more creatively to new social forces and conditions.

One of the spurs for Thaksin's interest in politics, it is often suggested, is to add more billions to his already huge personal fortune. If so, the project has required that he become Thailand's manager of globalisation and to try to lead the dominant urban population towards a new arrangement with the rural majority. His rise is in part a response to the changes which overtook Thai capitalism and its relationship to the outside world in the 1990s.

1980s Growth

In the mid-1980s, economic growth was strong (6 to 8 per cent a year, with no serious crisis), and largely internally driven by the twin forces of an agrarian frontier and highly entrepreneurial domestic capitalism. Land under cultivation was expanding faster than population. Agrarian exports were growing in volume and price. There was a subsidiary

growth of manufactured exports based mainly on locally-sourced materials and a small transfer of cheap labour out of agriculture.

This growth was based on a high savings rate (around 30 per cent of GDP, common in such expanding agrarian economies), and a domestic banking system which swept up those savings and allocated them to groups of domestic entrepreneurs. These entrepreneurs took high risks for high returns, and overcame market failures (such as the lack of legal systems, secure property rights and market information) by systems of mutual co-operation.

The government managed and protected this economy in two important ways. It maintained a stable, safe macroeconomic environment; because the currency exchange rate was fixed and the capital account closed, this meant simply managing the budget deficit and the current account deficit. The government also protected the capital market by defending a domestic banking cartel, and structured oligopolistic competition between entrepreneurial groups to create enough rents to incentivise them, while maintaining enough competition so that their "animal spirits" never lapsed into full cronyism.

With economic growth so strong, political energies were not consumed in debates on economic strategy, but rather in efforts to drive political changes which would sweep away the inheritance of dictatorial military rule from the Cold War era, and allow capitalists to dominate the polity. Globalisation was seen as a benign force because it favoured democratisation, and because it provided Thailand's reformers with examples and assistance. Business and the urban middle class expected Thailand to develop into a "modern" society relatively quickly under the forces of economic growth and globalisation.

Liberalisation

This picture changed after 1984. Policy switched away from agrarian growth to export of manufactures and services. Asian (especially Japanese) capital flooded in, and foreign direct investment (FDI) became a much larger component of the economy. Over 1990-3, the capital account was opened and the financial market liberalised, allowing large amounts of money to flow in and out of the country without needing special permission. That made it easier for foreign banks to lend to local customers and for foreign firms or individuals to invest in the local stock market.

These shifts totally changed Thailand's integration into the global economy, and exposure to global forces. They also happened very fast, with almost no institutional development to cope with the changes.

Thailand made the fatal mistake of undertaking financial liberalisation at a time of recession and high liquidity in the advanced economies of the West and Japan. Western investors — and the World Bank — indulged in fantasies of "Asian miracles". The resulting financial inflows into Thailand were enormous compared to the past. In one year (1995), more money flowed into Thailand than over the whole decade of the 1980s. The result was an economic shock of a new type and scale. The failure to handle this shock resulted in the financial crisis of 1997.

Given that Thailand already had a domestic savings/investment rate above 30 per cent of GDP, there were not many places for all this new money to go. Over-investment and speculation resulted. The money then all rushed out. This flight halved the value of the currency. Any firm that had borrowed too much foreign cash, after seeing its debt double in local currency terms, went bankrupt.

the door to increased suppression of local dissidence, claiming over 2,270 lives in less than three months, with 50,000 arrests.¹² Thaksin's government has also authorised violence and the threat of violence against villagers protesting pipeline and dam projects, including a mass police charge in December 2002 against demonstrators against a gas pipeline running between Thailand and Malaysia.¹³

12. Adams, B., "Thailand's Crackdown: Drug 'War' Kills Democracy, Too", *International Herald Tribune*, 24 April 2003.
13. National Human Rights Commission, "The Case of Violence Related to the Thai-Malaysian Gas Pipeline Project", www.nhrc.or.th/statement%20Thai-malaysian%20gas%20pipeline.pdf.

A New Leadership Trend?

This had two critical results. First, the bank-based capital market at the heart of the old political economy collapsed. Bad loans rose to almost half of the total. Many financial firms closed, and others were sold. Those that remained ceased to play the role of gathering up the proceeds of the high savings rate and allocating it to entrepreneurs. They tried to survive by shrinking their business. The old forms of business co-operation which had overcome market failures dissolved as well. Debtors, creditors and business competitors went into battle with each another.

The resulting wreckage looked to foreign capital like a tempting bargain-basement sale. More foreign direct investment (FDI) rushed in to Thailand in the two and a half years after the crash than in all the 12 years of the 1986–97 boom. Almost all this inflow went into buying up distressed companies.

Cast Adrift

Most Thai business people felt they had done nothing wrong. They had invested heavily in response to the signals of a rising market; they had obeyed market forces and borrowed capital from the cheapest source (foreign loans); and they had believed their government's assurance that the currency value would remain stable.

They were, of course, stupid to have done so. In the end, 7,000 companies disappeared. Some 55,000 debt and bankruptcy suits went before the courts. Eight banks and around eighty financial firms vanished. A few of the big corporate conglomerates were crippled. Others had to downsize and sell off assets.

Having previously seen the state as protector and friend, Thai domestic capital felt abandoned.

When it appealed for help, the state instead obeyed the IMF and helped to orchestrate a fire-sale, assisted by technocrats and the then Democrat Party government. Adding insult to injury, business's old US patrons led the way in condemning bad "Asian capitalism". The lesson domestic capital learned was to focus more on capturing or influencing the state and restoring its historic role as protector of domestic business.

To the Rescue

In many ways, those corporations that survived the crisis emerged stronger. Often big enough to absorb the shock in the first place, they also were able to restructure, saw their local competitors disappear, and so on. Thaksin's Shin Group and other core groups inside Thaksin's Thai Rak Thai party — CP, the biggest conglomerate; Maleenont, a media giant and the largest stock-holder on the stock exchange; the Thai Military Bank group; Summit, one of the biggest Thai-owned manufacturing groups; and so on — are among these survivors.

But Thaksin's politics have also been shaped by a broader reaction among many businesspeople who felt abandoned by the state and the Democrats. As the crisis deepened over 1998–9, Thaksin stopped presenting Thai Rak Thai as a party of modernisation in the old style and recast himself as the defender of small and medium entrepreneurs — the people really hit by the collapse of the banking system. "I wouldn't solve this crisis just from a commercial banker's point of view", he said.

Appealing to feelings of neglect and entrepreneurial pride among Thai businesspeople, he painted a picture of economic revival driven by entrepreneurship, local craft heritage, and high technology.

Thaksin claimed, "If I get into government, I will open up choices for people who have the leaning and the ability to be entrepreneurs."

When the capital market collapsed, he proposed a Thai Asset Management Corporation to buy up the bad debts. In his second weekend in power, he convened a conference which brainstormed how to restore the capital market.

One of the main reasons Thaksin was chosen by the electorate in January 2001 was that he was perceived as the leader with the best credentials for managing globalisation. The foreign press tried to portray him as a nationalist and inward-looking, but this is misleading. He is not a nationalist in the old sense, nor inward-looking in the sense of being unaware of, or antagonistic to, the rest of the world. To the Thai electorate, he is seen as the most international, most global, of Thai leaders: he has a US doctorate; he talks to foreigners in their own language; he claims to be a transnational businessman; he deals in hi-tech. The electorate chose him over more obviously local leaders like his predecessors because he seemed better equipped to deal with the outside world.

He did not promise to lead Thailand away from global involvement; but to manage the relationship better, to avoid the disasters of the financial crisis; and to enable Thailand's domestic capital to recover its growth trend. Whereas the orthodoxy of recent years has said that developing countries can rely upon external forces — world markets, FDI, exports — to stimulate growth, Thaksin now fronts an alternative strategy which pays more attention to building local capital and increasing local demand.

Thai anti-corruption movements are now in trouble.

Will the new fusion of big business with politics be compatible with economic growth or redistribution?

New institutions for monitoring and punishing corruption set up as the result of long democratic struggle (*see* Box: Social Movements against Corruption, pp. 10-11) are also in trouble. The decision over Thaksin's assets has probably damaged the Constitutional Court. The Election Commission is now headed by a man whose own election to the Senate in 2000 was voided by the previous election commission for electoral irregularities. As his chief investigator, he appointed a man who had been sacked as a judge. To reassure the public, the new election commissioners had to go as far as to take themselves off to the temple of the Emerald Buddha, the site of one of Thailand's most holy relics, to chant in unison an oath promising to act honestly.

The Counter Corruption Commission, which started the assets case against Thaksin, also seems to have lost its bite. And Thaksin has argued that anti-corruption laws need to be modified:

“We have to ask ourselves what kind of person we really need to solve the country's problems. If your answer is an absolutely clean man and it doesn't matter if he has never done anything at all, then we need one type of law. But if you prefer efficiency and experience, the prerequisites used when selecting a company's president, then we need another type of law.”¹⁴

Thaksin's undermining of both the new anti-corruption institutions and the movements which gave rise to them does not bode well for a “clean” future Thailand.

Uncertain Futures

Thaksin Shinawatra's rise to power is a paradox. By fighting the election on a political party platform, placing bright young reformers in key ministries, and implementing all of his electoral programme in the first six months, he has shaken up the political system and perhaps begun to re-write the social contract. But at the same time, his ascension signifies a new consolidation of big business and politics. Whereas the businesspeople who have dominated Thai politics since parliament became significant in the 1980s used to be mostly provincial figures of only moderate wealth, Thaksin's government is controlled by the biggest Bangkok business groups to have survived the 1997 crisis.

Where all this will lead is not yet clear. But there may be some important parallels in neighbouring countries. Political scientist Paul Hutchcroft has argued that the Philippines is stuck in a “developmental bog” because a small group of business oligarchs dominate the government, use their power to protect monopolies, and invest too little of the resulting rents to sustain economic growth.¹⁵ Thaksin's rise certainly seems to be a shift away from the “competitive clientelism” which underwrote Thai growth in the past, towards something more like Hutchcroft's “oligarchic patrimonialism”.

Thaksin's electoral platform promised to redistribute income more fairly so that more of the society share in the fruits of growth. But while Thaksin was able to mobilise popular support behind these policies at the time of the 2001 general election, there is no way this popular

14. *The Nation*, 24 November 2001.

15. Hutchcroft, P. D., *Booty Capitalism: The Politics of Banking in the Philippines*, Ithaca, Cornell University Press, 1998.

support can be institutionalised through his Thai Rak Thai party. Local leaders, activists and NGOs who helped mobilise popular support for Thaksin have already shown themselves unable to maintain the government's attention to these redistributive policies over the long term. Thaksin himself is enormously popular, but his Thai Rak Thai party is not a movement and has no mass base.

Yet at the same time, Thaksin's pseudo-populist moves and other reforms have disrupted some established habits, confronted vested interests, and broken some rice-bowls. Those affected include powerful bureaucrats and old-style politicians, including many inside Thaksin's own party. Over time, such forces often grow stronger because they know how to play the games of day-to-day politics, while popular demands for change remain without an institutional channel into the political process.

Much depends on how other parties and political forces react to Thaksin's rise. If they react by copying Thaksin's model of a big business coalition, then Thai politics and Thai corruption may move towards a US model. If, on the other hand, they recognise the popular support which Thaksin mobilised, but give it better institutional form as a mass party, Thai politics will move in another direction.

Popular participation is critical to the success of efforts to put and keep in place new independent institutions to ensure human rights, community rights, and the rights of citizens to investigate the behaviour of politicians and bureaucrats. It is also central to the related attempt to control or limit an illegal economy tightly integrated with the power structure of politicians, police and local influential people.

This briefing is extracted from recent writings of Dr Pasuk Phongpaichit, Professor of Economics at Chulalongkorn University, and draws also on contributions from Chris Baker, Sungsidh Piryarangsan, Nualnoi Treerat, Kingkorn Narintarakul na Ayutthaya and Rebecca Leonard.

Popular participation is crucial to controlling corruption.

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Dr Susan Hawley

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