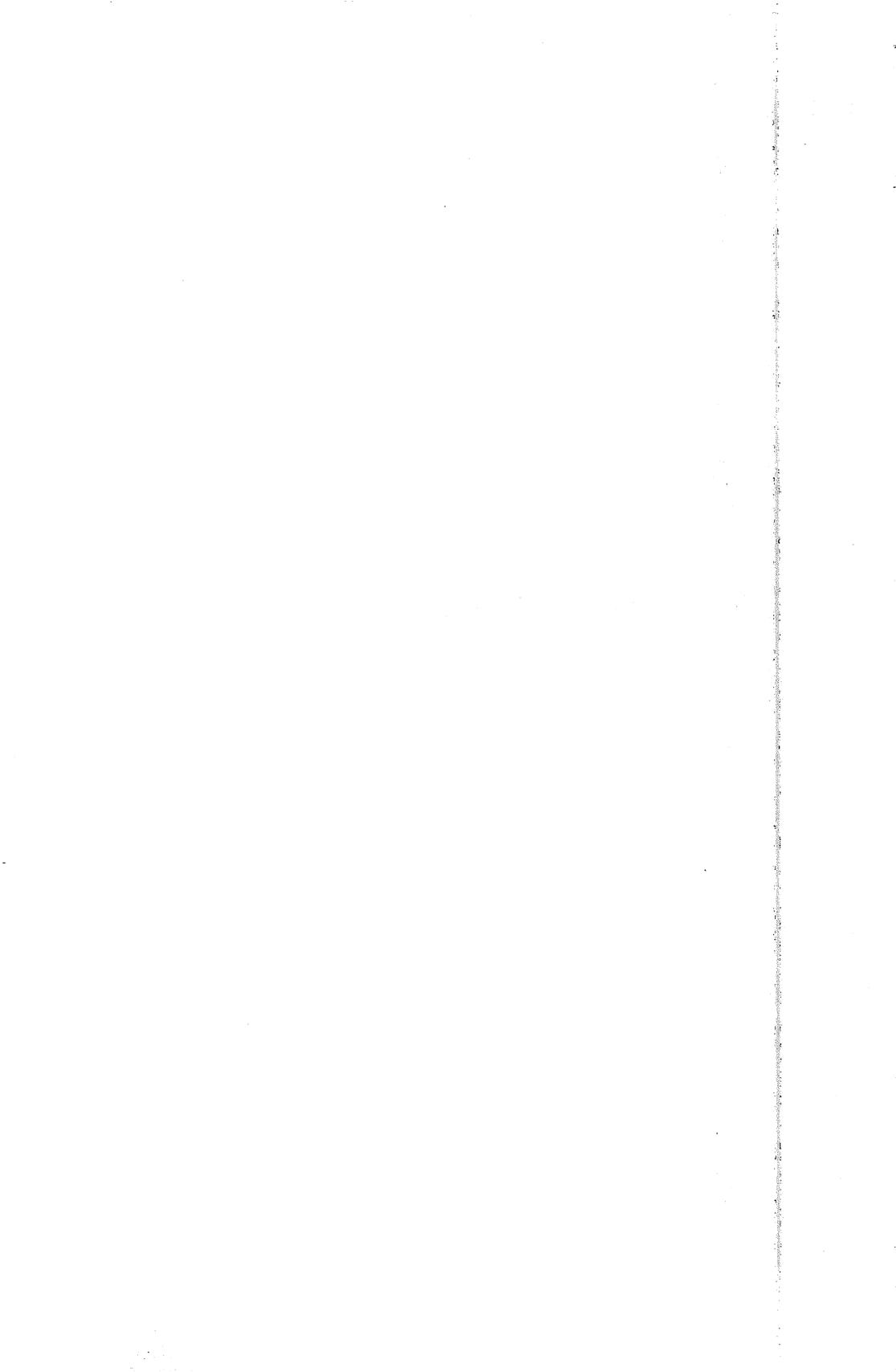


Thailand-U.S. Relations



Thailand-U.S. Relations Changing Political, Strategic, and Economic Factors

EDITED BY

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1. Introduction

ANSIL RAMSAY

The chapters comprising this volume resulted from the Second United States-Thailand Bilateral Forum held at Uttaradit, Thailand, November 11–14, 1986. The forum was sponsored jointly by the Institute of East Asian Studies of the University of California, Berkeley, the American Studies Program of Chulalongkorn University, Bangkok, and the Asia Foundation, San Francisco.

Kasem S. Kasemsri, former Thai Ambassador to the United States, identified the major theme of the conference in his keynote speech:

Thai-U.S. relations are entering a new era which is Janus-like. On one face, political cooperation between our two countries has rarely been closer. Another face of our bilateral relations, however, is troublesome. Because of several recent economic measures taken by the U.S. government—such as the Food Security Act's rice subsidy program and the sale of sugar from the Commodity Credit Corporation's stock to China at a price below that of the world market—the Thai public's view of the United States has never been so negative. How should we make sense of this phenomenon of excellent political cooperation and turbulent trade relations between our two countries?

The following chapters address Thai-U.S. relations in this new era and seek to answer Ambassador Kasem's question. The authors agree that in political and security relations the United States and Thailand are very close. The administrations of both countries share common perceptions of security issues, and are in substantial agreement on policies toward regional conflicts involving Cambodia, Vietnam and the Soviet Union. In recent years the United States has sold Thailand advanced F-16 fighter aircraft, accelerated the military aid program, carried out joint military exercises with Thai troops, and started negotiating for a war reserve stockpile in Thailand.

Where there are disagreements on security issues, they are matters of degree rather than substance. This would like the United States to provide more help to the Khmer resistance forces than an American administration is likely to approve. Another issue that may become more contentious in the future is the terms of an acceptable settlement in Cambodia. Vietnamese leaders seem to be planning some form of

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federation of Indochina that would include Cambodia, Laos, and Vietnam. Yet, as Douglas Pike points out, there has been little serious, systematic thinking in Bangkok or Washington about what kind of federation of Indochina might be acceptable to Thailand or the United States. An American administration might be willing to accept a stronger form of federation than the Thais. Still another potentially contentious issue is the Soviet presence in Southeast Asia. Khien Theeravit brought strong objections from some American participants with his suggestion that long-term peace and stability in Southeast Asia required the removal of all foreign forces from the area, not only the Vietnamese from Cambodia and the Soviet Union from Da Nang and Cam Ranh, but also the Americans from Subic Bay and Clark. There is little question, however, that U.S. and Thai administrations are in greater agreement on security issues than they have been since the early 1970s.

The other side of the Janus face is the turbulence in trade relations, and a growing perception among the Thai public that protectionist measures by the United States are damaging Thailand's prospects for continued economic progress. Ambassador Kasem suggests that the main cause of strained trade relations is structural transformation in both countries. On the Thai side the economy has undergone a major transformation from an overwhelmingly agricultural economy as recently as the 1950s to one in which manufacturing is playing a greater role. In 1984 the value of manufactured output exceeded agricultural output as a percentage of gross national product for the first time in Thai history, and in 1985 the value of manufactured exports exceeded the value of agricultural exports. In recent years Thailand has placed increased emphasis upon exports as a means of continuing economic growth. Its major market is the United States. Yet at the same time that Thailand has placed growing emphasis upon exports, the United States economy has been undergoing structural transformations which make it more resistant to importing an increasing volume of goods from Thailand and other developing countries. Some economic sectors in the United States which have been particularly hard pressed include steel, textiles, and agriculture.

Kasem contends that "interest groups from these rust-belt and farm-belt states have exerted heavy pressure on Congress and the administration to put up protectionist walls and supply them with government subsidies in order to avoid the painful experience of structural adjustments which the evolving world economy is forcing on them."

Several chapters address the consequences of these changes. Jeffrey Frankel's contribution is a useful reminder that there is a fundamental asymmetry between the two countries. "The United States is so

large in the world economy it does much to determine the entire environment of trade and finance in which developing countries live, beyond the direct links with a given economy." U.S. growth rates, real interest rates, and dollar exchange rates have a considerable impact upon the growth rates of commodity-producing exporters such as Thailand. Protectionism in the United States also can have a considerable impact on their growth rates. Frankel points out, "While protectionist barriers have in the past been substantially lower in the United States than in other countries, they have been rising in the 1980s in the form of non-tariff barriers. . . ." It is this trend that is of particular concern to the Thais. "Some Thai manufactured exports that are the subject of real or threatened U.S. protectionist barriers include textiles, footwear, iron pipes and canned tuna." Of even greater concern to the Thais is the Food Security Act of 1985 which subsidizes the exports of certain crops including rice. Frankel suggests that the rice export subsidy "probably is having a far greater impact on Thailand at the moment than any other U.S. policies. . . . The prospect of large quantities of rice flooding onto the market drove down the world price," and by May 1986 "Bangkok prices had fallen to the lowest level in a decade, inflicting great losses on Thai farmers."

These themes are pursued by several of the Thai authors. Mehdi Krongkaew discusses the transformation which has occurred in the Thai economy over the past few decades and focuses upon several major economic problems facing Thailand. These include a savings-investment gap, government budget deficits and the foreign debt situation. While these problems are in part the result of domestic decisions, they have been exacerbated by recent changes in the world economy. As Thailand has moved toward exports as a means of addressing some of these problems, external processes beyond the control of the government weakened the potential for exports as a solution to the difficulties. These external factors include declining terms of trade, and increased protectionism from Thailand's major trading partners, notably the United States, Japan and the European Economic Community.

The gravity of Thailand's situation is made clear by Ammar Siamwalla. Over the past three decades Thai agriculture has continued to grow—through expansion into unoccupied land and through exports to growing world markets. Both of these sources of growth have diminished. There is dispute as to whether Thailand's land frontier has closed, but there is no question that Thailand's farmers cannot continue to open up land at past rates. Also, a combination of agricultural gluts in industrial countries, encouraged by substantial government subsidies—and growing food self-sufficiency in some of Thailand's traditional markets among developing countries—mean that Thailand

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faces more difficult times in exporting its traditional staples. For some farmers in irrigated areas of the Central Plain there is the option of switching to nontraditional crops such as fruits and vegetables. These are no more than a quarter of Thai farmers, however, and the rest live in rain-fed areas where the prospects for developing new crops are bleak. One of their main crops will continue to be rice, and it is these farmers who many Thais believe will bear the brunt of the Food Security Act of 1985.

The chapters by Melvin Searls and Linda Droker and by Herbert Levin reject the argument that the United States is heavily protectionist, and that its protectionism has had a negative economic impact upon Thailand. To the contrary, Searls and Droker argue, U.S. trade policy "has been of substantial benefit to Thailand and other developing countries." U.S. markets are much more open than Japanese and European markets, and American imports from ASEAN countries are growing much faster than Japanese imports from those countries. In fact, the U.S. balance of trade with Thailand has shifted from a \$28 million surplus in 1983 to a \$700 million deficit in 1985, and approximately a \$1 billion dollar deficit in 1986. Thai exports to the United States climbed from \$1 billion in 1983 to \$1.5 billion in 1985. Searls and Droker also argue that the impact of the Food Security Act on Thai rice prices in 1986 was small. Low prices for Thai rice thus should not be blamed upon the act. World prices for rice have been falling since 1981 and farmers were receiving low prices even before the act came into effect. Searls and Droker go on to argue that Thailand and other developing countries must have a greater appreciation for America's economic difficulties. They further suggest that LDCs can help the United States by reducing unnecessarily high barriers to U.S. exports such as tobacco, and by doing more to protect intellectual property rights.

These arguments need to be set in perspective. Underlying the disputes was an unstated assumption by nearly all of the participants that there is nothing fundamentally flawed in the operations of the present world economy. There was strong commitment to the concept of free trade, market-oriented domestic policies, and the belief that foreign direct investment is desirable. There is no hint that Thailand should consider lessening its involvement in the world economy, or that it should in any fundamental way shift its present emphasis on export orientation. There are suggestions from some of the authors that it needs to do some things better. Vichitvong Pombhejara suggests that one of the most needed changes is to put greater emphasis upon technological self-reliance. This is, he suggests, the key to genuine industrialization and continued economic growth. At present the goods and services produced in Thailand "are mostly foreign and

substantial parts of the value-added are remitted abroad, leaving only wages which will again be spent on foreign made products." Such a process of development leads to increasing indebtedness. To avoid this the government needs to place much greater emphasis on research and development and on the creation of Thai technology than ever before. Another Thai participant argued, however, that this is precisely what Thailand now is trying to do.

The issues taken up in the papers were pursued in lively discussions among Thai and American participants at the end of each session. Excerpts from these discussions follow the chapters from each session. The speakers during these discussions perhaps best summarized the differing assumptions or mindsets underlying the American and Thai positions at the conference. Many of the Americans focused upon Thai political and economic success, and pointed out that Thailand is now running a trade surplus with the United States. They also focused upon American difficulties, the need for Thais to understand these difficulties and the need for the United States to have "a level playing field" on which to compete with other nations in the economic arena. Underlying all of these points was an awareness, as one American put it, that the U.S. "relative economic position in the world has deteriorated" and "we will never again have a dominant position economically . . . to protect us against the vagaries of an international market." As a consequence "the United States will negotiate harder and pursue its interests more strenuously." The Thai fear is that this pursuit will have potentially very damaging effects upon Thailand, and that a temporary trade surplus could be very easily overturned in the future. There also was a decided sentiment on the Thai side that the terms of the relations between the two countries had changed. As one Thai put it, "We have taken it for granted that Thailand and the United States are long-term friends. Thus when there were trade problems and new trade barriers without being warned in advance the Thai people, especially the government, felt betrayed." But now, it was suggested, there is a new situation: "From the U.S. perspective the relationship has to be short-term and on the basis of dollars and cents. That is a realistic approach and Thailand has to accept that."

Perhaps one of the most significant aspects of the changes is that even a country like Thailand, which has been one of the main beneficiaries of an economic order dominated by the United States in the post-World War II era, is now beginning to question whether the United States can behave in ways that benefit less-developed countries as well as itself. For much of the Thai elite, it has been accepted that both countries could benefit from the relationship. Now some are beginning to question the validity of this assumption.

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The responsibility for addressing many of the problems of trade “turbulence” between Thailand and the United States as well as other economic difficulties falls on the Thai government. Running through nearly all of the chapters are proposals for the Thai government to carry out policies to strengthen Thailand’s economy. These range from proposals for Thai diplomatic representatives in Washington to take a more active role in promoting Thai economic interests, to proposals for the government to take steps which ease the agricultural crisis, to developing plans for long-term energy supplies. Several of the chapters, either directly or indirectly, address the question of whether Thailand can develop a form of governance which can be effective in implementing such policies.

One of the main domestic effects of Thailand’s industrialization in recent decades has been the creation of a much more complex social structure, and the country has had difficulty devising political institutions which can respond to these changes. These issues are addressed in the chapters by Ansil Ramsay, Suchit Bunbongkarn, and Marjorie Muecke. As Muecke points out, economic and social change has created horizontal groupings of students, migrants and women, among others, who see themselves as groups rather than solely in patron-client terms. These kinds of changes have even penetrated into the religious sphere with lay persons, including women, achieving power which formerly was reserved to monks. While a variety of groups have begun to emerge in Thai society, and while lay persons have begun to play a more participative role in religion, other aspects of Thai life reinforce hierarchy and inequality.

Among the emerging social forces, some have much more political clout than others. The most significant has been a new business class centered upon banks and business conglomerates. These business people are not the deferential “pariah entrepreneurs” of the 1950s, but are persons increasingly confident of their abilities and less dependent upon political patronage for their success. They have demanded and gotten an increased role in politics. One means is through the parliamentary system established in 1978 whose main role, Surin Pitsuwan suggests, is serving as a “balancing act among contending institutional interests.” Yet the parliamentary system remains fragile. Suchit Bunbongkarn suggests that there has been no political institutionalization of the parliamentary system over the past decade and that the relative political stability since 1978 is misleading. A major reason is the fragmented party system which is, if anything, weaker now than before. Business funding of political parties has weakened the parties rather than strengthening them as some believed. At the same time the military has become more unified under the leadership of Army Commander-in-Chief Chavalit Yongchaiyut—and more sophisticated in the ways it gains mass support and political influence.

William Overholt is more optimistic about the possibility of maintaining a "moving equilibrium" in Thai politics and effective policy making. Thailand has had a strong record of maintaining such an equilibrium in the past, and there are a number of reasons to believe the nation can maintain it in the future. Overholt's comparison of Thai politics with the Philippine situation is a reminder that Thailand has many strengths politically. A comparison with some African regimes, or with Lebanon, makes the point even more strongly. Nevertheless, the economic problems facing Thailand will severely test the ability of Thai leaders to maintain the "moving equilibrium."

2. Thai-U.S. Relations at a Critical Juncture

M.R. KASEM S. KASEMSRI

I wish to thank The Asia Foundation for sponsoring this Second Thai-U.S. Bilateral Forum. Having participated in the first one at Berkeley in 1985, I am convinced that this second forum should continue to facilitate mutual understanding on both sides that could lead to greater harmony in the Thai-U.S. relations by bringing together policymakers and academicians from both countries for candid exchanges of views.

All of you, I believe, are well aware that the Thai-U.S. relations are entering a new era which is Janus-like. On one face, the political cooperation between our two countries has rarely been closer. Another face of our bilateral relations, however, is troublesome. Because of several recent economic measures taken by the U.S. government—such as the Food Security Act's rice subsidy program and the sale of the sugar from the Commodity Credit Corporation's stock to China at a price below that of the world market—the Thai public's view of the United States has never been so negative. How should we make sense of this phenomenon of excellent political cooperation and turbulent trade relations between our two countries? What are the implications of this double-image relationship between Thailand and the United States? These are the questions which I would like to explore here.

After having spent nearly four years in the United States observing the American political system and its impact on the Thai-U.S. relations, my conclusion is that unless the responsible officials, public and mass media of Thailand truly understand the dynamics of the American political process, and the U.S. public and decisionmakers understand the foreign implications of their proposed actions and incorporate them into their decision-making process, our bilateral relations will be in for a long rough ride. I would argue that unless those two conditions are realized, no "sleight of hand" can magically bring about greater harmony in the Thai-U.S. relations.

The principal reason why it is not easy to bring about greater harmony is that both countries are undergoing structural transformation. In Thailand's case, in 1985, for the first time in our history the

value of our manufactured output—which accounted for 42 percent of Thai exports—is estimated to have exceeded the agricultural output. This indicates that the Thai economy is on the threshold of an industrial takeoff. The rapid urbanization of the Bangkok metropolis as well as other regional cities is further evidence of the diminishing importance of the agricultural sector in relation to the rising industrial sector. The increased influx of the rural population into urban areas provides human resources to operate our factories, thereby contributing to the industrialization process. However, this also means greater demands on the government to provide social services to this mass population and to ensure that economic growth proceeds rapidly enough to prevent the revolution of rising expectations from undermining the traditional foundation of the Thai society. This is the *raison d'être* of all these five-year plans. The sixth of these plans has just been put into effect; it calls for restructuring the Thai economy toward more industrialization led by exports. This is the traditional route of past success by those four Asian “tigers”: Taiwan, South Korea, Singapore and Hong Kong—all of which emulate Japan, the greatest economic trailblazer of Asia. In pursuing a similar strategy, Thailand now finds herself flying after these countries in a “flying geese formation,” to borrow the Japanese term for these Asian NICs (newly industrialized countries), right into the walls of U.S. protectionism.

The importance of the U.S. market to the Thai economy can be seen in the following facts: The value of the Thai-U.S. trade in 1985 was two and one-half billion dollars and accounted for nearly 15 percent of Thailand's foreign trade. Moreover, for the past five years, the United States has been Thailand's most important export market. Thus, the rising momentum of U.S. protectionism is of grave concern to Thailand. Most Thais do not understand why the United States would erect trade barriers or engage in trade harassment against their country. After all, Thailand, apart from being a loyal political and military ally of the United States in Asia for decades, is a blossoming democracy with a free-enterprise economy. The Thais are confused even more when the United States, the former champion of the liberal international trading system, now is busy limiting Thailand's access to her own market. This undermines the bilateral trade flows which, according to the economic principle of comparative advantage, would bring mutual prosperity to the Thai and the American peoples.

The Thais need to appreciate that, just as Thailand is undergoing the stress of industrialization, the United States also is going through the trauma of transformation into a post-industrialized service economy, in which the industrial and agricultural heartland is losing importance to coastal states.

As the study on the U.S. economy issued by the Democratic party for the 1986 Congressional campaign pointed out, the United States is becoming a bicoastal economy. Some may say that this study is politically biased. But, in my opinion, if you take it with a grain of salt, it does contain some truth. According to this study, the states on both U.S. coasts on the whole are doing better than those in the heartland. It is interesting to note that some of the staunchest defenders of the U.S. role as the pillar of the liberal international trading system, such as Representative Sam Gibbons of Florida and Senators Daniel Evans of Washington and Mark Hatfield of Oregon, are from the coastal states. Not coincidentally, these people also happen to be very good friends of mine and of Thailand. In contrast, the states in the middle, the so-called rustbelt and farmbelt, are suffering from hard times and naturally enough are strongholds of protectionism in the United States. And as normal occurrences in every democracy, those whose interests are hurt the most tend to be more vocal and effectively organized than those who are satisfied with the way things are. Consequently, the interest groups from these rust-belt and farm-belt states have exerted heavy pressure on Congress and the Administration to put up protectionist walls and supply them with government subsidies in order to avoid the painful experience of structural adjustments which the evolving world economy is forcing on them. Thus, it should not come as a surprise that Thailand and the United States, each being propelled by its own structural adjustment pressure, must collide at times on the arena of global economic competition.

The question before us is how our two countries can ride out the storm of this transitional time of structural adjustment with our historically close relations held intact? Again, let me reiterate the answer which I gave at the beginning: The responsible officials, educated public and mass media of Thailand must understand the dynamics of the American political process, and the U.S. public and decision-makers must understand the foreign ramifications of their proposed actions and incorporate them into their decision-making process.

Thailand should realize that the check-and-balance system of American democracy provides for competing centers of decisionmaking resulting in a decentralized process where power is so dispersed as at times to be invisible. I, like many of my colleagues in Washington D.C., when I was Ambassador to the United States, suffered frustration from time to time trying to find the key, or those key levers of power, which could provide me with a definitive solution to our bilateral problems, but I could not find any. President Truman's statement that "the buck stops here" now is just a myth in an era when President Reagan could not address a Joint Session of Congress on Nicaragua because Speaker O'Neill had a previous "golf engagement." In view of

this decentralized nature of the American political system, for certain members of the Thai press to blame the entire U.S. government, for example, on the rice subsidy program of the Food Security Act, is to reveal inadequate understanding of the dynamics of the American political process. Before the Thai side can put its fingers on the right button, we have to learn the intricate and complex system of the U.S. government and the decision-making process. Otherwise it will be like rushing in to pour the water on the fire without knowing where the fire is. If one loves to do business with the United States, which Thailand evidently does, then it is an unavoidable necessity to comprehend the American political system. Others, such as Japan, Korea and Taiwan, have mastered this; Thailand should be no exception.

But whose duty is it to educate the Thai public on these matters? I think that the main responsibility should lie with the American representatives in Thailand. I admit that it may be difficult to perform such public education during periods of high emotion, but efforts should be made to enlighten the responsible officials, educated public and mass media of Thailand about how a U.S. decision or law which affects Thailand has come about. To expect a Thai citizen or the Thai government to perform this task on their own after such U.S. decision or act has injured Thailand is unrealistic. A forum like this therefore is very useful. Its results should be disseminated as widely as possible so that the responsible officials, educated public and mass media of Thailand may understand the complexity of the U.S. political process and cease to have a simplistic view of Uncle Sam as our former Big Brother turned Bully.

But would better understanding of the U.S. political process bring greater harmony in the Thai-U.S. relations? Not until the U.S. public and decisionmakers are aware of the potential implications of proposed U.S. actions on Thailand and are farsighted enough to act on the long-term interests of the United States itself. In this connection, I wish to quote an observation made by SONY Chairman Akio Morita, who said that "American management is getting more short-sighted. . . . Managers can look good (in short-term profits) while they are destroying the company by failing to invest in the future." I believe that this observation is relevant not only for American managers but for legislators and administration officials as well.

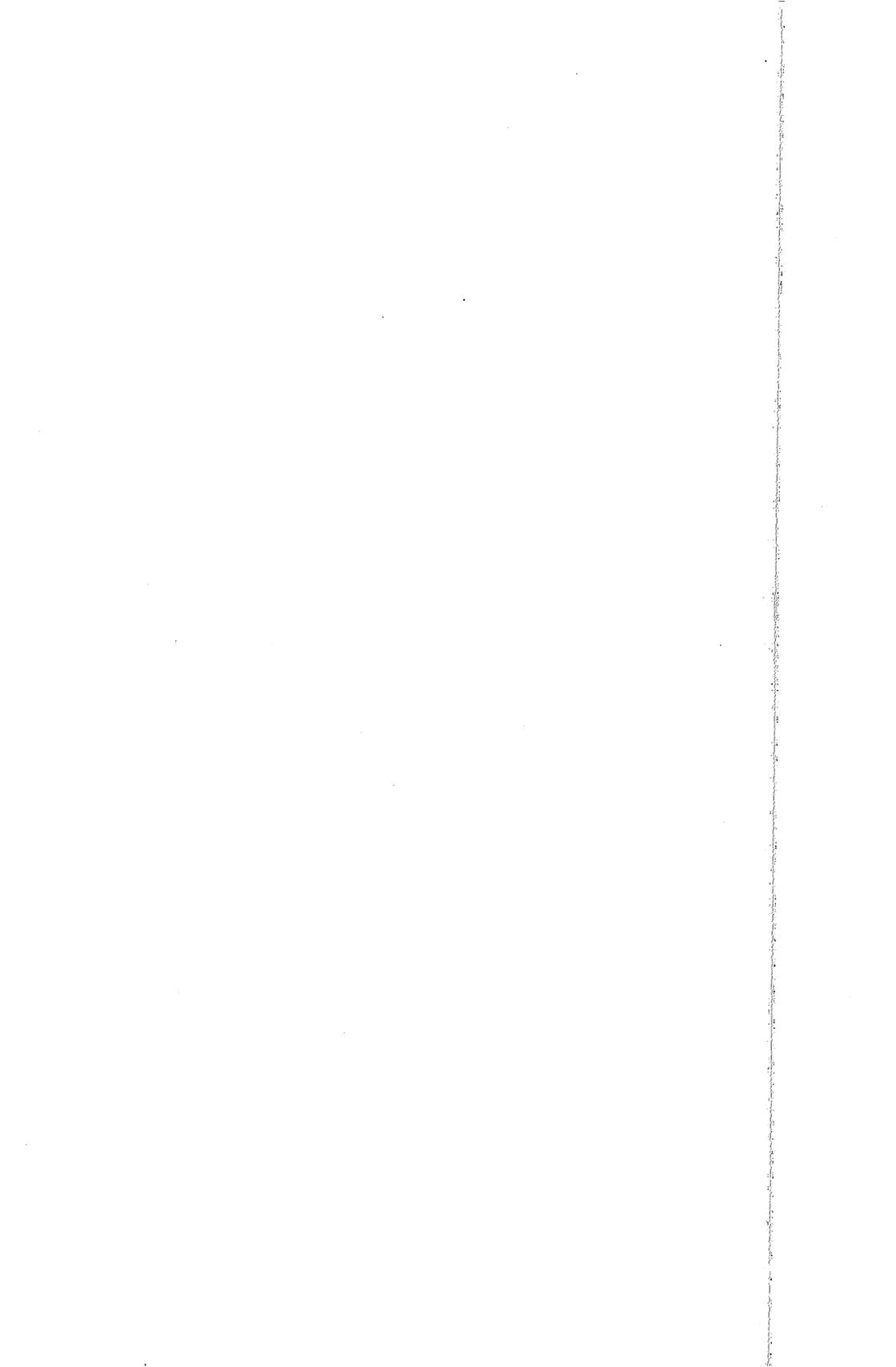
The U.S. public and decisionmakers need to realize that the option of a Fortress America is no longer viable for the United States. The growing dependence of the U.S. economy on the world market, as seen in the fact that more than 15 percent of U.S. gross national product is derived from foreign trade, further erodes this option for the United States. The security and economic interdependence between the United States and the rest of the world is a fact of life nowadays that the

Americans must live with. But there are some in the halls of the U.S. Congress right now who deny this fact by trying to divorce foreign policy considerations from U.S. economic policy, as for example in the Omnibus Trade Bill (H.R. 4800) recently passed by the House of Representatives. While I was listening to the debates on this bill a few months ago in Washington, I was puzzled when I heard one supporter of the bill after another declaring that although some of the proposed measures in the bill clearly violated GATT (Generalized Agreement on Tariffs and Trade), other countries would not dare to retaliate against the United States for fear of losing the U.S. market. There may be some truth to those declarations but they reflect this Fortress America attitude or what I may term as "the Middle Kingdom complex."

As old Asian hands are well aware, China suffered the disintegration of her empire because her leaders during the late nineteenth century refused to accept the fact that the world had changed and she was no longer the center of gravity of all the world under heaven. The Chinese leaders at that time still operated on the assumption that China was still "the Middle Kingdom" in whose eyes other countries were still barbarians and thus owed the Son of Heaven their obeisance. As an old adage goes, "pride goes before destruction." The rest is history. But for America at this juncture in history, an option is still there to remain the leader of the Free World, but only by continuing to be the pillar of the liberal international trading system and acting in concert with her friends and allies. By continuing to provide liberal access to U.S. markets for developing countries like Thailand, the United States will be contributing to the maintenance of a stable international environment which is conducive to the security and economic interdependence of the United States along with the rest of the world. By consulting and coordinating her policy moves with her friends and allies instead of acting unilaterally, America will be strengthening her leadership as well as the bonds of alliance.

All decisions have consequences. For America at present, her decision as to whether she should provide leadership for a newer world or follow the path of the "other Middle Kingdom" has great, perhaps grave, consequences. The world will be watching closely how the new Congress dominated by the Democratic party will work with the Republican president. I wish therefore to end my talk tonight by posing a question for the U.S. decisionmakers: "Quo Vadis" or "Whither thou goest?" The answer to this question will determine whether the relations between Thailand and the United States will continue to be Janus-like or increasingly harmonized.

Part I.
Thai Politico-Sociocultural Structure



3. Contemporary Thai Political Evolution

ANSIL RAMSAY

Introduction

Many observers of Thai politics would argue that no evolution has occurred in Thai politics in recent decades. While there has been *change*, it is cyclical, not evolutionary. This change has taken the form of successive "vicious cycles" which begin with a constitution and election of parliament and eventually end in political crisis and military takeover. Eventually a new constitution is promulgated and the cycle begins again. In this view the experiment with constitutional politics in the 1980s is similar to previous experiments which have failed.¹

This chapter takes a different position. While conceding that there are many continuities with the past, it suggests that Thai politics *has* evolved in recent decades if evolution is understood as "a series of related changes in a certain direction."² In Thailand this direction has been to open politics to wider participation than in the past, and to adapt political arrangements to accommodate this participation. The source of these changes has been a pattern of economic development which has strengthened particular groups and classes in Thai society and given them greater bargaining power *vis-à-vis* previously unchallenged state agencies, the military in particular. This in turn has created three kinds of problems. One is how to establish a regime which can accommodate this new distribution of political power between state agencies and social forces, as well as among the social forces. The second is how to legitimize the new regime. The third is how to promote a pattern of economic development which is supportive of these political arrangements. Accomplishing all three in a coordinated way is extremely difficult because the dynamics of one can undermine the achievement of others. To make matters even more difficult, Thailand must try to accomplish these tasks in a setting quite different from that of the 1950s. It is much more integrated into the world economy and, while this has brought benefits, it also has brought economic difficulties and

¹The concept of a vicious cycle in Thai politics is discussed in Chai-anan Samudavanija, *The Thai Young Turks* (Singapore: Institute of Southeast Asian Studies, 1982), 1-5.

²*Webster's Third New International Dictionary* (Springfield, Mass.: Merriam, 1976), 789.

structural constraints within which Thai leaders must operate. Thailand also confronts a much more threatening international political environment with the Vietnamese presence in neighboring Cambodia and Laos.

While these international conditions place constraints upon particular courses of action, they do not, however, determine the type of regime which emerges in Thailand. Nor do domestic economic or social conditions. A major assumption of this chapter is that while Thai leaders operate within the context of extensive international and domestic constraints which create certain pressures and expectations, they have options when choosing among regimes. There is no fixed relationship between level of economic development and type of political regime. As will be seen, however, particular circumstances can incline leaders to choose one direction rather than another.

In this framework Thailand's contemporary political evolution has taken the form of efforts to shape a regime which can accommodate increased participation in politics by actors outside the state bureaucracy, find a legitimating formula for these new political arrangements, and promote a pattern of economic growth which sustains these arrangements rather than undermining them. This chapter argues that these efforts are marked by political evolution and are not simply a vicious cycle in which the same pattern is followed again and again. Just how far Thailand has come can be seen by examining Thai politics in the 1950s and then tracing changes since then.

The Bureaucratic Polity Years

There are two reasons for using the 1950s as the starting point from which to measure Thai political evolution. The first is that in the late 1950s Field Marshall Sarit Thanarat adopted a well-defined political and economic strategy which addressed each of the three problems discussed in the Introduction: establishing an effective regime, legitimizing it, and promoting economic development. His years in office therefore provide a particularly clear-cut basis from which to measure change. The second is that the economic policies initiated under Sarit led to far-reaching economic and social changes which in turn have had a powerful impact upon the evolution of contemporary Thai politics. These changes not only undermined the regime he established and the legitimacy he tried to create for it but also made it impossible for subsequent Thai leaders to return to this form of politics. If they are to govern effectively, they have to find new ways of doing so.

One of the most striking aspects of politics in the 1950s in comparison with politics in the 1980s is how little role was played by participants outside the state bureaucracy. For Fred Riggs the dominance of that bureaucracy was the major theme of Thai politics, and he

coined the term “bureaucratic polity” to describe it:

Cabinet members, for the most part, have been officials who have risen to political eminence; and in the conduct of their roles as members of a ruling circle, cabinet politicians have shown themselves more responsive to the interests and demands of their bureaucratic subordinates than to the concerns of interest groups, political parties, or legislative bodies outside the state apparatus.³

In such a system, David Wilson wrote,

politics has become a matter of competition between bureaucratic cliques for the benefits of government. In this competition the army—the best organized, most concentrated, and most powerful of the branches of the bureaucracy—has come out on top.⁴

At its peak under Field Marshall Sarit Thanarat from 1958 until 1963, political parties were outlawed, elected parliaments were banned, trade unions were proscribed, and outspoken critics of the government were jailed. This dominance by the state apparatus was greatly facilitated by the weakness of groups and classes outside the state. Thailand was an overwhelmingly rural society in the 1950s, yet there were no organizations to represent the farmers politically, and the political passivity of the rural population was a mainstay of bureaucratic dominance. The bureaucracy also dominated the relatively small business community. Thailand’s largely Chinese business community was able to survive, Riggs suggests, “only by continually buying protection from the Thai elite.” “Individual businessmen would be permitted by influential officials to carry on their activities, provided they contributed financially to the private income of their protectors and patrons in the government.”⁵ This system did not prevent individual business families from becoming wealthy, but business people as a group did not have a great deal of influence, and individual businessmen were very vulnerable to capricious decisions.

A second major difference between this system and the one which has evolved from it in the 1980s is the way it was legitimized. Sarit’s goal was to modernize Thailand on the basis of indigenous values and history. He argued that Western concepts of democracy had not functioned well in Thailand and could not do so. Thus they only led to confusion and conflict. Sarit and his political advisers went back to the days of King Ramkhamhaeng (1276–1317) in search of ideas for an indigenous ideology. The key concept they adopted for linking ruler and ruled was that of father-children (*pho-luk*) in which the leader

³Fred W. Riggs, *Thailand: The Modernization of a Bureaucratic Polity* (Honolulu: East-West Center Press, 1966), 312.

⁴David Wilson, *Politics in Thailand* (Ithaca: Cornell University Press, 1966), 277.

⁵Riggs, 251.

ruled his people like a stern father ruled his children. The leader was to care for the people's well-being, but there was no role for participatory decision making. In Thak Chaloemtiarana's phrase, Sarit was a "paternal despot." The "regime was to act in the fashion of a father of a family and to make decisions independent of the wishes and desires of the public. . . . Development in the political sense of expanding political participation, political mobilization, and the building of new political institutions was no part of the Sarit regime's goals."⁶

Another way of legitimizing rule was to increase the role of the monarchy. In the aftermath of the 1932 revolution the Thai monarchy was placed in an ambiguous position, and it did not play a very visible role in Thailand until after Sarit's seizure of power. Sarit began to encourage the king and queen to travel about more frequently, both inside Thailand and abroad, in order to enhance the prestige of the monarchy and simultaneously to increase the popularity of the government through its association with the monarchy.⁷

Finally, to build long-term legitimacy Sarit argued that Thailand needed national economic development which would meet genuine needs of the people. These included increased income, roads and irrigation systems, and better health care and education.⁸ The question was how to achieve this, and at the same time reinforce his hold upon political power. In the period prior to Sarit's rule Thai economic policy "can perhaps best be described as an era of haphazard, state-led development."⁹ In these years governments wanted to encourage industrialization, yet there were few Thai entrepreneurs. Governments argued that if they simply encouraged the rapid development of industry, the industry would be dominated by Chinese and foreign businessmen. As a consequence, the industrialization programs were ostensibly aimed at ensuring Thai control of the economy, and one of the main ways of doing this was the establishment of government enterprises. While the rhetoric emphasized economic nationalism, many of the state enterprises were in fact surreptitiously run by Chinese businessmen who in return kicked back money to Thai political leaders.

By the late 1950s these economic policies were causing serious difficulties. The state enterprises often were badly run and inefficient.

⁶The outstanding study of the Sarit era is Thak Chaloemtiarana, "The Sarit Regime, 1957-1963: The Formative Years of Modern Thai Politics" (Ph.D. diss., Cornell, 1974). The following discussion is based mainly upon Thak's account. The quotation is from page 280. The study has been published as Thak Chaloemtiarana, *Thailand: The Politics of Despotism Paternalism* (Bangkok: Social Science Association of Thailand and Thai Khadi Institute, 1979).
⁷*Ibid.*, 397.

⁸*Ibid.*, 279.

⁹Kevin Hewison, "The State and Capitalist Development in Thailand," in Richard Higgott and Richard Robison, *Southeast Asia: Essays in the Political Economy of Structural Change* (London: Routledge & Kegan Paul, 1985), 275.

Restrictions on foreign investment limited Thailand's access to loans and aid as well as to potential industrial development. The policies also created an uncertain business climate in which some businessmen prospered, but the business community as a whole had to deal with often arbitrary and unpredictable government decisions.

The turning point in these policies came as a result of recommendations from a World Bank mission sent to Thailand in 1957, and Sarit's willingness to accept the mission's recommendations as a means of promoting economic development and consolidating his own political power. The mission's most important recommendation was that the state "rely upon and encourage private investment for industrial development, and that it devote its own energies to provision of power, transportation, and other necessary social overhead facilities."¹⁰ In addition the mission recommended that the state restrict its role in government enterprises and encourage more foreign loans and investments as a way of accelerating economic development. Finally, Thailand was urged to increase its openness to the international economic system.¹¹ The United States strongly supported these recommendations, and under Sarit the economic and security ties between Thailand and the United States strengthened dramatically.

These policies coincided with Sarit's own strategy of promoting rapid economic development as a way to strengthen political stability and the legitimacy of his regime. In addition they had the great merit of giving Sarit an excuse to "destroy the economic bases of the political rivals which had been staked in state enterprises or state-controlled companies," and to build his own support among the ranks of export-import traders and bankers who benefitted most clearly from an open economy.¹²

Contradictions and the Disintegration of the Sarit Model

In many respects the policies were remarkably successful. The economy grew rapidly in the 1960s and political power was smoothly transferred to Thanom Kittikachorn after Sarit's death in 1963. Political power continued to be concentrated in the civilian and military bureaucracies. Although there were some extremely limited experiments with elections and parliaments under Thanom, there was little

¹⁰James C. Ingram, *Economic Change in Thailand, 1850–1970* (Stanford, Calif.: Stanford University Press, 1971), 229–232. The quotation is from page 231.

¹¹Akira Suehiro, *Capital Accumulation and Industrial Development in Thailand* (Bangkok: Chulalongkorn University Social Research Institute, 1985), chap. 4, p. 3. See also Pasuk Phongpaichit, "The Open Economy and Its Friends: The 'Development' of Thailand," *Pacific Affairs*, vol. 53 (Fall 1980), 440–460.

¹²Suehiro, 4–17.

increase in real political participation. Ironically, however, the consequences of the economic development so strongly promoted by Sarit undermined the stability of the bureaucratic polity, eroded its legitimacy and called into question its development policies. Challenges to the bureaucracy's prerogatives increased as economic growth and diversity strengthened a number of social forces outside the bureaucracy.

The most important were business groups who gained increased independence from the bureaucracy and greater confidence in their own capabilities. In the 1960s,

unlike the 1950s, political patronage does not seem to have acted as a crucial factor for the expansion of . . . [these] business groups. Rather, such factors as access to foreign capital, introduction of advanced technology, capacity to mobilize capital funds, and market conditions, etc. became more and more important for the business groups.¹³

The growing economic power of business conglomerates centered upon major banks also "lessened the necessity of political patronage." Major businesses and banks certainly found it useful to maintain ties with leading members of the civilian and military bureaucracies. Nevertheless, the relationship between businessmen and bureaucrats had clearly changed since the 1950s. Many businesspersons became increasingly critical of the inefficiencies and regulations of the bureaucracy, although not openly critical of the top civilian and military leaders themselves.¹⁴

A second social force was an urban, educated middle class many of whom also became increasingly disenchanted with military domination of politics. This middle class grew rapidly during the economic boom of the 1960s and during these years had little reason to criticize the regime. It found jobs, increased incomes, a growing array of consumer goods and educational opportunities for its children which would allow them to follow a similar route. But by the early 1970s a number of developments threatened middle-class economic and social achievements. Jobs in the bureaucracy (a traditional goal for the college-educated middle class) became more difficult to find, inflation began to accelerate—and the United States began to withdraw from Indochina, causing concerns about Thailand's security.

A certain uneasiness and dissatisfaction developed among the beneficiaries of the great boom as it drew to a close. Exclusion from political participation had been tolerable so long as the dictatorship "produced" in

¹³*Ibid.*, 5–12.

¹⁴For detailed accounts of the growth of these conglomerates see Suehiro and Krirkkiat Phipatseritham, *Wikro Laksana Kanpenchaokhong Thurakit Khanat Yai nai Prathet Thai* [The Distribution of Ownership in Thai Big Business] (Bangkok: Thammasat University, 1981).

the economic, security, and educational sectors, but became much less so as problems accumulated.¹⁵

There were other challengers to bureaucratic prerogatives as well, although none were as significant as the previous two. One was the Thai working class. The development of light industry in and around Bangkok increased the number of workers in the capital area, and the growing size of plants brought larger numbers of workers into contact with one another. Workers had numerous grievances, but were unable to express them openly because trade unions were banned. Other challengers came from the countryside. In the early 1970s there was growing unrest over landlessness and tenancy, and the unwillingness of the government to do anything about these problems. While few farm groups were able to organize themselves on a permanent basis, some farmers' organizations did begin to take shape and some of them, such as the sugarcane planters, became increasingly effective.¹⁶

One consequence was that the legitimizing ideas of Sarit became increasingly threadbare.

His self-proclaimed revolutionary goal was to restore a social and political order based on traditional Thai values, inherently monarchical and hierarchical. Development was intended to reinforce and justify this order, but in practice it worked to undermine it. Economic development strengthened the middle class; educational expansion contributed to the Westernization of their values, or at least to doubts about some Thai values; and close association with American policy created burning political issues. In the end short-run strength and stability were purchased at the price of longer term instability and even political crisis.¹⁷

Finally, the development strategy of the regime also came under increasing criticisms for deeply rooted structural flaws as well as short-term mismanagement. The most serious flaw was a pattern of economic development biased in favor of Bangkok and the provinces immediately surrounding the capital. Concerns grew that this pattern of development would lead to increasing political protest and instability. The concerns were given added weight by growing insurgencies in the northern, northeastern, and southern parts of the country which appeared to be fueled in part by economic difficulties in these regions. This was particularly the case in the northeast. Another

¹⁵Ben Anderson, "Withdrawal Symptoms: Social and Cultural Aspects of the October 6 Coup," *Bulletin of Concerned Asian Scholars*, vol. 9 (July–September 1977), 17.

¹⁶These developments are discussed in detail in David Morell and Chai-anan Samudavanija, *Political Conflict in Thailand: Reform, Reaction, Revolution* (Cambridge, Mass.: Oelgeschlager, Gunn & Hain, Publishers, Inc., 1981). On the sugarcane farmers in particular see Ansil Ramsay, "The Political Economy of Sugar in Thailand," forthcoming in *Pacific Affairs*.

¹⁷David K. Wyatt, *Thailand: A Short History* (New Haven: Yale University Press, 1984), 285.

flaw was the lack of sophisticated means for managing the economy. The economic policies of the Sarit-Thanom era were "phenomenally successful when the world economy was booming and stable," but "its plodding style and lack of sophistication began to show in the relatively unpredictable world economic environment after 1971."¹⁸ In addition to these structural flaws, there were politically debilitating policy failures which undermined the regime. The most damaging were the series of policy missteps which led to rice shortages and soaring rice prices in Bangkok in 1973.

These failures to adjust the regime to accommodate greater demands for political participation, adopt effective new means of legitimization, and promote sustained successful economic development led to the student-led rebellion of 1973 which toppled the regime and introduced a three year period of democratic politics. The initial euphoria of overthrowing the regime quickly eroded, however, because of economic difficulties, unstable governments, and growing political polarization between forces of right and left. The governments during the democratic period were unable to accomplish three critical goals—to institutionalize means of accommodating increased political participation, develop widely accepted ways of legitimizing the new political order, and resolve pressing economic problems. The democratic experiment ended in October 1976 when military leaders seized power in a particularly bloody and repressive coup d'état. At the time it seemed to be one more in a long history of coups, and to confirm the theory of a vicious cycle of Thai politics. What has followed since 1976, however, suggests political evolution rather than a vicious cycle.¹⁹

The Tenuous Consensus of the 1980s: Toward a Bourgeois Polity?

One of the features most clearly distinguishing Thai politics in the 1980s from that of the 1950s is the wider range of participants. There also was greater participation in the 1970s than in the 1950s, but in the 1980s participation has been somewhat more institutionalized than in the 1973–1976 period. Political participation clearly extends to a wider range of participants than took part in the bureaucratic polity. It is no longer limited to the employees of the state, and politics is no longer simply "a matter of competition between bureaucratic cliques" dominated by the military. While competition among bureaucratic cliques

¹⁸Ammar Siamwalla and Suthad Setboonsarng, *The Political Economy of Agricultural Pricing Policies in Thailand* (Bangkok: Thailand Development Research Institute, December 1986), 45.

¹⁹The best account of these years is Morell and Samudavanija. See also Anderson on the October 1976 coup.

continues, and while the military continues to play a major role in politics, there are also a number of new entrants. The most significant new participants are members of the business elite who have taken an increased role in Thai cabinets and have begun to enter politics in a number of other ways. These range from the creation and funding of political parties to the formation of commercial associations and participation in joint government-business committees to deal with issues of economic policy.²⁰

Business people are not the only ones to take a larger role in politics, although their case is the most notable. Labor unions also play a larger role than in the past. The number of labor unions in Thailand grew from nine in 1972 to 414 by 1983. While their political influence is very small in comparison with that of business, it is considerably larger than during the Sarit years when unions were not even permitted. They have some say in tripartite negotiations on the minimum wage, and occasionally can bring pressure to bear upon governments through strikes or threat of strikes. Unions are particularly well-represented in several state enterprises, and their presence has given pause to governments thinking about privatization or dramatic reductions in the workforce of some state enterprises.²¹ Finally, there is a small number of rural groups which have been able to make effective demands upon the government. The most conspicuous are sugarcane farmers who first formed organizations in the 1960s to bargain with millers and then became increasingly effective in pressuring governments to maintain high prices for cane.²²

Not only is there greater participation than in the 1950s, but this participation has begun to be institutionalized. One avenue for greater participation is the parliamentary system established by the 1978 constitution which established an elected House of Representatives and an appointed, military-dominated Senate. The latter could sit with the

²⁰These developments have been discussed in a number of publications. See Wisut Thamwiriawong, "Chonchan Namthang Thurakit kab Kanmuang Thai: Suksa Chapo Karani Kankhaoma Mi Botbat Thangkanmuang Doi Trong" [Leading Businessmen and Thai Politics: An Examination of Their Direct Role in Politics] in Likhit Dhiravegin *et al.*, *Kanmuang Thai Yuk Mai* [Thai Politics in a New Era] (Bangkok: Phrae Phittaya, 1984), 123–166; Pisan Suriyamongkol, "Bureaucratic Polity at Bay: The Case of Thailand," paper prepared for presentation at the annual meeting of the American Political Science Association, New Orleans, Louisiana, August 29–September 1, 1985; Ansil Ramsay, "Thai Domestic Politics and Foreign Policy," in Karl D. Jackson, Sukhumbhand Paribatra, and J. Soedjati Djiwandono, *ASEAN in Regional and Global Context* (Berkeley: Institute of East Asian Studies, University of California, 1986), 30–51; and Kevin Hewison, "The Financial Bourgeoisie in Thailand," *Journal of Contemporary Asia*, vol. 11 (1981), 395–412.

²¹See Suriyamongkol and Arnold Wehmhorner, "Trade Unions in Thailand—A New Dimension in a Modernizing Society," *Journal of Contemporary Asia*, vol. 24 (1983), 481–497.

²²Ramsay, "The Political Economy of Sugar in Thailand."

House to vote on bills affecting the national security, the budget, the throne and votes of no confidence. The clauses that gave the Senate these powers expired in 1983 despite major efforts by some military leaders to amend the constitution to retain a strong Senate and give senators the right to be appointed members of the cabinet. As a consequence, while active members of the military and civil service can be appointed to the Senate, they cannot be appointed to the cabinet. The defeat of the amendment was significant partly as a triumph for parliamentary government, but also for limiting military access to cabinet positions while continuing to provide access for leading businessmen-politicians. Their extensive funding of political parties in recent years can best be understood in this context. The parties provide them with access to cabinet positions and the control over the use of authority and government resources which go with these positions.

Kramol Tongdhamachart effectively summarizes the present arrangements:

The current constitution, with its balance mechanism between the military and elected politicians, is the latest experiment towards this end, and it seems to be the most workable. It may not be to the satisfaction of everyone, but it is at least acceptable to those groups which have some share of power.²³

This avenue of participation is the one which has attracted the most public attention as commentators follow the shifting alignments of party politics and speculate over the next moves of political and military leaders. However, it is not the only avenue. Another is the day-to-day interactions between various state agencies and business associations. A number of case studies are beginning to appear which trace the changes which have occurred here. One is Patcharee Thanamai's study of the automobile and electrical appliance industries. Thai businessmen were "quite passive" in political decisions affecting these industries in the 1960s, partly because they lacked necessary resources such as detailed, up-to-date information on sales and marketing, but also because of political intimidation. When they disagreed with government policy they could appeal only on a case-by-case basis to the appropriate agency. At the time decisions on the automobile industry were dominated by bureaucrats in the Ministry of Industry and the Board of Investment. This began to change in the 1970s as businessmen in the industry organized, developed increasingly up-to-date data and took advantage of a more open political system to press their case. There also was change on the government side as the government became "more responsive to the business group because it wanted

²³Kramol Tongdhamachart, "Recent Political Developments in Thailand and Their Implications for the Future," *Contemporary Southeast Asia*, vol. 6 (December 1984), 252.

their cooperation to implement industrial policy." While business came to play a greater role in decisions affecting industry, military officials, who had taken important roles in the 1960s, no longer played such a role by the late 1970s. Patcharee suggests that the main reason was that policy had become increasingly complicated and "required technical knowledge that only specialists could provide." In summary, such case studies, along with studies tracing growing business participation in the cabinet and in other arenas, suggest that businesspersons are no longer "pariah entrepreneurs," but are increasingly influential and self-confident about their ability to influence policy. This pattern is likely to continue irrespective of what happens in the parliamentary arena.²⁴

There is no readily available concept to describe this new polity. In some respects it resembles what Huntington and Nelson term a "bourgeois" polity. In this form of polity

political participation is expanded to encompass the urban middle class and economic growth proceeds reasonably rapidly. Economic inequality also increases, both as a concomitant of economic growth and as a result of the utilization by the middle class of its political power to further its own ends. The development of electoral and parliamentary institutions that provide channels for participation by the bourgeois-middle class groups also helps promote at least short run political stability.²⁵

In Thailand today political participation clearly extends to "bourgeois-middle class groups" and inequality has increased for the reasons suggested by Huntington. However, Thailand still is not the full-fledged "bourgeois polity" described by Huntington and Nelson. Nor is it clear that a Thai bourgeoisie will eventually come to play as important a role in politics in Thailand as it does in the Huntington and Nelson model or in Western historical experience.

One major difference between Thailand and the model is that the Thai military still plays an extremely important role in national politics. Nevertheless, there are several changes between the role of the military in the 1950s and in the 1980s. The most important is that coups are more difficult now than in previous years. One reason is military factionalism. This alone has not prevented coups in the past, but it does make the task of successfully organizing and implementing a coup more difficult. Even if the military becomes more unified,

²⁴Patcharee Thanamai, "Patterns of Industrial Policy Making in Thailand: Japanese Multinationals and Domestic Actors in the Automobile and Electrical Appliances Industries" (Ph.D. diss., University of Wisconsin, Madison, December 1985). See also Rick Doner, "State Autonomy and Host Country Bargaining Power: Automotive Industrialization Efforts in Thailand," paper presented at the annual meeting of the American Political Science Association, Chicago, September 3-6, 1987.

²⁵Samuel P. Huntington and Joan M. Nelson, *No Easy Choice: Political Participation in Developing Countries* (Cambridge: Harvard University Press, 1976), 22.

broader participation in politics today makes it much more difficult to win public acquiescence and support for a coup than in the 1950s when the number of participants in politics was much smaller. Another reason coups are more difficult is the potential opposition of the monarchy to a coup. In 1981, for example, it sided with the incumbent government against a major coup attempt. This is not to say there will never be another successful coup d'état. It is possible to imagine circumstances in which the previous obstacles to a coup could be overcome. Nevertheless, the probability of a successful coup is smaller than in earlier decades.²⁶ As a consequence, some military leaders have developed a new rationale for continued military participation in politics which is not dependent upon seizing power through a coup. Their perceptions and strategies have evolved over the years along with changes in Thai society and politics. Suchit Bunbongkarn and Kanala Sukhatanij-Khantaprab summarize this new rationale as follows:

Military leaders have for the first time declared publicly that the armed forces have a dual function to perform, that is defense and maintenance of internal security. Since political stabilization is one of the major prerequisites for the internal security it is legitimate from the point of view of the military that they can get involved in politics to restore and maintain political stability. In other words, politics cannot be separated from the military affairs.²⁷

This rationale is quite different from that of the past when the military's intervention in politics, no matter how prolonged, was justified by the need to "clean up the mess" made by civilian politicians. Now the rationale is to help develop a democratic political system and to remove the conditions which led to the growth of the Communist party of Thailand, including exploitation of the poor by the rich and the actions of corrupt officials. This view of democracy, however, is quite different from the usual Western view which relies heavily upon competition among elites for the support of electors as a key component of democracy. The version now being promulgated argues that the essence of democracy is the responsibility of the leaders to the needs of the population, not election of political leaders. Elections do not guarantee that the leaders selected will be responsive to the people's needs.²⁸

The present polity is still very much a compromise between civilian and military power, not a polity dominated by the bourgeoisie as in

²⁶This discussion is summarized from Ramsay, "Thai Domestic Politics and Foreign Policy." The analysis draws upon Samuel Huntington's *Political Order in Changing Societies* (New Haven: Yale University Press, 1968), 218.

²⁷Suchit Bunbongkarn and Kanala Sukhatanij-Khantaprab, "National Security and the Contemporary Role of the Thai Military," paper prepared for presentation at the Conference on Thai Studies, Chulalongkorn University, Bangkok, August 22-24, 1984, p. 2.

²⁸*Ibid.*, pp. 8-12, 15-24.

Huntington and Nelson's "bourgeois" polity. It is important to recognize that the present arrangement is a compromise in which there is a good deal of cooperation and mutual interest between military and business leaders. There are very close personal ties between some leading businessmen and high-ranking military officers. Moreover, present economic and political arrangements serve both groups well. At the same time, there are clear elements of conflict among representatives of the two centers of power over the particular kind of political arrangements which best would serve their interests. This conflict readily can be seen in a major debate over how the present polity is to be legitimized, and who is to dominate it. There is no single legitimizing formula today analogous to that worked out by Sarit and his advisors. There are rather at least two major competing formulas.

The first might be termed "pragmatic parliamentarianism." It finds its main supporters among many political party leaders, academics (especially some of those close to the present government) and elements of the urban middle class. Its essential argument is that Thailand's present political arrangements are the best that can be had for the time being, and any steps to go beyond them will have to be very gradual ones. Their merit is that they provide an institutional framework for increased political participation by the middle class elements which are the strongest supporters of this position. Furthermore, the present arrangements allow this participation without provoking the military or extremely conservative elements to intervene to destroy the arrangements—and without encouraging presently excluded groups such as activist students, aggressive labor leaders, or poor peasant movements to believe that their participation would be welcomed as did much of the rhetoric of the mid-1970s. The commitment is to parliamentary government, not to open democracy. For the supporters of this position one of the main lessons of the 1970s is that Thai politics quickly can become unstable, polarized and very nasty. They are well aware of the undercurrent of intimidation that surfaced in the mid-1970s and lies just below the surface now. Present arrangements have helped keep these trends in check.²⁹

The second major contender for a legitimating formula might be termed "authoritarian populism." Those taking this position say they speak for "the people," but would protect their interests through a more exclusionary politics. They can be found in the military and among more conservative members of the civil service and the civilian population. They argue that electoral politics is neither synonymous with democracy or the well-being of the majority of Thai citizens.

²⁹Perhaps the best discussion of this position can be found in Tongdhamachart, "Recent Political Developments in Thailand and Their Implications for the Future." It should be emphasized that this interpretation is based upon his arguments in the article. It is not his own argument and he might disagree with the interpretation I have made.

Under Thailand's present political arrangements, the supporters of this position argue, "ordinary Thais are not sovereign because the political system is controlled by wealthy people who use money and influence to dictate the outcome of an election."³⁰ In 1983 an aide of General Chavalit Yongchaiyut argued: "The present form of democracy in our country—I mean the present form of elections—promotes capitalist dictatorship. It is democracy in terms of capitalism. Only those who own capital have the rights and power in our political situation. They [the wealthy] make use of the constitution in order to control power for their own benefit, using elections to justify that power so as to have a say in governing the country and using the limited resources of the nation to serve their own economic interests. This has led to poverty and injustice in all aspects."³¹ In early 1987 General Chavalit himself, then the commander-in-chief of the army, severely criticized Thai political parties.

Political parties are not political parties but act as trading companies. Members of Parliament instead of being representatives of the people, are representatives of these companies. Some are whisky or soft drink agents who are there to protect their private interests.

As far as I can see political parties and members of Parliament are only working for their own private interests. They are doing all they can do to become ministers and join the Government. This is not right.³²

A democratic political system in this perspective is one in which a government governs "for the benefit and interest of the people." On the other hand, "if the government lacks responsibility then it cannot be a democratic system even if it is freely elected."³³ The best way to make sure that Thailand has such a democracy would be to strengthen the role of the Senate and carefully appoint capable and responsible senators from representative social and professional groups. Such a Senate would be more democratic than the presently elected lower house and would pursue national interests, not narrow interests of wealthy capitalists.

The supporters of both positions point to clear flaws in the arguments of the opposing position. The supporters of the "pragmatic parliamentarism" position quickly point out that their opponents' arguments are self-serving. The most articulate supporters of the position are military leaders, and the restoration of a more powerful appointed upper house would give the military a degree of influence

³⁰John McBeth, "Political Crossroads," *Far Eastern Economic Review*, vol. 132 (June 19, 1986), 40.

³¹*Ibid.*

³²"Chavalit Calls Political Parties Traders," *Bangkok World*, February 14, 1987.

³³Bunbongkarn and Sukhatanij-Khantaprab, 10.

that it has lost under the present constitutional arrangements and clearly would like to regain. The arguments also share the flaw of any position which allegedly speaks in the name of "the people." There are very different groups, classes, ethnic communities, religions and regions in Thailand. If elections are not used to select their representatives, then what other format is to be used to decide what their wishes are and how their conflicting interests are to be resolved? Another difficulty is deciding who would appoint "representative" members of the Senate. These "representative" members are likely to be drawn disproportionately from the military and civilian bureaucracy.

The supporters of the "authoritarian populism" position retort that the present political system is clearly self-serving for an urban-based, wealthy elite and a middle class residing in Bangkok and provincial towns. Despite the theory that electoral politics gives different groups and regions a chance to elect representatives who will speak for them, the reality is quite different. Even leaders of political parties freely admit "that parties often choose candidates for their local influence and for the amount of money they can contribute to a campaign."³⁴ Former Prime Minister Kukrit Pramoj is quoted as having said of the members of parliament that their "only thought is what they will have, what position they will hold and how much money they will earn."³⁵ The consequence is that the MPs generally are held in very low esteem. "In a recent survey of 800 workers Thammasat University's Human Resources Institute found that about 80 percent of the respondents had a negative attitude towards the behavior and performance of MPs." Surveys of professional people yield similar results.³⁶

Neither side has been successful in gaining dominance of its position as a legitimizing formula. Their problem is that neither can make a credible case that it speaks for universal or general interests rather than for its own particular interests. The military probably has the edge in this matter in the late 1980s, given the extreme fragmentation of political parties and the credibility with which General Chavalit can portray the parties as "trading companies" representing "private interests." In these circumstances the present regime is heavily dependent upon the support of the monarchy for legitimacy, since it presently is the only institution which can claim to speak for the general interest. The increased role of the monarchy in politics is one of the major evolutionary changes in recent years. It is a striking development in a country which had a revolution in 1932 aimed at dramatically limiting the powers of an absolute monarch. From 1932 until the Sarit era the

³⁴McBeth, 41.

³⁵John McBeth, "Politics Without Guilt," *Far Eastern Economic Review*, vol. 123 (March 22, 1984), 18.

³⁶McBeth, "Political Crossroads," 41.

Chakri monarchs played little role in Thai politics, and even after Sarit encouraged a more visible monarchy, wherein the monarch operated mainly as a symbol of the nation—not as an influential actor in politics. The shattering of Sarit's legitimizing strategy and the failure of a successful alternative to replace it have created the opening for a much greater role for the monarchy in the 1980s. What began as a complement to the strategy worked out by Sarit has grown to be the dominant legitimizing force in Thai politics. Moreover, in recent years the monarchy "has been able to exert decisive influence on events at crucial junctures." This began with the October 1973 uprising when the king intervened to persuade Thanom and other key leaders to leave the country—and has continued ever since, most dramatically in 1981 when the monarchy sided with the government in an attempted coup, ensuring that the coup leaders would fail to gain popular support.³⁷ This kind of direct intervention in politics runs the risk, however, of undermining the claim to represent the general interest, and raises the question of how effectively subsequent monarchs can play the role so ably played by King Phumiphol.

For these tenuous political arrangements to become institutionalized and to develop legitimacy of their own rather than depend upon the monarch, the pattern of economic development must sustain rather than undermine them as the pattern of development promoted by Sarit undermined his regime. In Sarit's case the main conflict was between social forces emerging from the process of economic development and an exclusionary political regime. Today two overlapping conflicts threaten the continuation of the regime. One is the conflict between the military and civilian politicians. The other is the conflict between a large number of well-organized business groups who benefit from present patterns of economic development, and technocrats and economic managers who believe that it is necessary for Thailand to change these patterns of development if it is to continue to develop successfully. These overlapping conflicts led to the collapse of a government in 1986 and underlie much of the debate in Thailand over the future of the present regime. To understand how the second conflict emerged it is useful to examine some of the problems Thailand now faces after decades of rapid growth and how these problems have led to a greater role for state management of the economy.

"From 1960 to 1977, GDP [gross domestic product] growth averaged 7.6% a year and was broadly based with all sectors participating in the

³⁷One of the best discussions of the changing role of the monarchy is Sukhumbhand Paribatra, "The Chakri Dynasty and Thai Politics, 1782–1982," unpublished manuscript. Discussion in published sources include Wyatt, 306–307, and Derek Davies, "A Right Royal Example," *Far Eastern Economic Review*, vol. 131 (January 23, 1986), 22–25.

growth process."³⁸ Even though it has slowed from this pace in recent years, its growth rate is well above the average of other middle-income less developed countries. This growth was accompanied by dramatic reductions in the percentages of persons living below the poverty level. It also was accompanied by rapid diversification of crops, the acceleration of industrial growth and the expansion of agricultural and industrial exports. In comparison with many other countries Thailand's economy has performed well. Its problems are hardly of the same magnitude as many African countries, or of such major debtors as Mexico.

Nevertheless, Thailand faces several difficulties that are cause for concern and that, if not addressed effectively, could become increasingly serious. Some of these stem from the pattern of growth Thailand has followed since the 1950s, and they have been considerably exacerbated by recent trends in the world economy. One is that public and private investment projects have been biased toward the more developed areas of the country. As a consequence, the National Economic and Social Development Board (NESDB) points out, "the pattern of economic growth has been mainly concentrated in Bangkok and the Central region."³⁹ The World Bank reaches a similar conclusion.⁴⁰

This disparity was a source of concern for some scholars and government officials in the early 1970s, but as long as real incomes and standards of living continued to improve the problem did not appear to be particularly serious to most policy makers. Now this improvement is threatened, and a number of observers both inside and outside Thailand have begun to be concerned about trends in the rural areas. For decades Thailand has been able to achieve relatively high agricultural growth rates mainly by bringing previously unused land under cultivation, not through high yields. In fact, yields per hectare for major crops have remained low. With the gradual disappearance of frontier areas, further growth rates in agriculture will have to come largely from increases in productivity. Without such increases farmers will find it very difficult to increase their incomes. In some areas that depend upon rainfed agriculture the farmers' incomes may even decline. In addition, there is increased concern about growing

³⁸The quotation is from *Thailand: Toward a Development Strategy of Full Participation* (Washington, D.C.: The World Bank, 1978), i. Oey Astra Meesook reports that the proportion of persons living below the official poverty line declined from 57 percent in 1962/63 to 33 percent in 1975/76. The data are from Oey Astra Meesook, *Income, Consumption and Poverty in Thailand, 1962/63 to 1975/76* (Washington, D.C.: The World Bank, 1979), 49–53.

³⁹*The Fifth National Economic and Social Development Plan, 1982–1986* (Bangkok: National Economic and Social Development Board, 1981), 81.

⁴⁰*Thailand: Toward a Development Strategy*, 30.

inequalities among farm households in some of the wealthier rural areas of the Central Plains and in the North. This concern focused mainly upon tenancy in the past, but landlessness also has become a source of concern. A closing land frontier coupled with the creation of too few jobs in urban areas is likely to cause growing landlessness and urban unemployment.⁴¹

These difficulties have been exacerbated by changes in the international economy. Thailand is much more open to influences from the international economy than it was two decades ago. The "ratio of import-export value against the nominal GNP . . . rapidly increased from 34 percent in 1960 to 49 percent in 1980."⁴² Greater emphasis upon exports played an important role in Thailand's rapid economic growth in the 1960s and 1970s, but it also made Thailand more vulnerable to shifting trends in international trading patterns. While Thailand successfully diversified its crop exports, and began to export a range of light industrial products, its exports remain concentrated in products which are vulnerable to falling prices and protectionism.⁴³ The strategy, which worked well in the 1960s and early 1970s, began to encounter increasing difficulties as terms of trade turned against Thailand and protectionism increased in several of its markets. The "terms of trade losses suffered since 1980 are the major underlying force explaining the slowdown in Thai economic growth in the 1970s and early 1980s when compared with the 1960s, and account to a large extent for the deterioration in the balance of payments since 1979."⁴⁴ Making these difficulties worse is growing food self-sufficiency in such traditional export markets as Indonesia. Most disturbingly, several of these trends appear to be structural rather than cyclical. If this is the case, then Thailand cannot simply wait for another upturn in the world economy to restore former rates of growth.⁴⁵

At the same time that its continued earning capacity from international trade has been threatened, Thailand has continued to have high import bills. The industrial sector has grown rapidly in Thailand, but much of the sector is heavily dependent upon intermediate and capital

⁴¹Ibid., 71–73. See also Ansil Ramsay, "Population Pressure, Mechanism, and Landlessness in Central Thailand," *Journal of Developing Areas*, vol. 19 (April 1985), 351–368.

⁴²Suehiro, chap. 5, p. 5.

⁴³*Thailand: Managing Public Resources for Structural Adjustment* (Washington, D.C.: The World Bank, 1984), 174–179. In 1983 primary commodities accounted for 62 percent of Thailand's merchandise exports, fuels, minerals, and metals accounted for 6 percent, while textiles and clothing accounted for 11 percent. These data are from *World Development Report 1986* (Washington, D.C.: The World Bank, 1986), 198. Integrated circuits have emerged as a major export item in recent years but the firms producing these circuits are mainly American and the linkages of this industry with the rest of the Thai economy are weak.

⁴⁴*Thailand: Managing Public Resources for Structural Adjustment*, 34.

⁴⁵*The Fifth National Economic and Social Development Plan*, 2.

goods imports. Even with a growing number of Thai industries and an increased emphasis upon exports, there has been little development of intermediate and capital goods industries in Thailand. As a consequence Thailand must import many of these goods from abroad. Also of concern along with trade deficits is a growing external debt caused in part by a pattern of insufficient domestic savings.

The drop in prices for many Thai products in world markets in the last few years has cut into earnings of farmers and businesspersons, thus lowering domestic demand for goods and services. This has contributed to slowed economic growth. And slowed economic growth has led in turn to growing problems with budget deficits because of lower tax revenues. The estimated budget shortfall in 1986 of sixty billion baht is a record high deficit for Thailand. Also of concern is the composition of the budget. The largest item in 1986, as has been the pattern in recent years, is debt servicing—and the areas of the budget which have suffered most from the shortfalls are the development categories.⁴⁶

The response has been a greater role for state officials in managing the economy. There are a number of reasons for this. One is that only the state can take certain kinds of steps to address the difficulties. These include decisions on foreign exchange rates to encourage greater competitiveness for Thai products, control of the money supply, large investments in intermediate and capital goods industries which individual businesses or groups of businesses cannot afford, better regulation of unsound business practices which harm the reputation of Thai products abroad, pressuring other governments to reduce tariffs (or at least not enact new ones), and dealing with international agencies such as the World Bank and the International Monetary Fund. These steps cannot be taken by individual businesses or by business groups, and the businesses themselves recognize this. While they continue to call for the elimination of bureaucratic red tape and inefficiency, they also call for government leadership in addressing the problems Thailand now confronts.⁴⁷

It is worth emphasizing that it has been technocrats and economic managers who have taken the most active role in addressing the problems, not cabinets as a whole or the more traditional ranks of the bureaucracy. One source of new policies and strategies could, at least in theory, come from elected cabinets. For a variety of reasons this has not happened. One is that the fragmented party system leads to fragile

⁴⁶*Thailand: Managing Public Resources for Structural Adjustment*, xxv, 75; and Pisit Leeahtam, "Some Aspects of the Recent Adjustment Efforts in Thailand: The Twin Deficits," *Bank of Thailand Quarterly Bulletin*, vol. 25 (September 1985), 63.

⁴⁷See, for example, "Dark Clouds with a Silver Lining," *Bangkok Bank Monthly Review*, vol. 27 (February 1986), 51.

coalition governments, and the members of the coalition tend to be concerned overwhelmingly with particularistic goals. The rapid turnover of ministers in governments increases the difficulties of elected governments trying to make major economic decisions.⁴⁸

Even in their election campaigns, when they do not have to be concerned about immediate issues such as which member of the party gets which cabinet seat, party leaders have not presented coherent economic policies to address the interlocking economic problems. Paisal Sricharatchanya, commenting on the economic policies sketched out by the parties in the 1986 elections, notes that while "most parties are singing the classic tunes of raising crop prices and improving the lot of the rural poor, few seemed to possess a comprehensive blueprint designed to systematically address all the country's economic ills. What transpires is largely a collection of proposed programmes aimed more at tackling specific trouble spots in the short term than rectifying longer-term structural problems."⁴⁹

If the parties lack such comprehensive blueprints, so do the military factions. While many of the reformist elements in the military are concerned about levels of poverty in the countryside and exploitation of rural people, none seems to have an overall strategy of how to tackle these problems or a vision of the direction Thailand's economy should take. One example of this was the attempted "Young Turk" coup of 1981. According to recent analyses of the coup, the coup makers had at best very fuzzy ideas of the kind of economic strategy they wished to pursue if they had been able to consolidate their power. The leaders of the failed coup of September 1985 seemed to have had even fuzzier economic ideas. The handling of major economic problems has gone by default to the technocrats.

A second reason for the growing influence of technocrats is simply the growth in their skills and numbers. In the early 1960s Thailand relied heavily upon technical expertise from outside the country, mainly from the United States and the World Bank. Increasingly, Thailand has been able to staff its agencies with its own technocrats. They, to a much greater degree than politicians or military leaders, are able to address the complexities of the economic issues facing Thailand. The edge which such expertise would give any group of technocrats in a similar situation elsewhere in the world is enhanced in

⁴⁸"A Critique of the New Government's Economic Policy," *Bangkok Bank Monthly Review*, vol. 23 (June 1983), 260.

⁴⁹Paisal Sricharatchanya, "Promise of the Good Life," *Far Eastern Economic Review*, vol. 133 (July 17, 1986), 36-37. For a summary of the platforms of the major parties see "Economic Policies of Major Parties," *Bangkok Bank Monthly Review*, vol. 27 (July 1986), 301-308. See also "Nayobai phatana kaset tam phaen hok lae khong phak [Policies for Developing Agriculture of the Sixth Plan and Political Parties], *Su Arukhot* (September 8-14, 1986), 20-22.

Thailand because they are able to draw upon a heritage of political values and symbols which gives great prestige to high-ranking government officials.⁵⁰

Third, the technocrats have become much more effective in coordinating activities among various institutes such as the NESDB and key economic ministries. This has been especially true under a succession of governments led by Prime Minister Prem. His willingness to listen to technocrats and make them his advisors has helped this process, but leading technocrats also have taken the initiative in coordinating their activities so as to increase their influence. They also have taken the initiative in addressing particular problems and have acted on these problems even when their actions offended major groups of businesses.

Finally, the technocrats' influence stems from a shift in emphasis upon the predominant problems facing Thailand. Before the oil crises of the 1970s "political stability and national security were the most important targets for the political leaders. . . . After the oil crisis serious economic problems such as inflation, unemployment, a widening income gap between the cities and rural areas became more essential matters to be solved by the government."⁵¹ These issues give an advantage to the technocrats.

In recent years they have taken an active role in making both short-term efforts to achieve macro-economic stability, and long-run efforts to reshape the Thai economy in ways which will avoid or eliminate the structural problems that have emerged in the last few years. Among the short-run steps have been the baht devaluation of November 1984, a program of government austerity since 1983, tighter regulation of banks and chit funds and the tax reforms of 1986.

In addition to these short-run interventions, government agencies also have taken on a much more activist role in attempting to reshape the structure of the economy, to eliminate or at least alleviate the vulnerabilities and failings of the past development strategy. This is a marked departure from the role given the government in the Sarit years when its main function was to be supply infrastructure. One of the most obvious examples is to move toward a greater export orientation for the economy. This includes efforts to make Thailand's industries more efficient and competitive in world markets through restructuring, and attempts to move away from biases against exports. These efforts thus far have achieved limited results, but they continue to be a focus of governmental strategy.

⁵⁰Suehiro, chap. 5, pp. 10 and 56. For an excellent discussion of Thai attitudes toward civil servants and politicians see Morell and Samudavanija, 24-34.

⁵¹Suehiro, chap. 5, p. 55.

Another example is the Eastern Seaboard Project. In some ways this is an example of providing infrastructure, but it goes well beyond past examples such as building irrigation systems and roads. In the Eastern Seaboard Project the government is taking a major role in developing a new kind of industrial structure for Thailand, thus lessening Thailand's dependence on other countries for capital and intermediate goods. There are several proposed elements to the project and they have been the subject of intense debate for months, but several of the elements now have been approved. These include a commercial deep seaport at Laem Chabang and an export processing zone near the port. Another example of a huge project already well under way and linked to the Eastern Seaboard Project is the development of Thailand's natural gas resources.⁵²

These efforts at restructuring the economy are set within the context of a clearly articulated strategy of economic development which underpins and justifies these kinds of activism. One of the best spokesmen for this strategy is Snoh Unakul, Secretary General of the NESDB. He suggests that by 1980

it had become quite evident that high growth alone would not be enough, nor desirable, nor sustainable in view of the growing domestic structural imbalances and the severe economic and financial constraints following the second oil shock and the longest and deepest recession the world had to face since the Great Depression.⁵³

As a consequence the Fifth Economic Plan (1982–1986) was designed to achieve more balanced growth than in the past. Its major goals were stabilizing the economy, diversifying agricultural and industrial growth, decentralizing growth outside the Bangkok region, and developing better public and private sector cooperation.⁵⁴ The last point is worth emphasis. Before the 1980s, Dr. Snoh notes, the relationship “was not good.”

There was a prevailing sense of distrust, and elements of arrogance on both sides. The public sector regarded the private sector as selfish entrepreneurs and thinking only of their personal profits with little sense of social responsibility. The private sector, on the other hand, suspected Government officials of being extremely inefficient, corrupt and bureaucratic in their working attitude.⁵⁵

He believes that these points of view have begun to change somewhat, especially since the creation of the Joint Public/Private Sector

⁵²These projects have been discussed in numerous publications. A useful brief overview can be found in *Thailand: Managing Public Resources for Structural Adjustment*, 190–202.

⁵³Snoh Unakul, “Thailand: The Fifth Plan Strategy,” in *National Development Strategy of Thailand* (Bangkok: National Economic and Social Development Board, no date), 19.

⁵⁴*Ibid.*

⁵⁵*Ibid.*, 25.

Consultative Committee in 1981: "I think we can say with confidence that as far as public/private sector cooperation is concerned, we have never had it so good." These changes are summarized in his conclusion that "*the Thai government has made considerable progress in transforming its role from a rigid regulator to a flexible promoter.*"⁵⁶ The government clearly intends to continue to play this role in the new Sixth Five-Year Plan even though the private sector will be expected to carry more of the burden of economic development.

Whether the government can play this role successfully remains to be seen. The technocrats do not have a strong political base of their own to carry out the plans they have articulated. This is critical, because while major businesses have called for greater government leadership in addressing key economic problems, the technocrats and economic managers within the government have their own agendas and strategies which in some cases lead them into direct confrontation with business groups as well as with the military, civil servants and labor unions. These organizations will fight to block changes which adversely affect their interests, and in recent decades they have become more effective in defending these interests through political parties, membership in cabinets, and the numerous government/industry consultative groups as well as by extraparliamentary means such as demonstrations. At the same time the older style factional struggles for power described by David Wilson and Fred Riggs continue and can be used to defend privileged positions in the economy.

One of the main effects of the austerity policies was to slow economic growth even further than it already had been slowed by negative trends in the world economy. While several export-oriented industries were helped by the government policies, other industries were hurt, including many import-substituting industries which had emerged in the 1960s. These included automobiles, consumer durables, liquor and soft drinks. Many of these were parts of business conglomerates linked to major banks. Banks also were hurt directly by the policies because of lowered demands for loans and excess liquidity. Chatri Sophonpanich of the Bangkok Bank, for example, bluntly stated in late 1985 that "business conditions were the worst in two decades."⁵⁷ The policies also antagonized some of the political parties in the governing coalition who believed they were losing electoral support through their association with the policies. These parties were in turn linked to some of the businesses most adversely affected by the government's economic policies.

⁵⁶Ibid., 26. Emphasis added.

⁵⁷"Current State of the Economy," *Bangkok Bank Monthly Review*, vol. 26 (November, 1985), 501.

These frustrations culminated in the collapse of the Prem government in May 1986 and new parliamentary elections in July. John McBeth wrote of the government collapse:

The available evidence suggests it was this convergence of interests that lay behind the downfall of Prem's ruling coalition, highlighted by the subsequent role of at least one senior general in helping to put together an alliance of old-guard politicians—many of them with connections to powerful banking and business families who have suffered as a result of the administration's austere fiscal measures over the past two years. Their avowed aim: to block the return of Prem (and through him Finance Minister Sommai Hoontrakul) and to promote the political future of dismissed army commander Gen. Arthit Kamlang-ek, an outspoken critic of Prem's 1984 baht devaluation.

The hostile attitude of many banks can be traced back to the baht devaluation and the heavy losses they took because they had not been aware it was coming. But they have also been aggravated by a government crackdown on sloppy and irresponsible banking practices, particularly among a plethora of family-owned concerns—a move which foreign bankers say was long overdue.⁵⁸

The government which followed these elections was still another coalition—and even more unstable than the one which preceded it, for reasons discussed by Suchit Bunbongkarn in another chapter in this volume.

Conclusion

Those who argue that there has been no significant political evolution in Thailand are correct to argue that there is much continuity in Thai politics. A person coming directly to the 1980s from the 1950s would find much that he or she would recognize. But there also have been important changes. The three discussed in this paper are the emergence of groups outside the bureaucracy, most notably business groups and an urban middle class, the increased role of the monarch in legitimizing and stabilizing governments, and the more active role played by government technocrats and economic managers in the economy. The argument of the author has been that these changes have not been random, but are related. The political formulas worked out in the Sarit era succumbed to the consequences of economic development initiated in that era. The pattern of development Thailand pursued led to the growth of numerous social forces and a more pluralistic society. Their political participation has been institutionalized tentatively in the present polity, but there is still no widely accepted legitimizing formula for the present arrangements. The monarchy has stepped in to fill this role and to provide a stabilizing

⁵⁸McBeth, "Political Crossroads," 41.

influence in an unstable setting. The pattern of development initiated under Sarit brought considerable economic growth, but also led to structural economic problems which have been exacerbated by changes in the international economy. These have in turn enhanced the role of state economic managers and technocrats.

It is not possible to predict the future pattern of political evolution in Thailand. Those who have tried to do so in the past have often failed, predicting stability just before the upheavals of 1973 and revolution in the 1980s just before the collapse of the Communist party of Thailand and the revolutionary movement it led. Nevertheless, it might be worthwhile in closing to discuss two possible alternatives for the future without attempting to predict which, if either, is most likely to evolve. One is the possible emergence of a bureaucratic-authoritarian regime similar to regimes in Brazil and Argentina in the 1970s. These regimes emerged in highly pluralistic Latin American countries which had undergone considerable economic growth in the 1950s and 1960s, not in the least developed countries of Latin America. Their main themes were severely limiting popular participation in politics while emphasizing rapid, managed economic growth. Such a regime would have considerable appeal to parts of the Thai military, a number of technocrats, and many businesspersons who see the "ambiguities of bargaining and politics as hindrances to 'rational' solutions" and for whom "conflict is by definition 'dysfunctional.'"⁵⁹ Such a regime could appeal to the importance of solving serious economic difficulties facing Thailand and emphasize the necessity of economic growth and restructuring, which can be disrupted by the irresponsibility of electoral politics. It would have powerful resonance in Thai political culture with its emphasis upon respect for civil servants and disrespect for politicians.

While such a regime might have considerable appeal for many, it is doubtful whether it would achieve the goals claimed for it. If the Latin American experience is any guide, bureaucratic-authoritarian regimes are not particularly successful in handling the kinds of economic and political difficulties facing Thailand.⁶⁰ They were unsuccessful in the long run in achieving macroeconomic stability, much less in achieving progress in lessening income disparity. One of the claims that some make against the present Thai polity is that it is dominated by capitalists who exploit "the people" and generate poverty and inequality. Yet the Latin American bureaucratic-authoritarian solutions did not

⁵⁹The concept of "bureaucratic-authoritarian regime" and its application to Latin America is developed in Guillermo A. O'Donnell, *Modernization and Bureaucratic-Authoritarianism: Studies in South American Politics* (Berkeley: Institute of International Studies, University of California, 1973).

⁶⁰Edward C. Epstein, "Legitimacy, Institutionalization, and Opposition in Exclusionary Bureaucratic-Authoritarian Regimes," *Comparative Politics*, vol. 17 (October 1984), 37-54.

improve income distribution or alleviate poverty. Finally, the Latin American bureaucratic-authoritarian regimes did not resolve the political problem of how to institutionalize participation in more pluralistic societies. They only postponed the problem. There is no reason to believe a Thai version would do any better.⁶¹

An alternative future would be the retention and adaptation of the present polity despite its faults. It has a number of potential strengths. One is that it institutionalizes compromise and tolerance rather than violence as a means of solving conflicts. These concepts also have powerful resonance in Thai political culture and have been typified recently in the amnesty program for former Communist partisans. Second, it institutionalizes a way for new social forces to enter politics. This may not occur rapidly enough for some who would like to see more democratic politics, but the possible alternative of a bureaucratic-authoritarian regime would cut off wider participation entirely. A strengthening of present arrangements potentially allows for the organization and entry into politics of presently excluded groups. Finally, it is important to remember that despite Thailand's economic difficulties in the past decade, it has done very well in comparison with most other countries. As Amnuay Viravan has pointed out in comparing Thailand with other Southeast Asian nations and the "four little dragons" of East Asia, "One can argue that Thailand is also pursuing a more open approach to political development than nearly all these countries. We are further along the path to a practising democracy even if this democracy is more informal, rather than formal, in structure."⁶² For those favoring this latter path the main tasks will be to find (and help build) a coalition of supporters who benefit from the continuation of the present polity, a legitimating formula which will sustain the polity, and economic policies which will pay off sufficiently in the short run to hold together the coalition of supporters—and in the long run to support further evolution toward a democratic polity.

⁶¹Sylvia Ann Hewlett, *The Cruel Dilemmas of Development: Twentieth Century Brazil* (New York: Basic Books, 1980).

⁶²"Government is, at long last, 'taking the bull by the horns,'" *Nation Review* (April 2, 1985), 5.

4. Contemporary Thai Political Development

SUCHIT BUNBONGKARN

The period between the second seizure of power by General Kriangsak Chamanan in late 1977 and the general elections in July 1986 saw an interesting political development in Thailand. It is a period in which an open politics, with an increasing role of participatory institutions, was allowed to exist and develop. While there were two coup attempts in April 1981 and September 1985, the military by and large was forced to share power with political parties and the elected House. Never since 1949 had the House of Representatives enjoyed such a long stretch of political durability, having three elections consecutively (in 1979, 1983 and 1986) without successful military interruption. Throughout this nine-year period, an uneasy political balance had been maintained, allowing political parties and the elected House to strengthen themselves. Although their ability to accomplish this was limited, and the possibility of having a coup cannot be ruled out, it is the participatory institutions—not a coup—that put an end to the Prem government in 1986.¹

However, the military still is a formidable political force as it always has been since 1932. Coups, not elections, are the more common practice for changing the government. For more than fifty years, the political change in Thailand has evolved in a pattern which some Thai political experts called a vicious circle or cycle—starting with a coup, followed by an election and a brief period of parliamentary rule until a crisis sets in, leading to another coup.² This cycle certainly reflects struggles for power between military elites and elected political elites which always lead to Army seizure of power. But since 1980, the

¹After being defeated in the House of Representatives over the diesel vehicle tax decree on May 1, 1986, General Prem, the prime minister, decided to dissolve the House; the dissolution terminated the government as well, and a new government was to be set up after the general election.

²See Chai-Anan Samudavanija, *The Thai Young Turks* (Singapore: Institute of Southeast Asian Studies, 1982), 1–3; Likhit Dhiravegin, “Thai Politics from June 1932 to the Coup of 1957: The Struggle Between the Bureaucracy and Democracy,” paper presented to the International Conference on Thai Studies, August 22–24, 1984, organized by the Thai Studies Programme, Chulalongkorn University, Bangkok, 8.

parliamentary system has been more durable and a coup is becoming more difficult to achieve, while the military continues to be able to influence government decision-making in the area of national security. Moreover, it is believed that if a political situation gets out of hand, the military will step in to "clear up the mess."

This cycle also can be explained in a context of conflicts between those two elitist groups over the issue of the political participation of the masses. In their study of political participation in developing nations, Huntington and Nelson point out that the political elites' attitude about the desirable levels, forms and bases of political participation (defined as an activity by a private citizen designed to influence governmental decisionmaking) depends in part on the effects these have on their ability to gain power and remain in power.³ The political elites out of power are more likely to be interested in expanding political participation as a way of altering the balancing forces in the political arena, while the incumbent political elites are normally not in favor of expansion of political participation. The latter may be in a better position to broaden the scope of participation but as Huntington and Nelson argue, "They are much more inclined to see any shift in the participation pattern as a threat to the political status quo of which they are the principal beneficiaries."⁴

In the case of Thailand, the analysis by Huntington and Nelson seems relevant. The military elites who most of the time are in power have no interest in expansion of political participation. The reason is quite clear: An expansion of popular political participation will enhance the political legitimacy and power of civilian politicians, thus threatening directly the military elites' domination in politics. For the civilian political elites who generally are the challengers to the status quo, an expansion of political participation is quite essential. The people are their power base and source of political legitimacy. Bringing the people or new societal groups into the political process will alter the existing balance of forces and tend to strengthen the political position of the elites out of power while weakening the authority of the incumbent elites. However, this has not been easy to accomplish. What the parliamentary politicians have been lacking is an effective and highly institutionalized party system to serve as a tool to establish links with various social groups, institutions and the masses. As Kramol points out in his study of the Thai political system, Thailand's parties are viewed by Western political theorists as merely political

³Samuel P. Huntington and Joan M. Nelson, *No Easy Choice: Political Participation in Developing Countries* (Cambridge: Harvard University Press, 1976), 3, 29.

⁴*Ibid.*, 29-30.

cliques or at best political factions.⁵ They pose no threat to the military's monopoly of power.

Since the general election in 1979, however, the conflict between military elites and elected political elites has undergone some change. This stems from the fact that the prospect for civilian elites for a greater share in the power structure has brightened. The system under the 1978 constitution has gone through several political storms and obstacles. It has survived two attempted coups. The elected politicians seem to have more chance to establish a link with the masses, expand their power base and institutionalize their own parties. In a period of semi-open politics such as this, the military has had to look for more options for influencing the government decision-making process other than seizure of power by force. The military leaders seem increasingly to realize the political significance of popular political participation and mass support. What they have been doing recently is to establish a link with the masses at the grass-roots level in the rural areas, mobilizing them to support the Army's actions. Several organizations have been set up by the Army or with its support to mobilize peasants and villagers for security purposes. The National Defense Volunteers, the military Reservist Corps for National Security and the Self-Defense and Self-Development Villages were established for organizing peasants and villagers to work for the military. The members of these programs are trained to defend their communities, encouraged to participate in developing their villages and taught basic democratic concepts. The military has hoped that this training and organization will help deter the Communist subversion in rural areas. However, since the military has organized a large number of villagers to join these military-sponsored programs, it can mobilize them for political purposes, for example to support or oppose certain political parties in elections.⁶

The nature of the conflict between military leaders and elected politicians therefore has changed. It is no longer the conflict over whether political participation should be contracted or expanded. But it is the conflict stemming from the fact that the military and parties now are competing with each other for mass support. Political participation now is needed by both the Army and the parties.

However, political participation advocated by the military and political parties is confined to electoral votes and some forms of mobilization. Any participation which would lead to a destabilizing situation in the political system will not be tolerated by the military. While the

⁵Kramol Tongdhamachart, "Toward a Political Party Theory in Thai Perspective," *Occasional Paper No. 68* (Singapore: Institute of Southeast Asian Studies, and Maruzen Asia, 1982), 39.

⁶For details of the military's mass movement, see Suchit Bunbongkarn, *The Military in Thai Politics: 1981-1986* (Singapore: Institute of Southeast Asian Studies, 1987), chap. 4.

parties seem to be more open-minded than the military on the issue of participation, they are reluctant to allow involvement in the political processes by some "radical" groups such as labor and peasant organizations. The theory is that such involvement might, from their point of view, jeopardize their interests as well as affect the political status quo.

So, the problem really worth studying revolves around the interaction between the military and the civilian political elites during the 1980s. How did the 1986 elections reflect a development toward a more stable democracy? To what extent are the civilian politicians and political parties able to exert their role in the political process? What are the strengths and weaknesses of the military regarding its role in the new open politics? Will the democratic government be able to institutionalize its role? These questions cannot be answered easily. However, this paper will attempt to shed some light on the issue of interaction between the parties and the military, with emphasis on the political evolution related to the 1986 elections.

Leadership Succession Problem in Open Politics

The July 1986 general election, the third one since 1979, and political developments occurring after the elections did not reflect progress toward a more stable and efficient representative government. The long stretch of the parliamentary system since 1979 has not demonstrated any sign of institutionalization of the system. On the contrary, the political struggles among the political elites during this period reveal several problems which reflect the lack or the low level of institutionalization of open politics.

One of the problems has been that of the leadership succession. The durability of the representative government did not produce an institutionalized system of leadership succession and recruitment. The problem of leadership succession was revealed in the election campaign during which a movement against a continuation of General Prem Tinsulanond's leadership was growing but the dissident forces could not find a new leader to replace him. A number of political parties, notably the United Democratic and Mass parties, expressed the position quite clearly that they would not accept General Prem as a new government leader. They even launched a campaign for having a member of parliament as prime minister. The campaign seemed to capture interest among a number of political parties and other pressure groups including the Student Federation. In Bangkok, the concept became so popular that there would be a liability for any party campaigning for a continuation of General Prem's political leadership.

Major political parties including the Democrats had to shift their position to agree with the campaign in order to get support from the voters.

The decrease in General Prem's popularity stemmed from several factors. Apart from his austere economic programs which created discontent in the private sector, he had been criticized for being indecisive and putting himself above political conflicts. For instance, in the "Tantalum" case in June 1986, he was accused of being indecisive in dealing with the issue leading to violent rioting and the burning down of the tantalum plant in Phuket.⁷ Moreover, the Thai people seemed to tire of leaders who stayed in power for too long, particularly the ones who were considered indecisive and inclined to compromises. It became quite obvious after having been under this type of leadership for some time, that they wanted a change in leadership style and needed a more decisive, aggressive, outspoken and strong leader.

Nevertheless, there was no one who fit perfectly in this category. General Arthit Kamlang-ek, despite his strong personality, aggressiveness and decisiveness, was not widely accepted since he was regarded as being too aggressive, authoritarian and self-centered. According to some opinion polls conducted before the elections, General Arthit was rated below General Prem as a government leader notwithstanding the fact that the people were not satisfied with the performance of the Prem government.⁸

The party system could not provide any alternative to General Prem's leadership. Anti-Prem parties which campaigned for an elected prime minister in an effort to block the General nominated Pichai Rattakul, the leader of the Democrats, as their choice to be the new head of government. However, the party system was not strong enough to push the new man through. Everyone was convinced that a prime minister without support from the Army would not be in power for long, and in the 1986 elections the fact that the Army clearly still supported General Prem put the parties' alternative candidate in a very difficult position. Even the Democrats, who foresaw trouble if they campaigned for their leader, decided eventually to back General Prem for the premiership. The inability of the party system to produce an alternative leadership to that of General Prem revealed the seriousness of the problem of leadership succession. Chaos was expected if General Prem could not stay in power in the future. The party system cannot provide capable political leaders acceptable to the public and major political and other influential groups unless it becomes more highly developed and institutionalized.

⁷See *Sayamrath Sapdavitarn*, July 6, 1986, 2, 6-7.

⁸See, for instance, a poll conducted by the Faculty of Political Science, Thammasat University and *Siamrath* newspaper, *Siamrath*, July 25, 1986.

The 1986 Elections: Demonstration of a Fragile Party System

The 1986 election revealed that the party system was still far from being institutionalized. It reflected the weakening party system, besieged by problems of factionalism and dominated by big business leaders who joined the parties only to protect their personal interest. In fact, factionalism within the parties had already existed before the elections. It was a rift in the Social Action party (SAP), the largest coalition partner at the time, which led to the dissolution of the House of Representatives and the July 1986 elections. The rift in the SAP was due to the struggle for power among various factions in the party and the most serious scramble for a cabinet portfolio came in December 1985 when M.R. Kukrit Pramoj resigned as the party's leader. His resignation coincided with a protest against Minister Kosol Krairirksh over his handling of the problem of rice prices which led to his resignation a few weeks later. These two resignations made the cabinet reshuffle under the SAP's quota possible, but the rift in the party was widened. Those who lost the cabinet seats began to campaign against the new party leader, Air Chief Marshal Siddhi Swetsila, and General Prem. It was this dissident group headed by former Deputy Prime Minister Boontheng Thongswat which engineered the defeat of the government-sponsored motor vehicle registration tax decree in May 1986. The defeat forced the government to dissolve the House and call a new election in July.⁹ The election allowed the rifts in various parties to come to the surface, and several new parties were formed by defectors from major parties. The United Democratic party was formed and led by Boontheng, a former deputy leader of the SAP; another group from SAP led by Narong Wongwan joined a faction of the Chart Thai to form the Ruam Thai party. Another former deputy leader of the SAP, Boonchu Rojanasathien, set up the Community Action party. What was even more interesting was the establishment of a party by former military leaders, General Thienchai Sirisamphan and General Mana Ratanakoset; their Rasadorn Party reflected the determination of some military leaders to play the political game by the rules, at least for the time being.

It is not surprising, therefore, that with this proliferation of parties, the fragility of the party system continued after the elections. The strength of the two major parties—the SAP and the Chart Thai—was reduced considerably in this election (see Table 1 for election results). Compared to the 1983 elections, the SAP lost 41 seats and the Chart

⁹For details of the vote over the motor vehicle registration fee decree see the *Bangkok Post*, May 2, 1986.

Thai party lost 10 seats, partly because of the rift within the parties.¹⁰ After the election, the Democrats replaced the Chart Thai as the largest party with 100 seats in the lower house, a gain of 44 but still 74 short of a majority. The fragility of the multi-party system was further reflected by the fact that 94 seats were won by six new parties, for 27 percent of the total number of seats.

The fragility of the multi-party system after the elections was further demonstrated by factionalism and splits within the major parties. The struggles among them for the cabinet posts was one of the major causes for a party rupture. The rift in the Democrat party, the oldest party, which won the largest number of seats in the election, serves as a case in point. In the "Prem V" cabinet (the one following the 1986 election), the Democrats were given 16 cabinet seats out of the total number of 45.¹¹ As expected, those who failed to win the posts protested. The prime mover was Chalermphan Srivikorn, who was one of the party's deputy leaders, an M.P. from Bangkok and a major financier of the party who was dropped from a cabinet post. He was backed by a large number of the Democrats in parliament who were dissatisfied with the cabinet line-up. The Democrat party was known to have established a system of selecting candidates for M.P. and cabinet portfolios. But since the party needed to win the largest number of seats before it could make appointments, big business tycoons as well as local leaders were solicited to join the party; these newcomers, determined to make their contributions pay off, always demanded cabinet posts, and if they failed to get them, they resorted to almost any measure to press for a cabinet reshuffle. Chalermphan's demand for ousting Phichai, on the ground that the party's leader did not comply with the party resolution in proposing candidates for the cabinet post, also was aimed at prompting a change in the cabinet line-up.

One may wonder what would be the impact of the increase in the number of businesspersons joining politics. Would it help strengthen the party system? In the July 1986 elections, there was a sizable number of businessmen running for parliamentary seats. Out of the total number of 347 members of parliament, 86 or 24.78 percent reported that they were in the business field.¹² Actually, the number should be

¹⁰In the 1983 election, the SAP and the Chart Thai party won 92 and 73 seats respectively, and the total numbers of their seats were increased to 101 and 108 thereafter when several small parties and a number of independent MPs joined them. In the 1986 elections, the SAP and the Chart Thai party won only 51 and 63 seats respectively. See *Eksan Khao rathasapha* [The National Assembly Newsletter], August 1, 1986, 9.

¹¹See *ibid.*, August 16, 1986, 3-6.

¹²*Ibid.*

Table 1
RESULTS OF THE 1986 GENERAL ELECTIONS

Party	Seats Won	Percent
Democrat	100	28.82
Chart-Thai	63	18.16
Social Action	51	14.70
United Democratic	38	10.95
Prachakorn Thai	24	6.93
Ruam Thai	19	5.48
Rasadorn	18	5.19
Community Action	15	4.32
Progressive	9	2.59
Others	10	2.87
Total	347	100

SOURCE: Election Division, Department of Local Administration, Ministry of Interior.

higher since a number of those who reported that they were in other professions, such as lawyers, ex-civil servants, farmers and politicians, were also businesspeople. The large number of business professionals involved in politics indicated that the economic interest groups—such as bankers, financiers, industrialists, exporters, importers and wealthy farmers—began to exert their role in the political process to protect their own interests. Their involvement in party politics theoretically should strengthen the party system since the parties would be able to expand their support in business communities, to recruit competent, successful managers to run the parties, and to get more financial assistance from these wealthy businessmen. However, the struggle for power among business interests themselves within the parties often exacerbated the existing factional conflicts. Their entry into politics was only to protect their own business interest or to make personal gain. Many of them demonstrated lack of loyalty and commitment to their party.

Business involvement in politics has also caused an increase in spending on the election campaigns. It is believed that in the 1986 elections a large amount of money was spent by major party candidates having business backgrounds or by those who had a high stake in the election. Most of these businessmen entertained the idea that money could buy everything including political positions. Therefore, a great deal of money was put into the election campaigns including direct vote buying. Money was an even more decisive factor in a constituency where major candidates of different parties contested and could not afford to lose. For example, in Nakorn Sawan where

Boonchu Rojanasathien, the leader of the Community Action party ran against Sawat Khamprakop, a long-time M.P. and a leading member of the United Democratic party, a great amount of money was spent in the campaign by both candidates.

Although the increase in business involvement in politics has to some extent weakened the bureaucratic domination in the Thai polity, it cannot transform the system into a bourgeois democracy in which capitalistic elements control the power structure. Their involvement has not led to strengthening the party system either. Their struggle for personal gain and excessive use of money in election campaigns invited strong criticism from the press, academicians and the military, resulting in the discrediting of civilian politicians and making the institutionalization of party politics even more difficult.

Several factors have contributed to the weakness of the party system in Thailand and its failure to institutionalize itself. One of these is the parties' lack of continuity due to military interventions in politics. In a country such as Thailand where political parties are relatively new, a continuous role is essential for their institutionalization. As Thai politics has been dominated by the military and civilian bureaucracies, Thais are not familiar with the party system. They do not have faith in political parties. When they vote, particularly in rural constituencies, they vote for individual candidates, not the parties. Hence the parties need time and continuity to prove that they can be an effective institution; and to acquire recognition from the people, which in turn may help institutionalize their rule.

Another factor is the lack of organizational complexity. Most parties in Thailand are only groups of parliamentarians, who came together on a personal basis to run in elections and engage in political bargaining. No party except the Democrat party has been able to establish branches in various constituencies. Most of the party leaders always occupy themselves for fighting for their own survival and pay less attention to building party organization. Most of the parties have virtually no linkage to interest groups and organizations. While there has been an increasing number of businessmen participating in party politics, each joined the parties on an individual basis. As a result, their political involvement does not lead to a tie between the parties and business organizations. Businesspersons in Thailand have not unified themselves on a class basis to protect their mutual interests. Moreover, their organizations by tradition and regulation are not involved in politics, and their link with the parties is not encouraged even on an informal basis.

A fragile multi-party system often leads to a weak coalition government and the case of the "Prem V" government was no exception. A coalition of four parties—the Democrats, the SAP, the Chart Thai and

the Rasadorn—was formed in August 1986 with General Prem as premier. Although the government has been supported by the Army and held 232 seats in the lower house, a margin of 58 over a simple majority, the stability of the coalition government was not assured. The rift between the Phichai and Chalermphan factions in the Democrat party, coupled with a *lèse majesté* charge on Veera Musikapong has already weakened the coalition. Moreover, the rift between the SAP and the Democrats over the “Burmese log” issue has aggravated conflicts among the coalition partners.¹³ A month after the formation of the government, Commerce Minister Surat Ohsthanukroh, a deputy leader of the SAP, granted permission to private companies to import logs from Burma. This license was granted amid suspicion that the minister himself would be given some personal benefit. The criticism was so widespread that the prime minister had to press Minister Surat to revoke the license. Although the minister complied with the premier’s request, the opposition parties took up this issue and rocked the government by launching a no-confidence motion against Surat. It is interesting that, even though the minister narrowly won the vote of confidence, the Democrat party (the biggest coalition partner) abstained.¹⁴ This abstention definitely widened the rift between the Democrats and the SAP. Even if this wound could be healed and the Democrats could put their house in order, no one could be sure that another conflict within and between the coalition partners would not occur again. Government stability cannot be secured unless the institutionalization of the party system is achieved, the number of the parties in the House reduced and party factional conflicts lessened.

The Military Role Expanded in Participatory Politics

While the Thai party system is still far from being institutionalized, the military has become more successful in establishing links with the masses. Several mass organizations such as the National Defense Volunteers (NDV), the Self-Defense and Self-Development villages, and the Reservists for National Security have been set up and expanded throughout the country.¹⁵ The membership of the NDV exceeds one million, while the numbers of military reservists who joined the Reservists for National Security Project totaled six hundred thousand in 1986.¹⁶ These organizations were originally intended to fight against communism. They were established as a part of the political offensive

¹³For details of the “Burmese logs” affairs see *The Nation*, October 3–6, 1986.

¹⁴*The Nation*, October 10, 1986.

¹⁵For details of the mass movements see Bunbongkarn, *Military in Thai Politics*, chap. 4.

¹⁶*Ibid.*

strategy spelled out in Prime Minister Office Order No. 66/2523, issued in 1980.¹⁷ The underlying principle of this strategy is that political factors are more decisive than military ones in winning the war over communism and, thus, they should be given top priority. The mass movement, as part of a strategy of political measures, is an attempt on the part of the military to bring Communist sympathizers back to the government side as well as to prevent other villagers—particularly in remote areas—from being lured to join the Communist party of Thailand (CPT). If the government is successful in cutting off all popular support of the CPT, the Communist party will be defeated.

However, the mass movement can be used by the military for political ends and this also can be justified by Order No. 66/2523. According to this order, all the political conditions supportive of the CPT's subversive activities must be eradicated if the war against the CPT is to be won. These political conditions include the corruption of government officials, the exploitation of the poor by the rich, and a dictatorial form of government. The only way to have a complete victory over communism is to establish a true democracy in which sovereignty is in the hands of the people, not just a select few. Therefore, according to the order, the major task of the Army is involved not only in getting rid of the corruption, the exploitation of the poor by the rich, but also in helping develop a true democracy.¹⁸

The expanded role of the Army was reiterated in Prime Minister Office Order No. 47/2529 announced in March 1986 and in the Army leader's briefing to high-ranking officers in August 1986. According to this order, the Army is more concerned with the role of the united fronts of the CPT. A tactical shift starting in 1986 is to give top priority to the issue of the "front" people who consciously and unconsciously help the CPT. The shift of the tactic became necessary due to the fact that the CPT's armed forces and leadership, which were the main target for suppression years ago, were in 1986 no longer a threat to national security. The outlawed Communist armed forces were defeated and practically disintegrated. Only the front organizations remain to be dealt with. The issue of the "front" people will be tackled with political means by the civil affairs section of the Army. Thus, this new tactical shift would strengthen the Army's role in dealing with the front people who are variously identified as capitalists, undemocratic elements, and people who create and aggravate social problems. Under this policy, mass organizations will be given a more active role

¹⁷See Suchit Bunbongkarn and Kanala Sukhapanij-Khantaprab, "National Security and the Contemporary Role of the Thai Military," a paper presented at the International Conference on Thai Studies, Thai Studies Program, Chulalongkorn University, August 22–24, 1984.

¹⁸See Bunbongkarn, *Military in Thai Politics*, chap. 5.

to counter the front people whether they are in business, national politics or local government.

One of the mass organizations established in rural areas by the military authority that may have significant political implications is the Military Reservists for National Security.¹⁹ At the beginning, the Reservists project was designed to organize all reservists scattered all over the country into a much better system so that an effective and rapid mobilization in time of war or emergency would be ensured. It originally was intended for military operations only. However, the objective later was changed to include political, economic, social and psychological aspects as well. Regarding the political objective, the project is intended to encourage reservists to play an active role in local government and to instill democratic doctrine in villagers as a part of the development of a democratic political system with the King as its ceremonial head. A "democratic pavilion" is set up in several sub-districts where the project is being operated, for use by the members as a venue for practicing participation in a democratic process. Activities of the "democratic pavilion" are conducted by a committee whose members are elected by the reservist project members in the sub-district. Most of the activities concentrate on encouraging the villagers to participate in solving their village's problems. Political activities such as dissemination of democratic concepts to the people, encouraging the villagers to vote in elections, and educating the people on the election process and political parties also are included. In fact, the "democratic pavilion" is the focus of the political activities in the subdistrict, the meeting place of the committee, the coordination point between the villagers and government agencies, the center for providing services to the people in the locality and a place where villagers can come and express their grievances. With the political activities of the "democratic pavilion," the Reservists for National Security organization has become more politicized than other mass groups.

Apart from the political program, the villagers who are the members of this project also are educated under a program of national security. Moreover, a hierarchical organizational structure along the pattern of the military has been set up to control and supervise the project and its members, making them more vulnerable to being mobilized for both political and military ends.

The Army also has utilized other machineries to tighten its link with the masses. The "Army meets the people" program broadcast throughout the country by the Army's radio networks and the "Political Talk" program televised by the Army's two TV stations have been used by military authorities to build their leadership of the masses as well as to

¹⁹Ibid., chap. 4.

publicize activities of the Army, and occasionally to campaign against particular political parties deemed detrimental to the Army leaders' interest.²⁰ Several other mass psychology operation mechanisms have recently been established by the Army to strengthen its link with the masses and to facilitate mass mobilization operations for both national security and political purposes.

Another interesting mass psychological operation unit of the Army is a *santi-nimit* unit²¹ (roughly translated as a "Dream of Peace" unit). Established in 1982 in accord with Prime Minister Office's Order No. 66/2523, the unit aimed at operating "political offensive" campaigns against Communist insurgents. It is a small mobile unit spending approximately a month in a given village before moving further to another site. During its stay in each village, the unit will survey urgent needs of the villagers before providing assistance. However, since the stay is rather short, the assistance given to the villagers usually is limited to projects that can be completed within one month. The unit is expected to perform functions related to mass psychology—providing political education through training programs and various forms of entertainment including musical performances, stage shows and skits. The content of the political education program covers democratic doctrine, the rights of the people and the parliamentary election rules. This program provides a chance for the Army to use the unit to campaign for or against civilian politicians. Several M.P.s have expressed their concern about the operation of this unit, in that if the Army really used it against them during an election campaign, it would inflict real damage to them.

During the 1986 campaign, the Army announced that it maintained its neutrality and refrained from using the mass movement and mass psychological operation mechanisms for or against any political parties. Therefore, the political effectiveness of these mechanisms is yet to be tested. At first, it was believed that General Arthit was planning to utilize all the mass organizations to campaign for the United Democratic party and against General Prem and other pro-Prem parties. However, he was dismissed from the Army's top post before the plan was to go into operation. He was replaced by General Chavalit who brought the Army back to a neutral stance, although he personally backed General Prem and worked behind the scene for his return to power after the elections. Nevertheless, the fact that the mass movements were not employed for political purposes in this election does not necessarily mean that they will not be used for these ends in the future. The mass organizations are there, other mass psychological mechanisms and political infrastructures are

²⁰Ibid.

²¹Ibid.

there, Order 66/2523 is there—ready to be utilized any time the military sees fit.

Regarding the political guardian role of the Army, the July 1986 elections also reflected the determination of the military leaders to continue this type of role in the participatory political process. Since 1979, the Army seemed to believe that seizure of power by force was not at all easy. The coup failures in 1981 and 1985 reinforced this belief. Despite these attempted coups, the Army leaders generally accepted that the military should play the game by the rules, exerting its influence in participatory politics.²² They seemed to believe that the role of the Army should involve protecting a government which serves Army and national interests well. The Prem government is the one the Army is convinced deserves to be protected. General Prem's regime has served the military interest well—the military always gets what it wants from the government. General Prem always thinks that he still is a military man and he has maintained a close link with the military establishment and worked for the military interests. Although General Arthit during the last two years of his stay in power attempted to challenge General Prem's political leadership, other military leaders still remained loyal to the Prime Minister.

During the election campaign and its aftermath, the effort of the Army leaders to enable continuation of the political leadership of General Prem was quite evident. It was widely known that General Chavalit Yongchaiyut, who was very close to the prime minister and assumed the top Army post in May 1986, preferred General Prem as government leader again after the elections to ensure the political stability.²³ His aides reportedly began to lobby major political party leaders to accept General Prem from the beginning of the election campaign period. It was believed that the acceptance of General Prem by the leaders of the Democrats, the Chart Thai party, the SAP and the Rasadorn party as prime minister was the result of this lobbying.²⁴

Although the manipulation to get General Prem back in power was by no means a smooth procedure, his acceptance by the four major parties indicated that the military remained a strong political force. Furthermore, after the parliamentary debate on Minister Surat, General Chavalit's statement—which made quite clear that the Army will back up only the "correct" government, which is doing the "correct" things—is another

²²Ibid., chs. 2, 3.

²³*Sayamrath Sapdaviacharn* [Siamrath Weekly Review], July 27, 1986, p. 4. For a very interesting commentary on this topic, see "Jutdang rathabanmai taharn kleunwai" [The military move in forming the new government], *Sayamrath Sapdaviacharn*, August 4, 1986, 8–9.

²⁴The role of the Army leaders in forming the government was confirmed by Pichat Rattakun, the leader of the Democrat party. See his interview in the *Bangkok Post*, September 22, 1986, 2–3.

demonstration of the guardianship role of the military.²⁵ His remark prompted speculation that Minister Surat could not hold onto his position despite winning the no-confidence test.

The Army's guardianship role can be effective only when the Army is unified. The retirement of General Arthit from active service at the end of August 1986 reduced the degree of factionalism within the military establishment, but conflicts among various Army factions still prevailed.

General Chavalit had a political history as a major architect of the controversial Prime Minister Order No. 66/2523, and so his promotion to Army Chief did not enjoy consensus support. The dissent came out in a form of underground leaflets distributed in the military establishment and mass media, accusing him of being a left-leaning officer. Some of the leaflets accused General Chavalit and General Prem of maintaining a policy which provided a greater chance for the Communist Party of Thailand (CPT) to achieve its objectives. One set of leaflets asserted that General Chavalit had Chinese blood and this was taken as a hint that he might not be loyal to the nation. In reply, he published his family tree tracing back his family origins—which not only dismissed the accusation but also revealed that one of his female ancestors was a consort of a brother of King Chulalongkorn. Most of the anti-Chavalit leaflets were distributed during the July 1986 election campaign and a few weeks after. Although there was no concrete evidence of who was behind this movement, it is believed that the leaflets were a product of discontented elements within the military establishment along with some politically-oriented pressure groups against General Chavalit's ascension and his support of General Prem.

Therefore, the most urgent task of General Chavalit after assuming the top military post was to pacify the discontented factions in the Army. One of his strategies was to compromise with all Army factions including that of General Arthit. He tried to strike a balance between Lieutenant General Pichit and the members of Class 5, while placing his friends in key positions. In the annual military reshuffle in October 1986, General Pichit was promoted to assistant commander-in-chief while Lieutenant General Suchinda Kraprayoon, the leader of the Class 5, moved up to the post of deputy army chief-of-staff. Another assistant Army chief's post and the Army chief-of-staff were filled by his two close friends—Lieutenant General Sunthorn Khongsomphong, the commander of the special warfare forces, and Lieutenant General Wanchai Reungtrakul respectively. At the same time, the deputy commander of the First Army, Major General Watanachai Watanasiri, who was close to General Pichit, was appointed as the First Army's commander. This reshuffle made Generals Wanchai,

²⁵*Bangkok Post*, October 17, 1986.

Sunthorn and Pichit equally entitled to succeed General Pisit Hemabutr as deputy commander-in-chief the following year.

Another effort of General Chavalit to unify the Army and secure the political position of General Prem was the reinstatement of 28 Young Turk officers who had been dismissed from active service without pension after their coup failure in April 1981. These officers had been trying to get back into the Army for some time but without success. It is believed that the Young Turks have been able to retain their influence among low-ranking officers, a situation which could create disunity within the Army. More importantly, some of them began to establish a power base within the political parties by running in the 1986 elections, and three out of four of them won. Colonel Prachak Swangchit won a Bangkok seat under the Chart Thai banner, while Colonel Sakorn Kitviriyi and Colonel Bulsak Pochareon won seats in Trat Singhaburi on the Democratic ticket. With success in the elections, they began to use their new power base in the National Assembly for political purposes. A few days after the elections, Colonel Prachak deviated from the party line by expressing opposition to the appointment of General Prem as prime minister and severely attacked him as one who could not be trusted. This kind of move by Colonel Prachak was not unexpected and it indicated that the Young Turks would indeed use the House of Representatives to create trouble for the government if nothing was done to appease them. Hence, the admission of the twenty-eight Young Turk officers to the Army was an attempt to pacify them and strengthen the power base of General Chavalit and Prime Minister Prem. The Young Turks' expression of gratitude to the two leaders demonstrated that the healing of old wounds began to take place.

Lack of Institutionalized Participatory Politics: Will It Lead to a Mobilized System?

The foregoing analysis suggests that one of the most enduring problems of democratic development in Thailand is the lack of institutionalized participatory institutions. Political institutionalization involves the ability of a political organization or ruling group to consolidate its position and broaden its support. The institutionalized political organization should be able to adjust itself to changing situations and cope with increasing demands of new societal groups for participation in the political process.²⁶ But in Thailand, political parties and elected parliamentarians in the past four decades have not been able to develop as major institutions in participant politics. Internal rift

²⁶Samuel P. Huntington, *Political Order in Changing Societies* (New Haven: Yale University Press, 1968), 79-92.

and bickering, as well as scrambles for personal benefit of some political partisans and parliamentary politicians often led to downfall of emergent participatory institutions.

The durability of the parliamentary government during the 1981–1986 period did not constitute an institutionalization of the party system nor of the elected House of Representatives. Factionalized conflicts, internal disputes and lack of party loyalty were prevalent during the period. The turbulent events that led to the dissolution of the elected House in May 1986—and the mass defections, proliferation of political parties, and grouping and regrouping of alliances which followed—exhibited the fragility and underdevelopment of the Thai party system.

The crucial question is: How can the parties achieve political institutionalization? The development of the party system cannot be achieved unless its link with the masses is firmly established. The parties need strong and rather continuous support of the masses to enhance their political potency and to expand their role in the polity, which in turn will lead to their institutionalization. In Thailand, as in other modernizing countries, a majority of the population lives in rural areas and works in the agriculture sector. If the parties can mobilize the rural groups politically, gain their support and maintain links with them on a permanent basis, the Thai party system will gain strength and tend to become institutionalized. One may argue, given the vast numbers of peasants and their lack of any effective organization, that it is difficult for the parties to appeal to rural masses except on very vague ground. However, in Thailand, aspirations and expectations of the rural groups are specific and moderate, so it is not impossible for the parties to adapt economic programs to agrarian needs. To establish a link with rural voters, the parties may compete in proposing economic reforms to benefit them. The political importance of the rural masses has been recognized by the Communist party of Thailand (CPT) and the military. Both have been mobilizing the rural people to their sides. If the parties can assimilate rural groups, this development definitely will strengthen the party system.

However, in proposing economic reforms for rural groups the parties might come into conflict with business groups, landowners, middlemen and rice mill owners. But the rural people's needs are moderate—and class consciousness among peasantry and capitalists alike is still low. Therefore, the parties can play an intermediary role between the rural poor and the urban rich by adopting a flexible policy. Since the business groups are influential, the parties cannot afford to neglect them, and an organizational link with them will help strengthen the parties. If the parties' link to business groups does not damage their effort to build ties with rural groups, they will be able to bridge rural

and urban areas—an achievement which will be one of the keys to strengthening the party system.

In fact, most parliamentarians from rural areas have made an effort to fight for peasants' needs, but this has occurred on an individual basis. A number of members of parliament have a strong base in their rural constituencies, but this is achieved by the MPs through personal, not party efforts. The parties have not made a serious effort to extend extra-parliamentary organizations to assimilate rural groups.

In addition to the prevalence of party factionalism and struggles for personal gain by party leaders, the military's control over the rural masses through its "political-led" strategy is a major obstacle faced by the parties in seeking to expand their support. The "political-led" strategy indicates at least in principle the military realization of the significance of popular political participation, but the participation encouraged by the military is often against the political parties. The crucial point, however, is that the mass movements and organizations hardly can be seen as a boon to voluntary political participation of the people at the grass-roots level. The emphasis on national security and the organizational link with the military have made these movements into mobilization mechanisms for the military. The people would be taught democratic concepts and encouraged to participate more in solving village problems under the mass-movement programs of the military. They also would become more politicized, increasingly aware of problems beyond their villages. But with bureaucratic control over the movements, popular political consciousness hardly can lead to an increased level of autonomous participation. What is even worse is that these "mobilizations" can be used to counter the expansion of a political party. The Democrat party, which has developed a grass-roots organization throughout the country, with its strongest base in the south, has the best chance of becoming the largest party in Thailand. But the Democrats experienced setbacks at least twice in election campaigns—both in 1985—when the military used mass mobilization mechanisms against them. Furthermore, mass mobilization might be used, as in the 1970s, to destroy or to attack particular parties and politicians whom the Army's leaders perceive as a threat to the military corporate interest or their personal interest. This would retard the pace of the development of the party system in Thailand.

Another obstacle to institutionalization of the party system in Thailand is the utilization of Army mass mobilization programs and mass psychological operation mechanisms to enhance the political preeminence of military leaders at the expense of the parties. The institutionalization of the party system can hardly be achieved if the people still look to military elites for their national leaders. In Thailand, there is lack of confidence in and respect for civilian politicians, and a nonpartisan, nonelected prime minister with a military

background is more accepted. Hence it is very difficult for the civilian elites to institutionalize their political leadership. It will be even more difficult for them to achieve this political institutionalization if the Army continues to utilize all the mass organizations and mass media under its control to promote a military strongman, as it did for General Arthit when he was the supreme commander and the Army chief.

With the lack of political institutionalization of the party system, it is difficult to conceive a full-fledged democracy as a possible future scenario of Thai political development. The inability of civilian politicians to develop their political infrastructure, establish links with the masses at the grass roots and broaden their support makes institutionalization difficult if not impossible. The fragility of the party system also allows the military to discredit participatory politics as well as to increase Army political strength through expanded mass support. As a result, the development of democracy just is not likely to come about in the near future.

If a full-fledged democracy is not a possibility, then what is likely is military dictatorship or one-party rule backed by the military. As discussed above, the military has been developing its mass organizations which may turn out to be a power base in developing a "mobilization" political system. There has been speculation that the prevalence of the military's mass movement and the enforcement of Prime Minister Office Order No. 66/2523 give rise to the possibility of a "mobilized political" system dominated by a military-backed mass party. However, it is not that easy for the military to replace the existing parliamentary government with a one-party system. Successful development of a mobilized political system by the military depends on several factors including the Army's ability to institutionalize its expanded role as spelled out in the Prime Minister Office Order No. 66/2523—as well as the ability to develop its own political party.

Several scholars who specialize in civil-military relations contend that the institutionalization of military rule is unlikely because of the inability of the Army establishment to absorb changes and the increasing demands of newly emerging societal groups. Some further argue that the expanded role of the military might lead to a split between lower ranks and executive commands, which would make institutionalization of military rule more difficult.²⁷ For Thai military leaders, Order No. 66/2523 in 1980 gave them new justification to get involved in politics. They hoped the order would help them institutionalize their role expansion. In the past, military leaders consistently stressed that their political role was only a temporary one and that after the "mess had been cleared up" they would go back to barracks. National

²⁷Henry Bienen, "Armed Forces and National Modernization: Continuing Debate," *Comparative Politics* (October 1983), 12.

security often was used to justify Army political interventions, but the legitimization of its role in politics was not carried forward on a systematic, sustained basis. However, after the issuance of Order 66/2523, the military began systematically to justify its political role by insisting its involvement in democratic development was a means to defeat communism. But this justification has not been able to facilitate or institutionalize the military leaders' political involvement. In fact, the military has not been able to institutionalize the order itself despite all the efforts to promote it. The defeat of the Army on the constitutional amendment in 1983 is a case in point. Moreover, several senior Army officers, through their statements and behavior have indicated they are not so strongly committed to the order. Perhaps the order needs more time to institutionalize itself.

Regarding its ability to establish a political party, the military experience in dealing with this issue suggests that the development of a military party is not an easy task. And it is equally difficult for the military to develop its link with and control over existing political parties. The apprehension of the major political parties about the military's political intentions has been highly evident and it still exists at present. In fact, the parties need Army support but do not want to be subservient to military leaders. The major objective of the parties is to gain more control in the body politic, and this can be achieved only by limiting the role and influence of the military. Thus, in dealing with Army leaders, the parties are wary of the military's political role expansion; as a consequence, the link between the Army and the parties is difficult to attain and if it does occur it is going to be only a temporary alliance for an immediate objective. The link between General Arthit and the SAP dissidents in early 1986 is the best illustration of this. It also is difficult for civilian politicians to accept the political role of the Army as justified by Order 66/2523; they conceive that the political role expansion of the Army definitely is detrimental to the parties' interests. A connection possibly may be established between the Army leaders and a party set up by former military leaders such as the Rasadon Party led by General Tienchai and General Mana, and the assistance the Army gives might enable it to develop into a larger party. But the party has to be very cautious as well in dealing with the Army as in the past. Once they are in the party, the former military leaders would like to see themselves in leading political positions, not subservient to existing military elites; thus, the Army will not find it easy to make use of such a party structure for the purpose of gaining more political power.

Conclusion

Therefore the crucial question is: What is likely to be the future of political development in Thailand? The most likely scenario is not a full-fledged democracy, because of weakness of the party system, nor a tight dictatorial rule as existed during the 1981–1986 period, because of the difficulty of launching a coup and establishing a mass party. The more likely scenario is one in which a political balance between the military and the political parties will be maintained. The balance will give civilian politicians more chance to develop their participatory institutions and to institutionalize their own role. If they are able to exhibit a degree of political competence which would lead to the development of the people's trust in them, then they would be able to tip the balance to their favor. If, as seems likely, they fail to demonstrate their leadership and dedication to public service, the institutionalization of the parliamentary rule will be delayed for a considerable time.

Whatever happens, the military can be expected to exploit the political balance to the fullest extent but in a subtle way to achieve its political goals. Military leaders will be more cautious in promoting their leadership and protecting their individual interest as well as the military corporate interest, by utilizing the existing mass organizations and mass psychological operation mechanisms at their disposal. Order No. 66/2523 continues to be used to justify their political role in broadening their commitment to domestic tasks and their development of mass movements, allowing them to adjust their role to changes in the political situation. With all the organizational strength and political potency the military has been able to develop in recent years, it is difficult to conceive of its political withdrawal in the foreseeable future.

5. Trends Toward the Democratization of Thai Society

MARJORIE A. MUECKE

The purpose of this chapter is to demonstrate parallels between patterns of change in contemporary Thailand-U.S. relations and corresponding changes within the cultural context of Thai society. Authors of other chapters in this volume address the changing economic and political character of Thailand-U.S. relations in depth. Here I examine selected socio-cultural shifts within Thai society. I find that they delineate a trend toward broadened popular access to power, and that they do so not only in the economic and political domains that are the locus of interest in this volume, but also in the educational and religious spheres.

To summarize briefly, the Thailand-U.S. relationship in the 1980s has experienced new preoccupation with economic relations. Disputes over trade have emerged, changing the climate from mutual trust to a somewhat emotional debate between the two nations. While U.S. leaders want Thailand to reduce its economic dependence on the United States and to allow friendly competition in the relationship, Thailand wants the United States to remain open to Thai exports.¹ Each nation feels the other is violating its rights: The United States wants its companies' intellectual property rights assured in Thailand,² and Thailand wants its due share of the world rice market.³

Several authors have referred to the U.S.-Thailand relationship in a sibling metaphor, as a *phii noong*, older-younger relationship. This kinship idiom allowed for the emotional bonds of a special relationship between the two nations, and assumed permanence in that relationship—until changes in the mid-1970s brought a cooling of U.S.-Thailand relations. As Karl Jackson points out later in this volume, basic trust apparently has been restored between the two countries in dealing with security issues, but insofar as trade is concerned the relationship is volatile and increasingly competitive.

¹In this volume, see Herbert Levin; William Overholt; Melvin W. Searls, Jr., and Linda Droker; Surakiart Sathirathai; and Thomas White.

²In this volume, see Melvin W. Searls, Jr., and Linda Droker.

³In this volume, see Surakiart Sathirathai.

It is tempting to an anthropologist to generalize the kinship metaphor. It seems that the character of the U.S.-Thailand relationship is moving from a vertically oriented, superior-inferior relationship to one that now is more horizontally oriented with fewer of the old *phii noong* feelings. In the *phii noong* relationship authority diminishes as the partners mature, permitting rivalry and embedding emotional bonds in relationships that can be broken by either partner.⁴ These characteristics fit the current image of the Thailand-U.S. relationship.

In the next section, I identify and discuss trends toward reduced hierarchialization within Thai society that parallel the shift in U.S.-Thailand relations. In both its external relationship with the United States and its internal functioning, the majority of Thai society appears to be shifting from an authoritarian to a more democratic *modus vivendi*. My evidence of this change within Thai society is of two types. First, the emergence of horizontal groupings (students, migrants and women) that are developing self-consciousness as groups, and with potential for concerted action against others. Second, the more widespread trend towards seeking increasing control over one's life not only in the economic and political spheres but also in the profoundly cultural domain of religion. I conclude with a caution against overstating these trends. The caution is grounded in the Buddhist concept of karma and its political analog, the *sakdiinaa*. These foundations of Thai social belief are reinforced by the behavior of some elites in Thai society, particularly in the military and the monarchy, and preclude a thoroughgoing social equality.

Emerging Horizontal Organization in Thai Society

Several chapters in this volume refer to the demise of authoritarian rule and the growth of a sense of political participation in the Thailand of the 1980s. Ansil Ramsey contrasts the relatively participatory government of the current situation with the more authoritarian policy-making style of the Sarit government in the 1950s. He finds that now—in addition to the prime minister and to the bureaucracy—business elites, military elites, and the monarchy help shape policy. In the 1950s, Ramsey⁵ notes, "The leader ruled his people like a stern father ruled his children. . . . There was no room for participatory decision making." In contrast to Prime Minister Sarit's government, Suchit Bunbongkarn interprets Prime Minister Prem Tinsulanond's current strategy as aimed at establishing a democracy in which the sovereignty

⁴Marjorie A. Muecke, "Thai Conjugal Family Relationships and the Hsu Hypothesis," *Journal of the Siam Society* 73:4 (1983): 25–41.

⁵Ansil Ramsey, "Contemporary Thai Political Evolution: American Perspective," manuscript, p. 4, based upon the account of Thak Chaloeentiarana, "The Sarit Regime, 1957–1963: The Formative Years of Modern Thai Politics," Ph.D. diss., Cornell, 1974.

is in the hands of the people, not a selected few.⁶ Metaphorically, the sons and daughters of the authoritarian father have grown up and are making decisions for themselves. Decision making has shifted from a simple vertical link between patriarch and populace to complex horizontal linkages among multiple peer groups. These groups include students, urban migrants, women, the burgeoning urban middle class, military factions, political parties, workers and religious sects. The growth of the first three of these groups demonstrates the new prevalence of horizontal, that is, more democratic social organization in Thai society. A case study will show similar changes in the domain of religion.

Mulder⁷ traces the trend toward participatory government back to the 1932 change from an absolute to a constitutional monarchy. He points out that the change expanded the bases of social power from its exclusive source, the king and the feudal *sakdiinaa* system⁸ which he managed. Until that time, the monarch measured and allocated social power in units of land area and numbers of men. The shift to a constitutional monarchy increased the total amount of political power available because it shifted from a single source of worldly power, the king, to multiple sources of power, such as money, material possessions, land and education. However, the shift did little to prompt or permit an increase in political participation among the populace.

Students as a Self-Conscious Group

More recent changes such as the extension of education appear to be more directly associated with the spread of political participation in Thai society. In the past decade, universal education has been extended from four to six years, meaning that the Thai population soon will be among the most literate in the world. This is to be regarded as a spectacular achievement, considering that at the turn of the century

⁶See Suchit Bunbongkarn's chapter in this volume.

⁷Niels Mulder, *Everyday Life in Thailand: An Interpretation* (Bangkok: D.K. Bookstore, 1979), 50-51.

⁸For centuries, the *sakdiinaa* (from the Sanskrit for "power of rice fields") system has provided the mechanism and ideology for hierarchical social relationships in Thai society, and it is thought to be the basis of the patron-client system of social organization in Thailand (as discussed by Lucien M. Hanks, Jr., "Merit and Power in the Thai Social Order," *American Anthropologist* 64:6 (1962): 1247-1261). The *sakdiinaa* system originally was based upon the amount of land (rice fields) over which a lord was given control by the king; the amount was fixed by a ranked scale that also distinguished people's social rank and title. The lord controlled all of the people on his land and could extract taxes, goods and services from them; he was so obliged to his superior. In return, people of inferior rank were supposed to have received the protection of their lord. See M.R. Kukrit Pramoj, "The Social Order of Ancient Thailand," *Thought and Word* (1955), as reprinted in Steve Van Beek, ed., *Kukrit Pramoj: His Wit and Wisdom* (Bangkok: Editions Duang Kamol, 1983), 45-60.

literacy was restricted to a select elite—royalty, and males who remained novices or monks sufficiently long to become literate. The inability to read excluded women from direct access to sacred texts and the traditional status positions associated with them, such as *moo saayasaat* (sorcerers), *moo tambon* (subdistrict traditional healers) and *ajaan wat* (lay leader of a temple),⁹ as well as from political positions. Illiteracy made the populace dependent upon monks and former monks for religious and medical knowledge.¹⁰ Literacy has freed the populace from that dependence and increased the ability of people to participate in larger society.

Between 1979 and 1983, the number of college graduates (excluding teachers' and vocational colleges) doubled, and the number of graduate degrees awarded increased by some 50 percent.¹¹ At present, higher education is in effect limited to the upper socioeconomic sector of the population. It has been the major contributor to the growth of an urban educated middle class. In order to acquire their schooling, many people in this sector had to forsake the traditional family lifestyle and move into university dormitories. Dormitory living has reinforced the traditional definition of a fictive kin relationship among school peers of the same class. According to this definition, students who share the same professor are all *luuksit* (child pupils) to that professor, and preserve their bond with the professor and with each other as fictive siblings throughout adulthood. For example, there is common reference today among the military elite to those who were members of the "famous Class 5" or the "famous Class 8" of the Chulachomkiao Military Academy. Education, and higher education in particular, thus has been a strong force in peer group socialization in contemporary Thailand.

The extension of education has done more than create a relatively new social group, the students. By empowering them with the dignity, new ideas and social status of knowledge, it has made of them a new source of social power as well. The massive demonstrations by university students in Bangkok in October 1973 pitched their power against what had been the bastion of political authority in Thai society since 1932, the military, for the first and only successful civil rebellion during the era of the constitutional monarchy.

⁹See Donald Swearer, "The Role of the Layman *Extraordinaire* in Northern Thai Buddhism," *Journal of the Siam Society* 64:1 (1976): 151–168.

¹⁰See Stanley Jeyaraja Tambiah, "Literacy in a Buddhist Village in North-East Thailand," in *Literacy in Traditional Societies*, ed. Jack Goody (Cambridge: Cambridge University Press, 1968); idem, *World Conqueror and World Renouncer* (Cambridge: Cambridge University Press, 1976), 256ff.

¹¹National Statistical Office, *Statistical Summary of Thailand 1985* (Bangkok: Office of the Prime Minister, 1985), Table 13.

Urban Migrants as Emergent Groups

Migration in itself may or may not contribute to political participation. In the case of rural poor migrants to Bangkok slums, there has been some recent collective action to legitimize their access to squatter sites, and to acquire public services. But similar political action has not yet occurred in other squatter areas nor in those of secondary cities. Migration has the potential to defuse the incentive for political action among the underadvantaged: Migration drains off surplus population from the rural and urban areas where economic inequalities might otherwise result in class-based political action.

The typical lower socioeconomic sector migrant in Thailand, like the student, moves to better opportunity. The move is not a political statement in the sense of attempting to change the social order, but it does enhance the likelihood of such political action in the future because it groups persons of similar characteristics and goals closely together, thereby setting the stage for the group consciousness that is prerequisite to collective action.¹²

The primary incentive for migration in Thailand has long been financial in nature.¹³ In the North, married women have been rural to urban commuter migrants since at least the nineteenth century for purposes of market trade¹⁴ and village men have been involved in long-distance trade for many years. Since 1960, the lure of money in a village economy which was just embarking on a cash economic system has resulted in progressive subdivision and sale of inherited lands, such that many of the remaining plots are not economically viable. Loss of land to outside landlords, lack of sufficient land to divide into agriculturally productive plots for heirs, and the urban-based attractions of material comforts, educational resources, and occupational and recreational variety: all these are key factors that have been associated with the migration of rural youth and men to the cities. More recently, a pattern of poor people migrating from secondary towns and cities to larger urban areas has emerged.¹⁵

Rural-to-urban and urban-to-urban migration patterns have taken excess populations from the countryside to city streets, particularly from the densely populated and resource-poor Northeast to the labyrinth of Bangkok's asphalt. Urban migration to Bangkok has reinforced the capital's primacy: Immigration to Bangkok increased by almost 50

¹²Samuel P. Huntington and Joan M. Nelson, *No Easy Choice: Political Participation in Developing Countries* (Cambridge: Harvard University Press, 1976), 79–115.

¹³Sidney Goldstein and Alice Goldstein, *Migration in Thailand: A Twenty-Five-Year Review*, Papers of the East-West Population Institute, No. 100 (Honolulu: East-West Center, 1986), 41–48.

¹⁴Ernest Satow, "The Laos States, Upper Siam," *Journal of the Society of Arts* 22 (1982): 182–196.

¹⁵Goldstein and Goldstein.

percent between 1960 and 1979.¹⁶ Despite the government's efforts to decentralize urbanization to secondary cities, Bangkok was 51 times larger than the country's second most populous center in 1980.¹⁷ Urban migration continues to increase through the process of chain migration (through which relatives and friends of migrants migrate to join them), and because the pool of migrants is increasing. Migration is more likely among migrants than nonmigrants because migrants have already severed the bonds to birthplace.¹⁸

Urban migration and, more recently, international labor migration have contributed to rural wealth through remittances sent home, but sometimes at the expense of creating "unnatural" population structures in villages. Villages comprised of predominantly economically dependent persons—grandparents, female heads of household, and young children (the "left behinds" of migration)—are increasingly common in the poorer areas of the north and northeast.¹⁹ Such villages are structured by age-peer groups of the elderly and the young for varying amounts of time, depending upon the proximity and seasonality of the work that justifies the out-migration.

Women's Emerging Group Self-Consciousness

Singhanetre-Renard²⁰ found that almost half of all villagers who migrate for economic activities are women—and that newly married female workers choose employment over motherhood, although few have the opportunity for vocational or higher education that would give them access to employment. Although women now migrate for construction work about as much as men do, women predominate in the pattern of urban migration for prostitution or exploitative factory labor.²¹ Males, by contrast, have alternatives to unemployment that award high social status and/or are economically viable—that is, the monkhood and the military.²²

¹⁶Larry Sternstein, "The Growth of the Population of the World's Pre-eminent 'Primate City': Bangkok at its Bicentenary," *Journal of Southeast Asian Studies* 15:1 (1984): 64–65; United Nations, *Migration, Urbanization and Development in Thailand* (Geneva: Economic and Social Commission for Asia and the Pacific, 1982), 22.

¹⁷Sternstein, 67.

¹⁸United Nations, 69.

¹⁹Field trip observation in the province of Lampang, July 1978, and personal communication, Anchalee Singhanetre-Renard, in Chiang Mai Province.

²⁰Anchalee Singhanetre-Renard, *Commuting and the Fertility of Construction Workers in Chiang Mai City* (Singapore: SEAPRAP, 1982).

²¹Pasuk Phongpaichit, *From Peasant Girls to Bangkok Masseuses* (Geneva: International Labour Office, 1982); Khin Thitsa, *Providence and Prostitution: Image and Reality for Women in Buddhist Thailand* (London: CHANGE International Reports, 1980).

²²The military accepts a limited quota of female volunteers for noncombatant work. There is reportedly a long waiting list of applicants.

Although prostitution and factory labor are relatively new as economic pursuits for women, migration to Bangkok for financial reasons was common a hundred years ago. Immigrant male Chinese needed wives, and Thai women were quick to see the advantage of having a hard-working businessman as a husband.²³ Thus, the female strategy of urban migration for economic gain has remained, only the payoff has deteriorated. Whereas the strategy resulted in perpetuation of the family a century ago, it now commonly results in the reverse, either later marriage or single parenthood, and living either alone or with age and sex peers rather than in a family.

Another effect of migration, particularly of female migration in the North, is the erosion of domestic spirit cults.²⁴ By selling the inherited homestead, a woman loses both economic leverage and domestic status, the larger family loses the reason for gatherings associated with honoring of the domestic spirits and loses protection by the spirits, and the village loses a source of moral sanctions on behavior. All migrants leave the immediate protection of the domestic spirits. A large proportion of migrants leave the family and move into an age-sex peer group living situation, be it in factories, dormitories, prostitution houses or boarding houses. These emergent patterns reiterate the shift from the parent-child principle of social organization to a peer group or sibling principle.

The recent decline in fertility in Thailand also has contributed to a new self-consciousness among women. The 1970s witnessed a reproductive revolution in Thailand the magnitude of which is almost unsurpassed. In the past twenty years, it has reversed family planning policy and behavior.²⁵ Until that time, the country had a firm pronatalist policy. In 1956, welfare bonuses were awarded to large families; in 1957, female sterilization was prohibited in Ministry of Public Health hospitals for women who had fewer than five children. But response to a World Bank report on the dangers of continued high rates (around 3.5 percent) of population growth was quick. In 1968,

²³Sternstein, 60–62.

²⁴Marjorie A. Muecke, "Changes in Women's Status Associated with Modernization in Northern Thailand," in *Southeast Asia: Women, Changing Social Structure and Cultural Continuity*, ed. G.B. Hainsworth (Ottawa: University of Ottawa Press, 1981), 57–59; idem, "Make Money Not Babies: Changing Status Markers of Northern Thai Women," *Asian Survey* 24:4 (1984): 459–470. A similar erosion of villagers' belief in local spirits as protectors of their irrigation systems is reported in Richard P. Lando, "The Spirits Aren't So Powerful Any-more—Spirit Belief and Irrigation Organization in Northern Thailand," *Journal of the Siam Society* 71:2 (1983): 121–148.

²⁵John Knodel, Apichat Chamrathirong, Napaporn Chayovan, and Nibhon Debavalya, *Fertility in Thailand: Trends, Differentials, and Proximate Determinants* (Washington, D.C.: National Academy Press, 1982), 1.

King Bhumipol endorsed family planning and deliberate control of marital fertility began. By 1976, the annual growth rate had been reduced to 2.5 percent, and by 1986 it was targeted to be 1.5 percent. The total fertility rate²⁶ declined from 6.4 children in 1964 to 3.7 in 1978.²⁷ The demographic picture has been drawn in great detail, thanks to population research institutes (Chulalongkorn and Mahidol universities), National Statistical Office interest, and strong government and external support. We know that the changes in fertility and in the practice of birth control by women are related to formal education and urban density, and to white collar or professional status²⁸ and that these phenomena represent trends associated with the growth of a middle class.

Escape from the tradition of *saam pii spong khon* (having two children every three years) has unquestionably freed women for activities other than gender-specific child-bearing pursuits.²⁹ This freedom, coupled with other pressures to leave the natal village, also entails losses that are transforming Thai social organization. The traditional pattern in the north, for a married daughter to remain in her parents' home or next door in the same compound, is disappearing. Consequently, the nature of female social support is changing: Whereas in the traditional village which was peopled by extended families, women received support from female kin of all ages, in the cities it is more likely to come predominantly from age and occupation peers. This, too, is a new emphasis on horizontal (sibling-type) relations, with a new shift away from kin-based support toward age-, gender- and class-based peer support.

The Democratization of Religious Practices: New Means to Enhanced Individual Power

Religion is central to Thai identity: Theravada Buddhism comprises, along with the monarchy and the state, the "civic religion" of Thailand.³⁰ Recently, evidence of secular experimentation with Buddhism has surfaced in Thailand. This evidence provides windows on

²⁶The total fertility rate (TFR) is the average total number of children a woman would bear during her reproductive period, given current age-specific rates.

²⁷Statistics from Knodel.

²⁸Chintana Pejaranonda and Aphichat Chamrathirong, *Fertility and Family Planning, 1980 Population and Housing Census*, Subject Report No. 3 (Bangkok: National Statistical Office, B.E. 2523, 1980).

²⁹Marjorie A. Muecke, "Health Care Systems as Socializing Agents: Childbearing the North Thai and Western Ways," *Social Science and Medicine* 10:8-9 (1976): 377-383.

³⁰Frank E. Reynolds, "Civic Religion and National Community in Thailand," *Journal of Asian Studies* 36:2 (1977): 267-282.

culture change.³¹ The following vignettes of religious experimentation suggest a pattern of change in lay interpretations of Buddhism. They show laypersons achieving religious power, some achieving a power that is even superordinate to that of monks and acquired without progressing through the normal steps of ordination into the Sanhga and study of Dharmic texts. The vignettes thus suggest the democratization of Buddhism in Thai society.

Bangkok, 1973: Monks shared dais seating with the speaker at a public lecture. The speaker was a lay woman, Ajaan Naep, who headed some twenty meditation centers for monks and laity in central Thailand. Her headquarters was the Buddhist Studies Research Centre, which enjoyed royal patronage at the famous Golden Mount monastery (*Wat Saket*).³²

Chiang Mai, July 1978-86: Monk adepts knelt before a female spirit medium while she cupped the closely shaven head of each in her hands to give a blessing. A Buddha image was on a platform beside them, its head reaching only to their shoulders.³³

Bangkok, 1970-81: Heavy use of mass media attracted high-ranking government officials, prominent businesspersons, a prince, and commoners as pilgrims to a lay religious center, *anaacak hupphaa sawan muang saatsanaa*. The center espoused Buddhism, Christianity, Hinduism, and anti-communism. Through a cult of male spirits (*jaw phoo*), its leader exorcised spirits from the suffering. It sent religious missions to several countries, including the USSR, in an effort to bring peace to the world.³⁴

Nong Khai, 1986: A native layman clothed in white taught lay pilgrims moral conduct in his meditation garden. Pilgrims' donations funded ongoing construction of megalithic statues that depict Hindu-Buddhist allegories around him. Popular music blared from a complex speaker system on an islet in a lotus pond, a test of meditating pilgrims' concentration. The founder-director has established similar Tiger Balm Garden-like centers in Laos, India and Sri Lanka. He has never been a monk, and says

³¹For the purposes of this chapter, culture denotes a system of inherited conceptions that are expressed in symbolic forms. Members of the same culture use these concepts to communicate, perpetuate and develop their knowledge about and attitudes toward life. This definition is adopted from Clifford Geertz, "Religion as a Cultural System," *The Interpretation of Cultures: Selected Essays* (New York: Basic Books, Inc., 1973), 89.

³²John Van Esterik, "Women Meditation Teachers in Thailand," in *Women of Southeast Asia*, ed. Penny Van Esterik (DeKalb: Center for Southeast Asian Studies, Northern Illinois University, 1982), 42-54.

³³Marjorie A. Muecke, "Monks and Mediums: Religious Syncretism in Northern Thailand," in *Festschrift in Honor of Jane Richardson Hanks and Lucien M. Hanks, Jr.*, ed. A. T. Kirsch and C. F. Keyes (in press).

³⁴Shusuke Yagi, "Cosmological Threat and Legitimacy: Rise and Oppression of a New Urban Religious Movement in Thailand" (paper presented at the annual meeting of the Association of Asian Studies, Chicago, March 1986).

he has learned through his meditation that were he to be ordained as a Buddhist monk, he would become a paraplegic.³⁵

Each of these cultural acts or events violates our sense of what Thai Buddhism means. Monks should not collaborate with women, much less be taught by them. It is outright blasphemy for a woman to place her head above that of a monk or a Buddha image, and almost unimaginable for her to hold the head of a monk in her hands. Blaring strains of hot rock simply do not fit the category of Buddhist meditation, and the mere suggestion that ordination as a monk could have pathological consequences is blatant heresy. Furthermore, the Buddhist Sangha in Thailand is national rather than international in scope. And although we know Buddhism as an unusually tolerant religious philosophy, it has remained distinct from Christianity and Islam, the other world religions in the country.

The vignettes clearly stretch the usual interpretations of Buddhist orthodoxy³⁶ to the extreme. They are heterodox in that they reverse the customary relationship between Buddhism and animism, between monks and laity, and between men and women. They vest power where power normally is not, and morality where morality normally is not—in animistic cults, in laypersons and in women.³⁷ Their deviance has even been recognized by official action. Tambiah³⁸ reports on a movement in the 1950s for monks to establish lay meditation centers in *wat*; the movement was interrupted by the Sangha and the government on grounds that it sought political power. Similarly in 1981 the government accused Khun Suchart, the founder-leader of the *samnak puu sawan* cult and its meditation center, of lèse majesté and threatening national security because it thought he intended the center to become independent of the Thai nation.³⁹

The recent increase in evidence of lay achievement of religious power suggests that redefinition of the boundaries of religious power is becoming more normal.⁴⁰ This also is suggested by a complementary shift of monks toward involvement in animistic and secular affairs. Peltier⁴¹ has

³⁵Author's field notes of July 1986.

³⁶By usual interpretation of Buddhist orthodoxy, I refer to the works of Keyes, Kirsch, and Tambiah. Paul Durrenberger suggests, in contrast, that Thai society is not fundamentally Buddhist, in his "Continuities in Highland and Lowland Religions of Thailand" (paper presented at the Council on Thai Studies Meeting, Madison, Wisconsin, October 10–11, 1986).

³⁷Muecke, "Monks and Mediums."

³⁸Tambiah, *World Conquerer*, 260.

³⁹Yagi.

⁴⁰Mulder, 50–51; and Donald Swearer, "Community Development and Thai Buddhism, the Dynamics of Tradition and Change," *Visakha Puja* 13 (1975): 59–68.

⁴¹Anatole-Rogier Peltier, *Introduction à la connaissance des luang phoo de Thaïlande* (Paris: Publications de l'École française d'Extrême-Orient, 1977), vol. 15.

reported a meteoric increase in the number of *luang pho*⁴² monks and in *pluk phra* rituals⁴³ in response to lay demand of protective amulets. Mulder⁴⁴ has commented that monks have become "less the representatives of the Buddha Dhamma and more the manipulators of the sacred (*sing saksit*) that ensures protection and well-being."

Similarly, the government has shifted in support of animistic power. It has sponsored the *lak muang* (city spirit shrine) cult by actively renovating long-inactive shrines throughout the country or even establishing new ones (e.g., in Amphur Muang Loei) (cf. Tambiah 1986). The monarchy also is sanctioning the change by participating in it: King Bhumipol practices meditation,⁴⁵ and Queen Sirikit has publicized her receipt of guidance from the spirit of the former King Naresuan.⁴⁶ Thus there is a convergence of lay, monastic, government and monarchic action in the expansion of the interpretation of religious power away from orthodox Buddhism.

The increasing utilization of religious power by the laity may represent a resurgence of a latent interpretation religion among the Buddhist Thai. King Mongkut's reforms in the late nineteenth century and the subsequent Sangha Administration Act of 1902 under King Chulalongkorn occasioned "shifts in world view"⁴⁷ that were expressed in the *Kitchanukit*.⁴⁸ These shifted the interpretation of Buddhism from a purely moral view of a reality that included a hierarchic power structure of beings (including a hierarchy of human beings) and that reserved knowledge for the elite (monarchs, royalty, monks and former monks) to a denial of supernatural beings⁴⁹—and to an acceptance of the empirical method for interpreting worldly reality.⁵⁰ These views are now being revised. There

⁴²The title *Luang Pho* (honored, great father) is assigned to older monks who are famous for making and sacralizing powerful amulets, and to guardian deities of towns.

⁴³The *phitii pluk phra* is a ritual for quickening amulets and Buddha images with protective *saksit* power.

⁴⁴Mulder, 152.

⁴⁵King Bhumipol's practice of meditation is of course not equivalent to that of an ordinary layperson, since he not only has *ong* status by virtue of being king, but also he gained the *ong* status associated with monkhood when he was ordained.

⁴⁶Major General Jamratoomran, *Buanglang phleeng phraraachaniphon "khwaam fan ab suunqsut"* [Background to the royal song "The Highest Dream"], in Prayuth Sittiphanth, *Luuksuea 5 Phaendin* [Scouts of 5 Lands] (Bangkok: Wichai Angsu Singh, n.d.), 487–497.

⁴⁷Craig J. Reynolds, "Buddhist Cosmography in Thai History, with Special Reference to Nineteenth-Century Culture Change," *Journal of Asian Studies* 35:2 (1976): 203–221.

⁴⁸Chaophraya Thiphakorawong, *Kitchanukit* [A book explaining various things] (Bangkok, 1965). First published in 1867.

⁴⁹William L. Bradley, "Prince Mongkut and Jesse Caswell," *Journal of the Siam Society* 54:1 (1966): 36–37.

⁵⁰Craig Reynolds argues cogently that exposure to Western scientific thought in the nineteenth century discredited the Buddhist cosmography as it was recorded in the *Traiphum*. For centuries it had served "as an all-embracing statement of the world as seen through

appears to be an emphasis on animism among the elites as well as the rest of society. The increasing recognition of animistic behavior makes power and status more accessible to the laity. The revived fascination with meditation, for example, may reflect not only a search for peace and quiet in one's life but also a search for personal power, through newly accessible transcendent knowledge.

Contrary to previous notions that animist beliefs are undesirable because they are "primitive" or "unscientific," they in fact may represent a democratization of religion. Rather than retarding development, these experiments in religion seem to indicate a democratizing process. The revival of animism within the context of Thai Buddhism is a tribute to the survival capacity of Buddhism. Buddhism has an extraordinary capacity to absorb change: It not only teaches that life and existence are by nature in constant flux, it also contributes to social change through the actions of its monks and lay adherents.

It is important to note that the vignettes are relatively minor local reiterations of related expressions of recent religious change that are more national in scope. For example, the Santi Asoke Buddhist Center, with its large meditation center in Nakhon Pathom, is patronized by the likes of Bangkok's governor and by the upper middle class in search of answers that science does not give. And there is the well-known case of Mai Chii Voramai, who calls herself a *bhiksune*, a female monk. The vignettes demonstrate that beliefs in supernatural powers endure, that they are deeply and complexly woven in Thai social fabric, not only in the minds of the rural Thai peasant. The "folk perspective" actually pervades Thai society: Governmental action that ignores it jeopardizes its own credibility with the people.

Constraints on the Expansion of Political Participation

Two cultural concepts preclude the thoroughgoing acceptance of the notion of equal access to political power in Thai Society—the Buddhist concept of karma and its secular analog, *sakdiinaa*. These concepts are perpetuated by behavior of the elite, the monarchy and the military, thereby restraining change to a more democratic society in the

Siamese Buddhist eyes, as well as a primary instrument for educating subjects of the Siamese kings in Buddhist values" (p. 203). Now, however, the *Traiphum's* hierarchy of animistic beings as an integral component of Buddhist cosmology appears to be enjoying a comeback in the *jao phoo* cults of Bangkok, as described by Yagi, and the *jaw song* cults of the Chiang Mai–Lamphun valley, as described by Walter Irvine, "The Thai-Yuan 'Madman,' and the Modernizing, Developing Thai Nation, as Bounded Entities under Threat: a Study in the Replication of a Single Image" (Ph.D. diss., School of Oriental and African Studies, University of London, 1982), 316–381. See also Gehan Wijeyewardene, "Scrubbing Scurf: Medium and Deity in Chiang Mai," *Mankind* 13:1 (1981): 1–14; and Muecke, "Monks and Mediums."

American sense of equality before the law and equal access to political power.

The suggestion above that Buddhism can be democratized is in a sense a contradiction of terms. Buddhism, with the law of karma as its central tenet, both legitimates and prescribes the differential distribution of resources, wealth and power. Traditionally, the elites have had a vested interest in aligning themselves with this interpretation of Buddhism, and perhaps also with the notion that Buddhist/karma *requires* moral and social inequality. The underclass has, it appears, bought into this interpretation. Popular belief is strong that men are morally superior to women, older persons are morally superior to younger ones, the wealthy are morally superior to the poor—because current social status is viewed as the effect of behaviors in previous existences. Given the fundamental role of religion in Thai society, the concept of karma dictates against the incorporation of democratic principles as understood in the United States.

The concept of *sakdiinaa* perdures as a trope for Thai social structure: It complements karma with the weight of secular heritage to justify a hierarchical stratification of Thai society. The feudal ideology of the *sakdiinaa* was expressed clearly in the Village Scout movement. This movement was orchestrated by the military with the sanction of the monarchy to guard the integrity of the nation-state against the incursion of communism. In effect, the movement enabled the elites to exercise political control over the emerging business sector and the hitherto unbridled rural populace through a paternalistic mechanism. In the 1970s, the Village Scouts (*luuk sua chaaw baan*) registered some 5 percent of the population among its members.⁵¹ Since that time, in accord with the prime minister's political strategy, the military has established several mass organizations, as discussed by Suchit Bunbongkarn in this volume. These include the National Defense Volunteers, the Military Reservists for National Security and the Self-Defense and Self-Development Villages. These organizations give lip-service to public participation in government: They involve the masses but do not empower them to make independent contributions to political decisionmaking.

Similarly, the recent explosion of the use of mass media⁵² in Thailand appears to be directed as much toward ideological control of the populace

⁵¹Marjorie A. Muecke, "The Village Scouts of Thailand," *Asian Survey* 20:4 (1980): 407–427.

⁵²Between 1980 and 1984 there was an astounding 190 percent increase in the number of public telephones in the provinces (90 percent increase nationwide); domestic mail use increased by 40 percent; and in 1978–1983 there was a spectacular 250 percent increase in the number of television sets in rural areas (up 90 percent for the whole Kingdom). These figures are from the National Statistical Office, Tables 36, 37, 22. The mass media together with the extension of public schooling to the most rural of areas (sometimes through telecommunications) obviously is a powerful new medium for nationalization, and for homogenization of the language, values, beliefs, and political orientations of the populace. The media (particu-

as, paradoxically, to their political liberation. On the one hand, the soap opera syndrome of vegetating in vicarious experience has become widespread, and on the other, the mass media are used to instill political values of honoring the country, religion and monarch, and to engender antipathy to communism.

Trends toward emerging consciousness of individual and group power that we witness in Thailand should be interpreted as a demonstration of the flexibility of the Thai social order, not as a revolutionary reorganization of society. Siblings—even twins—in Thailand remain senior or junior to each other throughout life. Within Thai society, we can expect continued but gradual and tentative expansion of awareness that power is available through means other than karma and the *sakdiinaa* ideology.⁵³ In addition to them, animism, education, group consciousness, migration and money now are being used for acquisition of power. Because the desire for personal power still is stronger than the desire for social equality, political participation is not yet (aside from the extraordinary 1973–1976 interim) a driving concern. However, the quest for enhanced social status and material well-being is spreading downward in the social hierarchy, even into the lower socioeconomic sector.

The signs of democratization we are seeing still are mostly limited to autonomous behavior of individuals, as distinct from collective action. It is low-key, fragmented and intermittent, but is appearing in new social domains and at increasing frequency. It suggests an emergent sense of democratic equality among the new middle class and, more recently, among the lower socioeconomic sector as well.

larly billboards, radio, television and newspapers) were pumped heavily and effectively prior to the July 2529 [1986] national elections as a means to promote civilian participation in the electoral process.

⁵³Lucien M. Hanks.

Discussion Excerpts

THAI PARTICIPANT: I don't have any quarrels with the authors of the two papers on politics, but I would like to add some points. One reason business groups can be more effective today than in Sarit's day is that ethnic stigmas don't stick anymore as they did then.

Another point that should receive more emphasis is the role of the monarchy as a referee. Thailand is not a democracy or a republic. We are a constitutional monarchy. The monarch's role as referee has been very evident in the past five or six years. The problem is how to institutionalize this role as referee. It is now more personal than institutional.

AMERICAN PARTICIPANT: We need to go beyond what has been said in the two papers on Thai politics. They have taken Western categories and tried to fit Thai reality into them and a great deal is lost in the process. I am inclined to reject the phrase "semi-democracy" or "half-democracy." I think it is demeaning. I think it doesn't reveal anything about the qualities and the capabilities of the Thai system.

If we are going to use Western categories to describe the Thai reality, I would like to go back to Aristotle, who defined democracy as a system of populist rule which promoted demagoguery, factionalism and corruption. He described it as a degenerate form of government. A lot of the Thai generals have said very similar things. Aristotle was in favor of what he called civil society. Civil society combined elements of the monarchy, oligarchy and democracy. We in the United States have tried to do that by having a president as a kind of pseudo-monarch, and a Senate as a kind of pseudo-oligarchy, and a House of Representatives to represent populist democracy. The Thais have done it a little more straightforwardly. They have a real monarch. They have a real oligarchy. And they have the disciplining factors of the bureaucracy and the military along with the parliamentary system which represents populist democracy.

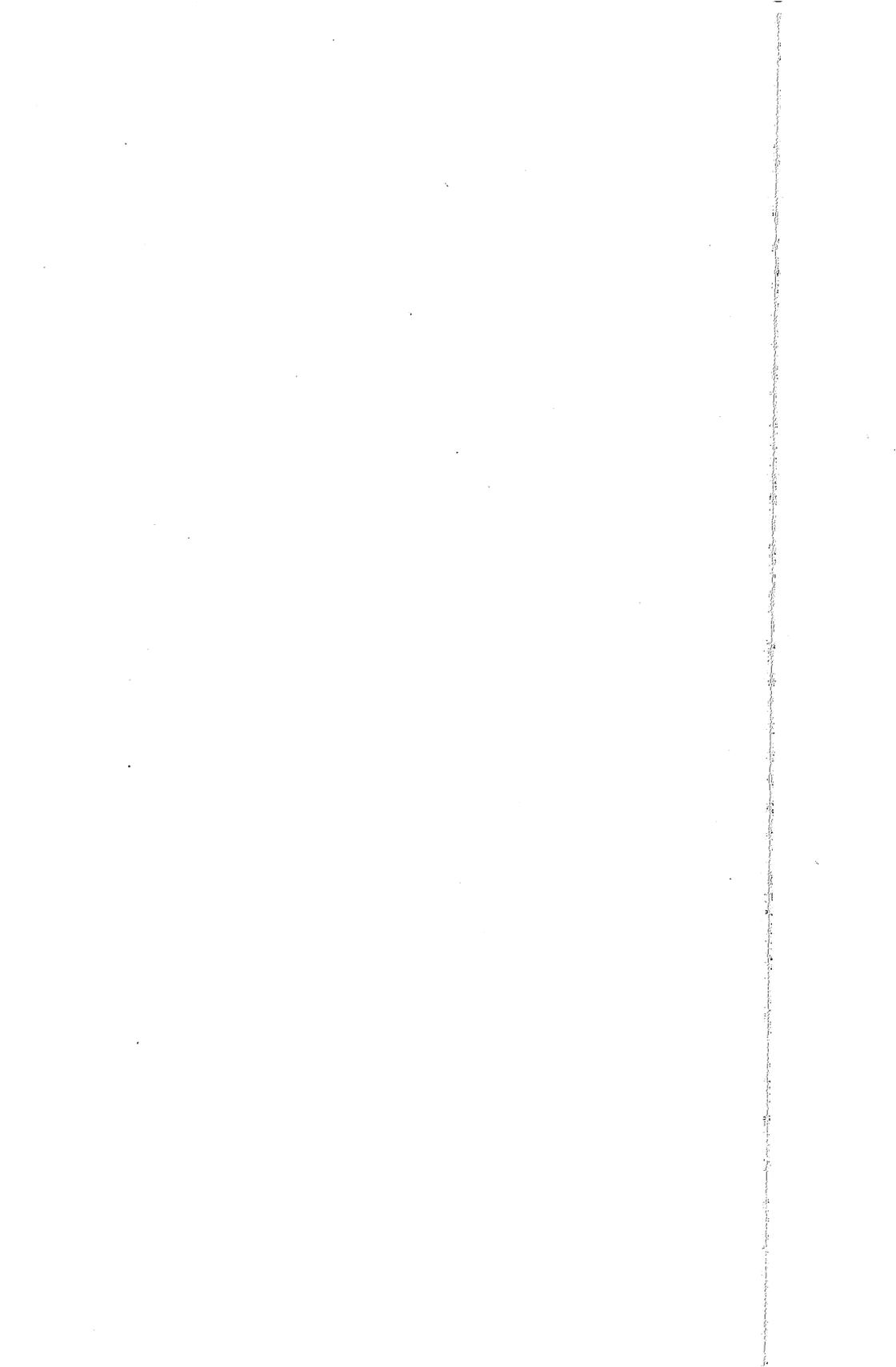
I am not at all convinced that our system has any more capabilities or staying power than what I would call the "moving equilibrium" of the Thai system. It is not that it has evolved or has not evolved. It is a moving equilibrium with marvelously sophisticated and competent

qualities. We should focus upon it on its own terms rather than force it into our boxes of thought. What are its strengths? One is its capability for consensus. A leader cannot antagonize too many groups without losing power. This lends more continuity to policy than in our system. A second is that it brings to bear on policy enormous expertise. A third is that it has remarkable sensitivity to changes in society and to the demands of particular social groups. There are also weaknesses in the system. One is that it is indecisive because it is very difficult for a leader to take big policy steps. The populist part of the system is uninstitutionalized and irresponsible. Finally, it is very vulnerable to international markets.

It is not possible simply to expand the system as it now exists, whether this system is called "pragmatic parliamentarianism" or something else. The system of today is very dependent on a particular king and a particular prime minister, and an extremely elitist and hierarchical role for the central bank and the finance ministry.

THAI PARTICIPANT: When political scientists talk about politics they take the view that politics is what goes on in Bangkok. Politics in the provinces is not touched upon. Neither of the papers on politics deals with politics in the provinces. There are lots of very powerful rural elites. We know too little about them. If there is no parliament what will happen to them? Also, how are they linked to the business elite we keep talking about? Bangkok capitalists finance political parties, and those in the provinces finance elections. I am frustrated with political scientists who don't raise these micro-political issues, who concentrate on what is going on only in the part of Bangkok where the ministries, parliament and Government House are located.

THAI PARTICIPANT: Marjorie Muecke interprets the changes in Thai religious practices as a move toward democratization. Another interpretation is that the growth of meditation centers is a reflection of the spiritual problems caused by a society undergoing rapid socioeconomic change which has created considerable tension.



Part II.
U.S. Domestic Scene

6. Changes in U.S. Society as They Relate to Thailand

SURIN PITSUWAN

The last two decades have seen America turning inward. The effect of the Vietnam war and the impact of that traumatic experience being transmitted into American living rooms have left a great scar on the American psyche. A well-known sociologist, Edward Shils of Chicago, describes this psychic war wound, which led to an almost universal sense of skepticism among Americans and the erosion of the legitimacy of authority in America. This phenomenon points to an America in perpetual disorder as a result of the irreparable damage done to the traditional American faith in and respect for public authority.

Since the Vietnam war the American people have become much more self-conscious, self-centered and self-interested. Books on individual psychology have been written and read widely. Individual well-being appears to supersede public good. Large numbers of such titles as *I'm OK, You're OK*, *Looking Out for Number One*, and *You Are Your Own Best Friend* have been sold. More recently published is *The Culture of Narcissism*. We have to look at these titles not in isolation, but as an essential part of the changing American society, the evolving American psyche.

The war in Vietnam brought new awareness to various parochial groups in America. Groups that never had been active, involved or interested in social policies and political issues prior to the war have become incited, committed and driven to take public stands to reflect their thoughts and feelings on the matters before them. The war forced a lot of people to start speaking out. If they never thought there was anything they could do about the war, they saw there might be something to do closer to home. They picked up on an issue that was closer to the family—busing seemed like something they could do and handle. And from there they moved on to tackle the more complicated problem of the war through draft evasion, anti-war demonstrations and the other tactics of the peace movement.

The accumulative effect of the Vietnam era experience is an America shortening its sight and narrowing its perception of national interests.

Each citizen is driven to be mindful of his or her own narrow self-interest. Few now are committed to the general interests of the larger whole.

America turned inward at the same time as U.S. economic power also was eroding. In 1945, when there was an enthusiasm about the world, about progress, peace and collective security, America was producing half of the world's manufactured goods. In 1953, America produced 44.7 percent of these goods. In 1980, however, America's share of manufactured goods produced fell to 31.5 percent. By the year 2000, according to one estimate, only 20 percent of the world's manufactured goods will be American made. Concomitantly, there is a trend toward self-doubt. There is strong pressure being put upon the American psyche. Because of that inward-looking trend and feeling of mistrust toward authority, the common attitude is that you will have to take care of yourself, to be, so to speak, "your own best friend."

In addition, a new phenomenon is developing in America: It is a trend toward political isolation, a feeling of anti-anything that smacks of internationalism, anti-United Nations. I worked with Congresswoman Geraldine A. Ferraro for six months (December 1983 to May 1984). There was one letter that I had to keep writing. That was about why the U.S. government should continue to support and work with the United Nations. People from Queens, New York, began to lose hope and faith in the idea of internationalism, the United Nations and its related agencies. I do not think they were isolated from middle America on that issue. I think they did represent the general desire on the part of the American people to shrink from the international arena, to concentrate on the problems at home.

The fact that people like Jeane Kirkpatrick and Daniel Moynihan are being sent to the United Nations to be the soldiers of American interest certainly indicates a major shift in the U.S. attitude toward internationalism. Doubts about the value of the United Nations and the virtue of international cooperation and mutual assistance are on the rise in today's America.

Opposition to foreign aid programs is a theme in a lot of congressional mail coming from the American people. "We don't want to pay for those regimes, for those corrupt leaders in the Third World any more," they are saying. "We are doubtful about the Nixon Doctrine, the Reagan Doctrine." Political isolation and political conservatism are coming center stage in American politics. Military buildup is one consequence of this attitude.

An interesting related phenomenon is that some of the most conservative leaders have also become isolationists. U.S. Senator Jesse Helms of North Carolina, for example, a conservative, who should be an internationalist—free, open, fighting and helping, in the best sense of the Western tradition—has recently turned out to be most protectionist,

bordering on isolationist. He is most bitter about his North Carolina tobacco being denied a market abroad, particularly in Thailand. He has expressed deep concern about the tobacco monopoly policy of the Thai government. We will have to deal with him. We are thankful that he is no longer the chairman of the Senate Agricultural Committee.

The anti-Communist agenda is being revived in a very narrow sense. When it comes to unilateral military intervention—such as Grenada, Lebanon—your friends and allies also question the wisdom of taking such drastic action. When I say unilateral, I do not mean that you do not have enough reason to justify the action in the way you see it. But just as Prime Minister Margaret Thatcher said, “We love our allies, we support them, but we do respect international law.” A lot of people feel disturbed about your unilateral action and its limited results around the world, including people here in Thailand.

The false optimism that Reaganism exudes is not healthy. President Reagan is certainly optimistic about his military buildup, his Strategic Defense Initiative (SDI), a “successful” arms race, B-1 bombers, MX missiles, handguns, high interest rates, the huge deficit and the over-valued dollar, covert military actions and operations in various countries (for instance, Afghanistan, Angola, Nicaragua)—all these things are part of the new resurgence of political conservatism and political isolationism. The elements of the internationalist ethos such as peace, collective security, freedom, justice, dignity, growth, progress—which used to be the catch-words of the post-war period—are no longer stirring ‘Americans’ psyche and spirit, not as before anyway. On top of that, parochial politics is emerging. A lot of people in America are finding themselves entertaining a mood characterized by terms such as “fortress America,” the “life-boat mentality.” Let us protect our own interests (which may be conflicting interests), they say. Farmers want subsidies. The textile belt in the Southeast wants more protection against foreign competition. The rust belt and the corn belt are crying out against cheaper, more sophisticated foreign-made cars and other consumer products. Everybody wants to take care of his or her own particular, narrow, small, parochial interest, no longer believing in the future, in progress, in the promise of all the good things that should come with competition, with free trade, with whatever principle used to be the cornerstone for American foreign trade and foreign policy.

Congress has become a stage on which a grand drama of an impossible interests-balancing act is being played. We in Thailand were used to dealing with a unified America—the U.S. administration or the executive-led foreign policy makers—on defense assistance, on economic aid programs. We now are quite confused about with whom we should be dealing. Because of this rapid change and transformation in the American society, we cannot be expected to catch on so fast. At the height of the

textile controversy in 1984–1985, General Kriangsak Chomanand as the chairman of the Thai House Foreign Relations Committee appealed to his old American friends and counterparts (we had helped you so much in Laos, Vietnam and Cambodia), forgetting that all those friends have changed their minds about extending helping hands. They have become short-sighted, parochial victims of the transformation of that American psyche that I referred to in the beginning.

We are confused. A Thai foreign minister a few years ago turned down a luncheon invitation by Charles Percy, chairman of the U.S. Senate Foreign Relations Committee, because he was hoping to see an undersecretary of state. He was thinking that an undersecretary of state was more powerful in the American bureaucracy and foreign policy establishment, just as it is in the Thai foreign policy circle. We were used to dealing with a unified executive, a unified Washington. We are confused about the role Congress now plays in foreign policy.

The Thais are admirers of the Koreans, the Taiwanese, the Israelis and the Japanese for their effective work on Capitol Hill in Washington, but we still are not organized enough to scale that hill ourselves; there is a lot for us to learn.

In the introductory speech that he prepared for this conference, Ambassador Kasem S. Kasemsri put the ball in the American official representatives' court. He said, "Mr. [Joseph] Winder, Ambassador [William A.] Brown, you will have to explain to the Thai people that a lot of these things are happening and affecting Thai interests, not because of the official American policy in Washington, but because of conflicting parochial interests in Congress, reflecting the conflicting interests in the American society as a whole."

I do not agree with that line of thinking. I think we, the Thais, have to try our best to understand what is going on in America. We realize the significance of the role of the 18,000-20,000 person congressional staff. But we do not have the staff and the resources and the manpower to cultivate them as the Israelis, the Taiwanese, the Koreans, the Japanese and the Singaporeans are doing in Washington. We have to learn, to find ways and to organize ourselves right here. The same goes with regard to the lobbyists. We just do not have enough to distribute, to try to get our position, our views across to American policy makers.

You have changed, we have changed too. The Thai executive branch will have to deal with an even more vociferous parliament. We too have to respond to our constituents. At the height of the sugar and commodity controversies in late August and early September 1986, a group of farmers from Lop Buri came over to see the Speaker of our House of Representatives and raised a very interesting question: "Why don't we sell our corn to the Russians?" What would the American congressmen, the American officials in Washington say or how would they react to such an innocent question if it were to be made in public? A lot of them might regard that as

a threat. But it is a legitimate question in our society; we have to look out for our own interest. We are changing, you are changing. We might be in for a more difficult time.

Three letters from the Thai House leadership here were sent to the U.S. Congress on the sugar issue alone in September 1986, and none of them was even answered. We try to be active, reflective of our constituents' frustrations, hopes and fears, but we are not being taken seriously by our American counterparts.

We have a new generation of chairmen in our House. Boonchu Rojanastein, with his background, his international prestige and name recognition, has assumed the leadership of Thailand's House Foreign Affairs Committee. Pairoj Chaiyaporn, educated in Colorado, is the chairman of our Economic Committee. Trairong Suwankiri, former government spokesman and a Ph.D. from the University of Hawaii, is the chairman of the Agriculture Committee. Yupa Udomsak, educationalist and Ed.D. from an American university, is the chair of our Industry Committee. Supatra Masdit, who earned a master's degree at the University of Hawaii, heads the House Affairs Committee and is trying to make parliamentary improvements; she also has a very important voice in many issues affecting relations with foreign countries. She can be quite influential in certain policy matters, such as the prisoner exchange treaty. One woman can be quite effective. So they are quite powerful voices; they can be ignored only at a price.

We have to adjust to changing realities. Please do not misunderstand us by raising some of these sensitive issues because we are also becoming quite parochial, because the Thai House itself is supposed to be a populist place reflecting our society.

Aristotle's *Politics* says that democracy is not the best regime. It allows or gives rise to demagoguery, to passion. I also am an admirer of Thomas Jefferson, who believed in the aristocracy of intelligence. Nevertheless, I do not want this country to be ruled by the iron fist of aristocracy or oligarchy, power and influence, naked at times. The Thai House is being criticized, sometimes condemned. A lot of my friends who voted for me or my party have expressed disappointment. I too am disappointed. But because the House is so open, you can criticize it to your heart's content. The temporary setback that Professor Khien Theeravit was talking about is heartbreaking. But would anybody in this room prefer an absolute, best-organized party, a mass party characterized by uniformity of thought, pure power, absolute power, ruled by a certain group that has the "best interest of the people" in mind? I am sure you wouldn't want that kind of a closed society—even though it is an effective system.

To those who harbor great doubt about our democracy, I ask for more understanding and encouragement. The internal turmoil of political parties exists simply because the parties operate in an impossible situation. If you knew what I know about the setting up of this coalition, you certainly

would forgive or at least understand some of the problems that we are facing internally on various issues at this point.

We in the parliament perceive our role as a balancing act among contending institutional interests. But we do not have a platform to stand on when we perform that balancing act. We do not have the resources, staff, office space or precedents to refer to. About one-third of our time in parliament is spent discussing procedural matters. How to vote on one or another issue, secret or open, how to phrase the motion, how many meetings a year do we want, how many days a week, one or two sessions a year?

A lot of time is being devoted to such procedural matters because we do not have much history to fall back on. Give us some time. Give us a break. Make that break long enough for us to build up some parliamentary tradition, history and precedents that we can go back and refer to when we chart our future course.

As a political actor, I too am very disappointed. But as a soldier of democracy, I have to raise my sight and fix it on the horizon rather than gazing down to the rubbish at my feet. These days we have a lot of that. As supporters of democracy, I hope at least you will provide us with guideposts and keep the beacon burning. Even if the horizon darkens, I will not give up; I plead with you not to cut my supply line.

7. The U.S. Congressional Process and Its Implications for Thai-American Relations

HERBERT LEVIN

The institutional culture of the United States Congress differs markedly from that of the executive branch. The former tends to be publicly discrete while the goal of the latter is to be discreetly predictable. Americans accept these differences as reflecting the constitutionally mandated separation of powers plus natural partisan competition. While the Congress can be devastatingly effective when it acts—or fails to act—on legislation affecting foreign affairs, it is not involved directly in most international policy matters. Foreign governments can sway U.S. congressional views through reports from their countries in key American newspapers and by providing information from foreign embassies in Washington to congressional staffs to meet members' needs.

Congressional attitudes toward Thailand traditionally have been positive and they remain so today. This is true despite what are perceived in the Congress as an unprecedented Thai insult to the United States in the United Nations and unhelpful Thai attitudes toward the U.S. trade deficit. Increased trade frictions are inevitable as the Thai and U.S. economies become less complementary and more competitive. If these "taxes on success" are paid by both nations in a mature manner, the two countries should find their self-interests served by even closer relations. In any case, the Congress will remain visibly, if sporadically, interested in Thai-U.S. relations.

The Institutional Setting

To understand the U.S. congressional process as a factor in foreign policy formulation, it is necessary to recognize that the institutional culture of Congress differs markedly from that of the executive branch—including the State Department, the National Security Council and so on. Indeed, each branch of government has its own distinct subculture of the American polity—including differences of dialect.

The views expressed here are solely those of the author and do not necessarily reflect those of the Department of State.

For the executive branch, the exigencies of melding domestic and foreign concerns into coherent national policies require that the process be as confidential as possible, and the pace incremental. Exciting excessive public apprehensions or expectations at home or abroad should be avoided, and the appearance of continuity and predictability strengthened for U.S. policies to deter opponents and attract supporters.

The Congress appraises itself as most effective when it is visibly active—holding hearings, passing resolutions, enacting laws, and so on. Individual members are required to take sharply defined positions by voting yea or nay, not by delivering themselves of nuanced pronouncements. Informed senators and representatives know that the realities of international order and disorder are characterized by shifting shades of grey. Nevertheless, the legislative process demands that they often act as if the choices are clearly drawn between black and white.¹

These distinctions should not be overdrawn. There are times when presidents have played to the gallery instead of history to measure their success, and instances of senators and congressmen having worked for broad national long-range policies. Presidents sometimes do act like senators—and vice-versa.

In any case, these different institutional cultures of the executive branch and the Congress are not viewed by the American people as regrettable defects or aberrations in our democracy. On the contrary, they are accepted as appropriately reflecting the differing approaches which constitutionally are built into the U.S. system of “separation of powers” between branches of government. A few examples help illustrate this.

The executive branch seeks to avoid clearly drawn, dramatic statements of foreign policy because these could limit future maneuverability at home or abroad. Public vagueness and carefully wrought generalities allow for flexibility in timing and substance in executive branch handling of international affairs.

In contrast, individual members of Congress, the subcommittees, the committees and the two chambers constantly must take clear-cut positions responding to perceived needs for change or legislative action, thereby ensuring recognition by the electorate of their devotion to duty. This visibility is peculiarly essential for survival by members of the House of Representatives, some of whom have little more than a one-year interval between the time they take their seats in January (after being elected in November for a two-year term) and beginning to

¹Stanley J. Heginbotham, Chief of the Foreign Affairs and National Defense Division, Congressional Research Service, Library of Congress, is the source of a number of helpful insights on this question. See, for example, *Dateline Washington: The Rules of the Games*, Foreign Policy No. 53 (Washington, D.C.: Winter 1983-84).

campaign in their first re-election party primary race early the following year. Senators are elected for six years. Nevertheless, the membership of both the Senate and the House recently has averaged less than five years in office; this results in a strong Congressional commitment to stay in sight of the voters.

The executive branch puts forward as a desirable principle for itself and for the government as a whole—including the Congress—that the United States should speak to the world with one voice, supporting one foreign policy, because other governments are listening. A visible American policy monolith is more likely to impress foreigners than the shards of intra-governmental debate.

Congressmen and senators must at all times appear before each other and the citizens who elect them as independent thinkers and actors. Publicly challenging the executive branch on foreign policy questions is an excellent way of attracting media attention to fulfill this political requirement. For members of the party not in control of the executive branch, it also provides a means of advancing alternate foreign policies; for members of the president's party it makes clear that a congressman or senator is not an unthinking supporter of the administration. When one or both houses of Congress have a majority of members not of the same party as the president, normal Congress-executive competition can become further complicated by partisan considerations—and this has been the situation more than half the time since 1945.

The executive branch under any political party will seek stable relations with almost all nations, and friendly ties with those which reciprocate, trying carefully to weigh the totality of U.S. interests with a given country, and seeking to construct a coherent whole. With few exceptions, members of Congress will urge the executive branch to pursue specific foreign relations objectives—strategic, economic, commercial, cultural, political—which meet the needs of particular U.S. interest groups, regions, states, congressional districts, economic or political organizations, and the like, with which the particular member has affinity.

The executive branch—through its control of American embassies abroad, and close ties with foreign embassies in Washington—will maintain continuous confidential contact with foreign governments, monitoring and adjusting relations, seeking to minimize misunderstandings and avoid crises. The Congress can act in accord with constituent needs or members' predilections only sporadically, through publicized investigations, votes on foreign aid or on problem imports, etc. All this congressional activity must be done with maximum publicity to manifest to the electorate that the members are fulfilling their responsibilities to be hard-working and independent.

Executive branch officials in good faith assure foreigners with whom they do the government's business that the Congress certainly will support equitable international agreements. Members of Congress thereafter often skillfully delay by procedural devices the passage or oversight approval of international agreements to gain leverage in the endless business of legislative processing. The agreement with Patagonia on trade in frozen penguin feet may be the number one item of business to the Patagonians and the executive branch folks with whom they negotiated it, but to the Congress it is just more grist to be ground through the legislative mill for whatever general goodness can be extracted from it.

Executive branch officials are highly skilled in presenting narrow U.S. national interests or commercial needs in terms of universal truths to sway foreigners' judgments. Conversely, congressmen apply widely accepted U.S. ideas to particular foreign situations to meet the specific concerns of activist components of the electorate. These differing approaches characterize most committee hearings in the contrasting emphases of executive branch testimony and members' questioning. They also significantly flavor much congressional travel abroad, when members often go to a country avowedly to investigate a particular subject. Many members excel in their ability to project individual constituent concerns through the legislative process by means of deftly introduced floor amendments and hortatory resolutions.

The Extent of Congressional Participation

These examples of how the different cultures of the executive branch and the Congress can impact on the making and carrying out of foreign policy do not form any pattern of American success or failure in international affairs. Most salient is that the Congress (and each individual member) is simply too overburdened with other legislative business to get involved in most foreign policy matters.

The U.S. role in various Middle East negotiations has been a major one for more than a generation, with congressional participation limited to occasional votes on aid or arms transfers. The great congressional interest in U.S.-Soviet relations only translates itself into legislative involvement in rare instances such as when an arms control accord goes to the Senate for advice and consent. Most of the time, the executive branch transacts most of the international business of the U.S. government with little or no congressional input.

Indeed, some members of Congress claim they can discern an executive branch tradition of scheduling completion of politically sensitive foreign policy matters when Congress is in recess, with members

out of Washington so they cannot become involved. Other members view the executive branch as drowning the Congress in a torrent of reports, letters, briefings, and so on, so they cannot identify and single out for effective attention the really significant items. But even if the Congress is only intermittently seized with international affairs, when it does or does not act it can have awesome effect.

For example, during the half century beginning in 1851, the Congress refused to accept arbitration treaties with Great Britain and France. In 1935 and 1939, Congress passed the Neutrality Acts, refusing to give President Roosevelt the capability to send arms to countries resisting Nazi Germany, fascist Italy, imperial Japan and the Stalinist Soviet Union.

When the Senate rejected the Treaty of Versailles, the tone of American foreign policy was set for a decade, despite President Wilson's strong views to the contrary. President Nixon was disappointed at congressional inaction on the Threshold Test Ban Treaty, an experience shared by President Ford regarding the Treaty on Peaceful Nuclear Explosions, and by President Carter with SALT II.²

Affecting Congressional Perceptions of Foreign Governments

How then should foreign governments honorably go about their legitimate business of influencing congressional opinion, corresponding to their representations to the executive branch? The key factor here is that congressional positions are swayed by information, and that most information reaches the Congress through the press, not from State Department or CIA briefings or executive branch testimony.³

A foreign country can profoundly influence congressional attitudes toward it by understanding that the most effective channel is through

²Executive-legislative relations in the field of foreign affairs have been a source of strain since the earliest days of the American Republic. Within a few months of his inauguration as president, George Washington went to the Senate to seek its advice and consent on a treaty with the Indian tribes of the South. The Senate's cold reception of the president caused him to retreat. No subsequent president went to the Senate on a similar errand until July 10, 1919, when President Wilson appeared in the Senate chamber to present the Treaty of Versailles. His experience discouraged similar presidential visits until the summer of 1945, when President Harry Truman personally submitted the United Nations Charter to the Senate for approval.

³One American writer on congressional activism in foreign affairs views it as follows: "It is a fact of life. Like that most elemental fact, sex, it is not going to fade away; it has the capacity for disgusting excess; it can be made manifest appropriately or inappropriately. But it is going to be with us. Therefore the president's job, Congress' job, and the task of those of us who are interested in the subject is to structure guidelines that will maximize the healthy aspects of this fact of life and minimize the unhealthy aspects." W. Taylor Reveley III, in *Congress, the President and Foreign Policy* (Washington, D.C.: American Bar Association Standing Committee on Law and National Security, 1984).

the local correspondents of the *New York Times*, the *Washington Post* or other U.S. media. The reports of the American ambassador about the country where he or she is resident are read by far fewer congressmen than the articles sent back by the *New York Times* bureau. Not only do the contents of the articles affect the positions of congressmen on specific subjects, their impact on the broad spectrum of interested American citizens determines the climate of opinion within which a member of Congress usually wishes to move.

Another significant means of influencing congressional attitudes towards a foreign country is the interaction of that country's embassy in Washington with the Congress or, more precisely, with congressional staffs. The key to productive relationships in this area is to understand that staff interests reflect members' needs, and to order embassy efforts accordingly.

For example, if a member of Congress is active on questions relating to U.S. interests in the Middle East, the foreign embassy officer should understand the history of Israel's political parties, the international ties of the Israeli Labor party, the stances of ultra-orthodox versus liberal Jews in Israel and their sympathizers in the United States, and the significance of the historical differences between Sephardic and Ashkenazic Jews and what this means for contemporary questions. And the officer should be equally at home with the connections of Christian and Muslim Arabs with their American supporters, the role of the oil industry, and defense contractor relationships.

Any foreign diplomat working to advance understanding and support for his or her nation's interests in the Congress should be knowledgeable about the religious element in congressional thinking whenever it might be present. For example, Mormonism brings different perspectives to bear on international questions than does Judaism or Catholicism.

The citing of potential religious factors in congressional attitudes is not to suggest that these dominate. Religious leaders would be the first to point out that they do not, but they do play a role not immediately apparent to interested observers. Probably more important aspects of congressmen's and senators' backgrounds that foreign embassies ignore at their peril are whether a member's political base is rural, suburban or inner city; whether the state or district has substantial activist agricultural interests, defense industries, or the like; and similar questions.

Interestingly, the foreign diplomat in Washington will find largely irrelevant any previous experience with the Japanese Diet, the British Parliament, or other representative assemblies. In the House of Representatives committee chairmen have little or no control over subcommittee chairmen. The latter usually set their own agenda and have staffs beholden only to themselves, not to the committee chairmen. In

contrast, the chairmen of full committees in the Senate usually exercise more control over their subcommittee chairmen. In all cases the majority party in a body does have a superior position to that of the minority party. However, the party positions may be the reverse in the other chamber.

In reality, there are 535 individual fiefdoms in the Congress, each of which is served by extensive staffs, totaling 18,000. To fail to cultivate ties with these staffs is to ignore the reality of the way the Senate and House operate. The Congress is not dependent on the executive branch to inspire legislation or to provide guidance, because Congress has access to other resources through its own staff system; those who comprise that system usually are most accessible to foreign diplomats.

It is also important to bear in mind that unlike the system followed in comparable situations in other democracies, in the United States candidates for the presidency and the Congress are selected through distinctly separate mechanisms, and there is not a strong relationship between their respective triumphs and failures. Since 1945, the American people have changed party control of the executive branch five times. In those five elections, the voters re-elected 92 percent of the incumbent members of Congress who stood for re-election of the party that lost the presidency. The lesson for prospective and current members of Congress is that their prospects for election or re-election have little to do with their party affiliation or the electoral fate of their party's presidential candidate. This certainly is a factor in freeing members to shape their own attitudes toward executive branch wishes on international matters—or anything else.

A subject sporadically discussed in Washington is the nature and effectiveness of activities designed to influence Congress (or anyone else) on the part of Americans employed by foreign embassies. The focus of this attention is usually on lawyers, public relations experts and others providing professional services, customarily on a contractual basis. Some embassies have a history of never engaging Americans for such purposes, while others employ Washington professionals as readily as they might contract for American electricians, carpenters or other technicians.

To the extent that there is any general appreciation among informed American observers of the role of U.S. citizens in the employ of foreign diplomatic missions, it probably is one of understanding the need for attorneys to analyze U.S. laws and provide legal services—and for legislative analysts and political and economic advisors to assist in comprehending those complex areas of the U.S. government and polity.

It could be said that the foreign embassy is exercising the same sort of prudence as an American corporation in employing outsiders knowledgeable of the national government scene to advise how best to

protect and advance their principals' interests in Washington. However, they might be less understanding of the need for American employees of an embassy to speak on behalf of a foreign government, as contrasted with advising its diplomatic representatives. Foreign embassies are usually expected by the Congress to speak on their own behalf. However, to whom they address their remarks, how these are organized and the timing of their delivery might well be helpfully influenced by knowledgeable American counselors.

The U.S. Congress and Thailand

Can we reach any judgment as to the effect on Thai national interests, and therefore on Thai-American relations, of the congressional role in international affairs? In so doing, we should not underestimate an important dimension of the congressional phenomenon in international affairs—general disinterest. However, it is most notable that for those members who concern themselves with such matters, the perception of Thailand in the Congress is universally favorable. Security-minded members remember the Thai military contributions in Korea and Vietnam, and are aware of Thailand's sturdy refusal to bow to Vietnamese military hegemony in Indochina today. Congressmen are moved by human suffering, and they know and respect Thailand's policy toward the seemingly endless stream of refugees entering from the east—and would be concerned at any Thai departure from that compassionate attitude.

Hearings on levels of U.S. economic or security assistance specifically for Thailand are rare, and what discussions do take place are generally in a positive vein reflecting interested members' knowledge of Thailand's laudable record in effectively utilizing external assistance. Congressional votes on resource transfers to Thailand—economic development funds, narcotics control assistance, refugee relief, etc.—all have been favorable, if recently constrained in size by overall budgetary limits. It would not be an overstatement to say that Thailand has never "lost" a vote in the U.S. Congress, and that consistently positive executive branch policies toward Thailand receive sturdy congressional support.

From a congressional perspective, has there been any evidence of trends or developments that could disturb this happy picture? One recent case does come to mind: In 1986 the United States took military action against Libya after Libya ignored repeated U.S. warnings and again killed unarmed Americans in terrorist acts. On April 14, 1986, in the United Nations Security Council, Thailand voted with the Soviet Union to condemn the United States for this action—the only American ally to do so. The exact vote was: the U.S., Australia, Denmark,

France, and Great Britain opposed; Thailand, Bulgaria, China, Congo, Ghana, Madagascar, Trinidad and Tobago, the USSR, and the United Arab Emirates in favor; Venezuela abstaining. American surprise and disappointment at Thailand's vote was heightened by the knowledge that if Thailand had chosen to join Venezuela in abstaining the resolution would have failed to obtain the nine votes needed for its passage.

Though the executive branch must have worked hard to explain to Thailand the rectitude of the American case, once the Thai vote was cast against the United States, the executive branch would be anxious to focus the relationship on more constructive matters. Thus, the executive branch would seek to ensure that Thai-American ties would not become overly strained because of a single non-binding vote at the United Nations.

The congressional reaction was different and probably will be longer lasting. Public opinion polls along with other indicators suggest that the U.S. military retaliation against Libyan terrorism was supported by more than 70 percent of the American people, an unusually high degree of approbation for a presidential initiative of this nature.

From a congressional perspective, it seemed the Thais joined the Soviets to condemn the United States in the United Nations when the Thai leadership in Bangkok knew the facts did not justify such an unprecedented vote, and abstention was a readily available alternative. For a member of Congress, Thailand's vote at the United Nations was a public insult to his or her constituents, whom they are obliged and happy to defend. Inasmuch as Thailand determined that its relations with other countries required it publicly to condemn the United States, the Congress will be helped to remember this significant Thai act by recalling the unfavorable American popular reaction. The point is not that a single U.N. vote means the end of good Thai-U.S. relations—all would agree that is not the case—but that the Thai action to join the Soviet Union in an attempt publicly to humiliate the United States cannot be without cost to Thailand. Members of Congress will have this in mind for a long time to come.

Another area of concern is the congressional appraisal of Thai attitudes toward U.S. actions to reduce our unacceptable trade deficit. Thailand doubled its trade surplus with the United States in 1985 to \$800 million. Clearly, if U.S. trade policy is one of "growing protectionism" it is a failure in regard to Thailand. When the booming Thai export trade to the United States runs afoul of U.S. trade rules on steel dumping or textile marketing, the Congress will expect Thai reactions to be tempered by knowledge of overall U.S. problems in contrast to the pace of Thai economic successes. The United States now imports more manufactured goods and more agricultural products than it exports. The United States is again a debtor nation for the first time in a

hundred years. The Congress is convinced that this unhealthy situation cannot be allowed to continue if the nation is to fulfill its responsibilities to its allies as well as its own citizens.

A congressional initiative—opposed by the executive branch—which has engendered more heat than light is contained in the Food Security Act of 1985 (the farm bill). For a number of reasons, including an overvalued American dollar and very effective Thai marketing efforts, U.S. rice exports fell from 25 percent of the world market in 1981 to 17 percent in 1985, while the Thai share went from 24 percent to 40 percent in the same period. Congressionally mandated efforts are designed to make U.S. rice exports more competitive. The effect probably will be marginal on Thai earnings in the long run, since the U.S. intent is to match the world price, not lower it.

As Thai export capabilities happily continue to improve, both Thais and Americans should prepare to handle the inevitably growing number of frictions accompanying increased competition between the two economies. These are “taxes” which we both pay for success. Handled properly, they will not endanger the enduring favorable accomplishments that bring the two countries ever closer together. We may confidently expect an interested Congress to continue to make an active and vocal contribution to this process.

Discussion Excerpts

AMERICAN COMMENTATOR: I have rather different conclusions from Surin Pitsuwan on some key themes. At end of World War II the United States embarked on an extraordinarily internationalist set of policies. I would say that even today the United States is probably the most internationalist of all major powers—and maybe of all powers. The trend at home is not against internationalism. It is not isolationist in the more traditional sense. There is, however, a growing insistence for fairness and reciprocity. There is a reemergence of American nationalism, but I don't regard this as ipso facto anti-internationalist and in fact I think it is a healthy trend. We cannot be all give and no take. We are also more interdependent with other countries. How to balance these factors of interdependence and self-assertion is going to be the central problem of the rest of this century and far beyond.

There has been a broad coalition that continues to favor American commitments to critical regions, but that will increasingly demand (I think rightly) that others play their role. There is not going to be any situation where there is one open country, the United States, while others close their markets in one form or another. That pressure is going to continue and I anticipate some retaliatory actions, actions that say *quid pro quo*, "You do this, we'll do that." That puts the ball in others' courts. You can either help American protectionism or you can restrain it. Not just you, Thailand, but you Asia, and you Europe, and you wherever you are.

AMERICAN PARTICIPANT: Khun Surin in his talk mentioned growing isolationism and a "fortress America." If there is a fortress America, Thailand has done very well by it. People in this room speak as though the textile bill became law. It was recently killed. I seem to recall that in August 1986 the House of Representatives voted to sustain the veto of that bill. We took 32 percent of Thailand's textile and apparel exports in 1985. Japan took less than 2 percent. The European Economic Community took 23 percent. If persons believe *that* is fortress America, I don't see how we can find common ground.

AMERICAN PARTICIPANT: I would like to thank Surin for being provocative in his statement and provoking a lively discussion. I was a

little troubled by the tone of his remarks because I think taken as a whole they paint a picture of the United States as being mean-spirited somehow with ill will toward the world. Certainly those elements exist, but I think the United States is a complex society. Protectionism, isolationism, internationalism have gone back and forth throughout our history. Today we are in a period when the trend toward protectionism is stronger than it has been, but there are other currents. If we are protectionist we are awfully bad at it given the size of our trade deficit. Almost every country in Asia has had 25 percent to 30 percent growth per year in exports to the United States over the past several years. What is being asked for is not shutting down the American market or keeping foreign goods away, but is reciprocity or a level playing field. Americans and American industry can compete with anybody in the world if they are given a fair chance.

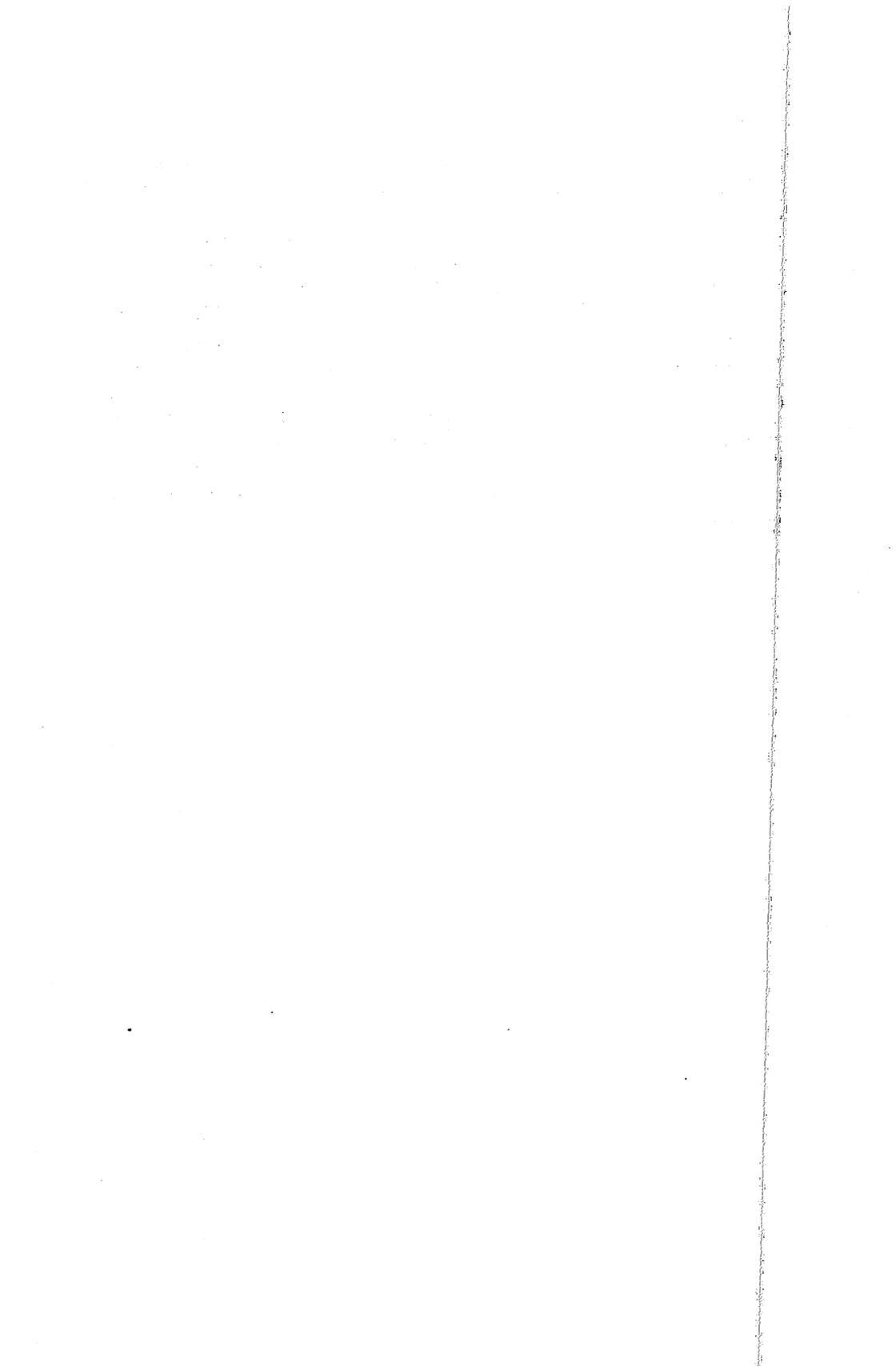
THAI PARTICIPANT: Let me give some numbers that might be of some use in the discussion of "reciprocity" and "level playing fields." U.S. rice farmers will get about one billion dollars in subsidies during this year. Seventy percent of rice farmers' income will come from Uncle Sam. The total value of Thai rice exports is 900 million dollars. The total value of American rice exports is 700 million dollars. This year the Thai government, after a great deal of soul-searching, has decided it *might* draw out maybe all of 20 million dollars to help Thai farmers. When our American friends talk about level playing fields please leave rice out of it. There is nothing level on that side. It is one-sided and it is directed against us.

AMERICAN PARTICIPANT: America's most intimate relations probably are with Canada. The web of relations has managed to circumscribe trade problems, and there are many. There will be increasingly a web of relations across the board between Thailand and the United States which will increase and which will hold firm, even when economic problems and commercial disputes arise.

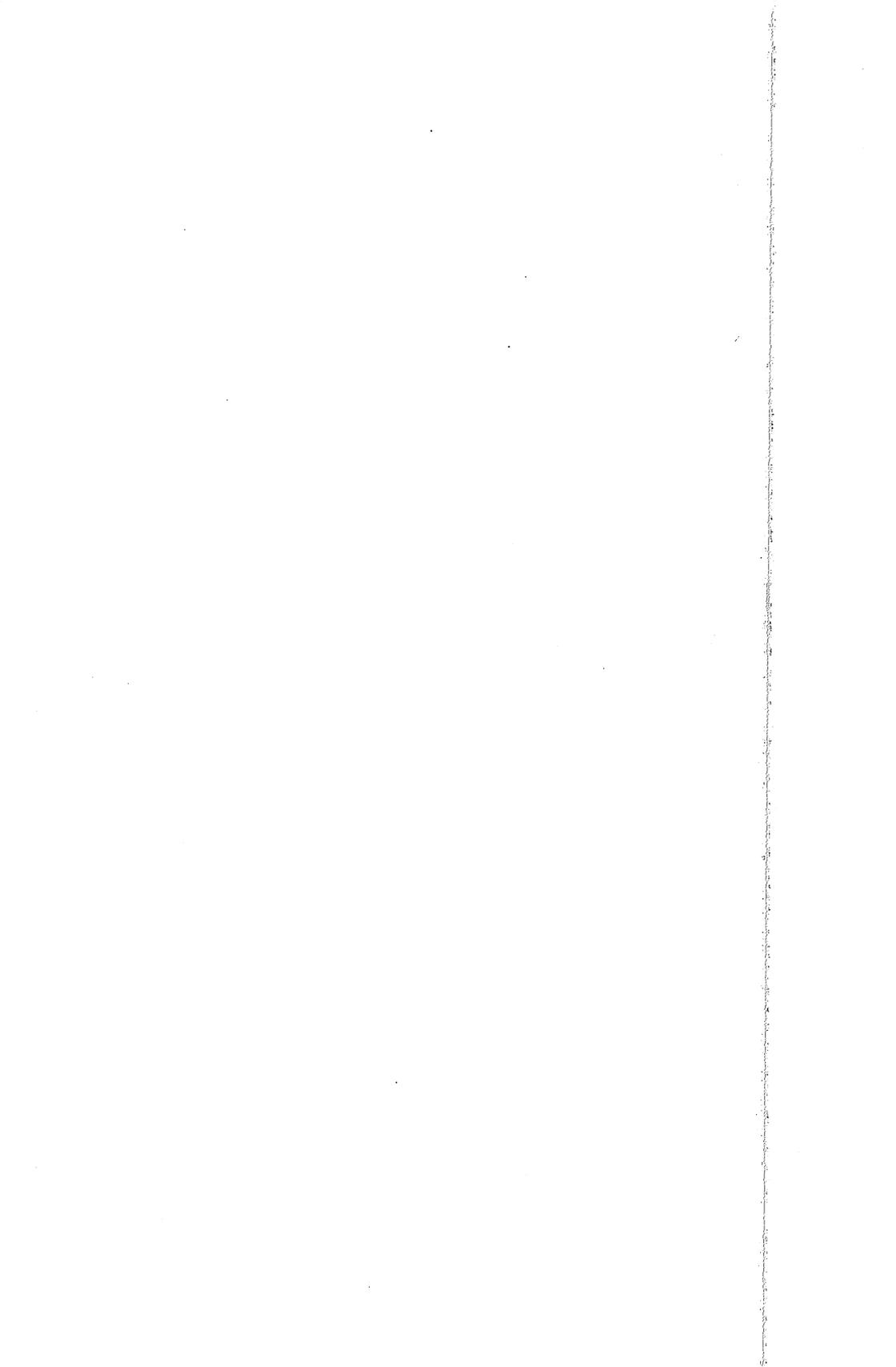
AMERICAN PARTICIPANT: Economic issues are very much at the center of what is going on between Thailand and the United States today they have completely supplanted security issues in the minds of most academics and leaders in Thailand. Several Americans today have come forward with statistics showing a Thai trade surplus with the United States and ask what Thailand is complaining about: "What's the beef?" But they are missing something very important. When trade issues are most important you are talking in very unemotional, unsentimental terms. That's not the way most Thai people like to think about their relationship with the United States. In the past it has been basically a security relationship, one based on somewhat familial, unequal relationships between *phi* and *nong*, or between elder brother and younger brother — a very familial, friendly kind of relationship. Now that economic relations have come to the fore, we are talking a very different kind of language. I think it is important to recognize that there are different mindsets that are coming to bear in this

conversation. The way that Thailand and the United States think about each other has changed fundamentally in the last few years and we should recognize that.

THAI PARTICIPANT: We have taken it for granted that Thailand and the United States are long-time friends and have a relationship dating back more than 150 years. Thus when there were trade problems and new trade barriers without being warned in advance the Thai people, especially the government, felt betrayed: "Why don't you think of us as long-term friends and allies?" You cannot invoke old friendships. From the U.S. perspective the relationship has to be short-term and on the basis of dollars and cents. That is a realistic approach and Thailand has to accept that. There is no point in repeating the point about 150 years of relations, but to the Thais the relationship with the United States has a certain quality, has sentimentality. This is indeed a cultural gap between the two countries we have to bridge somehow.



Part III.
Thai Security



8. Thailand's Security Needs and Prospects

THAVORN RATANAVALDI

Before proceeding to Thailand's security needs, I would like to present a broad scenario of factors related to the global situation that have an effect on world security. At present world peace relies fundamentally on the behavior of the two superpowers, the United States and the Soviet Union. The United States is the leader of the NATO (North Atlantic Treaty Organization) nations whereas the Soviet Union is the leader of the Warsaw Pact. Conflicts between the two superpowers would shake world stability and would affect Thailand's security as well.

Now let us consider much less serious conflicts such as the Arab-Israeli dispute, which affects world economic stability through impacts on oil prices. In Thailand the price of oil has risen 700 percent in recent years. This increase in oil costs in turn has caused increases in the prices of other products. In addition we are finding it more difficult to obtain oil, and this situation creates a readiness or security risk for Thailand.

Some other conflicts in the world today are not potentially as threatening to Thailand. One example is the conflict between India and Pakistan, with the Soviet Union backing India and China backing Pakistan. This conflict does not have the same disruptive potential for the world economy and the Arab-Israeli problem, nor does Thailand have much trade with either country.

Drawing closer to Thailand, developments in neighboring countries such as Burma, Laos, Kampuchea and Malaysia also present threats to Thai security. One example is the pro-Beijing branch of the Communist party of Thailand (CPT) with its bases along the Burmese border, and the pro-Soviet branch of the CPT with its bases in Laos.

Elsewhere in the region the six ASEAN (Association of Southeast Asian Nations) countries (Malaysia, Singapore, Indonesia, Philippines, Brunei and Thailand) are linked to Thailand in many ways, but are not a major source of security support for Thailand. The ties among the countries are limited to economic, political and social ones without any formal military ties. Informal military links have been developed

in several ways including exchanges of visits by top military leaders, combined training exercises, standardized weapon systems, similar logistic support, exchange to technology, co-production of some weapon systems, combined operating and exchange of intelligence. At present, however, Thailand officially has only ASEAN's moral support. The situation is complicated by the fact that, with the exception of Brunei, each of Thailand's ASEAN partners is confronted with economic problems which affect the security of the region.

I would like to take note of the security issues posed by Kampuchea, which has 790 kilometers of common borders with Thailand. Coalition Government of Democratic Kampuchea (CGDK) forces consist of three separate groups with a total of 70,000 armed personnel. However, Vietnam maintains ten to eleven divisions in Vietnam with a total of 160,000 to 170,000 personnel. Thus the present ratio of Vietnamese forces to CGDK forces is approximately two to one. This is a considerable change from an earlier ratio of approximately thirty to one in favor of the Vietnamese. In addition the CGDK forces are now better trained, equipped and supplied, and they have higher morale than in past years.

Whether they can continue to grow depends on which side can maintain the offensive. If the Vietnamese gain the offensive, then the CGDK forces will deteriorate. If the CGDK forces can gain the offensive, then their situation will continue to improve. If neither side can sustain an offensive, then the situation will remain the same. The CGDK forces have some advantages in seeking to gain the initiative because of guerrilla tactics which require personnel at the ratio of only one to five. In order to destroy guerillas the attacking force needs a ratio of ten to one. Other advantages of the CGDK forces are that they need less preparation, are lightly equipped, can select the time and place of operations, can move in and out of areas rapidly, and through the cooperation of villagers are able to stay inside enemy territory. The Vietnamese, on the other hand, have several disadvantages. They receive no cooperation from the local people, have long supply lines which often are mined, and they have to cope with isolated positions, poor medical supplies and low morale.

The Soviet Union has spent an average of approximately three to four million dollars per day supporting Vietnam, but the duration of this support is in question because the Soviet economy is deteriorating. The causes of this deterioration apparently include overseas expenditures which are far too high, costly research and development in outer space, long supply lines to overseas bases, and drug problems. It is possible that the Soviets will pull troops out of Afghanistan and pull back troops stationed along the common border with China to help avert a possible economic crisis.

Thailand also has security problems with Laos. In theory Thailand and Laos should be on good terms because they share the same culture, language and race. However, Vietnamese backing of Laos has created continuous conflicts and led to trouble along the Thai-Laotian border. The pro-Soviet, pro-Vietnamese CPT is undermining Thai security. However, Thailand has influence over Laos because Thailand controls the supply of many commodities which pass through Thailand on their way to Laos. These controls can be used to limit the security threat from Laos.

To meet the various security threats Thailand's security needs require economic, political and social support. One aspect of meeting security threats is the provision of weapon systems. The adoption of a single weapon system may take three to five years. This includes determination of the requirements, funding, cash, training, provision of related equipment and support system, logistical buildup, modifications of the system and the deployment of weapons. In procuring weapon systems we must have strong political, social and economic support including government budget approval.

The defense budget is costly, but it must be realized that total security cannot be provided solely by military spending. To achieve total security it is necessary to go beyond military expenditures to gain access to sensitive border areas, promote the understanding of the local populace and give freely without taking. Examples of the latter include building roads to isolated villages, giving medical assistance, and providing educational and other facilities. It is also necessary to help foster patriotism.

These measures have achieved one stage of success in the suppression of the CPT. To sustain this success it is necessary to continue to develop road networks, schools, medical care, better transportation of agricultural goods to market, and extension of the public media. These approaches contributed to the surrender of members of the CPT who came out of remote areas to seek a better life in accordance with government orders 66/23 and 65/25.

In these circumstances it is possible now to reduce the defense budget. This could be accomplished by transferring some responsibilities, deactivating some unnecessary units, trimming oversized organization and reorganizing force structures. At the same time that the defense budget is being reduced, it is necessary to modernize the army and to improve its efficiency. Thailand must provide more education and technical know-how, reduce excessive numbers of military personnel, modify armaments, improve maintenance of existing equipment, initiate advanced technology and weapon systems, develop better military leadership, update tactics and doctrine, reduce

expenditures on low priority items, avoid duplication, and slow down the growth of new units.

Finally, to fulfill Thailand's security needs, every available resource within the country must be devoted to supporting the national interest; support from friendly countries must be sought as well.

In summary, Thailand's security needs are based upon strong political, economic and social support, both domestically and internationally. With this support Thailand will be able to fulfill its security needs. I leave you with one last thought: "In peace we have the time but not the money. In war we have the money but not the time."

9. Threats and Prospects: An Evaluation of Thailand's Security Needs in the 1980s

KARL D. JACKSON

In Southeast Asia in the 1950s the threat was from the north, the fear being that a militant, revolutionary communist China would overwhelm the entire peninsula unless means were found for marshaling the combined strength of the various countries. In those days, SEATO, the Southeast Asia Treaty Organization, was the strategy devised to meet the threat. This anticommunist military alliance led Thailand rather directly to involvement with the United States in the Vietnam War, a commitment whose origin can be found in fear of the Chinese variant of what was then perceived to be a monolithic and expansive communist movement. Developments in the late 1960s and early 1970s knocked the conceptual blocks from beneath both the American commitment to South Vietnam and the regional military alliance represented by SEATO. China, in the frenzy of the cultural revolution, virtually overnight in the late 1960s transformed itself from a primary threat to a nonplayer in Southeast Asia while the United States under Nixon abandoned the Dulles game by wooing both Moscow and "Red China" simultaneously. This, in turn, altered Thailand's world view, which had emphasized, perhaps to a disproportionate degree, its relationship with the United States. From the Thai vantage point, the era of superpower détente coincided with increased instability. Thailand watched America, its superpower ally, lose heart with its unshakable commitment to South Vietnam; to make matters worse, the United States at times seemed intent on withdrawing pell-mell from other regional commitments in Asia. As the final element in its politico-military environment, Thailand in the mid-1970s witnessed the rise of a Soviet-armed Vietnam that after 1975 seemed capable of sweeping all before it, and, by the end of the 1970s the threat was no longer from China in the north, but from the east, from Vietnam across the Mekong.

A changed threat required a new strategy. In the late 1970s Thailand withdrew at least partially from the American embrace, sought

détente with Vietnam from 1975–78, and entered a relationship of unprecedented closeness with China, the formerly dreaded foe. Threat perception and strategies had both been altered. Vietnam's occupation of Cambodia in late 1978 and the consequent reinvigoration of ASEAN led to the termination of Thailand's attempt at peaceful coexistence with Vietnam and the initiation of yet another set of policies, including reliance on its ASEAN partners, further dependence upon China as a regional counterweight, resuscitation of the American alliance, and a moderate increase in Thai conventional armament. Throughout the three-decade period, Thai threat perceptions repeatedly altered, bringing forth radically transformed strategies as SEATO gave way to a brief period of distancing from the United States in the mid-1970s, followed by Vietnam's invasion of Cambodia, a strengthened ASEAN, the China entente, and a partial return to the American alliance in the late 1970s.

In addition to confronting the changing pattern of international alignments in the post-Vietnam War era, Thailand in 1975 faced a surging communist insurrection in the north, northeast, south, and far south. However, in one of the decade's more remarkable turnabouts, the Bangkok military elite forged an indigenous counterinsurgency strategy and used it to destroy the communist insurgency, both politically and militarily. From a peak strength of 13,000 in 1978, the armed wing of the Communist Party of Thailand (CPT) faded to fewer than 500 in 1987.

The balance of international and internal security dilemmas facing Thailand has also been transformed over the last decade. Changed circumstances prompt several questions. Is the most important threat facing Thailand today internal or external? Is the threat primarily from the CPT or from the kingdom of Thailand's age-old adversary on the Southeast Asian peninsula, Vietnam? Timing poses a second set of questions. With regard to both external and internal threats, are we talking about the short or long term, that is, over the next five years or over the next several decades? Finally, we must consider relevant policy prescriptions. Sorting out the nature of the threat and its timing results in at least four alternative scenarios (see Table 1).

Table 1
THREAT SOURCES FACING THAILAND
(alternative scenarios)

	Threat Source	
	External	Internal
Short term	Vietnamese invasion	Urban terrorism and the Pak Mai
Long term	Absorption into regional power system dominated by Vietnam	Growth of a new CPT

The Short-Term External Threat

The short-term external threat that worried Thailand and its friends most, especially in the period 1975–78, was the prospect (no matter how unlikely) of external invasion by Vietnam. Although this worst-case scenario has not transpired, it must still be considered in any comprehensive discussion of Thai security. At present, invasion scenarios take several forms: a limited incursion in force seizing a provincial capital or an all-out military drive against Bangkok. A limited incursion, aimed at showing the Thai army to be incapable or incompetent, could, in the Vietnamese view, lead to changes in government and policies in Bangkok. In this scenario, Vietnam might attempt to surround and destroy major elements of the Royal Thai Army or occupy a town, thereby manifesting to one and showing all the superiority of Vietnamese military power.

The relative size and quality of the Vietnamese and Thai military establishments indicate that Vietnam, if it chose to, could severely threaten the independence of Thailand. Today, the active duty armed forces of Vietnam number in excess of 1 million men. Its army contains 56 infantry divisions, one armored division and 10 independent armored regiments, and 10 marine brigades together with extensive artillery and engineering support. Offensive capability is centered in some 1,600 battle tanks of Soviet origin and in 450 light tanks and approximately 2,700 infantry fighting vehicles/armored personnel carriers variously of Soviet, Chinese, and leftover American manufacture. It is a fully seasoned army, with veterans of decades of conflict being replenished with three-year-term conscripts. The 1.2 million soldiers on active duty in the army are backed by a 500,000-man semimobilized, quick reinforcement capability and a 2.5-million-man militia and additional paramilitary forces. The active-duty forces constitute the third largest army in the world after China and the Soviet Union. Given a population of only 60 million, Vietnam has more active duty soldiers per capita than any other nation on earth. Thailand's armed forces, by contrast, number some 235,000 men, of which 160,000 serve in the army, consisting of one armored, two cavalry, two special forces, and seven infantry divisions. Armored forces consist of fewer than 300 light and medium tanks along with approximately the same number of armored personnel carriers.

The Vietnamese navy and air force are smaller and much less capable than the army but still significant in the Southeast Asian context. The 12,000-man navy possesses eight frigates and assorted patrol craft, some with ship-to-ship missile capabilities. It remains a coastal defense force with strictly local capabilities.

The Vietnamese air force possesses modest air intercept and ground support capabilities but lacks major offensive potential. Numbering some 15,000 men, its armament includes some 270 combat aircraft, consisting principally of MiG-21s and SU-20s and 22s. Air defense capabilities are bolstered by a 60,000-man air defense force with a full range of capable but somewhat dated guns and surface-to-air missiles of Soviet origin.

The Thai navy of 40,000 men (half of whom are marines) is centered in eight frigates and assorted patrol craft, including some with sophisticated surface-to-surface missiles. The Thai air force of 43,000 contains approximately 183 combat aircraft. Three squadrons of F-5s are currently the mainstay of the fighter fleet, and twelve F16A/B aircraft are scheduled for delivery in 1988.

The military capabilities of Vietnam are grossly disproportionate to the region. The extremely high priority Vietnam gives to military expenditures remains unique in the region. In contrast, both ASEAN and China place much greater emphasis on economic development. Vietnamese forces, thanks to their Soviet sponsors, are technologically superior to those of China in many categories of hardware. Even though Thailand and its ASEAN partners have some items of equipment that are technically superior to the latest Vietnamese equipment, the sheer size of the Vietnamese force outweighs any Thai or ASEAN qualitative advantages.

If Vietnam concentrated all of its military resources on Thailand—a 1.2-million-man army against a Thai military of 235,000—clearly the kingdom would be severely threatened. Fortunately, the actual Vietnamese threat is mitigated by the regional power equation. The vast conventional imbalance is modified by the following:

1. Vietnam's hostile relationship with China ties down approximately 700,000 troops.
2. Vietnam's continuing sense of insecurity in Laos leads it to station 40,000 troops there.
3. Vietnam's fear of potentially restive southerners, more than a decade after its military conquest of Saigon, provides an additional source of insecurity.
4. Vietnam's involvement in Cambodia requires 140,000 troops nearly a decade after its original occupation.

The potential direct military threat to Thailand should neither be overestimated nor unrealistically minimized. Vietnamese forces have repeatedly threatened Thai citizens and territory since 1979. Armed incursions have been all too common, and Vietnam's several-year-long occupation of Chong Bok in the tri-border area indicates that some intrusions on Thai territorial sovereignty have been of substantial duration. Vietnam, in spite of its other commitments, has six divisions and air support in place at all times along the Thai-Cambodian border,

and these could conceivably be used for a frontal attack on Thailand. These divisions and air support represent the short-term external threat that could immediately be brought to bear on Thailand.

I believe Thailand remains relatively secure against Vietnam in the short term as long as three conditions are met. First, Vietnam must remain tied down by other commitments in Laos, Cambodia, and especially along its border with China. Second, Vietnam must continue to be deterred by Thailand's external friends: ASEAN, China, and the United States. Third, Thailand must continue to improve the quality of its own armed forces through training, attention to morale, and improvements in equipment. Obviously, there is room for improvement, as there is in any army. In the Thai case, antiarmor, anti-air tactical communications and increased war reserve stocks would all improve Thailand's ability to deter an actual frontal assault by making it a very much more costly undertaking. Although I believe the chance of a full-scale attack remains relatively remote, there is still great need for improvement because full-scale attack remains the most serious possible threat to the security of the kingdom. Furthermore, Thai strength increases the probability that its forces will never be required to fight a full-scale war with Vietnam.

The Long-Term External Threat

If we shift our focus from the short- to the long-term external threat, I am increasingly optimistic about the security situation. The greatest external long-run threat to Thailand is that it might become absorbed in a regional balance that unalterably favors Vietnam and its Soviet ally. In the late 1970s such a long-term outcome seemed a distinct possibility. In the anxious days following the fall of Saigon in 1975, the international prestige of Vietnam reached unprecedented heights while the United States remained in shock, internationally paralyzed by a domestic malaise known as the Vietnam syndrome. Promises to allies, even when they were forthcoming, would probably have been of little value in the event of further communist expansionism. In addition, Thailand's experiment with unfettered democratic rule during 1973-76 also led some to believe that the kingdom had lost its resilience and was ripe for plucking. In early 1979, when Vietnamese forces swept seemingly effortlessly across Cambodia, it appeared to some that a truly independent Thailand might be resigned to a secondary role as the Vietnamese politico-military juggernaut enveloped mainland Southeast Asia. This foreboding was further reinforced by the November 6, 1978, treaty of friendship between Vietnam and the Soviet Union and the continued tepid support for Thailand from Washington. The Carter administration at times seemed more inter-

ested in establishing diplomatic relations with Vietnam and in condemning relatively minor human rights violations in Thailand than in reinforcing Thailand militarily and concentrating on the gross human rights record of the new communist regimes in Vietnam and Cambodia.

Although Thai foreign policy in 1975–78 sought accommodation with Vietnam and Cambodia and offered economic assistance to Laos, the Vietnamese invasion of late December 1978, the subsequent Sino-Vietnamese war of early 1979, and the evident conversion of Cam Ranh Bay into a Soviet military installation in 1979 led to a complete reorientation of Thai security policy. Rather than trying to accommodate Vietnam and Laos, Thai policy after 1978 was premised upon denying Vietnam control of the Cambodia it had occupied. In addition, Thai governments after that date became much more wary of Soviet presence and activities in both Vietnam and Laos.

The Soviet Union improved Cam Ranh Bay well beyond the facilities built during the period of American use. After 1979, additional piers were constructed, dredging increased the anchorage space from thirty to forty ships, and nuclear submarine support facilities were added. A major signal intelligence collection site was also built. By 1986 a permanent staff of some 2,000 Russians ran the base, with Vietnamese units apparently relegated to perimeter security.¹

On an average day, Cam Ranh Bay plays host to twenty-five to thirty vessels. The base's main permanent force is the Soviet South Sea Squadron, which consists of three surface combatants, four to five submarines, two missile boats, landing craft, and miscellaneous support ships. The three or four attack and cruise missile submarines are well positioned for interdiction of the sea lines of communication in the Southeast Asian region. Since late 1984, a Soviet air unit composed of 16 naval TU-16 Badgers, 8 Bear D/Es, and a squadron of MiG-23 Flogger aircraft have been deployed at Cam Ranh's airfield. The Bears and Badgers conduct reconnaissance, intelligence collection, and anti-submarine warfare missions from the Philippines to the Strait of Malacca. The Badgers' strike range from Vietnamese airfields covers not only all the regional states but well into the western and southwestern Pacific. These submarines and bombers remain nuclear capable.

¹For the most complete survey of developments at Cam Ranh Bay, see Dion W. Johnson, *Bear Tracks in Indochina: An Analysis of Soviet Presence in Indochina* (Maxwell Air Force Base, Ala.: Air University Press, 1987). See also S. Bilveer, "Soviet Military Presence in Indochina," *Asian Defense Journal*, August 1985, p. 30; and Lee Hinge and A. Hinge, "Naval Developments in Southeast Asia," *Naval Forces*, no. 1 (1986), p. 36.

The invasion and occupation of Cambodia by Vietnam in late 1978 presented Thailand with both a proximate threat and a strategic opportunity to avoid Vietnamese domination of mainland Southeast Asia. If 140,000 Vietnamese troops with Soviet assistance had readily subjugated Cambodia, the vision of a communist internationalism triumphantly on the march in Southeast Asia might not have been stilled short of either coercing Bangkok into an entente or stimulating the Thai communist movement sufficiently to replace the Thai monarchy with what Hanoi perceived to be a more appropriate form of government.

A few voices in Thailand in the mid- to late 1970s counseled further accommodation to what they perceived as an irresistible Vietnamese tide. According to some, Vietnam's complete triumph in Cambodia was at best a matter of months away, and, therefore, Thailand should accept the irreversible nature of Vietnam's triumph and strike the best accommodationist deal that it could get. Another small minority urged that Thailand should massively rearm to prepare militarily for a Vietnamese invasion that was thought inevitable; this logic suggested that the Thai army should be expanded in size and capability until it became the equal of the purportedly predatory Vietnamese military machine.

Fortunately for the long-term strategic position of Thailand, neither the accommodationist nor the confrontionist formulation became the dominant policy. Instead, a modified confrontational strategy emerged that emphasized unconventional warfare inside Cambodia and economic expansion within Thailand as twin keys to the survival of the kingdom. Viewed from the vantage point of a decade, the policy has served Thailand well, and its continuation supplies reasonable grounds for increasing optimism about the long-range external security threat. Far from being able to utilize the agricultural riches of Cambodia as a basis for further expansion into Thailand, Vietnam has found itself soldiering in a quagmire, stuck with a war it can neither win nor afford to lose but which precludes virtually any prospects for meaningful economic growth.

In contrast, Thailand over the past twenty-five years has manifested an enviable economic growth record, increasing its GNP per capita by substantial amounts year after year, increasing its international economic stature, controlling its birth rate, and educating its people. These have been accomplished by a government that few have lauded for its efficiency and many have condemned for corruption. But by eschewing the massive military expenditures that would have been required for Thailand to attain parity with Vietnam and, instead,

pursuing pragmatic economic growth, the economic gap between Thailand and Vietnam has constantly widened.²

Thailand's economy, especially in the late 1970s, developed rapidly at the same time that the poverty-stricken, socialist warfare state in Vietnam lurched from one economic crisis to another, searching vainly for an economic renaissance capable of underpinning its military might. In the late 1950s Nikita Khrushchev threatened to bury the United States productionwise in the coming decades. In reality the reverse happened, and today the Soviet Union's second-rate economy prevents it from fully exploiting its military power. If Thailand continues to outstrip Vietnam economically, Vietnam will find itself in a similar position as this century draws to a close. A robust, expanding Thai economy (unhobbled by the requirements of a warfare state) will have the wherewithal necessary to finance a qualitatively sophisticated defense while simultaneously having the resources necessary to distribute the benefits of economic growth more evenly. In contrast, if present trends continue, Vietnam, like the Soviet Union today, will face the sunset years of the twentieth century in a position where its overall national security has been sapped because it has been unwilling or unable to control the resource demands of its own military. Continued economic growth, increasing social justice, and political stability are therefore vital to Thailand's long-term national security vis-à-vis its traditional enemy, Vietnam.

Short-Term Internal Security

When I last lived in Thailand in 1977-78, both the internal and external security threats loomed very large in the short term. Over the intervening decade Thailand has been remarkably successful in ending the internal military threat from the Communist Party of Thailand. Whereas there were once 13,000 CPT guerrillas, the figure in 1987 was fewer than 500. Thailand developed and implemented its own strategy for dealing with the CPT. Thailand created an integrated political, economic, and military solution to the problem, which led to the disintegration of the CPT as a force in the Thai countryside. This is a remarkable success story, and Thailand in general as well as the Thai army in particular should take justifiable pride in this accomplishment.

The contrast is palpable between the CPT today and in the late 1970s. Some analysts in the mid-1970s envisioned Thailand's being overwhelmed. According to some, Bangkok would be overrun by a

²On ASEAN military expenditures, see David B. H. Dennon, "Military Spending in ASEAN: An Overview," in Chin Kin Wah, ed., *Defense Spending in Southeast Asia* (Singapore: Institute of Southeast Asian Studies, 1987); and Guy Pauker, "Security and Economics: Issues of Priority for ASEAN," in Karl D. Jackson and M. Hadi Soesastro, eds., *ASEAN Security and Economic Development* (Berkeley: Institute of East Asian Studies, University of California, 1984).

mass of radicalized students, leading an impoverished, Maoist, peasant army, backboned by Vietnam but somehow essentially independent. This vision of a "Thai Khmer Rouge" always seemed overblown to me and exists today only in memory. It is the nightmare that steadfastly refused to come true because of the political, economic, and military resilience manifested by Thailand.

The successful campaign against the CPT provides a textbook example of how a clever government can seize the ideological initiative and successfully neutralize the ideological appeal of leftist insurgents. The ideological offensive against the CPT is encapsulated in the prime minister's office Order No. 65/2525 (April 1980) and Order No. 66/2523 (April 1982). The heart of the government's "Policy of Struggle to Win Over Communism" was to emphasize compelling traditional symbols—"Nation, Religion, and Monarchy"—while simultaneously supporting "the democratic system of government with the king at its head," "the people's welfare," bureaucratic efficiency, and "the sacrifices of personal for common interest." Further, the documents lay out a strategy that is primarily political, aimed at defeating "the communists by waging a continuing political offensive." "Social injustice must be eliminated at every level, from local to national levels. Corruption and malfeasance in the bureaucracy must be decisively prevented and suppressed." "A rule of conduct must be laid down to promote a harmony of interests among people of different classes and a sacrifice of class interests for the common good." "Communist terrorists, repentant defectors or prisoners must be dealt with as fellow countrymen . . . and assistance must be provided to enable them to make a proper start to their new life in society." Subsequent elaboration indicates that the military must use political measures and the army must push toward development and full democracy, a policy that is "more democratic and more just than the opposition."³ No realist would assume that the CPT collapsed because of Prime Minister Prem's emphasis on these goals, but the function of government propaganda in a political campaign is to show that it too has an appealing program, that it too has a claim on the future.

In addition to an attractive, socially inclusive ideological appeal, Thailand's success against the CPT depended upon four other factors: the ethnic isolation of the CPT, constant military pressure, a well-funded and coordinated amnesty program that gave rebels an alternative other than continued resistance, and the termination of external support for the rebellion. The CPT, in its entire existence, had never

³On the successful campaign against the CPT, see Kusuma Snitwongse, "Thai Government Responses to Armed Communist and Separatist Movements," in Chandran Jeshurum, ed., *Governments and Rebellions in Southeast Asia* (Singapore: Institute of Southeast Asian Studies, 1985); Seksan Prasertkul, "Comments," in *ibid.*; and Karl D. Jackson, "Post-Colonial Rebellion and Counter-Insurgency in Southeast Asia," in *ibid.*

ceased "speaking Thai with a Chinese accent." The single most crippling fact about the movement is that it existed among minority groups at the fringe of the kingdom and never developed a mass following among ethnic Thais. The government's appeal to religion and the monarchy emphasized the non-Thai nature of the rebel movement as did the movement's dependence, until the mid-1970s, on funding from the People's Republic of China. Astute Thai diplomacy, including visits to Beijing by a Thai prime minister and former prime minister, convinced China that state-to-state relations were more important than party-to-party relations. In addition, Vietnam's decisive tilt toward the Soviet Union and away from China in the late 1970s led Vietnam to abandon its Thai communist brethren because they were pro-Chinese. Vietnam's abandonment of the CPT played directly into the hands of the Thai government.

Victory over the CPT involved more than fortunate international developments and good luck. Counterinsurgency campaigns usually fall flat because they lack the optimal combination of political, economic, and military measures that are coordinated within the central bureaucracy and implemented at the local level. In the early 1980s Thailand came closer to the optimal combination of factors than it ever had before, and the results speak for themselves.

Following the decline of the rural CPT, commentators continued to be concerned about the possibility of an urban, communist terrorist movement or, alternatively, a new guerrilla movement under the sponsorship of Vietnam. The feared specter of urban terrorism failed to materialize and remains a relatively low probability because urban Thailand is the locus of the jobs and wealth of modern Thailand.

The Pak Mai (New Party) exists as a Vietnamese-oriented offshoot of the CPT. Its strength is approximately 300 members, and it is heavily dependent on supplies from Vietnam and sanctuaries in Laos. While externally supported efforts to destabilize a country should never be taken lightly, there is every reason to have confidence in Thailand's ability to prevent the Pak Mai from becoming more than a minor irritant. While the Pak Mai remains capable of occasional forays, mainly into the northeast, it does not represent a serious challenge to the royal Thai government. Favorable economic circumstances, a well conceptualized and coordinated counterinsurgency program, and the Pak Mai's lack of charismatic leadership together constitute sufficient obstacles to expansion. In addition, the Pak Mai is too closely associated with Vietnam, which for centuries has been Thailand's chief rival for influence in mainland Southeast Asia.

Long-Term Internal Security Threat

Past success is no guarantee to the future. What about the long-term internal security threat? Can the CPT make a significant comeback? If

several conditions are met, I think that a significant comeback is unlikely. Three conditions seem necessary for continued good health in internal security matters.

First, Thailand must maintain its political resilience. The Thai political elite since 1932 has balanced the requirements for stability with the need for change. Although its prime ministers continue to be drawn from the army, the Thai political system in the 1980s is more democratic and far more dependent on consensus building beyond the confines of the military establishment than it was in the 1960s. Political evolution has displaced revolution because the Thai political elite, under the guidance of its present monarch, has maintained a dynamic equilibrium. Obviously, if the political system lost its capacity to adjust old institutions to the changing domestic political requirement, the resulting political chaos might bode well for a communist movement.

The second condition required for enduring health in the field of national security is continued economic growth. Ways must be found to keep the economy expanding under international trade conditions that are not as favorable as those of the 1970s. There is an obvious grain glut in the world, and the terms of trade have been running against commodities. The political problem presented by farmers—be they in the European Economic Community (EEC), Australia, the United States, or Thailand—is a substantial one that no democratic leader can long ignore. The world has been too successful in increasing grain production, and too many societies are exacerbating the problem by subsidizing grain production.

Protectionism also presents a threat to Thailand's economic well-being. How can Thailand continue to expand unless more markets are opened to its products? The U.S. market already absorbs 60 percent of Asia's exports, and this proportion is unlikely to grow rapidly in light of the magnitude of the U.S. balance of payments deficit. The most serious long-term economic problem for Thailand—and for the other ASEAN countries—is how to gain more access to the lucrative Japanese and European markets, especially for high value-added products.

The third condition necessary to continued health in the field of internal security concerns the distribution of the fruits of economic growth. The political attractiveness of the Communist Party will be undercut if the ruling elite keeps corruption within accepted cultural norms, if the middle class continues to receive its perceived fair share of prosperity, if employment opportunities continue to expand, and if disparities in regional incomes continue to decline as they did in the late 1970s and early 1980s. Political resilience, economic dynamism, and a just distribution of the fruits of economic growth are the best guarantee against a full-fledged resurgence of the threat from communist guerrillas.

The U.S.-Thai Bilateral Security Relationship

The U.S.-Thai security relation has emerged from the strains of the 1970s as a mature partnership reflecting greater confidence on the part of both parties in themselves and in each other. The broad agreement that exists on the key issues of Asian and Pacific politics is indicative of the strength of U.S.-Thai security relationships. In addition, the 1980s have witnessed enhanced cooperation across the whole spectrum of U.S.-Thai defense relations.

During the 1980s the United States has been able to respond on a rapid basis to Thai requests for emergency military assistance to counter Vietnamese military incursions; likewise, Thai soldiers and border police have behaved with a constancy that has confounded the skeptics of the 1970s. U.S. security assistance levels increased drastically in the aftermath of the Vietnamese invasion of Cambodia and were sustained through the first half of the decade at levels higher than those granted to any other ASEAN member. Similarly, Thailand's willingness to devote resources to its own defense increased steadily after 1975; in constant 1982 dollars Thai military expenditures increased by 143 percent between 1975 and 1983.⁴

The U.S. security assistance program with Thailand presently includes several force-modernization initiatives. During 1986 the Royal Thai Air Force initiated procurement of one squadron of F-16 aircraft. Additionally, Thailand is acquiring a comprehensive air defense system. These two major defense systems will, when in place, provide a highly credible deterrent and defense of Thai airspace. Less well publicized but equally vital programs are under way in the army and navy. Thailand's acquisitions have included M-48 tanks, armored personnel carriers, 105mm and 155mm howitzers, TOW (tube-launched, optically tracked, wire-guided) and Dragon antitank missiles, and UH-1 utility helicopters.

Perhaps the greatest area of progress in the U.S.-Thai security relation has been in logistics. In October 1985 Secretary Weinberger and Prime Minister Prem co-signed a Logistics Memorandum of Understanding, which is improving the logistics cooperation of both countries in peacetime as well as in any future crisis. There is also a very successful annual logistics exercise, which tests the two countries' ability to work together to resupply the Royal Thai Armed Forces in a wartime scenario.

⁴See Denoon, "Military Spending in ASEAN." As a percentage of GNP the ASEAN countries rank behind every region except Latin America. In military expenditures per capita, Thailand in 1983 still ranked a distant third behind Singapore and Malaysia, expanding to a relatively moderate \$29 per capita per annum.

In 1986 the U.S. and Thailand negotiated an agreement to set up a War Reserve Stockpile in Thailand. It is a joint program in which both parties will contribute equally to store munitions and other high-consumption combat items in order to provide enhanced sustainability for Thai forces in any nation-threatening conflict. The war reserve program is first and foremost a deterrent to potential Vietnamese aggression against Thailand. Hanoi would have to calculate the increased readiness and staying power of the Thai armed forces in any scenario envisioning a Vietnamese attack on Thailand. The war reserve program serves common U.S. and Thai objectives of maximizing Thailand's military self-sufficiency while at the same time giving important new substance to its long-standing security relationship with the United States. The United States had previously supported such stockpiling efforts only with the North Atlantic Treaty Organization (NATO) and Korea. As an initiative originally requested by Bangkok, the war reserve program marks Thailand's growing stature among U.S. allies as well as the proximity of the Vietnamese threat. Further, the ease with which the agreement was negotiated between the two partners provides convincing evidence of the health of the overall U.S.-Thai relationship. The war reserve agreement was initiated in January 1987, clearing the way for congressional ratification.

A major element of the security relationship with Thailand is the joint military exercise program, which combines the U.S. navy's need for amphibious exercise opportunities in the Seventh Fleet area with Thailand's desire to develop its ability to operate ground and air forces together in a defensive mode. Cobra Gold 86, which took place in July and August 1987, is the centerpiece of the joint exercise program. The exercise was conducted on Thailand's eastern shore, closer to the Thai-Cambodia border than previous exercises. The exercise provided training for Thai-U.S. participating commanders and their staffs in planning, command and control, and execution of air, land, sea, and amphibious operations. Thai and U.S. military personnel also conducted mine laying and sweeping, explosive ordinance disposal, and special warfare operations. The exercise ended with an amphibious assault by Thai and U.S. forces and featured the recommissioned battleship *New Jersey*. A total of 9,300 U.S. and 3,500 Thai forces took part.

All of these bilateral programs—security assistance, joint exercises, logistics, and the War Reserve Stockpile—add to Thailand's ability to provide effectively for its own defense. In so doing, these efforts increase Thailand's deterrent as well as its defensive capability against Vietnam without either undue dependence on outside help or too severe an economic burden on its developing economy. At the same time, these measures provide a basis for cooperative joint action, in extremis, should outside help be required to ensure the kingdom's survival.

But beyond these specifics, and of far more importance in the long run, is that a basic trust, a fundamental confidence, between the two countries has been restored. In order to place the current U.S.-Thai security relation in perspective, it is useful to recall the 1970s, when the quality of trust underpinning the U.S.-Thai security relationship was nearly destroyed. To recall the period of the mid- and late 1970s is to remember serious problems on both sides of the U.S.-Thai partnership. The United States was in the grip of isolationist impulses and self-doubt in the wake of the communist takeover in Vietnam. The American military presence in Asia and the Pacific was at a low ebb, and the Carter administration contemplated even further retrenchment in Korea and the Philippines. The U.S.-Thai relationship had been dealt a setback by the events surrounding the *Mayaguez* incident and the withdrawal of American military personnel from Thailand.⁵ Thailand, for its part, faced both internal and external threats.

Merely reciting these factors demonstrates how far each country has come in its own right, how far its relationship has improved, and how much the external environment has at least stabilized. The United States has reaffirmed its position as an active partner and participant on issues of the security of its Asian friends and allies. Thailand today faces a greatly diminished internal threat. ASEAN has demonstrated coherence and gained international political stature, most importantly with its position on the occupation of Cambodia. China has ceased supporting antigovernment insurgencies in the ASEAN states and has demonstrated in Cambodia and along the Vietnam border that it can play a role that complements the interests of Thailand and, to a large extent, those of the United States. Cambodia has become a stable conflict situation. Soviet and Vietnamese expectations that the Cambodian resistance would be smothered in the six months following the invasion of December 1978 have been quashed as the Vietnamese army moves toward the tenth anniversary of its ill-starred invasion. The anti-Vietnamese resistance has not collapsed, and a full-fledged Vietnamese invasion of Thailand has failed to transpire. Nonetheless, the Cambodian situation, particularly the continued presence of 140,000 Vietnamese troops there, clearly remains the critical problem from both the U.S. and Thai perspectives.

Cambodia—the Resistance

In 1986-87 Cambodia witnessed no fundamental changes; the nine-year-old war continued to be stalemated, and there was no significant change in the balance of forces. The Khmer Rouge remain the largest

⁵For details on the earlier period, see Karl D. Jackson, "Thai-U.S. Security Relations," in Karl D. Jackson and Wiwat Mungkandi, eds., *United States-Thailand Relations* (Berkeley: Institute of East Asian Studies, University of California, 1986).

and militarily most effective of the three components of the Coalition Government for a Democratic Kampuchea (CGDK). Estimates of their strength run around 35,000 men, and they are amply armed.⁶ Many operate for extended periods deep inside the country, including the eastern region of Cambodia. There are various reports of disunity within the Khmer Rouge, but factionalism has not led to any fundamental improvement in their character.⁷

The Khmer People's National Liberation Front (KPNLF) is even more factionalized. The KPNLF president and CGDK prime minister, Son Sann, remains locked in a struggle with his own commanders. Both ASEAN supporters and Norodom Sihanouk are increasingly disturbed by ongoing factional conflict within the KPNLF, particularly because it detracts from the achievement of military and political goals inside Cambodia. Although President Son Sann continues to represent the CGDK publicly throughout the world, the KPNLF as a military movement has failed to increase its military presence inside Cambodia.

Despite factional infighting, KPNLF strength is estimated to be as high as 8,000 men, of which perhaps one-quarter are operating at any given time inside Cambodia. Estimates of the strength of the third coalition partner, the Sihanoukist National Army (ANS), range from 9,000 to 12,000.⁸ Sihanouk's French-educated son, Prince Ranariddh, has managed to transform the ANS into a fighting force with greater political and military significance than the initially larger KPNLF. Sihanouk himself continues to be a magnet for the anti-Vietnamese resistance, as well as the center of numerous diplomatic initiatives and proposals aimed at achieving peace through national reconciliation.

Conflicts between Khmer Rouge and noncommunist resistance forces were sufficiently serious in 1986 for the clashes to provide a pretext for Sihanouk's announcement that he would take a "sabbatical leave" from his position as president of the CGDK. This partial withdrawal from formal leadership of the CGDK also allowed Sihanouk more flexibility in dealing with China and Vietnam as well as with the Khmer Rouge and the Heng Samrin regime.

The resurgence of resistance activity inside Cambodia provided the most newsworthy story of 1986. The resistance regained its balance from the reverses suffered during the Vietnamese operations against the border bases during the 1984-85 dry season. Indeed, the elimination of the border bases forced the resistance into a more aggressive, offensive pattern that is more effective because it takes the war into the

⁶*Asia 1986 Yearbook* (Hong Kong: Far Eastern Economic Review, 1986), p. 27; and *Asia 1987 Yearbook* (Hong Kong: Far Eastern Economic Review, 1987), p. 19.

⁷See, e.g., *Far Eastern Economic Review*, March 6, 1986, pp. 28-31, and May 15, 1986, p. 28.

⁸*Asia 1987 Yearbook*, p. 19; and *Far Eastern Economic Review*, July 10, 1986, p. 11.

Cambodian heartland rather than allowing Vietnam to concentrate its defenses solely along the Thai-Cambodian border. The Vietnamese, for their part, have continued and expanded a series of border barriers and mining operations dubbed Operation K-5 in an inevitably futile attempt to seal the border. While the Vietnamese have been more cautious in crossing the Thai border, they have been placing mines up to two kilometers inside Thailand.

During 1987, broader fighting escalated as Thai forces sought to eject entrenched Vietnamese forces occupying several hills inside Thailand at Chong Bok in the Thailand-Laos-Cambodia tri-border area. This action generated some of the heaviest fighting since the Vietnamese attack on the border camps in 1985. Vietnam had occupied these hills in an effort to close resistance infiltration routes. Fighting diminished at the beginning of the 1987 monsoon season, with Thai forces having reoccupied the bulk of the disputed area.

Hanoi's efforts to build a Khmer regime and army seem only marginally closer to realization than they were four or five years ago. Vietnamese force levels in Cambodia remain essentially unchanged at 140,000 although they have been partially pulled away from the border and replaced by People's Republic of Kampuchea (PRK) forces. The rationale for this approach probably centers on building a facade of "Khmerization" as part of Vietnam's diplomatic efforts to establish the international legitimacy of the PRK government. In any event, there is no evidence that this redeployment of forces is enjoying success, as evidenced by PRK collaboration with the resistance and the continuing diplomatic setbacks at the United Nations.

The PRK armed forces have grown from a small band of dissident Khmer Rouge in 1979 to a force of five infantry divisions and 35,000 men; however, military capabilities are far less impressive, with desertion rates running as high as 50 percent in some units. A new universal draft requires five years of military service, and various local militias have been established. Vietnamese advisers are present at all levels, and joint operations with Vietnamese units are still the norm. Hanoi apparently hopes to expand the PRK armed forces still further, but this is likely to prove difficult for reasons of both resources and attitudes. Traditional Khmer-Vietnamese antagonisms date back half a millennium, and the immigration of large numbers of Vietnamese into Cambodia as permanent settlers has further heightened nationalistic awareness. A rising anti-Vietnamese nationalist tide provides at least a partial explanation of the Khmer Rouge's continued ability to recruit soldiers; young Cambodians despise the foreign occupiers, and some perceive the well-armed Khmer Rouge as the vehicle for meaningful opposition.

The Vietnamese have also faced difficulties in constituting a genuinely Khmer government administration and Communist Party. The

decimation of intellectuals and technocrats during the Pol Pot era left a very small pool of educated personnel from which to draw, even without the problem of divided loyalties. The magnitude of the party-building problem is indicated by the fact that indigenous KPRK (Kampuchean People's Revolutionary Party) cadres may have numbered as few as 500 in 1980. The Vietnamese appear to have placed their trust in long-term programs training thousands of young Khmer in Vietnam and the Soviet Union.⁹

Perhaps the most significant single event for the resistance was the initiation in 1986 of a \$3.35 million U.S. aid program to the noncommunist resistance movement. This program reflects agreement between the Congress and the Reagan administration to assist a people in resisting threats to its national sovereignty and independence. The assistance to date has been limited to nonlethal items, and the noncommunist forces continue to lack the basic wherewithal (such as medical supplies) that would further the insurgency while alleviating medical shortages inside Cambodia. In spite of the modest amount, the provision of Economic Support Funds (ESF) to the resistance represents a psychological watershed for America, indicating a new willingness to play a larger role in supporting ASEAN and the cause of self-determination in Cambodia.

Cambodia—the Diplomatic Momentum

As the conflict has intensified within Cambodia, the international search for a political solution to the conflict has taken several interesting turns. On March 17, 1986, in Beijing, the CGDK announced an "eight-point" proposal for a settlement in Cambodia. The eight points of the proposal follow:¹⁰

1. Negotiations between the CGDK and Vietnam to reach agreement on a two-phased People's Army of Vietnam (PAVN) withdrawal
2. A ceasefire following an agreement on the withdrawal "process"
3. Unarmed U.N. observers to supervise troop withdrawal and ceasefire
4. Negotiations between the CGDK and PRK to establish an interim quadripartite coalition government headed by Prince Sihanouk as president and Son Sann as premier and including members of the three resistance coalition groups as well as members of the Heng Samrin regime
5. Free elections supervised by U.N. observers

⁹See, e.g., "VOK: 500 Cambodian Students to Train in SRV," *Foreign Broadcast Information Service, Daily Report, Asia and Pacific*, February 12, 1986, p. H.3.

¹⁰For the exact text of the eight-point plan, see "CGDK Issues Proposal for Political Settlement," *Foreign Broadcast Information Service*, March 18, 1986, pp. H.3-4.

6. Restoration of Cambodia as an independent, peaceful, neutral, nonaligned country with a democratic government; the U.N. observer group to remain two to three years as a guarantor of Cambodia's neutrality

7. A nonaggression pact with Vietnam

8. Foreign assistance to help rebuild Cambodia

Six weeks after the announcement of the eight-point proposal, it was endorsed at the ASEAN foreign ministers meeting in Bali. Vietnam, however, rejected the proposal, citing the role to be given to the Khmer Rouge faction. Throughout 1986, in fact, one can discern a hardening in the Vietnamese position on Cambodia, judging from the statements issued at the Twelfth Indochinese Foreign Ministers Conference in late January 1986 and the thirteenth conference in August 1986. In January 1986 the Indochinese foreign ministers' communiqué spoke of a desire to reach a political solution soon in Cambodia. It further said, "The People's Republic of Kampuchea declares itself prepared to enter talks with opposition Khmer individuals or groups to achieve national reconciliation on the basis of the removal of the Pol Pot clique and the holding of free general elections following the complete withdrawal of Vietnamese volunteer forces from Kampuchea."¹¹

This relatively positive rhetoric was replaced in August with harder language. In opening the August conference, Nguyen Co Thach stated, "The Kampuchean people's wonderful rebirth and development is *irreversible*. . . . The militant solidarity between the three (Indochinese) countries and that between them, the Soviet Union, and the other socialist countries has been constantly strengthened."¹² The conference's final communiqué stated that the "key" to the CGDK proposal "is the demand to abolish the PRK regime and to recognize the so-called Coalition Government of Democratic Kampuchea, in fact, the genocidal Pol Pot clique, in an attempt to bring it back to Cambodia. That totally runs counter to morality and the actual situation in Cambodia, and is—of course—*unacceptable*."¹³

Foreign Minister Thach's inflexible rhetoric in August 1986 came barely two weeks after the Vladivostok speech on Soviet East Asian policy by General Secretary Gorbachev. In the ensuing months of late 1986 and early 1987, Vietnamese rhetoric softened, and selected actions again transformed the climate of speculation surrounding the Cambodia issue.

¹¹"Indochina Foreign Ministers Conference Held," *Foreign Broadcast Information Service*, January 28, 1986, p. I.4.

¹²"Indochina Foreign Ministers Meeting Opens," *Foreign Broadcast Information Service*, August 18, 1986, p. K.1.

¹³"Text' of Foreign Ministers Conference Communiqué," *Foreign Broadcast Information Service*, August 19, 1986, p. K.1.

In addition to reiterating its determination to withdraw its troops from Cambodia by 1990, there have been other indications that Vietnam may become more flexible with regard to the formerly "irreversible" situation. A new leadership had come to power in Hanoi, and the winds of change continued to blow in Moscow and Beijing as well as between the two capitals.

The year of 1987 has been filled with unprecedented moves. Indonesian Foreign Minister Mochtar Kusumaatadja sought to launch informal negotiations by inviting all Khmer factions to a "cocktail party," which the Vietnamese would subsequently join. This formulation came to naught when the Indochina foreign ministers hardened their terms just prior to the August 16 meeting of the ASEAN foreign ministers. When Phnom Penh insisted that the three Indochina countries be included as sovereign entities in the post-cocktail party conference, the ASEAN foreign ministers balked at what they perceived as *de facto* recognition of the Heng Samrin government.

Another notable development involved China. In past years China had been reluctant to soften its support for Pol Pot and the Khmer Rouge. However, during 1987 it became evident that China would support a neutral, nonaligned Cambodia. Further, China insisted that postwar Cambodia not be dominated by any single faction, thus opening the door to a coalition government but stopping short of deserting the Khmer Rouge. Finally, China has become increasingly positive in its reception of Sihanouk.

On the Soviet side, the year 1987 was characterized by nascent *détente* with both the United States and China. It also featured Soviet hints to Vietnam that the time might be ripe for finding a compromise solution to the Cambodian situation. Given the importance of Cam Ranh Bay to Soviet naval planning, it remains highly unlikely that Soviet pressure on Vietnam will move beyond the level of polite suggestions.

All of these diplomatic straws in the wind mask what continues to be a relatively untractable situation for Vietnam. There can be no doubt that many Vietnamese leaders now grasp the inordinate costs generated by the Cambodian occupation and the continuing conflict with China. My expectation, however, is that Vietnam will continue to search for a political framework that will enable it to extricate its forces from the Cambodian quagmire while maintaining its *de facto* suzerainty. The key question will involve finding a formula for Vietnamese withdrawal in which Khmer Rouge forces (without their discredited leadership) can be integrated into a system of national reconciliation that will be acceptable to all parties concerned. In the short run, the overwhelming military superiority of the Khmer Rouge vis-à-vis the noncommunist resistance groups and the PRK suggests that whether Vietnam or the international community likes it or not, the mass of the Khmer Rouge probably cannot be dealt completely

out of any political solution in Cambodia. At this writing it seems unlikely that Vietnam is willing to restore complete Cambodian sovereignty, and many parties (including the United States) will remain unwilling to consider any role for the Khmer Rouge. For reasons of Vietnamese reluctance, continuing Soviet support for Vietnam, and the relative impotence of the noncommunist military within the CGDK, it remains unlikely that peace will break out any time soon in Cambodia.

Discussion Excerpts

AMERICAN PARTICIPANT: If several conditions can be met I think the chances for a significant comeback of the Communist party of Thailand are relatively minimal. The three conditions that I see as necessary to continued health in the internal security field are as follows. First, continued political resilience. The dynamic equilibrium of the Thai political system must be maintained. If Thailand falls into political chaos this would bode well for the rebirth of insurgency. Fortunately, there are no signs Thailand is about to fall into political chaos. The second condition required for continued health in the internal security field is the economy. Ways must be found to keep the economy expanding under a set of international circumstances not as favorable as those of the 1970s. The third condition that is necessary for continued health in the internal security field involves the distribution of the fruits of economic growth. The potential political dynamism of the Communist party will continue to be sapped if employment opportunities continue to expand, if the middle class continues to receive "its share," and if disparities in regional incomes can be brought under control. Political resilience, economic dynamism and a just distribution of the fruits of economic growth are the best guarantees against any full-fledged resurgence of the internal threat.

THAI PARTICIPANT: I would like to focus on General Chavalit's ideas on security matters. First, he notes that Thailand faces a greatly diminished external threat. There is no immediate likelihood of a full-fledged Vietnamese invasion. Security threats are mainly internal, in the view of General Chavalit. He says threats still remain in Thailand waiting to be stirred up by the so-called united front. General Chavalit uses this term to refer to corrupt, tyrannical people—especially the police and government officials. To meet these problems Thai citizens have to be united. The activity of some of the politicians in parliament is a main concern of some Thai generals, especially those linked to illegal businesses. These lead to conditions that would help the Communists to enlist more people on their side. If we do not take serious steps to solve these problems the potentiality of Thai society to get into trouble would be high. We can eradicate these conditions through the strength-

ening of democratization. Real democracy is the only effective weapon to wage war against communism. Therefore the Royal Thai Government has to be serious about strengthening the democratic process as soon as possible. This is why General Chavalit has criticized some cabinet members who are alleged to be involved in illegal activities. On the other hand, he avoids mentioning the power struggle in the army, which also leads to problems for Thailand's national security. I still wait to see whether the army will get out of politics as he says.

AMERICAN PARTICIPANT: I would like to say a little bit about the Vietnamese threat to Thailand. I don't want to sound alarmist, but the fact is that the threat that the Vietnamese present to Thailand is formidable, constant and permanent. It is a very serious mistake to underestimate this threat. It has an army of 2.9 million—1.2 million full military and 1.7 million regional or territorial forces, which are a powerful group, as the Chinese found to their surprise in 1979. The Vietnamese have the third largest armed forces on earth. It is bigger than the American army. Secondly, it is a martial society. It is fully mobilized for war. Third, the leadership is completely committed to the idea that the way to solve all problems is through the massive, sustained application of force.

There are four levels of threat to Thailand. The first is a bleeding border condition. This is psychologically destabilizing and has the effect of creating a climate of insecurity, especially in a small country. The second would be an incursion in which they would move in and, say, take Aranyaprathet for two weeks and withdraw. The third level would be an all-out attack on Thailand. This is probably the least likely. The fourth threat is funding of insurgencies. For now and into the future Thailand must recognize that they are cheek by jowl with a formidable enemy, and there is no way that they can ameliorate this in any significant way.

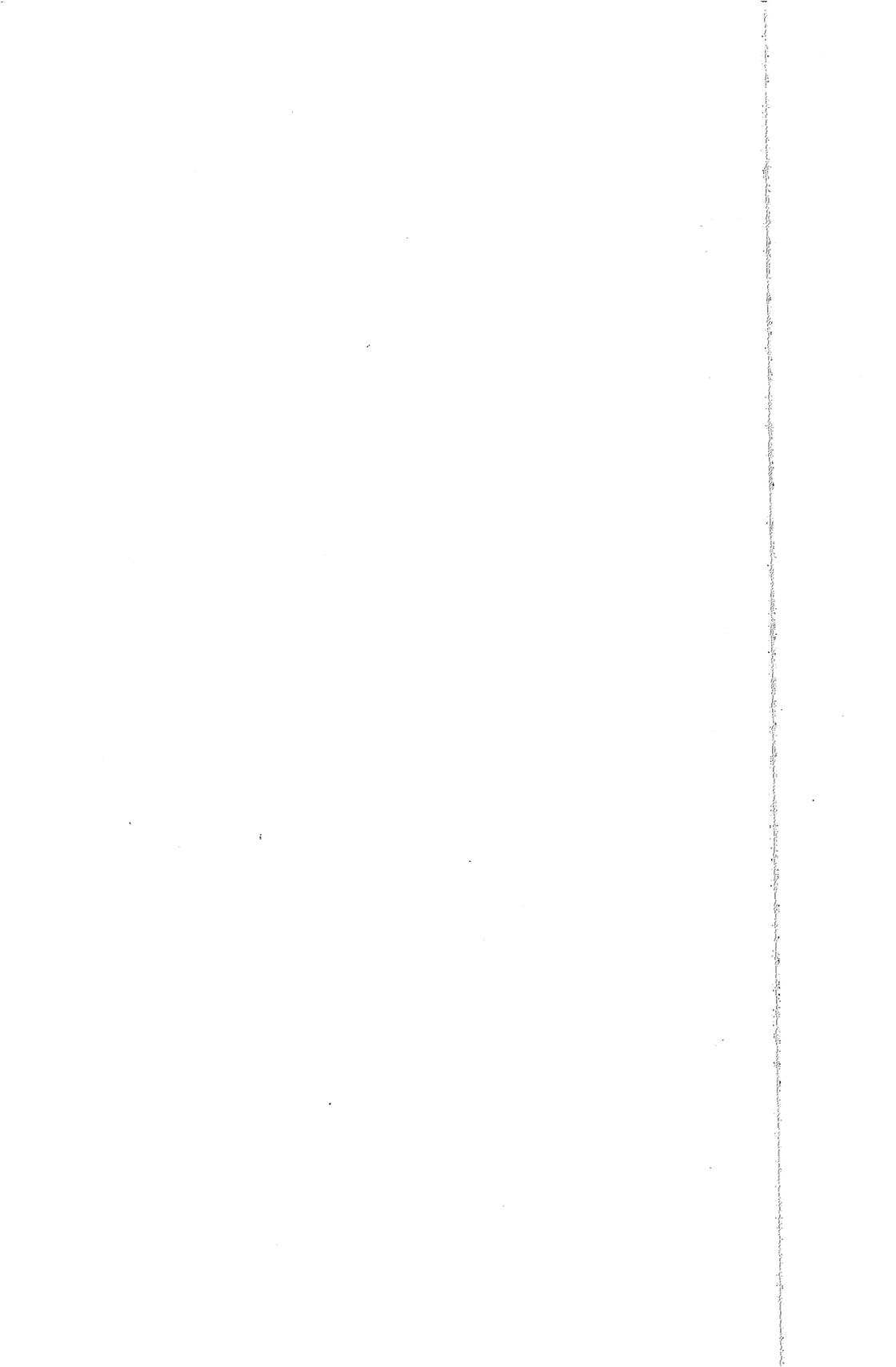
AMERICAN PARTICIPANT: I have a feeling that Southeast Asia has been changed for the foreseeable future with respect to its geopolitical situation. My feeling is that all of the so-called major powers are going to be intimately involved in this region in a variety of ways. Southeast Asian states are going to have to handle relations with the major powers in a highly intricate sense. This includes the Soviet Union, China, Japan and the United States. Thailand must sort out its views about the major states. I would be very interested in Thai views on this matter.

I have the feeling that this is a period when the internal issues of security are at a relatively low ebb. This is partly because the Communist movement here has been so divided and in conflict with itself. The PRC and Vietnam are at total loggerheads and therefore you cannot have an external element that is powerful. The interesting question is whether the CPT or its successor in terms of leadership will ever come to a position which is heavily indigenous in its orientation, like the Communist movement of the Philippines today. It is growing because it is hooked onto

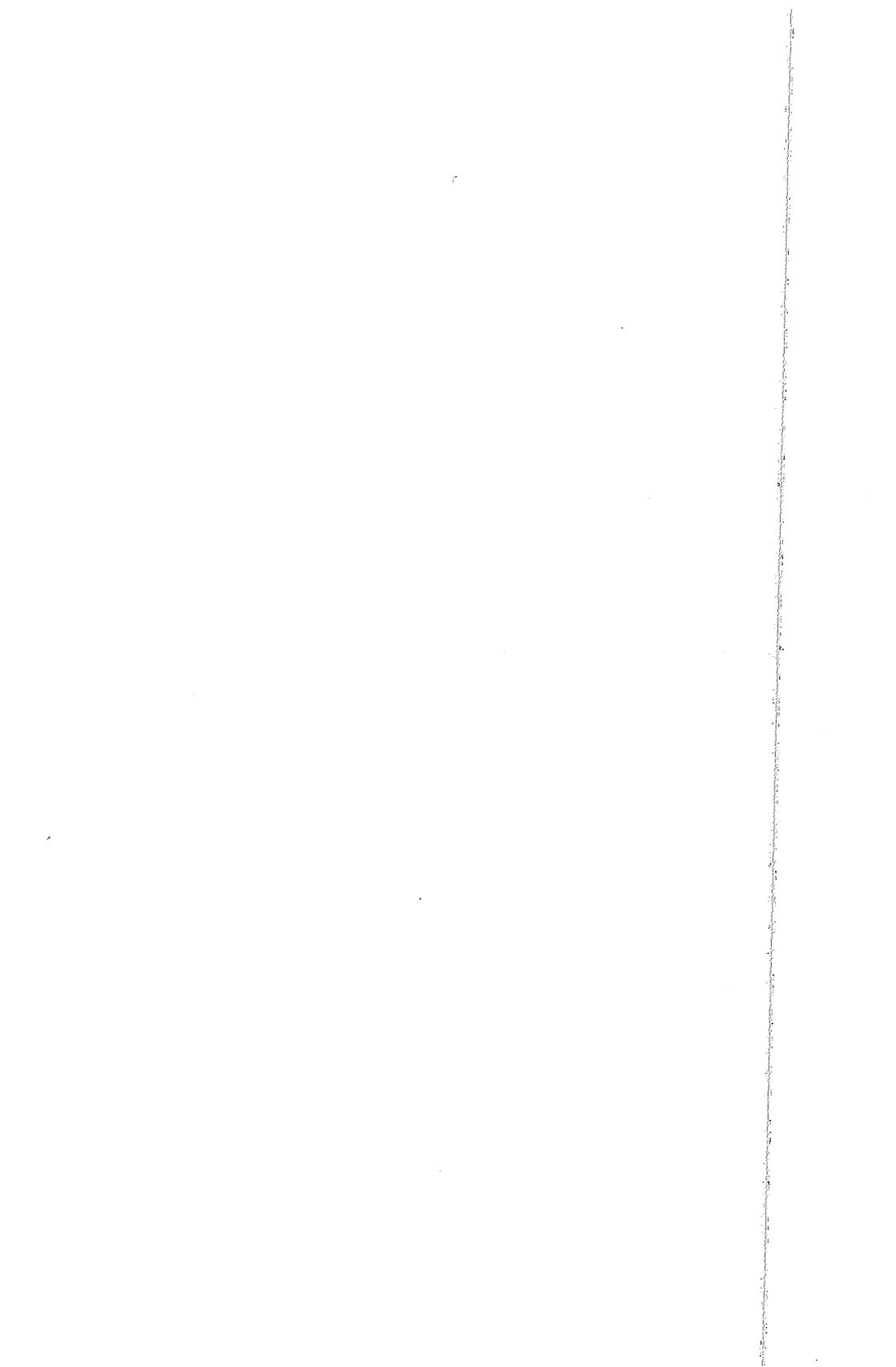
indigenous issues and a nationalist position. I should think the Communist movement here would become formidable only if it could do something similar. This ought to be a time when Thai leadership did turn to a continuing emphasis upon indigenous problems that remain. One is ethnic relations. There is then the problem of centralization and Bangkok centrism. Regional interests and needs are not met. It seems to me terribly important to take advantage of this period when the internal threats are low, to continue the process of institutionalization and seek a process of civilianization. I believe in the long run many of the societies of East Asia in a transitional period will come to a dominant party system, allowing and even encouraging political competition, but probably not able to afford frequent transfer of power through elections. Japan has followed this course and been both stable and democratic.

THAI PARTICIPANT: I subscribe to what the government has been doing in coping with the security threat both internally and externally. However, I would like to express my worry. I used to believe time was on the side of Thailand because we are on the right side and the Vietnamese would have to bow to international pressure. Others suggested to me that time was not on the Thai side because our economy would not be able to sustain extended periods of border tension. Now I seem to share this view to some extent. I thus take the view that even without invasion the Vietnamese have posed an economic burden on us. Without the Vietnamese presence on the border we would have more money to spend on rural development.

THAI PARTICIPANT: Yesterday we tended toward uncertainties about whether "half-democracy" was to go on. Today we seem to be optimistic. We talk about political and economic resiliencies. There seems to be some disjuncture there. This question is linked to the issue of the "united front", a term that I find rather confusing because a lot of the time we are not talking about people who are allied with or on the side of the Communists, but people who create conditions that make for the resurgence of the Communist party. This stage of democratization by the military is very delicate. How do you deal with the "united front" in order to reduce the conditions making for the resurgence of the CPT without alienating from the present regime the groups that Ansil Ramsay might call potential supporters of the half-democracy formula—the liberals, the returnees from the jungle, and so on?



Part IV.
Regional Affairs



10. The Indochina Issue

KHIEN THEERAVIT

Indochina remains one of the most unstable areas of the world. The obvious symptoms of instability there are chronically severe food shortages, widespread violation of human rights, heavy presence of Vietnamese troops in Kampuchea and Laos, Vietnamese control of political machines in Kampuchea and Laos through field "experts" and "technicians," continuation of fighting between resistance and occupation forces, sporadic incursions into Thailand by foreign forces and continuation of the Soviet military support to the Vietnamese invaders and the Soviet military presence in Vietnam. Additional symptoms are the prolongation of the economic boycott imposed on Vietnam by Western economic powers, material support given by China, Thailand and the United States to the Kampuchean resistance forces—and the persistent demand by the United Nations calling for a total withdrawal of the foreign forces from Kampuchea. All efforts to normalize the situation in Kampuchea have so far failed.

What is the prospect for the future? Can Vietnam, the main actor in the Indochina theater, act independently from its ally, the Soviet Union? How will the change in the Hanoi leadership in July 1986 affect the course of Vietnam's foreign policy in the years to come? What would be the impact on Indochina resulting from Sino-Soviet normalization? In light of changing conditions, how can Thailand assert itself to preserve or strengthen its national interests? Given some new conditions, with or without a change of Vietnamese foreign policy behavior in Indochina, how might the United States play a role to promote Thailand's national interests? These are some of the questions to be analyzed here.

The Leadership Change in Hanoi

Le Duan, general secretary of the Communist Party of Vietnam (CPV), died on July 10, 1986, at the age of 79. During his tenure as secretary of the CPV, he succeeded in unifying his country and realizing communism in Kampuchea and Laos. Encouraged by a series of victories over all enemies, especially by the victory over the world's most powerful superpower, Hanoi under his leadership believed that it

had the right to hegemonize or even colonize neighboring Laos and Kampuchea. That could not be done without aligning itself with the USSR against China. The moves were drastic enough to open another chapter of the Indochina War.

To what extent Truong Chinh, the new general secretary, was associated with Hanoi adventurism under Le Duan's leadership is unclear. It is generally believed that Truong Chinh is relatively inward-looking, and in terms of foreign policy he may have been excluded from the inner group that caused so much conflict in the region. In any case, no one knows at this point whether Truong Chinh's position is transitory, and if he stays, how much he can change Hanoi's foreign policy direction.

As in any Communist country, the rules of the game state that if Truong Chinh disagreed with past policy, he must work out a new policy through the existing Party machinery. Now, Truong Chinh has succeeded Le Duan as secretary, and in the early months there has been no sign of change in Vietnam's policy toward Kampuchea. Nguyen Co Thach, the foreign minister, may have played a lesser role in foreign policy formulation, but well-informed observers do not expect that there will be a major change in Hanoi's policy toward Kampuchea.

By the end of October, party congresses below the national level have been held in various places in Vietnam. This means that preparations for the national party congress have been under way. In the process of leadership change at the lower levels, past economic failures were made a central issue. But foreign policy matters have never been aired. If foreign policy direction be an issue in power struggles at the top party leadership, the debate is not likely to be publicized. It may be discerned in some of the Party documents, if one possesses sufficient background and carefully reads the documents. It may be true also that the CPV wants to demonstrate its unity before foreign enemies by reaffirming foreign policy continuity in all official documents. Whatever the case, a policy change is possible, though unlikely, with a new leadership in charge. At this point, we do not know who will win the top Party post or who will be put in charge of foreign policy matters after the sixth party congress, expected to be held in December 1986.

Whoever gains the top Party post, if he wants to change foreign policy direction, his task will be formidable, as the Vietnamese ruling elite know very little about international principles that govern peace and the means to attain it. More damages resulting from outward expansion may occur before an inward-looking trend is initiated.

Sino-Soviet Normalization of Relations

The improvement of Sino-Soviet relations in the past few years has been demonstrated by an increase in trade volume, cultural exchanges, and official visits and the mutual reduction of verbal attacks. How does this relate to stability in Indochina?

For years, Chinese officials have made it clear that Soviet support for Vietnam's military occupation of Kampuchea is one of the main obstacles to Sino-Soviet normalization. Observers have taken it for granted that the Chinese have been serious about this, and they have tended to employ a zero-sum game approach in assessing Chinese diplomacy. In *real politik*, however, a non-zero-sum game of diplomacy is more basic. How can one expect the Soviets to give up their interests in Indochina while getting nothing in return? Moreover, China discovered that it was not on the losing side in the killing games in Kampuchea and Afghanistan. Chinese security has been ensured by the credible effort mounted by the resistance in Kampuchea and by powerful international opposition to Soviet-Vietnamese expansionism. Beijing now feels secure enough to deal with the Soviet Union without worrying too much about its relations with Vietnam. For the ASEAN and international audience, however, Beijing deems it necessary to make Kampuchea an important issue as a matter of principle.

The Chinese have never perceived the Vietnamese threat as separate from the Soviet threat. By November 1986, Sino-Soviet normalization reached the point at which Beijing no longer was preoccupied with possible armed conflict with the Soviet Union, and this made the Vietnamese threat seem somewhat irrelevant. After all, the Chinese are inward-looking people, and they expect other peoples to be that way, too. External threats must be met with arms and aggressors must learn the hard way—that is the Chinese view. Ultimately, both the Soviet Union and Vietnam, according to Chinese wisdom, would have to find a way out of Afghanistan and Kampuchea—as France and the United States did in Indochina.

The Soviet Union had its own reasons for supporting Vietnam's military venture in Kampuchea at the initial stage. The Soviets aspired to establish alliances with the Indochinese states and to secure military bases there, primarily in order to encircle China. These objectives have been realized in the main. But now the Kremlin's sense of urgency to deal with China is secondary to the Soviet Union's overall global strategy. It now faces a dilemma in supporting Vietnam to maintain military and intelligence bases there, and in seeking greater acceptance among ASEAN. Soviet gains have reached the optimum and the continuation of the past policy may jeopardize Secretary Gorbachev's new diplomatic offensive. Moscow may want to preserve the status quo in Southeast Asia,

but has not found a workable strategy for convincing China and ASEAN about its constructive posture in the region. Under present conditions, it is unlikely that the Soviet Union will pressure Vietnam for military withdrawal from Kampuchea, although a reduction of aid is possible.

Indochina's instability will not be greatly improved by Sino-Soviet rapprochement, at least in the immediate future. Soviet interest in using Vietnam to outflank China may be lessening, but Moscow still wants to maintain a presence in Indochina to help protect Soviet global influence. In open diplomacy, the PRC may find it useful to oppose Soviet aid to Vietnam, but Beijing's support for internationalism is questionable. Thus, the Indochina problem is no longer an important obstacle for improvement of Sino-Soviet relations.

What does this mean to Thailand and the United States? Has Sino-Soviet normalization created sufficiently new conditions for Thailand and the United States to adjust their policies toward the Indochinese states? The answers depend very much on how the Thais and their American friends view themselves—on the winning or losing side. Humanitarian concerns aside, both tend to believe that on balance their national interests generally have been protected. It is unlikely that China will change its policy toward Vietnam, even if Sino-Soviet relations can be improved still further. For the sake of the Kampuchean people, China should be persuaded to put stronger pressure on Vietnam for withdrawal of troops from Kampuchea. ASEAN also should try to convince the Soviet Union that it will serve the interest of the people in Southeast Asia if Soviet arms supplies to Vietnam can be reduced to the level of that which Thailand receives from the United States. Thereby, Hanoi ultimately will discover a peaceful means to end its military presence in Kampuchea.

Trends in Kampuchea

In Kampuchea, two trends are emerging: Vietnamization and Kampucheanization.

Vietnam has announced repeatedly that its troops will be withdrawn totally from Kampuchea by 1990 (not without certain conditions, of course). The argument has been that, by that time, the People's Republic of Kampuchea (PRK) will be well established.

Since July 1982, Vietnam has publicized its annual troop withdrawals from Kampuchea by demonstrations of troops on trucks in both countries. Foreign journalists have been invited to cover the withdrawals on the five occasions already staged. The total number of actual troops withdrawn is not known, but some observers put it at about one third of the total Vietnamese force in Kampuchea, or approximately 50,000.

In reality, however, those five celebrated troop withdrawal exhibitions proved to be deceptive. Intelligence sources reported that dispatching Vietnamese troops into Kampuchea required no ceremony and that Vietnam did it frequently. This was confirmed by a research report conducted by the Institute of Asian Studies, Chulalongkorn University. The study interviewed seventy-five Vietnamese army defectors in June 1986.¹ Fifty-one of them were dispatched into Kampuchea after July 1982, when a ceremony with great fanfare was held in Phnom Penh to stage the first round of deceptive Vietnamese troop withdrawals. It is clear that boundary demarcation between Kampuchea and Vietnam means very little to the Vietnamese as far as war operations in Kampuchea are concerned.

The troop withdrawal is part of Vietnam's version of a Kampucheanization program. Hanoi contends that by 1990, PRK will be able to stand on its own feet, at least internally. By then, Vietnam will have established the right to defend Kampuchean sovereignty from external threats. Toward this end, Vietnam has mobilized labor forces among Kampucheans to construct wire fences along the Thai-Kampuchean border. This has been coupled by laying heavy land mines in an attempt to stem off infiltration by Khmer resistance forces from the Thai side of the border.

It is not clear whether Vietnam initiated these measures as deliberate frauds or as part of a sincere effort to get out of Kampuchea with honor. So far, they have failed to realize the announced objectives. Hence, the Kampucheanization program has become a cover-up for a more efficient program of Vietnamization.²

The Vietnamization of Kampuchea has been demonstrated by the large influx of Vietnamese settlers into the country,³ the dispatches of large numbers of Vietnamese "advisors," "technicians" or "experts" and cadres attached to the PRK's key political machines; the creation of sister cities that practically authorize Vietnam's provincial authorities to control their Kampuchean counterparts,⁴ and systematic attempts by Vietnam to control the Kampuchean educational and economic systems.⁵

¹From 1980 to the end of March 1986, 848 Vietnamese army defectors were being detained in Thailand's army camps. Some of them succeeded in going to a third country. By June 1986, 516 defectors remained in Thai detention camps.

²For a comprehensive analysis of the Vietnamization of Kampuchea, see *Indochina Report* (pre-publication issue, October 1984).

³The exact numbers are not known, but estimates range from 500,000 to 1,000,000. *Nation* (November 2, 1986): 3; *Nation* (October 6, 1985): 5; *Indochina Report* (pre-publication issue, October 1984): 11.

⁴See *Indochina Report* (October 1984): 8-11.

⁵Marie Alexandrine Martin, "Vietnamized Cambodia: A Silent Ethnocide," *Indochina Report*, no. 7 (July-September 1986).

All these interventionist moves have been undertaken with great determination in the name of "unity" (*samaki*). But there have been signs of disunity between the uninvited Vietnamese and their Kampuchean hosts. Therefore, Hanoi tried to enforce its brand of unity by naming shops, streets and even cigarettes "unity." Yet, genuine unity cannot be imposed. PRK military and civil service officials fled their country mainly because they could not tolerate the degree of control imposed by the Vietnamese bosses.⁶ There were reported incidents of armed conflict between Vietnamese troops and PRK forces.⁷ In short, Kampuchean nationalism seems to have grown in strength. The trend is not in favor of Vietnamization of Kampuchea. Meanwhile, at home, Vietnam has encountered repeated failures in economic development, resulting partly from economic boycotts by Western powers and political isolation by much of the international community.

Thailand's Interests

By 1975, the Thai people were prepared for the Communist takeover of Indochina. Perhaps with some guilty feelings due to their past association with the United States, they would have acquiesced if the Vietnamese military presence in Laos and Kampuchea were established by peaceful means. However, they are not prepared to accept the Vietnamese aggression and forced occupation of Kampuchea, and this has become one of the most important issues in Thai foreign policy since the late 1970s.

The developments in Indochina and Thailand's stance on the Kampuchean problem have caused concern for many of Thailand's well-wishers. One can argue for or against the Thai policy on the issue, but the obvious impact has thus far been positive for Thailand. First of all, Thai internal security has improved significantly. Secondly, Thailand's international standing has become better recognized. Thus, Thailand's position as a dominant power in ASEAN, as the champion of a just cause and as a bearer of humanitarian concerns has been advanced by the existence of the Indochina problem. This situation was expected to be a factor in promoting Thailand to become a member of the U.N. Security Council for 1985-1986. In relation to the United States, there was a time when Thailand had to follow American footsteps on the Indochina issue. Now, however, the United States has publicly acknowledged that it is following the ASEAN lead; ASEAN is, in turn, led by Thailand insofar as the Indochina problem is concerned.

⁶Even Heng Srong, a nephew of Heng Samrin, defected in January 1986 to the 243rd battalion of the Democratic Kampuchean (DK) force. *Bangkok Post* (February 22, 1986): 1; Other defectors in *Nation* (July 24, 1985): 1; *Indochina Chronology* (July-September 1985): 9; *Nation* (April 14, 1984): 1, 7; *Nation* (June 17, 1984): 1, 2.

⁷*Nation* (October 1, 1986): 2.

Be that as it may, the Indochinese situation has created some negative impacts on Thailand. First, there has been tension and instability at the Thai-Kampuchean border, caused by various armed factions. Second, there have been sporadic influxes of Indochinese refugees—Kampuchians, Laotians and Vietnamese. It is in Thailand's immediate interest to get these two main problems resolved as soon as possible. The task is formidable, however, for the problems clearly are linked with the question of territorial integrity of Kampuchea and Laos and the prospects for Vietnamese troop withdrawal.

In any case, a practical approach is one that will make things simple. In my opinion, Thailand should define and re-define its current interests into two categories: the immediate interests and the long-term ones. The immediate interests are to restore peace and stability along the Thai-Kampuchean border, and to stop the influx of Indochinese refugees. The long-term interests are to restore independent status for Kampuchea, to remove foreign forces from the Indochinese states and to normalize relations with all Indochinese states.

The attainment of the above-mentioned aims will require different strategies. The question is how to achieve these ends by employing the existing limited foreign policy resources. And how can the United States contribute towards these ends?

The Role of the United States

Thus far, the United States has been reluctant to get involved in the Kampuchean problem. Diplomatically, the United States has helped ASEAN through Washington's great influence in the international community. In addition, the Americans have begun to provide material aid to non-Communist Kampuchean resistance forces in the amount of 3.35 million dollars in 1986. In any case, this effort has been minimal in comparison with the U.S. involvements in Afghanistan, Nicaragua and other sites of armed conflict which have involved the Soviet Union.

There are four main reasons for the U.S. reluctance. The first one is related to the "Vietnam syndrome" and the "Pol Pot atrocity." The American public found abhorrent the Pol Pot rule in Kampuchea in 1975–1987. Politically, it would be extremely unpopular for any American government to get involved. Second, too much involvement by the United States may be interpreted as an attempt to wage a war against communism. That may revive closer cooperation among Communist states operating in the region, especially China and the Soviet Union. Third, the prolonged armed conflict under way in Kampuchea actually is beneficial to U.S. interests because it may discredit the USSR for the latter's role in helping the aggressor. Fourth, existing tensions between

Vietnam and Thailand may help promote U.S. influence in Southeast Asia. ASEAN needs United States as a guardian only when there is an external threat.

What would be the consequences if the United States continues its present policy of noninvolvement in Indochina? The answer depends mainly on the moves to be initiated by the leading actors in the area—Vietnam, the USSR and China. The Soviet Union is now on the move, fishing in troubled waters. The United States should refrain from making troubled water. In addition, it should keep the following two options open:

(1) An attempt should be made to restructure the Southeast Asian security system. The ultimate goal must be to remove all foreign forces from Southeast Asia: The Vietnamese should withdraw from Kampuchea and Laos, the Soviets from Da Nang and Cam Ranh, and the Americans from Subic Bay and Clark. This may seem unacceptable from the American point of view, but for the sake of peace and stability in Southeast Asia, the United States must face the fact that its military bases in the Philippines will become a destabilizing factor to the Filipino political system. Sooner or later, the Americans will have to give up their military bases there.

In relation to Indochina, this approach will solve the main causes of the problems which have had an adverse impact on Thailand's interests, both immediate and long-term.

(2) Short of an overall settlement of the Kampuchean hostilities, a hard-line approach should sometimes be adopted to discourage an aggressive enemy from doing even greater damage to others. As a friend of Thailand, the United States can increase the cost of the Vietnamese aggression and reduce the burden on Thailand in many ways. How might this be accomplished?

The first method might be to keep on boycotting Vietnam economically and isolating it politically. This would include an indefinite postponement of establishing diplomatic relations with Vietnam until the latter has demonstrated its willingness to withdraw its troops from Kampuchea.

Second, American economic and military might could be brought to bear to strengthen the fighting capabilities of the Khmer resistance forces. The Americans should be convinced that helping the resistance forces in Kampuchea and Afghanistan is an honorable mission for the American people, contributing to the defense of sound international principles and world peace.

Third, Thailand's fighting capability along the Thai-Kampuchean border could be aided by U.S. military intelligence concerning Vietnamese troop movements in Kampuchea.

Fourth, the terms of military assistance to Thailand can be improved by converting current credits or loans into an outright grant. This would help alleviate Thailand's present heavy debt load.

Conclusion

Current conflicts and tensions in Indochina have been caused mainly by the expansionist policy of Vietnam, vigorously supported by the Soviet Union. So far, the expansionists have not changed their policy in spite of obstacles and difficulties. Meanwhile, Thailand has suffered in many ways because of its geographical proximity to the fighting scene.

Recognizing that the Indochina problem is part of the American legacy, and that Thailand's present patterns of relationship with Indochinese states are partly conditioned by past Thai-U.S. collaboration, it is not a prudent policy for the United States to adopt a hands-off attitude with regard to Thailand's Indochina-caused problems.

The United States itself has a limited capacity to influence the Indochina problem. Its military and political machines are equipped to deal with the Soviet Union rather than with Vietnam. On the other hand, Thailand can deal more effectively with Vietnam than with the Soviet Union. This would work more efficiently with American backing. The United States should try by various means to enhance Thailand's political and economic stability, partly by helping build up Thai military strength. That, in turn, will increase Thailand's bargaining power vis-à-vis Vietnam. In addition, the U.S. policy-makers should promote Thailand's international position. For example, Thailand should be given a greater chance to play a role in the non-aligned movement, and the United States should be magnanimous enough to allow Thailand to take position in line with the great majority of the forum, even if it goes against short-term U.S. interests. Moreover, the Thai people expect that the United States will not constantly create such problems as the textile bill and the farm act. Such a threat to Thai national interest would create a favorable atmosphere for the Soviet Union to expand its influence into Thailand.

11. Southeast Asia Regional Affairs: Indochina Issue

DOUGLAS PIKE

This chapter examines the Indochina scene in terms of an overarching, transcendental issue: the kind of political association that is going to prevail in the future among Vietnam, Kampuchea and Laos. Intricately bound up with this question is the nature of the future relationship between the three Indochinese states with their Soviet mentors on the one hand, and their neighbors, principally China and the ASEAN states, on the other. Thus the issue is both one of intra-Indochinese institutions and the geopolitics of regional stability. Indirectly the issue is influenced by regionalism, that is, the advent of a matrix of institutions above the nation-state level to which there is attachment, identity and perceived purpose.

The context of this examination is a Southeast Asia relatively free of crisis, certainly in comparison with the Middle East or Latin America. It is universally regarded as an area of steadily growing importance, especially in economic terms, and is seen as one of the most dynamic regions of the world. While there is acknowledgement of regional needs—for greater consensus, for stronger regional institutions, and for continued economic development—outsiders on balance clearly regard present-day Southeast Asia overall as a success story.

Regional Geopolitics

The essential strategic configuration of Southeast Asia today is semi-polar: Indochina states vs. the ASEAN nations. Superimposed on this is the triangular relationship of major outsiders with a primary interest in the region—the United States, China and the USSR. The destiny of the region seems to be as an arena for power struggles. This is not necessarily bad or destructive. Competitiveness, if kept within bounds, is healthy, normal and generally beneficial since it tends to keep excesses in check. Much worse would be a Southeast Asia dominated by a single power.

If there is any one dominant concept at work today in foreign policy thinking about Southeast Asia it is the idea of *equilibrium*, not only military but also economic, sociopolitical and/or ideological. This extends beyond Southeast Asia to the entire Pacific region. According to this

doctrine, it is in the interest of each nation rimming the Pacific that no single state ever dominate—and that all nations without exception should constantly oppose such development. To create equilibrium—certainly to ensure it—organizational structure is required.

The Hanoi Concept of Security

The interrelationship among Vietnam, Kampuchea and Laos occupies an exceedingly prominent role in Hanoi politburo thinking and in the strategic planning of the People's Army of Vietnam (PAVN) High Command. The basic attitude of the Vietnamese leaders is paternalistic. They scarcely differentiate between what is good for Vietnam and what is good for the rest of Indochina.¹ Relations with Phnom Penh and Vientiane are viewed as singular and unique to the peninsula. In almost every official reference the term "special relationship" appears, interspersed with the word "alliance." Most recently, a new term has crept in, "solidarity zone," which in Vietnamese connotes a protectorate.²

In strategic terms, Laos and particularly Kampuchea represent weakness for Vietnam, that is, a flank where hostile forces could develop and challenge the local regimes, eventually posing a threat to Vietnam itself. Admittedly Vietnam's geographic configuration—long and narrow—makes it vulnerable to conventional military attack both from the west and from the sea. Kampuchea and Laos serve as a buffer if not an absolute barrier. Hanoi has long made it clear that it must take a highly protective attitude towards its two associates and will regard any effort to roll back communism in Kampuchea or Laos as tantamount to an attack on Vietnam itself. Its rationale for invading Kampuchea and for stationing some 50,000 PAVN troops in Laos is to prevent Chinese use of these territories for purposes hostile to Vietnam. Thus a secure, cooperative, harmonious Indochina is Hanoi's chief security concern.

Its second major security concern is regional balance of forces with respect to Southeast Asia as represented by ASEAN, and to the north with relation to China. The stark security fact that the PAVN high

¹The best single source for official Vietnamese expression of paternalism is found in the official output of the annual conference of Indochinese foreign ministers, the most recent being in late January 1986 and found in the FBIS [Foreign Broadcast Information Service], *Daily Report for Asia and the Pacific*, January 28 and 29, 1986, plus materials released by the SRV Mission at the U.N. A good guide to official pronouncements on intra-Indochinese relations is the *Indochina Chronology* published by the Institute of East Asian Studies, University of California, Berkeley. In the 1985–86 issues some fifty separate "linkages" were listed, such as military weapon standardization, unified economic planning and joint institutionalization in a wide range of educational, cultural, intellectual activities, all organized by the SRV.

²Paul Kattenburg, University of South Carolina, told the author he heard the term used by officials when he visited Hanoi in 1982, the first reference I am aware of; although it appears in print, it is a term not commonly used in briefings and in conversation.

command must face is that Vietnam's Indochina is surrounded by antagonistic forces, has only the USSR as a reasonably dependable but distant ally which despite its huge armed force is unable to project force over long distances because of its limited air and naval strength. Further, Vietnamese military planners addressing themselves to the great strategic arena stretching from Burma to Taiwan face a host of imponderables. Will the next decade see a polarization of geo-political power in Southeast Asia, with Hanoi as one pole and Jakarta the other, a sort of nineteenth-century balance of power rivalry? Or will it continue to be Indochina vs. the rest of Southeast Asia? Can the USSR be counted on as a long-term ally? Can China be turned from cold war to become, if not friend, at least non-aggressor? These are life-and-death questions for PAVN generals ever fearful of a combined effort by their foes to reduce or end Vietnamese influence throughout Indochina. Past strategic strengths such as demonstrated ability to motivate and mobilize support are now of only limited value. Some of Hanoi's previous sources of strength, such as its vaunted self-reliance, now are weaknesses.

Internal challenge represents another security concern, although in a different dimension. To date the Vietnam resistance movement has proved to be ubiquitous but weak, poorly organized and poorly led. Hanoi's strategy in dealing with resistance has been to keep it from developing organizationally, and to prevent opposition to the regime from having a polarizing effect on the society. Over the past ten years this approach has worked fairly well, and resistance has ebbed. But the potential for internal armed opposition will remain for years, becoming serious probably only if there is disarray in Hanoi.³

Kampuchea

The war in Kampuchea is both an issue in its own right and one that impinges on almost all other regional developments and relationships. It is not the sole cause of the area's instability but as the center of the storm it contributes to all aspects of it. Nor can there ever develop much equilibrium or even a return to regional stability until the Kampuchea problem has been resolved more or less to the satisfaction of all.

The ASEAN countries led by Thailand seek to negotiate a PAVN withdrawal from Kampuchea—an approach backed by China, the United States, Japan and most of the rest of the Pacific basin countries.

³Reliable information on the Vietnamese resistance is difficult to obtain. The journal *Vietnamese Resistance*, published in Washington, contains a good deal on the subject as does Radio Democratic Kampuchea (monitored and reported by FBIS, *Daily Report for Asia*). Probably the most objective source of information on the resistance are reports published in the monthly magazine *Indochina Reports* (Singapore).

Hanoi argues it cannot now withdraw its forces because of the threat of a return by Pol Pot. However, it has set a date for PAVN withdrawal, 1990.

None of these characterizations of PAVN in Kampuchea is entirely realistic since all stem from the assessment that Vietnam has full choice in the matter. In fact, PAVN is bogged down in a protracted conflict from which it would like to extricate itself under certain conditions. It cannot, it feels, simply walk away—but neither is it feasible to attempt a quick resolution through all-out warfare.

Hanoi's generals have tried a variety of strategies to win a decisive victory in Kampuchea, none successfully. The current strategy, dating back to mid-1985, has been to seal the Thai-Kampuchean border by using indigenous Khmer troops while PAVN forces suppress resistance activity deeper inside the country. This has required building a viable surrogate military force out of Khmer stock, creating from nothing a People's Republic of Kampuchea Armed Force (PRKAF). The Vietnamese have discovered that army building is one of the slowest tasks that cadres or advisors from one country can undertake in another. The recruiting-training effort is beset by a multitude of problems, not the least of which is a PRKAF desertion rate at times approaching 50 percent per year. However, the Vietnamese appear to believe that if they persevere in their efforts and are given time, eventually they can accomplish their mission.

Periodically Hanoi shows signs of faltering, as indicated by signals of interest in an outcome in Kampuchea other than a simple military solution. Some observers believe these to be mere tactical maneuvers. So far, they have come to naught.

As far as can be seen ahead in Kampuchea—which is not more than a year at most—Hanoi will continue to pursue its present strategy and probably will accomplish nothing decisive. If there is a major change of war policy by Vietnam, it is more likely to result from changes within the leadership in Hanoi rather than from developments on the battlefield.

Hence the Kampuchea struggle remains indeterminate. The most likely prospect, at least for the next few years, is simply more of the same. A less likely prospect is decisive Vietnamese victory, although clearly this will not occur in the immediate future. A third possibility is creation of a new governing structure among the major contending Khmer forces, one acceptable to their outside backers.

As far as can be determined the resistance forces, though given to black bouts of pessimism, are convinced they have no option but to continue the fight and can be expected to do so. Their perception—that Vietnam intends ultimately to absorb Kampuchea—extends deep into

the ranks of the PRK cadre structure and vitiates much of the effectiveness of the PRKAF. Born of this perception is the Khmer fear that what is at stake for them is sheer survival of the race. It is as deeply ingrained, as difficult for outsiders to fully comprehend, as are the other great antipathies of the world—Arab-Jew, Hindu-Moslem, Greek-Turk. This perception is what fires the fuel of Khmer nationalism. It is the reason the young continue to flock to the Pol Pot standard. And it is a condition that will continue.

China

A relentless cold war has been going on since 1979 between China and Vietnam. It was triggered by Vietnam's invasion of Kampuchea although its roots are much deeper and more complex. At one point the face-off between the two devolved into a month-long Chinese incursion into Vietnam that ended somewhat inconclusively. While most observers do not believe the cold war will again become a hot war, that possibility always remains and Hanoi's generals must think accordingly in their strategic planning.

What is involved here, in part, is a regional struggle for power. What also is involved is the redefining of the relationship between the two. Hanoi leaders believe that as a result of their Vietnam war victory the centuries-old Sino-Vietnamese relationship—that of *sensei* to pupil—now must be replaced by a new, more equal association. China does not acknowledge any basic change—holding that Hanoi's victory in war was mostly a matter of luck and American lack of determination—and sees no need to redefine the relationship. The argument may strike the Westerner as rather abstract, but there is more Asian reality here than in such finite issues as the future government of Kampuchea.

Chinese leaders believe they know how to deal with Vietnam and how to influence it, the product of centuries of experience. The Beijing formula involves sustained unrelieved pressure of any sort that can be mounted. The Vietnamese understand only force, say the Chinese, and anything but force is misread in Hanoi as weakness. A forthcoming gesture or an offer to compromise differences, the Chinese add, merely convinces the Hanoi leaders they were right all along and that they need only to maintain their implacable stance to eventually get what they want. There is merit in this Chinese policy approach, based on past history, although it must be noted that the past three years of the Chinese method have yielded none of the results the Chinese desire.

China seems determined to continue its present effort to influence Vietnamese behavior, although about this we cannot be certain. Chinese foreign policies in the past 35 years have been characterized by sudden dramatic reversals. It could be that a changed Sino-Vietnamese relationship will come about as a byproduct of the current sporadic talks

between Moscow and Beijing on issues standing between them, one of the knottiest being Vietnam itself. However, it is difficult to envision a marked change of Chinese policy with respect either to the USSR or Vietnam until there is some sort of resolution of the Kampuchean problem.⁴

USSR

In global geopolitical terms the central strategic fact of life in South-east Asia is the unusually intimate relationship of Vietnam with the USSR. It is a military alliance in all but name, born of Soviet opportunism and Vietnamese dependency.

For Vietnam the relationship always has been rather elemental. Because of leadership mistakes beginning in 1975, Vietnam found itself short of food—a 20 percent shortfall of rice in some years. Without Soviet assistance the country would have experienced rice riots. Hanoi needs weapons to defend itself against China and for its war in Kampuchea, and for these it is totally dependent on the USSR since there are no arms factories in Vietnam. As its economic malaise deepened in the late 1970s, Vietnam was increasingly thrown onto the Moscow dole. Lately—with relatively good rice harvests—the tide appears to have turned. Food production now is back to the 1976 level, but of course Vietnam's population has increased since then (about 2.5 percent each year since 1976). The USSR continues to supply Vietnam with all of its defense needs, in effect underwriting its annual defense expenditures estimated at 50 percent of the total SRV state budget. It also supplies Vietnam with all of its petroleum and most of its chemical fertilizer.⁵

Exactly how important strategically Vietnam is and can be to the USSR is a matter for debate. There is advantage here for Moscow and no good reason why it should abandon the present alliance, especially if it can be made more cost effective.

What could alter the present relationship—and cause a “distancing” or conceivably even a rupture—are developments on the Vietnamese side. The Vietnamese do not like to be dependent on the USSR, nor do they particularly like the Russians. But there is little they would want to do about the association until they can get on their feet economically and until the China threat subsides. Even then there would be less chance of a breach of relations than of arranging a more normal, orthodox association.

⁴See author's *PAVN: People's Army of Vietnam* (Novato: Presidio, 1986), chap. 11, for discussion of Chinese strategy employed against Vietnam and the Vietnamese perception of it.

⁵See author's *Vietnam and the USSR: Anatomy of an Alliance* (Boulder, Colo.: Westview, 1987), chap. 6, for an extended description of Soviet military and economic aid to Vietnam from the Viet Minh war days to the present.

Confederation of Indochina

The key issue involved here is the future political configuration of Indochina—what Hanoi intends it to be, what is reasonable for its two Indochinese partners to expect, and what is acceptable to Indochina's neighbors, that is, China and the ASEAN states (and, within ASEAN, Thailand). Is Indochina to become a federation, a confederation, an integrated alliance, a "special relationship," or some other structural form?

This is an issue which, if nothing else, gives organizational coherence to the welter of events and cross purposes at work in Indochina, a unifying concept for the politics, diplomacy, and war within and without the peninsula. It also is a touchstone issue that goes to the heart of the region's future, involving not only international relations but also internal politics, economic advance, and the ideological orientation of the three Indochinese societies. How it is resolved will have meaning beyond Southeast Asia.

For ease of expression the reference term used here is "federation" by which is meant some degree of institutional integration among the three Indochinese states and the surrender to some extent of individual sovereignty. It need not be full federation but could be a confederation (which, of course, is a looser form of federation) or some lesser form of commonwealth community. It is assumed here that full expression of independence and sovereignty will not be obtainable in the future for Kampuchea and Laos, that they are destined to be subjects of Hanoi control—the operative question having to do with the nature and extent of that control.

The Vietnamese have their work cut out—to put it mildly—if they hope to create a Federation of Indochina. Obviously the idea is moribund for the foreseeable future, but the Vietnamese need be in no hurry. They can play the long game in the spirit of protracted militancy. Forces for federation are alive and at work in Laos. Given an end to resistance in Kampuchea, a minimal working relationship could be established almost immediately, paving the way for expanded overtures. Actually, given a long time frame, prospects are fairly good for the creation of a Federation of Indochina.

The chief impediment Hanoi faces is the spirit of nationalism. It is exceedingly strong in Kampuchea and is present but less of a problem in Laos.

The Khmer and the Vietnamese have a long history of animosity. At one time the Khmer empire dominated the region, extending from the Mekong Delta across the Indochinese peninsula deep into what is modern-day Malaysia. In the 17th century the empire degenerated and there was loss of imperial spirit. This served mainly to whet the

ambitions of Cambodia's neighbors, above all the Vietnamese. In fact it can be said that the history of Vietnam is a thousand years of encroachment by China and four hundred years of encroaching on Cambodia. Only the arrival of the French in the mid-1800s put a halt to Vietnamese dismemberment of Khmer civilization.

At the individual level throughout the years Vietnamese and Cambodian attitudes have been intransigent. The dominant Cambodian emotion regarding Vietnam is fear. It is reflected in ethnic and racial stereotypes. Cambodians consider Vietnamese aggressive, excitable, boisterous and insolent. A common Cambodian term for a Vietnamese is "thmil," meaning "eternal godless enemy"; another is a term meaning "double-headed snake." The honorific Cambodian term, "brother," is seldom used in addressing a Vietnamese. We are surrounded by wolves, runs a Cambodian proverb, some Thai and some Vietnamese. For their part, the Vietnamese regard Cambodians with contempt and indulge in such racial stereotypes as dirty, lazy, anti-mechanical. A common Vietnamese term applied to Cambodians is "Cao man," meaning "base barbarian," connoting the *amok* syndrome that can mark the behavior of an aroused Cambodian.⁶

Norodom Sihanouk for two decades fended off Vietnamese intrusion until his luck ran out. His successor, Lon Nol, was less successful although not for want of trying. One of the Lon Nol government's most frequently used propaganda slogans in the 1970s was: "Viet Cong, eaters of Cambodian territory." In what was virtually a straight line continuation of historical Khmer characterization, the Pol Pot regime from its start portrayed the Vietnamese as aggressive, greedy enemies. Virtually every Khmer Rouge pronouncement on the subject after 1975 used the terms "expansionist" and "annexationist," asserting that Hanoi's goal was to subjugate Cambodia and eventually turn Cambodians into Vietnamese. The persistent theme throughout—one that runs down to present-day Khmer emigres and refugees around the world—is national survival.

The meaning of this is that at the individual level Khmer thinking for centuries has been permeated by a sense of insecurity with respect to the Vietnamese. That historic condition, coupled with the power of twentieth-century nationalism, means that Hanoi faces a formidable socio-psychological barrier in effecting any sort of close workable arrangement with the Khmer, to say nothing of federation.

Something of the same can be said with respect to the Lao, although Vietnamese relations with Laos in general are less complicated than are ties in other directions. This in part is a reflection of the easygoing nature of the average Lao. The relationship also is less plagued by ethnic hostility

⁶What the Khmer and Vietnamese write, especially the former, is mere diatribe; it would take an outsider to do an objective study.

and suspicion than is the case with the Khmer, although personal antipathy for Vietnamese is not uncommon among Lao.

Other countries throughout history have found themselves similarly situated, but most have been able to play one enemy against another. The Khmer and Lao experience has been that this does not work. Their history teaches them there is no certainty in balance of power politics, no protection in alliances.

The question both Kampuchea and Laos face in the prospect of a future federated Indochina is wherein lies the greatest security—within federation or outside of it? Federation can facilitate absorption but it also can impose certain restraints on the behavior of the Vietnamese, interested as they would be in making the new arrangement work. Outside of federation there is only the jungle of naked power struggles in which the Khmer and the Lao are at the mercy of the Vietnamese with no luxury of choice between safety and peril, only between relative degrees of danger.

Despite barriers, difficulties and problems, it seems probable that Hanoi's ultimate intention—and this is looking into the next century—is creation of a full Federation of Indochina. Early Vietnamese Communist leaders, Ho Chi Minh and others, indicated such an intent rather openly in the mid-1950s on the basis that Indochina was an economic entity. They fully recognized the existence of ethnic antipathies but held that future leaders in Cambodia and Laos, particularly if socialist-oriented, would conclude there would be less danger within a federated arrangement than without. Ho particularly appeared to believe that the political structure put together by France—French Indochina—worked better than the previous anarchical condition of contending satraps and local warlords. Thus he and other early Vietnamese Communist figures concluded that French Indochina minus the French was the proper political configuration for the peninsula. More recently, Hanoi's *White Paper on Cambodia* (April 1978) stated that while the idea of full federation had been the Indochina Communist party line beginning in 1930, the policy was abandoned in 1954.⁷ Hanoi officials today, when questioned on the matter by visiting journalists and others, tend to use the term "confederated approach." For example, in explaining the increased coordination of economic and foreign policies among the three states, these officials describe the process as "independently pursued socialist state objectives within a confederated approach."⁸ Presumably this means that confederation is a way station on the road to full federation.

In the past decade we have witnessed a vast assemblage of "confederated approaches." The chiefs of state of the three countries stage occasional summit meetings. Their foreign ministers follow a firm schedule of

⁷Copy available at Indochina Archive, University of California, Berkeley; it was widely distributed at the time by the SRV United Nations Missions Press Office.

⁸Gen. Chu Huy Man, "The Continuous Growth and Development of the Alliance of the Three Indochinese Countries," *Tap Chi Cong San* (Hanoi), no. 8 (August 1985), 10–11.

semiannual sessions at which major policy positions are established or confirmed. Other links include regular ministerial-level conferences and meetings of state planning commissions; committees on economic, cultural, technical cooperation; state news agencies; foreign trade officials; army political departments; national Mekong committees (separate from the international Interim Committee); labor organizations (first one in 1986); and public health officials (first mentioned in 1986).⁹

Laos in 1986 held a forty-day seminar on what was to be the country's new economic management, to be reorganized along the same lines as Vietnam's according to measures outlined in the VCP's 1985 Plenum Resolution 8.

In addition to Indochina-wide, regularly scheduled conferences, bilateral exchanges occur nearly every month. Coordinated economic planning and sector development, both Party and state, clearly is under way in almost all areas of activity. While Vietnam unquestionably sets the agenda, it is not clear how far its control extends into the internal administration of Laos and Kampuchea. It may be that it has neither the desire nor present capability for much interference in day-to-day activity, but it can influence and in some cases control direction of the economy, Party organization and foreign relations of each country. It so far has been able to present an Indochinese front on most foreign policy issues.

At the same time that this integrative process appears to move Indochina toward federation, the divisiveness engendered by the protracted conflict in Kampuchea maintains the visceral level of hostility between Khmer and Vietnamese at an almost unbelievable level. Thus we are presented with the paradox of Indochina today being both closer to and further from federation than at any time in the past—closer in institutional or administrative terms, further apart in socio-psychological terms. Since both dimensions must be served it is virtually impossible to measure prospects at the moment.

But we can isolate some of the major factors that will be at work determining the success or failure of the effort:

- the demands of the PAVN high command, seeking to serve security requirements (and, in turn, the degree of influence the PAVN generals can continue to exert).
- the imperatives of the Vietnamese system, which are the interests of the Party, the demands of the economy and the psychic wishes of the people.
- the character of the leadership. While the present leadership seems permanently committed to pursuit of federation and probably can be

⁹See "Notes on the 'Federation' of Indochina" by Myrna Pike (December 1986), an Indochina Archive Memorandum listing thirty-three such meetings with citations during 1985–86. Available through Institute of East Asian Studies, University of California, Berkeley.

- counted on not to change this fundamental position or pursuit of the objective, a changed leadership could bring a changed policy.
- the degree and the level of effectiveness of continuing local opposition—primarily in Kampuchea but to some extent in Laos.
 - the determination of outsiders to continue to oppose federation, principally China and Thailand.
 - the position and future role in the region of the USSR.

It can be argued in Hanoi—and probably is argued at the politburo level—that seven years of warfare in Kampuchea have so polarized the scene and so alienated most Khmer that efforts to arrange federation should be postponed for at least a generation. This can be and probably is countered with the argument that Vietnam has a golden opportunity to install in Phnom Penh—once the country has been pacified and the insurgent forces eliminated—a government that will take Kampuchea into federation. According to this line of thinking, the opportunity if lost may never again present itself.

As an alternative to open pursuit of federation Hanoi can employ—and perhaps now is employing, sometimes inadvertently—what might be called a process of creeping toward federation. This is the charge—and the fear—of Khmer emigres in the United States and elsewhere, who see a gradual takeover of Kampuchea by the Vietnamese that goes beyond federation to absorption.

Whether the Vietnamese have limitless ambition in Kampuchea or lesser designs, it seems probable that they will press forward with the various programs of integration. It also seems to be the case that if Vietnam can be turned, can be persuaded to settle for less than federation, it will be because of the sustained resistance within Kampuchea and the continued determination of outside parties, chiefly China and Thailand.

What can we expect if Vietnam proves unable, for whatever combination of reasons, to clear a path leading to federation? What would Hanoi be willing to settle for in such an eventuality? Based on an analysis of Hanoi policies and behavior toward Cambodia and Laos during the war years and since, certain characteristics of an acceptable relationship suggest themselves. There are three that might be described as minimal terms of association.

First, Vietnam would want primacy in the relationship. Thus, neither Kampuchea nor Laos should ever make a major move, particularly a foreign policy move, without first clearing it with Hanoi. This may be, as the Chinese assert, a little hegemony at work, but Hanoi officials feel they have a right to—and in any event, must have—such an arrangement.

Second, neither Kampuchea nor Laos should develop overly close relations with any outsider. This was the genesis of the Hanoi quarrel with the Pol Pot regime, and a major cause in the deterioration of relations with China. It is the reason why after 1975 China was made to feel increasingly unwelcome in Laos. Eventually this also may be a source of difficulty with

the USSR, if it is seen in Hanoi as excessively intruding into Kampuchea and Laos. With respect to Laos, the issue is bound to be a source of contention between Hanoi and Bangkok.

Third, Vietnam would like in the two other Indochinese countries some social movement (preferably an element of the indigenous Communist party) that would identify with and give allegiance to Hanoi. This would not involve local ethnic Vietnamese but Lao and Khmer. It would not be subversive, but simply "Hanoi's boys" in Phnom Penh and Vientiane. Something of this sort now can be found within the ranks of the Pathet Lao. It is the result of early recruitment and long association, for at one time virtually all the officers in the Pathet Lao were Vietnamese. An overseer arrangement also existed in the wartime relationship between North Vietnam and the Khmer Rouge in the form of the so-called "Hanoi five thousand"—Khmer who had been trained in North Vietnam and presumably had at least a residual loyalty to the Vietnamese (and subsequently were murdered by the forces of Pol Pot). The program by Vietnamese cadres in Phnom Penh to rebuild the Kampuchean Communist Party is an effort to restore this previous arrangement.

I would argue that if these three conditions were met, the Vietnamese would consider their relationship with Kampuchea and Laos to be viable, tolerable, acceptable. This can be offered only as a thesis, however, since we have no way of verifying the Hanoi view.

Policy thinking about a federation of Indochina by interested outsiders—in Bangkok, Beijing and Washington—still is in the rudimentary stage. As far as can be determined none of the three foreign ministries has examined the matter in a systematic, extensive or judgmental way. The Thai government has said inconsistently at various times both that it strongly opposes federation and that it is indifferent to the idea. ASEAN appears divided. Washington thinking, as far as it goes, appears to be that the United States objects to the idea of federation but feels it may be inevitable. China apparently finds the idea an anathema, but its position is reflexive and not based on analysis of factors at work or alternatives. What is needed now is for the United States and Thailand—and China if it can be persuaded—to address themselves to the idea in terms of acceptable scenarios. Each must determine what it can live with as far as an integrated Indochina is concerned and what is beyond the acceptable limit in the long run.

The positions taken in various capitals toward federation will rest on the degree of saliency, how important the issue is seen to be. With national interest as a criterion, it would seem that opposition to the idea will range in descending order from Thailand to China to the United States. The idea is strongly opposed by the people of Kampuchea and Laos, if not by their present leaders, but the popular will may not count for much.

In the final resolve the future political structure in Indochina may largely become a reflection of the generalized growth of regionalism, that great historical force which some believe is to dominate world politics in the decades ahead.¹⁰ In Southeast Asia, the past fifteen years or so has seen the rise of this phenomenon in the flowering of ASEAN and the forced development of an incipient federation in Indochina. Both of these regional groupings have the push of history behind them, and both seem certain to play increased roles in future Southeast Asian affairs. Paradoxically, what gives impetus to one will tend to give impetus to the other. And of course to the outsider with an interest in Southeast Asia, such as the United States or Japan, there are regional groups and regional groups—theirs and ours. In any case outsiders will be obliged, in the years to come, to deal increasingly with all of Southeast Asia in terms of the dynamics of regional institutions.

¹⁰This relates to a personal value judgment. I believe that our eventual political configuration is going to be some form of world government, to be achieved through a gradual process that first will see creation of strong regional entities. Regional or transnational organizations involving some degree of transfer of sovereignty are, I believe, necessary if there is ever to be true peace; and they are natural, in terms of economic interdependence. Therefore, regional groupings such as the European Common Market and ASEAN are a coming historical force whether or not we fully realize it.

12. Thailand: A Moving Equilibrium

WILLIAM H. OVERHOLT

Thailand mystifies Western observers because it is a unique social system.¹ Thailand has become known as a country of coups, and this perception conveys an image of fundamental instability. Moreover, Western analysts as a group have measured Thailand against the standards of Western democracy and have found it wanting. Most believe, explicitly or implicitly, that this “failure” to achieve Western democracy implies a severe risk of economic failure and revolutionary instability. A decade ago, distinguished Western political scientists, alarmed at military intervention, warned that Thailand might already have entered upon a vicious cycle of political and economic decline that could by 1978 have made Thailand the next Communist domino in Asia.² That warning immediately preceded the swift demise of all Communist prospects in Thailand; it coincided with the emergence of a period of Thai peace, freedom and growth rare in the modern Third World.

The Thai record refutes such dire warnings. Thai instability is an instability of key senior personnel and of ephemeral group roles, not an instability of the basic political, social and economic system. In the past two generations, Thailand has experienced fewer instabilities that fundamentally disrupt social life and economic development than any other country in Asia—including Japan, which precipitated and experienced the full force of World War II in the Pacific. Thailand’s record of steady, sustained economic growth is unsurpassed, although a few countries have grown faster. Throughout modern history, Thailand has demonstrated resilience in the face of international and domestic

¹This chapter relies heavily on interviews conducted over many years with a variety of Thai scholars, officials, businessmen, and bankers, as well as a number of American students of Thai affairs. An exhaustive listing of my intellectual debts is impossible, but mention must be made of the largest debt, to Jeffrey Race, whose views on Thailand have influenced me so much that no detailed citation could ever be adequate. I am very grateful for the detailed comments of Ansil Ramsay on an earlier draft of the chapter.

²Cf. William Bradley, David Morell, David Szanton, and Stephen Young, *Thailand, Domino by Default?* Papers in International Studies Southeast Asia Series No. 46 (Athens, Ohio: Ohio University Center for International Studies, 1978), which asserts on page 38 that a decline into disaster “may already be inevitable.”

economic and political challenges on a scale that elsewhere has produced revolution (Iran and the Philippines), long periods of ruthless dictatorship (South Korea, Taiwan, Indonesia), national bankruptcy (all of Latin America and most of Africa) or chaos (Nigeria).

In facing such challenges, Thailand has not been confined to defensiveness. The Thai system consistently has delivered the central "goods" of modern nationhood: sovereign independence, economic growth, economic diversification, social peace for most Thais most of the time, far more freedom than is typical of Third World countries, and increasing political participation.

In light of these facts, the Thai system needs to be judged on its own terms, not as an inferior form of Western democracy or a peculiarly unstable form of Asian dictatorship, but as a unique system for managing change and achieving goals. The Thai system is a moving equilibrium. It is utterly different from Asian dictatorships and Western democracies. The moving equilibrium maintains itself in part through frequent coups, irregular elections and personnel reshuffles, which create an appearance of instability but are a mechanism for attaining a deeper stability.

Thai Politics and Society

Political Structure

Thai political history is a story of stable instability. Leaders change, policies shift, military and civilian leaders alternately drive one another from office. But beneath this surface of instability there is a gradually shifting equilibrium in which major roles are played by the same groups: the military, the monarchy, the bureaucracy, business, the banks and politicians. All of these groups always exercise major influence. No group ever tries to eliminate completely the influence of any of the other groups. Each group therefore has an effective veto over extreme policy changes. Leaders usually seek consultation and consensus. Diffusion of power precludes the emergence of totalitarianism or overwhelmingly oppressive authoritarianism and ensures most Thais a substantial measure of freedom. Competition among elites for power forces them to compete for social support; any group which can organize or articulate its views can obtain some degree of influence. This competition has facilitated the widening of political participation from narrow Bangkok elites to broader Bangkok interests to urban interests outside Bangkok and—just beginning—to rural groups.

In most Asian countries, dictators or Communist parties exercise clear control. The stability of a Park, Marcos, Suharto or Mao gives the

country an image of strength, stability, decisiveness—until the dictator becomes enfeebled, or the economy collapses, or suppressed social change reaches a critical level. Then the lid blows off. But Thailand is at the opposite extreme. In the Thai aristocracy, nobody is in charge. In Thailand's economy, no firm or group of firms can dictate the future. In Thailand's shifting political equilibrium, no leader can stay on his feet indefinitely, because of shifts in social structure and sentiment.

The resulting polity is coup-prone, indecisive, moderate and consensus-oriented. Every minister fears for his job, and reaches for every support group. This system frequently means interminable delays. On the other hand, foolish, divisive changes are minimized, and every leader is intensely conscious of pressures for change. As the economy develops, or demographic shifts occur, or foreign pressures change, Thailand's leadership and policies evolve in sympathy.

Thus, while Thailand from one perspective is a nation of coups, from another it is a nation of continuity. The Thai monarchy has given the country a vital element of continuity. Thailand is the only country in Asia other than Japan which had the unity and flexibility to avoid any form of colonization, the only country in Asia which has avoided a fundamental political breakdown since 1932 (when a military coup overthrew the absolute monarchy), and the Asian country with the longest period of sustained economic growth. Thai politics draws on other sources of stability. Its population is the most homogeneous in Southeast Asia. Thailand gradually absorbs its small Chinese minority through intermarriage and economic cooptation, and it profits from Thai-Chinese business dynamism. Thailand's superior economic growth gradually domesticates an impoverished Lao minority in the Northeast. (Thailand has more ethnic Laotians than Laos.) Thai Buddhist tolerance makes the best of an uneasy relationship with a southern Muslim minority of two to three million. Buddhism instills a broadminded tolerance of differences and acceptance of government policies.

Thailand's aristocratic social structure confers another stabilizing benefit. Money is not the all-consuming passion in Thailand that it is in the Philippines and Indonesia. In Thailand, the Buddhist religion and the aristocratic values of honor, power and status are important to the elite. Politicians who fall from grace can become monks and regain face. Thailand has avarice, but alternative values are stronger than elsewhere in the region.

In recent years, Thailand's moving equilibrium has shifted less jerkily than before. The present constitution and the present prime minister have far outlasted most of their predecessors. Thailand may

lose its reputation as a country of coups—or at least of successful ones. This results partly from the personality of Prime Minister Prem, but primarily from broad changes in Thai society.

The Thai Economy

Thailand is a country of 50 million people with a medium-level income. The economy grows steadily and rapidly (7 percent annually in good times like the 1960s and 1970s), but not spectacularly. Ownership is highly diversified. Products are widely diversified. Markets for its exports are diversified. Because of the influence of bankers, debt to equity ratios are very conservative, and most domestic debt is heavily collateralized. Thailand is substantially self-sufficient in food and is steadily reducing its dependence on imported energy. Its many years of 7 percent growth rates led to development, not just growth. Light industry and semiconductors now stand beside primary products as major sources of income and growth. Per capita income has risen greatly. Education and skills are far more diversified than before. Population growth rates have declined from formerly high levels to around 2 percent. By Third World standards, the country has superb roads, communications, irrigation, airlines, railways, and ports.

The country has a moderate, gradual, broad-based approach to development. Agriculture, the base, is taxed to support industry, as in most of the Third World, but government policies toward farmers have been more benevolent than elsewhere. As a result, Thailand has become one of the world's major agricultural powers, a leading exporter of rice, sugar, tapioca, maize, rubber and other products. It exports tin, rubber and teak products. Tax policies have been used to encourage light industry, for instance by allowing duty-free import of capital machinery. Thailand has become an exporter of canned pineapples, canned tuna, garments, shoes, toys, leather products, plastic products, and integrated circuits, among many others. As a group, these exports boomed even in the difficult year of 1985. Manufactured exports now exceed primary commodities.

More recently, Thailand has made serious efforts to initiate development of heavy industry. As everywhere in the Third World, Thailand has an important group of officials and businessmen who equate development with heavy industry (e.g., steel, petrochemicals, and automobiles), but Thailand has been much more cautious than other countries about mortgaging itself for steel mills. In fact, it has no steel mills and no plans for any. Subsidies are lower, standards of efficiency higher, and competitiveness greater than is typical of Southeast Asian countries that are establishing heavy industry.

Thailand's economy is relatively open and competitive. Its public sector is limited to 15–16 percent of GDP. Despite a number of Third

World-style monopolies, dispersion of domestic ownership and acceptance of foreign competition are sufficient to ensure competition and dynamism. (Powerful elites control major parts of the nation's wealth, but these elites are more diverse and competitive than their Filipino or Indonesian counterparts.) The public sector enterprises as a group run a substantial surplus—in sharp contrast with such countries as Brazil, the Philippines, and Indonesia.

Thailand's economic structure and policies have major political consequences. Diversity of economic ownership supports, and in turn is supported by, diversity in the sources of political power. Economic and political diversity in turn constitute the primary reason why Thailand is a freer, more responsive polity than most of its Asian counterparts. Political-economic competition makes Thailand responsive and resilient—responsive to the demands of emergent social groups because the competing elites need all the allies they can secure, and resilient in the face of global economic and financial changes because the country's enterprises are accustomed to competition and change. The Thai economy is "fast on its feet," quick to seize new market opportunities (e.g., in soybeans and tapioca). Its political elites are equally fast on their feet, also because of diversity and the dynamics of competition.

The Thai economy also undergirds the moderation of Thai politics and economic policy. While Thailand has many poor people—including some, particularly in the Northeast, who are desperately poor—most Thais have experienced nearly two generations of rising standards of living. This has occurred without wrenching upheavals and reverses. In contrast with Latin America, the absence of economic upheavals deprives ambitious generals, bureaucrats and politicians of excuses for suddenly centralizing economic and political power in the hands of small elites.

Buddhism

Buddhism and the monkhood play a vital although usually quiet role in Thai society. Thai Buddhism contributes to national identity and self-esteem and gives the polity confidence in pursuing a unique Thai approach to development. Buddhist values facilitate acceptance of political ambiguity and complexity. Buddhist ideals encourage moderate, peaceful management of social competition and a pleasant approach to social intercourse. (Individual monks do not always emulate this ideal; in 1976, one leading monk promoted the killing of leftists.) More generally, the vitality of Buddhism provides a vague, diffuse but crucial moral core to the Thai social equilibrium. Monkhood provides refuge for the out-of-favor and a source of dignity other than raw power or pecuniary success.

Thai Political Forces

The Military

The military has historically been first among equals in governing Thailand, and it may someday return to supremacy. But the military has lost its predominance due to fundamental changes in Thai society. Still, the military role is not small—Prime Minister Prem is a former general and relies on many former generals for advice. The Senate and several political parties are military organs. Many ministers and other key officials are retired military men. Senior generals are outspoken politically. To maintain his position, Prem must consult the generals and the colonels constantly.

But the military has lost some of its clout. With the Indochina war on simmer and the domestic communist threat largely vanquished, the military's argument that national security requires military supremacy has weakened. The end of the Vietnam war meant distribution of formerly massive flows of U.S. aid to the Thai military. The flow of funds has further diminished as the government has gradually replaced some traditional business monopolies of the military with a new system that licenses several Chinese competitors instead. Meanwhile, public attention has focused on the increasingly complex economy. Civilian technocrats and businesspersons have acquired economic management skills that give them an advantage over the military.

The military has its arms, social status and financial base, but it has no coherent or persuasive program for the nation. The old problems of subversion, threatened invasion, social disorder and economic indiscipline were manageable by military skills; setting the exchange rate and regulating the gasoline price require different skills.

The army commander in chief until 1986, General Arthit, weakened the army from within. This is the single example in contemporary Thailand of a major institution being weakened by its leaders. Whereas Prem as commander in chief had emphasized professionalism, Arthit bent all the rules to serve the interests of small cliques, and allowed personal loyalty, ideological compatibility and financial interest to outweigh professional skills and formal rules. He surrounded himself with "yes men" and frequently made disastrous policy errors. These included opposing devaluation of the baht, threatening Prem at inopportune moments, making inappropriate equipment purchases, squandering the budget, bribing legislators in support of a no-confidence vote in 1986, and generally promoting demagogic rather than sound economic policies. All of this weakened the army's support among the civilian population and worsened factionalism among military personnel.

Despite the temporary weakening of the military by General Arthit, it has largely defeated Communist and Muslim insurgencies, and has coped with Vietnamese border incursions that have occurred as a result of warfare in Cambodia. The Thai military is configured to cope with domestic insurgencies through a combination of military force and (much more importantly) civic action. It has succeeded in large part by deemphasizing the use of force. It has achieved these victories at the expense of its conventional warfare capabilities and hence at the risk of being unable to repel an attack by Vietnam or another hostile neighbor. (American estimates indicate that a determined Vietnamese attack might seize Bangkok in three days.) But the country has coped with potential foreign threats through diplomacy—alliance with the United States until 1975 and a shifting balance of support from China and the United States since that time. On balance, the country has maintained its security through an unusually complex and flexible set of policies, and the military has maintained and increased its effectiveness at its primary task of providing domestic security.

The military remains powerful, and would likely rule again if the country encountered serious financial difficulty or external threat. It complains about lack of civilian discipline and about electoral corruption, and adopts a generally hostile attitude in principle toward business, Chinese influence at home and American influence everywhere—but it cannot turn those attitudes into a program or a governing coalition. In fact, its own pragmatic actions usually turn these principles on their heads. Its traditional direct rule is not acceptable to most of the country so long as the civilians govern competently. Its traditional rationales for intervention no longer apply. Its traditional method of intervention, the coup, has been defeated on every occasion attempted in nearly a decade. Increasingly it is trying to learn to deal with the civilians on their own ground, namely in electoral politics and economic development expertise. But it probably can only succeed to the extent that the civilians divide and defeat themselves.

Political Parties

The big political gainers in recent years have been the civilian political parties, initially the Social Action Party (SAP) and the business people behind it, then the Democrat Party, a somewhat broader and more institutionalized (although still fragile and fractious) party than the SAP. Decades of economic growth have created a powerful business class, and decades of Thai absorption of the Chinese have finally given the business class enough of an indigenous Thai identity to make business a relatively legitimate political participant. The Social Action Party naturally had the money to fight national campaigns and, unlike nearly every other party, had a social and economic program.

The program was conservative and market-oriented in economic thrust but politically revolutionary because it reached outside Bangkok to other cities and rural areas—and mobilized supporters while trying to devolve money and power to these new political entrants. Subsequently the SAP lost its original leadership and policy coherence. The Democrat Party has a more reformist economic program, a more institutionalized organization and a history of firm resistance to military rule.

This determined entry of the civilians, particularly businesspersons, frightens Thailand's conservative forces. The military, the bureaucracy and academics find electoral politics much too undignified, much too undisciplined, much too corrupt and much too influenced by Chinese businessmen and bankers to be an acceptable overall process of governance. But they are willing to accommodate electoral politics up to a point. The result is an accommodating, open, flexible political system with a great deal of the freedom and responsiveness of democracy. This uneasy but manageable balance between traditional bureaucratic forces and emergent middle-class and business groups sublimates potentially revolutionary forces into a few coups.

Thailand's political parties are an important force but remain at an early stage of development. Their accomplishments are real. Several have achieved nationwide followings. They represent important segments of the population, particularly the middle class and business, emergent forces whose interests previously had little organized representation. They have enlarged the arena of freedom in Thailand and have brought popular opinion to bear on a wide range of decisions, particularly economic decisions. In the process of doing so, they have proved sufficiently organized and popular to constrain military influence over policy (for example, overcoming military opposition to the 1984 devaluation), to defeat the most important military initiatives that sought to change the constitution in the mid 1980s, to help defeat a series of military coups and other military efforts to regain control of the government during the 1980s, and to pressure the military to accept the Democrat Party, formerly the nemesis of the military, as a result of the 1986 election. Thus democratic party politics in Thailand is no mere facade.³

At the same time, the parties are very loosely organized. They fund themselves through "favors" granted by ministers to particular individuals or businesses, rather than through broad interest group support of general policies. To put it bluntly, their whole financial base

³This point is important because of a strong tendency in much of the scholarly literature to confuse the very real weakness of the parties, and the strong military influence over them, with complete impotence.

derives from what Westerners would regard as blatant corruption if practiced in their own countries. The parties represent business and military interests to the neglect of the rural poor; even the SAP dropped all its important rural initiatives and made no later effort to revive them. This leaves the parties vulnerable to military charges of corruption and to military initiatives to mobilize the underrepresented rural poor. The parties buy political candidates from each other. They generally lack coherent policy platforms. They are seriously factionalized, and they are vulnerable to manipulation by military, bureaucratic, or economic interests.

In short, while they are much more than a facade, they are the weakest of Thailand's major institutions. They perform a vital function, but they are weaker institutions than their military, bureaucratic and monarchical competitors. Their increasing strength reflects the gathering size and talents of the middle class and business groups behind them and plays a vital role in representing those emergent forces. But their fragmentation, corruption and lack of expertise are not a figment of bureaucratic imagination or a lame excuse for ambitious generals; their ineptitude will take time and struggle to surmount. They represent but do not fully govern. They make Thailand more democratic, but do not make it a Western-style democracy.

Business

In many ways, the rise of the Thai political parties reflects the emergence of the business class. Economic development has made this class large and powerful. A combination of intermarriage and very widespread economic opportunities has bridged the traditional gap between Chinese businessmen and Thai bureaucrats. In earlier decades, private business was widely defined as Chinese and corrupt, while government bureaucracy was perceived as nationalistic and virtuous. Now the brightest young Thais frequently choose business over bureaucracy. While the Chinese still have a hugely disproportionate role in Thai business and banking, the ability of open Thai society to assimilate, domesticate and expand upon Chinese business has been decisive in the country's economic and political development. Thai success in this respect contrasts sharply with Indonesian failure and has been a key prerequisite of the Thai system's ability to assimilate emergent social forces without revolutionary upheaval.

The Civil Bureaucracies

From King Chulalongkorn's time onward, Thailand's monarchy sponsored a competent civil service with great power. Since Thailand

did not experience colonization, it also did not experience the rise of an all-powerful political party or armed force in the course of an independence struggle; this left the civil bureaucracies with a full share of authority. Their power is undoubted. But their capabilities and functions have received less attention than their power and political games. Despite widespread petty corruption (which they share with all Third World bureaucracies), and despite the titillations of their political power plays, the most important aspect of the bureaucracies is their ability to perform their appointed tasks.⁴ Powerful civil bureaucracies can be, as in contemporary China and India, centers of resistance to modernization, and they can be financial black holes, absorbing a nation's resources unproductively. Or, as in Taiwan and South Korea, they can be the primary agents of modernization—at limited cost.

While the Thai bureaucracies are far from a model of modern, honest, dispassionate, efficient management, and are not as effective as their counterparts in South Korea, Taiwan and Singapore, they are effective instruments of high policy. In the past generation, there have risen to power in the bureaucracies several layers of highly trained, experienced, reform-minded technocrats with Western educations and concepts of efficiency. These technocrats have not replaced the more traditional, corrupt, patronage-ridden system, but have modernized critically important parts of it, informed the system with rational economic calculation, established the national (as opposed to regional, sectoral or family) interest as the highest priority, and pressed for economic reform even in the face of great political difficulty. In doing so, they have consolidated the instruments of national governance and economic modernization. They have promoted economic modernization and diversification, and they have prevented powerful interest group pressures from leading to national bankruptcy. The Finance Ministry can set financial limits and priorities. The Central Bank can manage the country's debt and police its banks. In

⁴Works such as John L. S. Girling, *Thailand: Society and Politics* (Ithaca, N.Y.: Cornell University Press, 1981), chap. 4, analyze in considerable detail (and with considerable precision) the sources of bureaucratic corruption, patrimonialism, and monopoly, but generally fail to differentiate the nature, extent, and consequences of such problems in Thailand from counterparts in other countries. The key point about Thai corruption is that, although very widespread, for the most part it is petty, decentralized, and not dangerously subversive of the overall Thai system (contrast the Philippines) or of the effectiveness of the bureaucracies in performing their basic policy missions (contrast Nigeria). The crucial task in analyzing any Third World country is no longer to explain the existence of corruption, civil-military conflicts, reactions against penetration by international markets, and the like, but to explain why some countries have more or less difficulty managing such problems and why they do so with different political, economic and social outcomes. In Thailand's case, what requires explanation is the degree to which pervasive corruption has proved compatible with basically sound economic policy and with a degree of political equilibrium.

contrast with the Philippines,⁵ Thailand has effective institutions through which the national business can be effectively managed.

As the economy has become more complex, and increasingly integrated into the world economy, these technocrats have given the civil bureaucracies the management skills vital to national economic survival. In contrast, the military, whose interventions in earlier days were sometimes justifiable to ensure some simple forms of sound management, no longer possesses the sophisticated knowledge to address the nation's most pressing problems, a majority of which are economic. As a result, power has shifted toward the civil bureaucracy, as well as toward the middle class and business, and away from the military—but only as a shift in the balance. This shift had the support of the monarchy, because it coincided, at least for the time being, with the requirements of national growth and financial stability.

The Press

Thailand shares with Japan and (at least temporarily) the Philippines the luxury of having a truly free press. Thailand's press is far more robust and lively than Japan's and far more institutionalized and less the pawn of particular pressure groups than that of the Philippines. The press regulations of Singapore and Malaysia are far more restrictive. The free press plays a major role in maintaining the Thai system by exposing excesses and communicating the views of diverse groups.

Intellectuals

Thailand's intelligentsia has not become a coherent political force to the extent that occurs in many Third World countries. They are civilians and hence most oppose military dictatorship, although many serve as advisors to key generals. Many Western-trained scholars have a theoretical affection for democracy, but the professors are formally civil servants and they have a distaste for the rough and tumble and corruption of democratic party politics. Thai scholars, like their counterparts elsewhere, find commerce and industry distasteful; many were attracted by socialist ideas in the 1970s, but the tragedy of Indochina has made communism unattractive, and the contrasting failures of socialist development and successes of market-oriented development in Asia have proved too obvious for an honest and well-trained intellectual class to ignore. Hence it has been easier for scholars to decide what they oppose than what they support. Instead of forming a

⁵On the Philippines, particularly the process whereby Philippine institutions of governance and development were destroyed, see William H. Overholt, "The Rise and Fall of Ferdinand Marcos," *Asian Survey*, November 1986, which was originally presented to the conference on Thailand that was the source of the papers collected in the present volume.

coherent political force, they have served as advisors to all political forces and, because so many are well-trained and because the meritocracy generally works, they have raised the level of economic discussion and created a broader base of policy consensus than previously existed.

As the 1980s have progressed, more and more younger scholars, along with other able civil servants, have become willing to participate even in business. This has facilitated the integration of the private middle class into national political life. The intellectuals' disillusionment with most ideologies and their uneasy rapprochement with the emergent business class have played a vital role in averting ideological polarization and in maintaining Thailand's famous pragmatism.

Prime Minister Prem

Prem, a former army commander in chief, has served as Prime Minister so long that his personal role has become a political force. He personifies the central qualities of Thai politics, a moderate among moderates, a balancer in a country of delicate balances. He is a genial, relaxed Eisenhower figure (or, to those who dislike his austerity programs, a genial, honest Gerald Ford figure⁶), whose lack of greed and priority for national concerns contrast sharply with some of his predecessors. He reaches out to the civilian politicians without losing his old military friends. He balances the army commander against other senior generals, the army against ISOC (a counterinsurgency organization), the older officers against junior officers, the military against the political parties and business.

Prem is a member of no political party, but he is supported by a constantly shifting coalition of parties who feel that he is good for the country (or at least necessary to balance the military and the civilians), not so strong as to step on their toes excessively, and not owned by any of the parties or by the military or the bureaucracy. He also is supported by much of the military and much of the bureaucracy. Prem reaches out directly for advice to academics, technocrats and even foreign business representatives negotiating with his government. Perhaps his strongest support comes from the royal family. When Prem was about to be retired from the military, the queen strongly supported a petition by other officers for Prem to be kept on. Twice during Prem's tenure as prime minister the king has risked his position

⁶For Asian readers who may be unfamiliar with him, Gerald Ford was vice president of the United States when President Nixon resigned and thus became interim president until the next election. He was known as an honest, decent, congenial but not inspiring or particularly competent chief executive. I would argue that the comparison of Prem with Ford is unfair to Prem.

“above politics” to rescue Prem from a coup. Thus, Prem has a broad and powerful, albeit shifting, base of support.

The Bankers

Thai domestic banks are a potent political force. Most are managed by Thais of Chinese origin. The banks, particularly Bangkok Bank, enjoy substantial oligopoly rents and impose very conservative financial policies on most of the economy. Siam Commercial Bank is controlled by the monarchy and is a principal instrument of the monarchy. Hence the banks draw the ire of businessmen, who feel squeezed; of the military, who see the banks as symbols of capitalist greed, Chinese power, and corruption; and of reformers who would like to weaken the entrenched aristocratic order.

Thai banks nonetheless have made a major contribution to the country’s development and to keeping the finances of the country’s business from being a source of periodic upheaval as in Latin America and the Philippines. The bankers also have been a potent political force, although never a dominant one. In the 1980s, the government gradually has nudged the banking system in the direction of greater competition and modernity, thereby retaining the traditional virtues of the banking system (competence and financial conservatism) while beginning to erode the privileged aristocratic position (and oligopoly profits) of the leading financial families. Banking remains a privileged sector with nationalistic controls that (as with energy) often go well beyond what dispassionate economic analysis would justify. But profits no longer are assured, and political clout has diminished. The process is very gradual, and the financial aristocracy has not given ground willingly, but progress has been sufficient to yield a relatively modern system and to limit pressures, most notably from the military, for sudden, drastic transformation.

The Monarchy

The king’s weight in Thai politics has now grown greater than at any time subsequent to the 1932 overthrow of the absolute monarchy. In the 1950s and 1960s, it served the interests of the military to begin to exploit the king as the symbol of the nation. Thus he reemerged as a political force, but a dependent one. In the mid-1970s, he played a key role; he facilitated the departure of the dictators in the 1973 student uprising, and in 1976 he facilitated the reimposition of authoritarian rule. Since that time, his influence has continued to rise. Indeed, on most recent major issues, the king has been decisive. He has become the most effective force for political stability and sound economic management. He repeatedly has blocked coup attempts against Prime

Minister Prem and supported necessary but painful economic policies. For instance, he backed Prem against the Young Turks coup in 1980 and against General Arthit's rage over the devaluation of the Thai currency in 1984.

The king symbolizes the nation and has great capacity to mobilize public opinion. Conservative military leaders have exploited the king as their symbol of stability and traditional values; the students who overthrew the generals in 1973 carried pictures of the king and queen as symbols of rectitude and national will. The monarchy's economic power, managed through the Royal Property Office, is pervasive. The monarchy owns much of such major institutions as Siam Commercial Bank and Siam Cement, has extensive real estate holdings, and plays a role throughout the economy. A suggestion from the king to key groups of businessmen can bring about significant economic shifts.⁷

The monarchy wants a military that is strong enough to ensure security against border incursions and guerrillas, but not strong enough to jeopardize the other interests of the monarchy. It wants to avoid the emergence of any strong Communist political party. It wants to ensure the continuation of a capitalist economy, with a powerful role for the Royal Property Office. These priorities lead the monarchy to support a limited democracy, to seek a government that is strong and popularly based, but not too strong and not too populist. The king, like the prime minister, is a master balancer.

Because of its extensive economic holdings, and because of the long-term perspective of a family that came to power centuries ago, the monarchy has an overriding interest in sound long-term economic and financial management. This interest of the king has repeatedly proved decisive in recent years, most notably when he repeatedly supported Prime Minister Prem's government as it made politically dangerous economic and financial decisions.

The Triple Equilibration

Since the 1960s, Thailand has experienced numerous threats to its stability and economic development. The process of equilibration in the face of these problems has been messy: a multitude of coups, intrigues, personnel shifts, confrontations, coalitions, and policy changes. But beneath the messy political stories is an underlying process of equilibration. Thailand's politics is like a capitalist economy: If one focuses, as most scholarly and journalistic accounts do, on day-

⁷The holdings of the Thai monarchy, and the extent of their economic influence, have not been adequately detailed, in large part because of the deterrent effect of Thai *lèse-majesté* laws. The description of the king's role is based on interviews with businessmen and scholars.

to-day events and on the rise and fall of particular personalities, one can easily miss the larger equilibration, just as one would if trying to understand the American economy largely by following the fates of individual firms and corporate leaders. The apparent instability presented by Thai coups masks an underlying continuity.

Thailand in the 1950s and 1960s was characterized by relatively traditional elite politics and economic management. The important actors were the military and the bureaucracy, with the military exploiting the monarchy as a symbol of the nation and exploiting Buddhist ideals to encourage domestic placidity. Economic management was complacent and focused on the elite. Infrastructure development was the primary development activity; it was conducted at a leisurely pace, focused on Bangkok, and served the interests of the ruling elites. The economy was largely commodity-based, and the polity was unmobilized. In reflection of such complacent, elitist politics, the government budget and the current account of the balance of payments both typically ran comfortable surpluses. (To an economist, inflation and resultant currency devaluations result from an excessive money supply, usually caused by government budget deficits. To a political scientist, budget deficits, excessive money supply, inflation and devaluations result from strong pressure groups pushing on weak governments. Thailand's pre-1970 situation reflected the opposite: a strong government which could ignore weak pressure groups.) Despite the coups, constitutional debates, and adjustments of economic policy, the period was a relatively stable pre-modern equilibrium. The social consequences of economic modernization (described below) created minor disturbances, but initially the system reequilibrated without moving. The traditional elites reshuffled themselves, wrote and abrogated constitutions, but on balance conceded very little of their traditional political and economic hegemony. Governance was of the old elites, by the old elites, and for the old elites.

This pre-modern equilibrium soon became disturbed far more fundamentally, however, by three quite serious sources of disturbance: (1) economic modernization, (2) external and internal security threats, and (3) financial squeeze. Elsewhere in the Third World, these reinforcing disturbances, impacting political forces very similar to those operating in Thailand, often led to national bankruptcy, social chaos or ruthless dictatorship. This was the case in other countries even when the disturbances occurred with considerably less intensity than in Thailand. But here, they created disequilibrium, followed by gradual reequilibration to an outcome of characteristically Thai balance and moderation.

Economic Modernization

In Thailand, as elsewhere, economic modernization led to social differentiation, political mobilization and exposure to potentially subversive ideas. A society of farmers became a society of farmers, many kinds of workers, intelligentsia and a vast middle class. Each of these groups had more education, more physical mobility, more communication with people in similar circumstances, more exposure to new political ideas, more awareness of what was going on in Bangkok and greater likelihood of being approached by political organizers.

The principal force symbolizing and bringing these trends to bear on national politics in the early 1970s was the student movement, particularly the newly formed National Student Council of Thailand. Under its leadership, the recently mobilized middle class, with the support of the king and acquiescence of key parts of the armed forces, expelled the dictators, Thanom, Praphat, and Narong. That October 1973 uprising had striking similarities to the ouster of Marcos from the Philippines thirteen years later. Overnight, dictatorship was replaced with democracy.⁸

This democracy expressed the anti-dictatorial ideals of the emergent intelligentsia, the business class, nascent unions and all segments of society affected by Western ideologies. But it was extremely threatening to the established elites, for whom the concept of popular sovereignty was anathema. Associated with the emergence of democracy were fundamental social changes: the mobilization of students, businessmen, farmers, and regions outside Bangkok; the proliferation and development of political parties; direct participation by businessmen in political decision-making, heretofore largely precluded because business was associated with the Chinese; Social Action Party efforts to decentralize decision-making and some government expenditures; widespread unionization and strikes; and numerous student demonstrations.

The mobilization of non-elite groups had major financial consequences. Until the mid-1970s, Thailand's social complacency was reflected in recurrent government budget surpluses, national surpluses in the current account of the balance of payments, and an extremely strong currency. Such financial strengths are characteristic only of highly modern creditor states and of elitist Third World states that do not face development pressures. Thailand had plainly

⁸The overthrow of the dictators is described in all major works on modern Thai politics and history. A particularly detailed account appears in Ross Prizzia, *Thailand in Transition: The Role of Oppositional Forces* (Hawaii: University of Hawaii Press, 1985). See also the excellent accounts in Girling, *Thailand: Society and Politics* and David Morell and Chai Anan Samudavanija, *Political Conflict in Thailand: Reform, Revolution, and Reaction* (Cambridge, Mass.: Oelgeschlager, Gunn and Hain, 1981).

belonged in the latter category. From the mid-1970s onward, however, it decisively joined the majority of Third World states which must run substantial budget and current account deficits because of strong pressures for development spending. These financial changes are the best indicator of the strength of the challenge to the old equilibrium.

But democracy quickly failed as a response to the disruptive ramifications of economic modernization. The leadership of the democratic government was drawn from the old elite. Even the innovative Prime Minister Kukrit was a banker and a cousin of the king. The government was anxious to placate established elites even while removing representatives of the old military leadership. It largely excluded the most vigorous of the emergent social groups, particularly the students. It did not press decisively for major changes, such as land reform. At the same time, it permitted the organization of extremely vociferous groups, including socialists and Communist fronts that demanded the most far-reaching changes. Both the student movement and the political parties fell into fractious disarray. Thus the democratic regime was simultaneously protecting the status quo, failing to organize a coherent force for modernization, and facilitating the emergence of organizations that would maximize the panic of the old elite. It did this just when the collapse of South Vietnam and of Thailand's ability to rely on American protection maximized the entire nation's security fears. Only in South Korea in 1960–61 did a contemporary Asian democracy sink more quickly into a hopeless muddle.

Democratic disorder culminated in October 1976 with bloody riots between leftist and rightist students at Thammasat University, precipitating martial law and the emergence, with the king's support, of a regime under former Supreme Court Justice Thanin, that was as repressive, right wing and monolithic as the democratic regime had been open and pluralist. The Thanin government was ideologically rigid at home and indiscriminately anti-Communist in foreign policy. It promoted officials who were loyal but incompetent. It repressed labor, students and the press. And it drove hundreds of student leaders to choose association with Communists in the jungle. This right-wing riposte to disorder at home and security fears abroad was mild compared to what happened in other Asian societies threatened with such disorder (such as South Korea and Indonesia in the 1960s), but it was much too extreme for most of Thai society and failed far more quickly than its democratic predecessor. Western analysts have almost uniformly drawn the wrong conclusion from the 1976–77 repression. This brief span of repression did not indicate a high risk of ruthless dictatorship and a spiral into chaos and communism, but rather the extraordinary ability of Thai society to reject such a system even under conditions of maximum advantage to an aspiring dictator.

It was as if a tank of standing water had been hit on one side, sending a wave sharply to the left, then rebounding sharply to the right. Following the rebound, the process of reequilibration began with a coup by Kriangsak in 1977. Kriangsak embodied the virtues that allow Thai society to equilibrate. He reinstated the practice of appointing high-quality advisors. He introduced a pragmatic foreign policy, which followed through on a rapprochement with China, appropriate to the aftermath of regional American hegemony. He reduced censorship, released many prisoners, and made important concessions to labor, while maintaining a centralized capability to manage and limit social ferment. He held an election, but an appointed Senate curtailed the freedom of maneuver of an elected House. The political system had experienced a social shock and swung left, then right, then reequilibrated.

It reequilibrated because Thailand possesses such a diversity of competent and powerful elites and institutions that no group, even the military, and no extremist policies can seize and retain power. In every important area, such as security or finance, there is a coalition capable of defending boundaries of moderation and rationality. (See the discussion of boundary maintenance below.)

In 1980 the Kriangsak government fell. It had suffered a gradual loss of support due to the perception that it was excessively elitist, and its demise was precipitated by its effort to introduce needed increases in gas, oil and electricity prices. The senior military officer, General Prem Tinsulanond, refused to support Kriangsak and subsequently replaced him as Prime Minister. Under Prem, the evolution of political forces described above has proceeded rapidly. Military influence has diminished, and this trend has been marked by a series of failed coups and the declining electoral performances of military-backed parties, yet the military remains a strong political force. The civil bureaucracy has steadily increased its capabilities and its political credibility at the expense of the military. The bankers, like the military, have remained a potent but diminishing force. The emergent forces of business, the middle class, and to a lesser extent the intelligentsia—represented by the civilian political parties—have steadily consolidated their roles. But the parties remain factionalized, corrupt and the weakest of Thailand's major political institutions. The king has risen steadily in stature as the mediating, moderating and frequently decisive force in this process of equilibration without consensus.

The Prem period has been marked by a steady struggle for political power between military and civilian forces—and between the established civil bureaucracies and the emergent political parties and social groups. While the struggles of the 1970s illustrated the Thai equilibration process in response to severe external and internal shocks, the

1980s show equilibration in a period of gradual change in the balance of social forces.

The military, as noted is discontented with loss of its role as first among equals, remains convinced that democratic process is corrupt, and believes that the current political structure yields too much influence to businessmen, Chinese Thais, and foreigners, especially Japanese and Americans. Moreover, each generation of soldiers is anxious for its share of political power and patronage, and Prem has clogged up the system by remaining in power so long. A successful coup either by traditionalist officers seeking to restore military hegemony or by "progressive" officers determined to destroy the banking aristocracy, drastically curtail the role of Chinese businessmen, and reduce Thailand's dependence on the world economy, could disrupt the current equilibrium.

In April 1981, a group called the Young Turks⁹ launched a coup. Their program emphasized greater discipline, a central political role for the military, greater constraints on multinational corporations, and takeover of the banking sector, agricultural trade and most middleman operations. These latter demands were more an expression of frustration than a non-negotiable program. The Young Turks also wanted their share of the pie and although some of them were regarded as idealistic, this demand was less negotiable.

The military leadership turned against the Young Turks. For the first time in Thai history, the country outside Bangkok asserted itself politically—and it weighed in on the side of the Prem government. The king interceded to rescue the prime minister and the coup ended.

In November 1984, the government was beginning to get serious about dealing with foreign debt and required a currency devaluation to encourage exports and discourage imports. General Arthit firmly opposed any devaluation. Prior to a trip to Washington, he demanded, and according to his associates received, assurances that there would be no devaluation. While he was in Washington, the government devalued the baht, making it difficult for General Arthit to pay for F-16s within his budget and costing the general's associates (who had invested heavily in baht) tens of millions of dollars. General Arthit flew back in a rage to Korat air base on the border and delivered a blistering denunciation of the devaluation and of the prime minister.

This angry denunciation was so unacceptable in Thai culture (where one must smile constantly, even in the most upsetting situation) that

⁹The most thorough work on the Young Turks is Chai Anan Samudavanija, *The Thai Young Turks* (Singapore: Institute of Southeast Asian Studies, 1982), by a scholar who was closely associated with the Young Turk movement. Excellent analysis of the Young Turk movement from a different perspective is also available in unpublished work by Jeffrey Race.

Arthit was disgraced in the court of public opinion. The king, determined to support sound financial management, invited Prem to be his guest in the palace for an extended period, and the newspapers displayed pictures of king and prime minister at rest and play. The queen, who had until then been Arthit's strongest patron, subsequently refused to deal with Arthit even in official ceremonies. These developments left Arthit politically crippled.

In the spring of 1985, Prem reappointed Arthit as commander in chief of the army, thereby leaving the position most threatening to Prem in the hands of a politically crippled general. This decision, a gambit of political genius, was typically Thai and characteristic of Prem.

On September 9, 1985, while Prem and Arthit were abroad, remnants of the Young Turks tried again, backed by some senior politicians and by some retired and serving officers. Mounting only a small force, they encircled a radio station, an anachronistic target in an age of multiple communication networks. They failed to gain the support of most of the military, and they were opposed by the monarchy and all major sectors of public opinion. They were foolish enough to alienate public opinion by shooting a number of people. Although the economic grievances they cited were a serious issue for the Thai public, the coup was hapless.

Another group of officers, the Royal Elephants, were simultaneously organizing in the manner of previous coup cliques, but the failure of the 1985 coup changed the civil-military game. The finesse of the government, the firm hand of the king, the ability of a widespread network of young technocrats to explain unpopular policies, the factionalism within the military, the related lack of a coherent military policy agenda and Arthit's advocacy of irresponsible fiscal policies had at least temporarily destroyed the viability of a traditional coup.

In the spring of 1986, General Arthit took a different approach, trying to beat the civilians at their own game. He used military funds and pressures to induce members of the governing coalition to vote for a no-confidence motion against the Prem government for having tried to raise the tax on vehicles fueled by gasoline and diesel. This issue was carefully chosen by Arthit's associates because of its similarity to the proposed price increases that brought down the Kriangsak government. Arthit's colleagues sponsored the formation of a new political party beholden to himself, on the assumption that the latest parliamentary alignment would vote Prem out and himself in. But Prem boldly dissolved the government, called a new election and dismissed Arthit. Without military position and funds, Arthit could not hold his party together or conduct a coherent campaign. Without military unity, he could not launch a coup. Without a record of advocating

sound economic policy, he gained no support from the civil bureaucracies, however great their distaste for the political parties' corruption and vacillation. Lacking public esteem because of what was perceived as his un-Thai personal behavior, his economic demagoguery evoked little public support. Hence, despite the government's need to implement politically dangerous austerity measures, Arthit's gambit led to his own political obscurity, and brought overwhelming defeat for the military-backed parties and victory for the Democrat party, hitherto the nemesis of the military, as the largest force in the subsequent coalition government. The Democrat party also benefited from being more organized than its competitors and from having coopted some respected military figures into its leadership. Thus the result of Arthit's last gambit was the 1980s' pinnacle of civilian power and the nadir of military influence in government.

The central strategy of military intervention in politics under General Arthit was a reversal of the military's traditional role as an agent of economic and social responsibility. Since the civilian technocrats had become effective managers, the military's traditional intervention in favor of fiscal responsibility and sound management became redundant. In its frustration, the military in this period sought a new, populist role as an agent of financial irresponsibility—opposing devaluation, advocating excessive military spending, and opposing needed tax increases. This brought the military to its political nadir and resulted in a triumph of the civilians, both bureaucrats and politicians. The collapse of military demagoguery under Arthit shows the extent to which Thailand can protect itself against subversion of the national interest by any single social force, even the hitherto most powerful social force.

But the civilian parties' victory did not eliminate an important military role. Many military figures retained high office, Prime Minister Prem remained in office, and the military remained politically outspoken. The Democrat party promptly fell out over the distribution of cabinet portfolios and management of Party funds, and the governing coalition suffered serious losses over scandals regarding logs imported from Burma, *lèse majesté* during the campaign and other issues. Meanwhile, the military, under the more canny leadership of General Chavalit, a former intelligence officer, reinvigorated efforts to mobilize rural groups neglected by the civilian parties and began advocating a program of agricultural "revolution" that would, he argued, make Thailand an "agricultural superpower." It remains to be seen whether a combination of civilian fractiousness and such political-economic initiatives by the military can establish a broader civilian political base for the military.

This process of equilibration in the 1980s accommodated emergent social forces instead of repressing them. Each group's actions were constrained by the power of competing groups and by generally accepted social norms that severely penalized excessive behavior (such as General Arthit's public display of anger). The consequences of political demagoguery were limited by the powerful civil bureaucracies led by modern technocrats. This contrasted with Mexican and Venezuelan public acceptance in 1981 and 1982 of their presidents' exchange rate policies benefitting the ruling elites that inevitably would bankrupt their nations. Each Thai group moved with considerable success to coopt members of adversary groups—the Democrat party to recruit former generals and the military to mobilize farmers. This contrasts sharply with, for instance, the polarization between the South Korean military and the civilian political opposition in 1980, when cooptation and cooperation were almost unthinkable. Competition among military and civilian elites for all possible sources of support (inside and, often more important, outside the electoral process) led them into efforts to mobilize each possible social group, thereby gradually drawing all significant groups into the political process and into some share of benefits. (This process remains in infancy for small farmers.)

The result of these Thai mechanisms was a political equilibration in the face of powerful social forces that elsewhere led to political polarization and economic crisis. This occurred despite conditions that, other things being equal, should have made adjustment especially difficult for Thailand: Its rate of economic growth has been far higher than most of the Third World, its security fears more severe and immediate, and its exposure to representative institutions much more recent.

The Politics of Threatened Security

In the 1970s Thailand faced a formidable combination of external and internal security threats. Its domestic Communist party was large, growing, and supported by neighboring states. Socialist movements and ideologies were spreading like wildfire in the mid-1970s. Thailand had based its security largely on alliance with the United States. With the announcement of the Nixon Doctrine in 1969, Thailand found itself effectively abandoned. With the collapse of South Vietnam in 1975, Thailand was almost surrounded by enemies with hostile ideologies (Vietnam, China and to some extent Burma). Vietnam's invasion of Cambodia and Laos confronted the Thais with the brutal colonization of the two countries closest to Thailand in culture and identity, as well as with an overwhelmingly superior and hostile military force on its

border. There could scarcely have been stronger pressures for the emergence of a garrison state—in this case a state with economic priorities dominated by military requirements, a government dominated by the military, and a polity mobilized around military expediency. However, the Thai system toyed with such a drift for only a single year and reacted decisively against it.

There has been a Communist party in Thailand since the late 1920s. Initially it organized primarily among discontented Chinese and, for most of its history, it had substantial support from the Chinese Communist party. This core Thai Chinese organization established links to Lao and Hmong minorities in the Northeast, to hill tribes in the North, to various Chinese, Muslim, and bandit groups in the south, and to the Malayan Communist party, as well as to a variety of discontented Thai individuals and factions. Through the 1970s, many university intellectuals promoted Marxist ideas, the Communist party of Thailand mounted a serious insurgency with Chinese support, and a group of university students alienated by the brutal right wing coup of 1976 gave leadership backbone to the rural insurgency. As noted earlier, the combination of this internal threat, the external Vietnamese threat, and the expected vicious cycle of garrison state policies, economic decline, and political decline led many foreign observers to believe in the mid- and late 1970s that Thailand would be the next domino.

Instead, Thailand moved toward accommodation with China. Subsequently China, angered by Vietnam's invasion of its neighbors and desirous of increasing its ties to economically successful Western-oriented states, cut off the Thai insurgency in an effort to promote ties with the West and to obtain Thai support against Vietnam and the USSR. The Vietnamese have not been able to replace the Chinese support of Thailand's guerrilla movement.

Domestically, Thailand did the opposite of moving toward a repressive garrison state and letting military priorities drain funds away from development expenditure. Sound economic management, and a priority for economic development over fancy military equipment, led to economic success. Thai economic success, and the conspicuous economic tragedies of Indochina, weakened the influence of Marxist ideas among the intelligentsia, including many of those who had fled to the jungle in 1976. Under Prime Minister Prem, lenient policies of conciliation weaned back the alienated university students, and most of the best young intellectuals became heavily engaged as advisors to Prem, to various ministries, to business, or to military groups. The army used a political cooptation program as its primary tool to weaken the insurgency, and used competent, measured force where it was absolutely necessary to destroy hard core guerrilla units.

The idea of communism as a superior route to development was destroyed by developments in Indochina. The image of the Communist Party of Thailand has reverted to its older form: a collection of miscellaneous discontented minorities with foreign, largely subversive support. In short, the Communist left is no longer a threat.

On its borders, the Thai government has carefully and accurately calculated the extent of the Vietnamese military threat and the extent to which it can be balanced by diplomacy rather than force. It has comprehended that the Vietnamese army has enough to occupy its talents in Cambodia without a major Thai conflict. Because of successful Thai diplomacy, whenever the Vietnamese lean too hard on Thailand, China puts pressure on Vietnam. Thai diplomats have been as effective as Thai domestic politicians in protecting the moving equilibrium. The Thai army has had to fight real battles against Vietnamese intrusions across the border, but the Thais have correctly assessed Vietnamese intentions as being directed toward defeat of Cambodian guerrillas, not permanent seizure of Thai territory, and they have calibrated their military efforts appropriately.

In retrospect, these balances and strategies fit Thai needs so precisely that they appear obvious. But they were by no means obvious to many domestic or foreign observers of the mid 1970s, and the weight of American expert opinion was pessimistic about Thai prospects. To assess Vietnamese intentions correctly during the process of Vietnamese invasion of sister states required great competence. To assemble a proportionate military response, rather than succumbing to paranoia, was politically difficult. To give priority to economic development over military power required great foresight. To accomplish this in the face of military ambition required great civilian political clout and institutional balance. To constrain proliferating leftist movements while coopting the guerrillas back from the jungle required the most subtle political balance. The measure of Thai achievement can be seen in the radically different evolution of policy and politics in Cambodia, Nicaragua, El Salvador and the Philippines. Even by comparison with South Korea, which also gave priority to economic development in the face of overwhelming military threat, Thailand's ability to achieve security without sacrificing social pluralism and political openness represents a superior ability to balance security, economic and political goals and through that balance to move constantly in the direction of social equilibration.

The Politics of Financial Squeeze

As noted earlier, Thailand has followed a gradual approach to development, promoting in succession agriculture and raw materials,

light industry and now limited heavy industry. The keynotes of economic policy have been gradualism, diversification, relative competitiveness and openness, and conservative domestic financing.

The Accumulation of Debt. Despite all of this, the Thai economy was affected from the late 1970s through the mid-1980s by high energy prices, low prices for its agricultural commodities and raw materials, protectionism against textile and many other exports, and general slowdown in the world economy. In addition, it faced unusual financial pressures caused by emerging social demands for development expenditure and by unusually severe security threats. Thailand, in short, faced the same kinds of financial squeeze that bankrupted the Philippines, most of Africa, and almost all Latin America, except that the problems confronting Thailand were worse than those faced by most of the countries that went bankrupt.

These pressures emerged at a time when Thailand still faced major warfare near its Indochina border, but no longer received massive U.S. military aid, and when a revolution of rising expectations was just taking firm hold among Thailand's rural population. Thailand therefore moved from its traditional position, held for the entire century prior to 1975, of being a substantial creditor and a banker to many parts of the world, to being a debtor. Simultaneously it began running persistent government budget deficits for the first time. The accumulation of debt became very rapid indeed, and Thailand's debt service ratio reached 27–28 percent in the mid-1980s (in comparison with a banker's rule of thumb that 20 percent is a prudent limit).

The Delay of Austerity. This situation called for stern austerity measures. However, given the insecurity of Thai politicians and senior officials, early, decisive action was unlikely. Prime Minister Kriangsak was convinced by his advisors of the need for a drastic rise in energy prices. He took their advice and was promptly overthrown. This was a strong lesson for his successors. In case Prem needed reminders of the unpopularity of austerity measures, there was a major strike over a bus fare increase in 1982. Nobody wanted to advocate unpopular policies. In case anybody did, a cabinet rule of unanimity nonetheless delayed serious action. Virtually everyone privately acknowledged the need for austerity, but no individual or group could afford to call for it. In 1983, the current account deficit was larger than the country's international reserves, but still nothing was done. All had to wait until the last minute, so that everyone would be forced to act at once.

This indecisiveness was a direct consequence of Thailand's system of dispersed power, competing elites and aristocratic rather than dictatorial political structure—which requires broad consensus before action can be

taken. Thailand's delays in responding to the accumulation of debt parallel Japan's delays in responding to international resentment over Japanese trade policies resulting from Japan's congruent political structure and need for consensus. The delays badly frightened many of Thailand's bankers. But, as in Japan, the delays created by the need for consensus are offset by competent implementation once decisions are taken.

Devaluation. By late 1984, most of the elite had looked over the edge of the financial chasm and was convinced of the need for urgent measures. The November 1984 devaluation was a major political turning point. It discredited the opposition, particularly the military forces led by General Arthit. Since the opposition said devaluation would have no positive effects on exports, and various manufactured exports leaped by 15–50 percent in a recession year, it also discredited much of the opposition intellectually.

The devaluation was artfully handled in terms of politics and timing. It came after a month when inflation had been negative, so the inflationary impact was minimal. It came when it was unexpected. Congress was closed and General Arthit was abroad.

Eastern Seaboard Development. A second major policy issue crucial to the country's financial viability was the fate of the heavy industry program, focused on the Eastern Seaboard Development Plan, calling for a new port, other new infrastructure, a major fertilizer complex, and petrochemical plants of various kinds. The gradual approach to industrialization has powerful opponents. Key figures on the National Economic and Social Development Board (NESDB), backed by key industrial interests, sought rapid growth through a leap into heavy industry even though it would worsen income inequities and enlarge foreign debt. But the Bank of Thailand, the Ministry of Agriculture, the Ministry of Commerce, the International Finance Corporation of Thailand, and most academics advocated a more gradual approach in the interest of better income distribution, lower inflation, and control of foreign debt.

The competition between these schools of thought first led the heavy industrialists to limit their proposals. Steel mills never were seriously advocated, and a proposal for a Thai car was quickly defeated. (Contrast Malaysia, where the Proton Saga car project, justified by preposterous market estimates, never encountered effective opposition.)

Second, the projects that were proposed were subjected to a very rigorous, open cost-benefit analysis. The Bank of Thailand brought great resources to this process. The press gleefully announced each occasion when the industrialists' intellectual balloons were punctured. (Contrast Indonesia, the Marcos Philippines and Malaysia, where such press reporting would have been suppressed.) Many other projects were cut. The remaining projects (a new port, a fertilizer plant and others) were stretched out. The mood of austerity was such that the fertilizer plant,

whose cost the World Bank estimated at \$400 million, ended up costing only \$240 million.

The result was a reasonable, gradual, financially viable approach to industrialization. Not every project is cost-effective. But the contrast with nearly every other Third World country is dramatic.

State Firms. Although the Thai government share of GDP is small, there is a government budget deficit problem, and two-thirds of public sector foreign debt was acquired by state firms. The state enterprise sector earns a net profit, but the NESDB discovered that this sector was increasing employment more than 10 percent per year even in recession years, and that drivers in state firms earned more than mid-ranking officials in government ministries. So a program of privatization was announced, covering such enterprises as the Erawan Hotel, the Bang Pa-In Paper Mill, and rice and jute mills. The unions strongly opposed this program, and so far the program is stronger on planning than implementation. The precise outcome is difficult to predict, but Thailand avoided the vast proliferation of loss-making state enterprises characteristic of most Third World countries. It is likely to sell off a number of the loss makers, and to limit overemployment and excessive salaries in the rest. And it has not distorted the privatization process, whose rationale is to sell off inefficient, loss making state enterprises, to sell off the profitable enterprises to politically favored groups as is occurring in Malaysia. The result has been a great victory for sound finances.

Fees. Meanwhile, since the big money losers among the state firms are buses, water and railways, the government has hiked bus fares and whittled away at other deficits. A huge potential loser, although currently profitable, was the Telephone Organization of Thailand (TOT), run by none other than General Arthit, so the Ministry of Finance refused to guarantee TOT's loans. The government also raised auto taxes and imposed 1984-level credit ceilings to restrain spending.

Military Spending. Perhaps the largest single threat to Thailand's credit-worthiness has been the military budget. General Arthit planned to buy F-16 aircraft, more noteworthy for their expense and prestige than their Third World utility; multiple rocket launchers, which even the United States regards as ineffectual; and an automated air defense system. The combined costs of these and other items of military gadgetry would be staggering. Not wanting to confront General Arthit, Prem did not offer serious opposition in principle. But the government quietly imposed a rule that the public sector's foreign debt service ratio must never be allowed to exceed 9 percent. The chief effect of this rule will be to restrain the military, which will be held up as the cause of potential financial disaster if it pushes too hard to exceed the limit.

There have been other key *démarches* in the financial battle, notably over sugar and rice. Export taxes on these commodities have been

reduced and subsidies limited despite political controversy and vacillation. Many key problems remain. The government needs to raise fuel prices higher, to act on privatization, to strengthen the tax system and to avoid excessive subsidy of rice prices. But the central point of these examples is that the government acted in time (though just in time), that by all estimates its actions were effective, and that political sophistication ensured the implementation of difficult policies. The debt service ratio moved sharply lower in 1986–87.

Boundary Maintenance in the Moving Equilibrium

The Thai moving equilibrium is a political economy that constantly changes its structure in response to domestic social change and, secondarily, to international pressures, but moves at a relatively moderate pace and reequilibrates within certain boundaries: The moving equilibrium has been designed to preclude national bankruptcy, loss of national sovereignty, widespread bloodshed or the emergence of any form of monolithic dictatorship. The moving equilibrium has weaknesses and great strengths which can be appreciated only by understanding the Thai system without the distortions imposed by the perspectives of Western democratic institutions and Asian dictatorships.

Political Boundary Maintenance

Thailand's moving equilibrium avoids violent, discontinuous change and maintains a balance among a variety of institutions and goals because of fundamental features of Thai social structure.

First, social power is dispersed. Political power is dispersed among the military, the monarchy, the civil bureaucracies, the political parties, the bankers, business, the intelligentsia and the clergy. Economic power also is widely dispersed. Dispersion of economic power and dispersion of political power reinforce one another. Competence, the ability to undertake specific tasks vital to society, also is widely dispersed among these same groups and this further supports the continued dispersion of economic and political power.

But these resources, or bases of power, are not dispersed atomistically. They are clustered in units of marked competence. The Central Bank and the Ministry of Finance have the power and the competence to regulate the financial system. The Ministry of Agriculture has, in contrast to other Third World counterparts, the power and competence to regulate many of the most important aspects of agriculture. The military is competent to fight guerrillas. The government institutions are competent because they are run on the basis of meritocracy

(unlike other Third World countries) and because they must maintain competence to defend themselves against other bureaucracies that would intrude on their turf. The business enterprises and banks are competent because they are forced to compete with one another at home and often with foreign institutions. Only the political parties exhibit weaknesses of the severity that one associates with Third World institutions, and even they are more developed than most in Third World multi-party systems. This marked institutional competence is the single most important reason for Thailand's economic and political success as compared with most of its Third World counterparts, especially its South Asian and African counterparts.

These institutions have integrity. The military has not coopted, subverted, or cowed the civil bureaucracy. Within the civil bureaucracy, on vital policy issues technocratic calculations outweigh patronage interests. The king has not gained control of business and banking. The political parties have not subverted the technocrats for political patronage. The press is not subservient to any single power group. These institutions have great influence over one another, but none controls the others. This outcome is the polar opposite of the pre-Aquino Philippine situation, where one clique, organized around Ferdinand Marcos, came to exercise almost total control over the civil bureaucracies, the military, most major banks, most major businesses and all of the press. The competition among Thai institutions, both official and private, keeps those institutions constantly honing their skills and defending their power bases in order to maintain their positions. This ensures that the Thai moving equilibrium will be a muscular equilibrium, not an equilibrium of institutional flab like that of India, whose institutions are cosseted against competition.

The competence and integrity of institutions enables the system to pursue more than one goal simultaneously. More than that, it ensures that no single goal, such as military power, can become dominant over other goals, such as financial solvency or economic development.

Competition among institutions creates alternative power bases for individuals and groups. The competitive pursuit of different goals by different institutions, and widespread recognition that such competition is legitimate, creates space in which individuals and groups can pursue their own choices. By limiting the extent to which any institution can circumscribe choices, it creates *freedom*.

While the institutions and power groups maintain their integrity and compete, and while their cooperation is seriously imperfect, as it is everywhere, they nonetheless maintain an overarching ability and will to *collaborate* in the national interest. To defend the country, the foreign policy authorities, the economic development bureaucracies, the police, and the military collaborate sufficiently to get the job done. The extent to

which they compete with one another, and the interstices in which cooperation fails to occur, have become the subject of a considerable literature, which identifies an important truth. But the more important truth is that, after discounting for all the competition and failures of cooperation, the vital tasks of defending the nation, managing the currency, promoting the conditions for economic development, and minimizing violence get accomplished through coordinated effort of a degree that seldom occurs in Africa or Latin America.

Policy coordination has multiple causes. The king plays an important, often decisive role. The technocracy has a shared identity, training and devotion to national interest that—on the most vital issues—transcends many institutional rivalries. Moreover, there are overlaps in the memberships of key groups. Politicians become monks. (Every Buddhist boy is supposed to do so at least once.) Many generals sit on the boards of Chinese-dominated businesses. Numerous businessmen become politicians. Scholars become officials. Leading officials, politicians and generals consult scholars. Through a combination of overlapping memberships, shared historical experience, national pride and coordinating roles like that of the king, the Thai polity has achieved an ability to integrate competing interests and do what is necessary to serve the national interest on the vital national goals that define the moving equilibrium.

This is the achievement that distinguishes the Thai polity most sharply from its Spanish American counterparts, where the Argentine military was willing to bankrupt the country to purchase what it wanted, the Venezuelan ruling elite was willing to overvalue the currency and bankrupt the country so that certain social groups would be able to buy cheap foreign goods, and no national mechanism or consciousness existed to subordinate such narrow interests to a larger national interest. In Thailand, when General Arthit pursues similar policies, the system of competing groups and collaborating institutions stops him.

Finally, the Thai moving equilibrium has succeeded in limiting the violence associated with social change and political competition. Of course, violence does occur in Thailand. Students got killed in 1976. Peasant leaders were assassinated in the mid 1970s. Conflict between the military and the Communist Party of Thailand killed people. Thai society is not placid. But 1976–77 was very unusual and the Thai system has undergone an extraordinary series of transformations, under very stressful circumstances, with far less violence than similar transformations in Indonesia, the Philippines, South Korea or Malaysia (note the Malay-Chinese riots of May 1969 and the periodic smaller outbursts that are becoming more frequent).

Thai society achieves these limitations on violence in various ways. Thai society has come to accept group competition as normal and correspondingly to accept that no social group can be allowed to seek the

complete destruction of any other social group. The interpenetration of groups facilitates acceptance of this norm. Buddhist emphasis on non-violence helps to limit violence, and the special Thai emphasis on polite, smiling, civilized behavior in adverse circumstances (the norm that was so devastating to General Arthit's ambitions) gives special weight to Buddhist values. Above all, Thailand's competing multiple power centers accommodate emergent groups more easily than more monolithic systems; in recent years, their competition has forced them to seek out new groups for political support.

The utter instability of Thailand's top leadership reflects the system's sensitivity to social changes; the strengthening of a social force as a result of economic development quickly leads to a realignment of the country's highest leadership. This responsiveness and ability to accommodate new groups takes the form of unstable top leadership and simultaneously a profound stability in the moving equilibrium.

Security Boundary Maintenance

Thailand has maintained its security as a small, open, capitalist state surrounded by states with hostile ideologies and long histories of ruthless efforts to dismember Thailand, to force it into a tributary status, or to transform its ideology. It has retained a remarkable continuity and integrity of the basic Thai system despite challenges of social mobilization, new ideologies, and support of subversive movements from sanctuaries in neighboring states.

Its ability to do this begins with the basic institutional competence of its military and police forces. But its military forces are nonetheless not comparable in either counter-insurgency capabilities or subversive capabilities or conventional military power to those of China or Vietnam. In organizational quality, Thailand's military and police are greatly superior to those of the Philippines or to most Latin American and African countries, but on a global scale they are middle rank whereas South Korea's and Taiwan's and Vietnam's are top rank.

Thus Thailand's ability to maintain its security depends primarily on broader qualities: on the competence of its economic and political institutions as well as its military and police, on the ability of the Thai system to maintain a balance among these diverse institutions, and on an ability to direct those institutions toward common national goals. Domestic security derives from a combination of competent military force, police intelligence, economic administration and political balance. Thailand's foreign security derives from competent military force, an ability to draw large-scale economic and military resources out of the foreign environment, and superb diplomatic ability to balance the United States against the Communists or China against Vietnam. These are the same skills that in a previous era enabled Thailand to maintain its independence by balancing France against Britain.

Thai skills at maintaining a complex domestic security balance derive from the underlying equilibrium of its institutions. Thai skills at maintaining a complex, shifting balance of international alliance derive from the diverse, coordinated competent balance of its domestic institutions. In short, Thai security derives from the moving equilibrium.

Financial Boundary Maintenance

The government is able to take the difficult decisions necessary to maintain the country's financial viability under adverse circumstances for a number of reasons. First, the historical experience of the region has convinced the Thais that bankruptcy entails loss of sovereignty. Waiting until the last minute to act is built into the aristocratic national political structure, but failing to act is treason. This shared perception, and the will to act on it reflect a truly national consciousness. This national consciousness contrasts sharply with the Philippines and most of Latin America, where the rhetoric of nationalism is more prominent but the reality of decisions reflects the willingness and ability of particular elites to incur national bankruptcy in the pursuit of their self-interest.

Second, the king is enormously popular and powerful, and he identifies the interests of the monarchy with long-term financial responsibility. He is willing to engage the reputation and future of the monarchy to ensure sound management.

Third, throughout government and business there is now a generation of powerful, brilliant technocrats, highly trained and aware of nation's problems and basic options. They are fiercely nationalistic and therefore opposed to excessive dependence on foreign debt. And often they come from very wealthy aristocratic families and so can speak without fear when they feel their country is at risk. There is a broad technocratic consensus on the seriousness of the problem and the nature of the solution. This consensus reflects a shared competence, which in turn derives from the government's commitment to appoint and promote highly educated, competent, often foreign-trained officials at the expense of old guard interests and patronage considerations.

Thailand's competent, powerful institutions have been sponsored by the monarchy. The military-based regimes have fostered them. The civilian governments have not allowed patronage politics to subvert them to the degree that occurred in countries like India and the Philippines and recently even Malaysia. The technocracy has far greater depth than Indonesia or the Philippines, where striking competence seldom exists below the top two tiers of the bureaucracies. In the private sector, notwithstanding a degree of oligopoly, competition

fosters gradually increasing competence and efficiency in Thailand's financial institutions. Recently a combination of difficult times and stern Central Bank and Ministry of Finance decisions have fostered further efficiency in the private sector by weeding out the managements of weak firms.

Fourth, the weakness of the party politicians and the disunity of the military undermine the primary proponents of financial irresponsibility, leaving the technocrats and their institutions with the crucial margin of political advantage. Theoretically armies should not be divided and representative institutions should be strong, but in this case the weakened condition of both was a prerequisite of national solvency.

Fifth, Prem is brilliant at finding politically palatable ways of moving toward solutions to the need for austerity. But his talents should not be viewed merely as the luck of a single personality. The Thai system inculcates such qualities, shared by the king and other key politicians, and even exhibited by the political finesse with which the military has contained the Communist guerrillas.

Goal Attainment in the Moving Equilibrium

The central thesis of this chapter is that the Thai system constitutes a moving equilibrium which maintains itself by delivering certain valued achievements.

The competence of its institutions delivers moderately rapid economic development.

The diversity of its institutions and social power centers and values creates a broad distribution of political power, economic power, and prestige.

Competition among institutions—private, government, and military—hones their skills and enhances their efficiency in the same way that market competition does in a capitalist economy.

The decentralization of social power and prestige, together with a strong national identity and certain coordinating forces such as the monarchy and the technocracy, create an unusual ability to accommodate emerging social forces.

Competition for influence among diverse institutions, and the insecurity of top leaders, leads them to compete for the support of all potentially influential groups and over time mobilizes each group and bestows influence upon it. In this way it gradually creates representation.

Competition among institutions and social groups, and diverse bases of prestige and money and power, create social space which provides individuals and groups with a remarkable degree of freedom.

The system's ability to deliver substantial levels of growth, development, economic resilience, representations, freedom, military force, and police intelligence provide Thailand with a high degree of security.

Weaknesses of the Thai Equilibrium

The equilibrium's impressive virtues coexist with certain distinct limitations which derive as inexorably from the structure of Thai society as the virtues. One crucial limitation is that Thai decision making is slow and frequently ambiguous. When a policy is required for financial austerity or for foreign investment in energy development, senior officials are afraid to decide because they have little job security in the face of a negative reaction from any sector. Each official waits for someone else to broach the issue. The ministry in charge passes the responsibility to another ministry. The government forms a committee, dissolves it, forms another. While temporizing behavior occurs in all governments, it is extreme in Thailand and Japan—and a good deal worse in Thailand, because when the Japanese government finally makes a decision, it usually sticks, whereas the Thai decision frequently does not.

Closely associated with such temporizing is the Thai government's need to give heavy weight to political considerations when choosing economic policies. The cabinet cannot offend many constituencies very much in the interest of economic efficiency, because the political base of any cabinet is always tenuous. The need to pay a heavy economic price for political caution is particularly evident in such sectors as energy and finance. During the periods of high oil prices (1973–85), Thailand paid a terrible price for imposing unreasonable, uneconomic constraints on operations of foreign oil companies. By limiting the price it would pay for natural gas to a level that was not economic for Texas Pacific, by erratically altering contracts with companies that discovered oil and by other economically irrational policies, Thailand reduced its growth rate, expanded its national debt and increased unemployment needlessly. Thailand was a more difficult environment for a foreign oil company than war-torn, Communist Angola. But the political structure made this necessary; for a decade every senior Thai official who made an important energy policy decision in favor of a foreign oil company lost his job within six months.¹⁰

Again, delays and tradeoffs between economic efficiency and political support are universal, but the extent varies from one country to another. Thailand pays a heavier price in this respect than South Korea

¹⁰This comment is based on interviews with respected officials and former officials with direct experience of the pressures.

and Taiwan. No Thai leader could ever emulate Park Chung-Hee, who restored diplomatic relations with Japan in 1965 to revive vitally needed economic ties, despite almost universal public revulsion. Thailand was unable to emulate South Korea in extraordinary and rapid adjustments to the rise of imported oil prices (very high domestic fuel prices, severe and immediate austerity). So, whereas South Korea and Taiwan can grow 10 percent a year in favorable times, Thailand typically will grow 7 percent in similar years. And particular sectors in Thailand suffer severe opportunity costs. Nonetheless, Thailand's economic policies are sufficiently rational that its growth rate is much higher than that of most of the Third World and more than twice the historic average growth rate of the Western democracies.

The democratic vulnerability of Thai political leaderships also limits the country's ability to alter its income distribution through such means as land reform. In Third World countries, only dictatorships can impose vigorous land reforms. To the extent that Thailand is an aristocracy, the landed interests of most of the aristocracy would preclude redistribution. To the extent that it is a democracy, landlords would have a better chance of election to parliament than tenants and this would preclude redistribution. (Tenants in poor countries lack the funds, education, and access to media necessary for effective campaigns.) But Thailand is fortunate in having had a land surplus until fairly recently, and there were severe restrictions on individual landholdings until the 1950s—so the problem of agricultural tenancy is far less severe than in the Philippines and most of Latin America. Thailand will remain a country of dispersed economic power but will not become an egalitarian economy like Taiwan or South Korea.

Thailand also is limited in its ability to undertake drastic administrative reform. Any group desiring to eliminate bureaucratic corruption or install Korean-style super efficiency would run afoul of the vested interests of Thailand's most powerful elites and the patronage needs of its political parties. The rise of Thailand's technocratic elites is impressive, far exceeding anything that has been accomplished in most of the Third World, but their reforms have taken a generation and a half to accomplish what Park Chung-Hee did in a single decade. Whereas South Korea's technocracy pervades the whole administrative system, Thailand's technocratic elite is superimposed on a civil service that is heavily traditional and corrupt. Thailand's advantage compared to the Philippines is that the Thai technocracy is spreading and winning victories; its disadvantage compared with Korea is the considerable momentum of the moving equilibrium.

These limits on the pace and depth of reform have great significance for the Thai military's ability to cope with severe conventional military threats. While the political skills of the Thai military and their civilian

counterparts enable them to combat domestic guerrilla movements, they also inhibit the ruthless discipline possessed by the armed forces of South Korea, Taiwan, or Singapore. Such stern discipline would be essential in a direct confrontation with the fighting forces of Vietnam. Thailand must rely on wise diplomacy and international alliances rather than brute force to defend its borders.

Thailand's equilibrium also is potentially vulnerable to disruption by international economic forces. The Thai economy has become integrated into the world economy. The welfare of its people and the ability of its polity to curry support by bestowing domestic economic benefits depend on world commodity prices, global financial stability, a relatively open trade system and the ability of the larger economic powers to avoid precipitating another depression. Interdependence in the world economy is both a strength and a vulnerability. The comparative experience of North and South Korea, to take but one obvious example, indicates that North Korean autarky provides no assurance against national poverty and bankruptcy and that South Korean reliance on international markets inculcates an economic flexibility and resilience that provides shock absorbers against all but the most calamitous international economic developments. A comparison of Vietnam or North Korea with Thailand similarly indicates that autarky and centralized control breed economic weakness and vulnerability, whereas acceptance of interdependence with global markets breeds strength and resilience. Competition strengthens an economy just as exercise strengthens muscles. Adaptation to changing markets inculcates resilience. On balance, Thailand has a vulnerability of some significance now, when the world economy is in an uncertain state, but its openness is usually a source of strength and probably will prove to be so even in the difficult years of the late 1980s.

In broader perspective, the Thai equilibrium's most serious weakness is that it has not so far become enshrined in any explicit consensus about the proper structure of the system or the roles of the key elites within that structure.¹¹ The Thai equilibrium has balance: No goal, such as national security, is allowed to drive out other goals, such as economic development or political dignity. It has moderation: No elite tries to destroy any other elite. And there is an amorphous, difficult-to-prove but very real area of agreement (more than in other Third World countries) at any given moment on what the national priorities should be and roughly what kinds of political structures might implement those priorities. But all those virtues fall far short of thoroughgoing political and economic consensus. The military is still convinced

¹¹This point about lack of consensus is articulated forcefully in Chai Anan Samudavanija, "Political Institutionalization in Thailand: Continuity and Change," in Robert A. Scalapino, Seizaburo Sato, and Yusuf Wanandi, eds., *Asian Political Institutionalization* (Berkeley, Calif.: Institute of East Asian Studies, University of California, 1986).

that it should play a dominant role. The military and the civil bureaucracies have considerable contempt for the corrupt and fractious political parties. The political parties are convinced that only democracy dominated by themselves can be legitimate. The Thai virtues of balance, moderation, shared perceptions and institutional competence give the country a decisive advantage over most Third World states but the lack of an explicit consensus implies greater vulnerability to breakdown than would exist with a more clear-cut compact. To offset this vulnerability, Thailand has become increasingly dependent on the wisdom and health of a single individual, the king.

Today the key risk to the Thai equilibrium is its high and increasing dependence on the king. He will be 60 years old in December 1987 and has some history of heart problems, so his health is a matter of grave concern. To get through the current financial turnaround, Thailand needs his good health. To moderate the most intense civil-military disagreements, Thailand needs his intervention. Prem is replaceable. The king currently is not. Whether the monarchy can produce an equally able and respected successor remains in some doubt. And Thailand will need a good many years for other trends, such as the emergence of the technocrats, to overcome the system's dependence on the king. Nonetheless, the flexibility of the Thai system and the diversity of its talents provide considerable basis for optimism that the system could equilibrate even in the absence of its modest monarchical giant.

Thailand in Democratic Perspective

This essay has argued that Thailand's moving equilibrium must not be judged through the lens of American democratic institutions, a lens which portrays Thailand as a half-baked and peculiarly unstable democracy. Such a lens highlights that Thailand's representative process does not work the way America's does, but this lens masks the degree of openness, representation, and freedom that Thai society does provide. Nor is it appropriate to judge Thailand through the lens of Asian dictatorial development, a lens which highlights the instability of Thailand's top leadership and masks the underlying tendency toward equilibrium. Both lenses obscure the steady ability of the system to deliver the major outputs one expects from successful economic and political development.

It is nonetheless instructive to compare Thailand's output of valued social results with the output of the other kinds of systems. Thailand does not deliver the pure democracy and freedom of the Philippines between 1946 and 1971, but it does deliver a fairly high degree of openness, representation and freedom. Thailand does not deliver the 10 percent growth rates that South Korea regularly achieves in good

times, but it bumps along in good times at 7 percent—which is two to three times the historic growth rate of the United States and a good deal higher than most of today's Third World.

A comparison with the Philippines can illuminate the special virtues of Thailand's moving equilibrium.¹² While Thailand's political-economic experience has been quite different, it has been rooted in similar conditions. The two countries are of similar size, with similar populations, similar ethnic diversity, and similarly spectacular endowment of natural resources. Thailand has faced more serious international security problems, and it entered the modern era with far less education and economic infrastructure than the Philippines, so it would have been expected to perform considerably worse than the Philippines, but in fact it has done far better. This suggests that lessons can be learned by comparing the two systems.

The Philippines' democratic experience strongly suggests that Western democratic institutions in their pure Washington and Westminster forms cannot resolve certain critical problems of Southeast Asian modernization. If Thailand were to adopt identical institutions, it might suffer similar problems. In the absence of strong institutions like Thailand's, democratic patronage fosters runaway corruption; adversary judicial procedures preclude justice for poor people (who can't afford lawyers) and inhibit effective response to crime; and democratic checks and balances inhibit reform of all kinds, especially land reform and administrative reform. Democratic representation enhances the power of protectionist elites and precludes rapid development. Crime, inequality, corruption, institutional decay, and inconsistent economic development policies might prove overwhelming; they have done so in most of the Third World. Virtually every post-colonial country initially tried a relatively pure form of Western democracy and failed because of inability to deal with such problems. Thailand does better in tackling such problems, and thus avoids the risk of collapse into ruthless dictatorship. Thus Thailand's long-term prospects for democratic success are better than those of countries which leaped into pure democracy.

Second, the Philippines' dictatorial experience shows how a dictator's promises of valid reform programs can be used to destroy institutions and to worsen problems of growth, inequality, corruption and crime. In this situation, society pays a huge political price in the expectation of South Korean-style economic and social benefits but receives a negative economic and social return.

¹²For full comparative analyses of the parallel aspects of the Philippine situation, see Overholt, "Rise and Fall of Ferdinand Marcos," and idem, "Pressures and Policies: Prospects for Cory Aquino's Philippines," in Carl H. Lande, ed., *Rebuilding a Nation: Philippine Challenges and American Policy* (Washington, D.C.: Washington Institute Press, 1987).

The Philippine experience does not show that the basic economic policies of the Asian model (competition, market orientation, export led growth) do not work in Southeast Asia; it shows what happens when those policies are advocated but not implemented.¹³ At the same time, one must be careful about trying to transplant the detailed institutional mechanisms that work in small, homogeneous, Confucian societies (South Korea, Taiwan, Singapore) to larger, heterogeneous, non-Confucian societies like Thailand and the Philippines.

The contrast between the Philippines and Thailand shows the value of Thailand's highly developed institutions—especially the civil bureaucracy, the monarchy, competitive business, the financial system and increasingly the army—as compared with the tragedy of institutional destruction in the Marcos Philippines. Without sound institutions, society has no shape, the economy has no confidence, and the individual has no rights. Thailand's institutions have considerable resilience and staying power. In theory, they could be threatened by destructive popular reaction to the inferior current status of representative institutions (the political parties and parliament); this tension must be resolved by strengthening representative institutions rather than by weakening the others.

Recent Philippine history also demonstrates the danger of a combination of overinvestment in prestigious heavy industry projects, excessive reliance on foreign borrowing, and corruption. This triad holds together because the huge borrowings associated with heavy industry invite corruption. The prospect of quick corrupt gains encourages overinvestment in heavy industry. And focusing the national economy on projects that have little likelihood of economic success discourages local investors and throws the country into the hands of foreign banks. Here again Thailand has been wiser than most of its neighbors. It shares the ambition to master heavy industry, but has proved more insistent on economic viability than most of its neighbors. By being more cautious, it probably will achieve its ambitions to a greater degree.

The contrast between Thailand and the Philippines, and indeed between Thailand and most Third World countries, ultimately highlights Thailand's comparative success in fostering steady and diversified growth and in creating a relatively free society with a fairly responsive government, despite pervasive tensions between bureaucratic and representative institutions. The lesson of the Philippines is that institutions which have fostered such successes should be cultivated,

¹³For a summary of the basic political and economic policies behind the successes of Asian economies referred to in this sentence, see William H. Overholt, "The Moderation of Politics," in James W. Morley, ed., *The Pacific Basin: New Challenges for the United States* (New York: Academy of Political Science, 1986).

improved, and gradually supplemented with stronger representative institutions, rather than lurching toward an extreme of pure Western democracy or strong dictatorship.

If one wishes to analyze Thailand in terms of the Western political tradition, it is perhaps best to go back to Aristotle, who argued that monarchy, oligarchy, and democracy by themselves have structurally fatal flaws. Pure democracy he regarded, in an analysis that is trenchant for today's Third World, as a degenerate form of government prone to demagoguery and instability. He argued for a mixed form of government, which could combine and balance the virtues of monarchy, oligarchy, and democracy. The founding fathers of the United States accepted some of Aristotle's reasoning, and the U.S. system has an analogue of the monarch in its powerful President, analogues of oligarchy in its Supreme Court and Senate, and an approximation to popular democracy in its House of Representatives—integrated by a formal constitution. Thailand is pursuing a similar set of ultimate social goals with a real monarch, a real aristocracy, and a more complex system of representation—bound together by a moving equilibrium that is more durable than its formal constitution. The Thai moving equilibrium's ability to deliver a broad range of social values deserves respect.

13. Unity of ASEAN

SARASIN VIRAPHOL

Uniting Behind a Political Will

ASEAN's political unity was conceived and nurtured in response to the political needs of its members. Several factors were important in shaping these needs.

Colonial rule had separated Southeast Asian societies from one another. Each society had been preoccupied with its own problems during colonial rule and after decolonization. Moreover, some of the regional states became embroiled in primarily territorial disputes which further set them apart from one another.

More recently, superpower interference in regional affairs has led to more conflicts. The Vietnam war is a regional scar. Communist infiltration and insurgency threatened the stability of many ASEAN countries. Today the Kampuchean conflict, externalized by foreign involvement, remains the main obstacle to peace and stability in the region.

In response, a strong political will to cooperate with one another under the principle of consensus began to emerge among the ASEAN countries. It was a process of self-adjustment to the changing regional and international environments. This political will led to ASEAN political unity.

The Bangkok Declaration of August 8, 1967, in retrospect, charted a new course for the administrations and the peoples of the countries of ASEAN. It was in essence a proclamation of political will aimed at promoting unity within an area of diverse cultures and perceptions of interests.

ASEAN now can say that by and large it has successfully harmonized diverse interests, fostered good understanding and neighborliness among its members and strengthened the economic and social stability of the region.

The resolution of November 27, 1971, declaring the region a zone of peace, freedom, and neutrality (ZOPFAN), may be seen as another pivotal step in ASEAN political cooperation and unity. It demonstrated a sense of common security concerns among the ASEAN countries. It reflected their collective aspiration to forge a common commitment to

bring about a peaceful, prosperous and secure Southeast Asia, free from external interference. It would set the pace for ASEAN to explore further conceptual possibilities for the realization of such a goal as the current inquiry into the Nuclear Weapons-Free Zone proposal.

In 1976, ASEAN was able to convene its first summit of heads of state and government. The event was a milestone in the promotion of ASEAN political unity. The ASEAN leaders in attendance penned two historic documents setting the framework of intra-ASEAN relations and of ASEAN's intercourse with other states, particularly those within the Southeast Asian region.

The Declaration of ASEAN Concord of February 24, 1976, reflected an attempt of ASEAN countries to use their political unity as a spring-board for promoting economic and other forms of cooperation among themselves. The emphasis clearly was laid on the requirement of political and security cooperation.

The Treaty of Amity and Cooperation in Southeast Asia of February 24, 1976, was a manifestation of ASEAN political unity in response to political changes that had taken place in Vietnam, Laos and Cambodia. It set forth ASEAN's vision for extending political cooperation to encompass the broader Southeast Asian region which includes states having broad political and ideological differences with the ASEAN states.

With the convening of the second ASEAN Summit in 1978, ASEAN succeeded in creating a political consultative process at different levels which includes regular foreign ministerial meetings, special foreign ministerial meetings, senior officials meetings and ASEAN ambassadorial meetings in various parts of the world. It is evident from these arrangements that the process of ASEAN consultation rests primarily with the political leadership.

What Has ASEAN Gained?

ASEAN has been successful in creating a harmonious and stable ASEAN sub-region conducive to national economic development. This was achieved in spite of the conflicts in Indochina and the fluctuating international economic situation. Political unity in ASEAN has helped ensure the impressive rate of economic growth in the ASEAN sub-region during the past decade. In turn, ASEAN member countries, thanks to the same political factor, have been able to cope with the present economic downturn which nonetheless has tested their political will, and has challenged them to explore new horizons for the further consolidation of ASEAN unity. The existence of the vast reservoir of political will has facilitated this common effort.

ASEAN has gained much greater confidence from its political solidarity. The increased recognition of ASEAN as a unitary actor by other members of the international community has enhanced its bargaining power in international forums, thus directly benefiting its external relations, trade and economic development. This is seen clearly in the numerous acknowledgments of ASEAN's international standing by other states large and small.

ASEAN has established official dialogues with five Western countries—the United States, Japan, Canada, Australia, New Zealand—and with the collective European Community. ASEAN also has been approached by various countries and other regional economic groupings with a view to establishing official contacts with them. Most nations see ASEAN as a vital component in any scheme to form an Asian/Pacific community which is likely to be the center of global economic growth in the coming century.

In addition, ASEAN has been able to demonstrate its political influence in the international arena. ASEAN solidarity has played a significant role in its ability to mobilize international support for its firm opposition to Vietnam's invasion and occupation of Kampuchea. ASEAN has been successful in formulating common objectives and strategies on Kampuchea. This, in turn, has led to a well-coordinated diplomatic front against the occupation of Kampuchea by Vietnam. ASEAN also has made numerous peace proposals aimed at finding a political solution to the Kampuchean problem. All this would not have been possible without ASEAN political unity.

The third ASEAN summit is expected to convene in Manila in December 1987. It will be an excellent opportunity for the heads of state and government to review joint achievements and chart a new course for ASEAN cooperation.

Although the summit's emphasis will be on ASEAN economic cooperation, ASEAN fully realizes the importance of political cooperation. This is readily reflected in its proposed agenda which carries significant political purpose. Hence, the summit will be convened because ASEAN is confident that it can move another step forward in its economic cooperation on the firm foundation of its political unity. This third summit will mark another stage of development in ASEAN's 20-year history, coming at a time when there is a growing awareness and a deepening sense of commitment by the various states of the Asia/Pacific region concerning political and economic cooperation on a regionwide basis as the way to tackle various problems affecting their common security well-being.

Summary

To a large extent, ASEAN has achieved maturity in its political cooperation. The existence of strong political will to cooperate with one another led to strong political unity. The consultative process within ASEAN is dynamic and in several ways effective, operating on the basis of consensus. ASEAN political unity has resulted in the creation of a peaceful and stable environment in the subregion. Such an environment has served as a prerequisite for the rapid and steady economic growth in each ASEAN country throughout the past 20 years. This has been true in spite of the conflicts in Indochina and the fluctuating international economic situation. The maturity of ASEAN political cooperation is a great asset for ASEAN in its determination to enhance cooperation in other fields, especially in the economic field. ASEAN's political unity has gradually but firmly created greater confidence for the organization itself and for its member countries. In turn, this has provided a model for other states to ponder in the common quest for broader cooperative endeavors toward security and prosperity.

Discussion Excerpts

AMERICAN PARTICIPANT: Professor Khien's paper is a good paper. I do have some questions. One is that there seems to be a possible contradiction between his call on the one hand for more U.S. help to strengthen the fighting capability of the Khmer resistance forces, increasing Thailand's fighting capability, and improving the terms of military assistance to Thailand—and his call on the other hand for the Soviet Union to reduce its level of arms supply to Vietnam to that which Thailand receives from the United States. As soon as the United States increases its assistance to Thailand, the Soviet Union will increase its assistance to Vietnam also. I think this is something that Professor Khien would like to work out.

On Professor Pike's paper, why does he believe that Vietnam will stop with federation? Why not go on to absorption of Laos and Kampuchea if the opportunity presents itself? I also find disturbing that in the discussion of federation Professor Pike says that the people of Kampuchea and Laos are strongly opposed to the idea, but that their feelings may not count for much. This is a realistic statement, but are we going to take the case as given? Are the two peoples just pawns in a political chess game? I maintain that the voice of the people must be heard.

In his discussion of the unity of ASEAN I think Sarasin did not put enough emphasis upon the change of regimes in Indochina. It was a sense of crisis that brought ASEAN unity. The discussion should also address itself to existing and future conflicts. For example, what are the differences among Indonesia, Thailand, Malaysia and Singapore in their perceptions of the threat to the region? Which country is the greater threat—China or Vietnam? Will a new generation of leaders have the same commitment to ASEAN? If political crises end, what will be the linchpin holding ASEAN together?

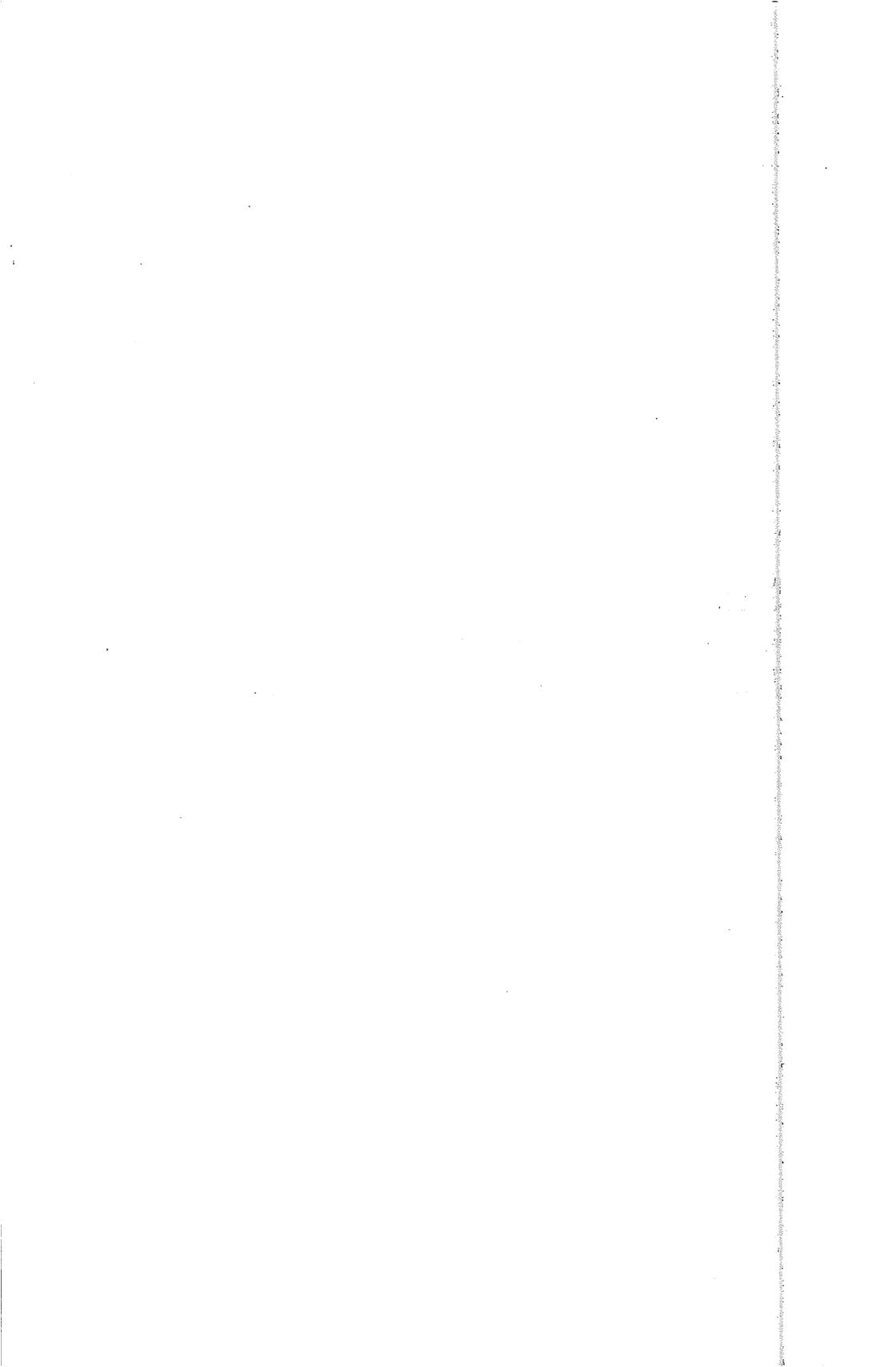
AMERICAN PARTICIPANT: I was a bit disappointed with Mr. Khien's comments concerning the bases in the Philippines that we should perhaps consider giving them up as a bargaining tool with Vietnam. I would like to let you know that the Vietnamese have very generously and publicly offered to let us keep them there, so I will take their offer

and not yours. And I would also say that giving them up is not at all in the Thai interest or ASEAN interests from many perspectives. As to the assertion that the United States must respond to the force of Filipino nationalism and sooner or later leave the Philippines, getting nothing for the bases, opinion polls in the Philippines are overwhelmingly in support of the presence of the U.S. bases, and in fact there is a substantial body of opinion that even wants them expanded.

THAI PARTICIPANT: I would like to respond to the question of whether it is in China's interest to have a settlement in Cambodia. Of course, nobody can say for sure, but there are certainly indications within the last few years that allow us to have a rudimentary picture of where each of the protagonists stand on the question. I think that you can see a remarkable shift in the Chinese position over the last seven years on the question of the settlement. In the early period we found a very stubborn China. They were very legalistic. We could not get them to talk about a compromise of any kind. I think that the situation is drastically different today.

On the Vietnamese side there has hardly been any progress on the resolution of the Cambodian problem. Their concepts remain the same, for instance their insistence that the Khmer Rouge be ousted from any future settlement of the question. This is the pivotal point of their position.

Part V.
Global Economic Trends and Their
Implications for Thai-U.S. Relations



14. Impact of U.S. Economic Policies on a Commodity-Exporting Debtor: Thailand

JEFFREY A. FRANKEL

This chapter explores the effect of U.S. economic policies in the 1980s on developing countries like Thailand, that is, countries that have external debt and that export primary commodities. Thailand did not borrow enough in the 1970s to be one of the worst victims of the 1982 debt crisis. But increased debt-servicing requirements and the 1981–86 depression in world commodity prices have hurt the country. The United States could do much to help countries like Thailand, and at the same time help itself, by shifting to a mix of tighter fiscal and easier monetary policy and by liberalizing trade.

Exports and finance are the two most important channels through which less developed countries such as Thailand are affected by the economic policies of industrialized countries such as the United States. The balance of payments constraint says that the foreign exchange Thailand spends on imports must be equal to the foreign exchange earned by exports, plus net foreign financing of any gap.¹ Imports, particularly of capital goods and intermediate inputs like oil, are in turn a constraint on investment and production, so the global set of equations is key to the growth process.

The United States is so large in the world economy that it does much to determine the global environment of trade and finance in which developing countries live, beyond the direct links with a given country. This chapter is organized in five sections. Section 1 discusses the characteristics regarding trade and finance that Thailand does or does

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¹To be precise, "imports" and "exports" should be defined as goods and services, including investment earnings, and "financing" should be defined to include not only lending and investment but also transfers (emigrants' remittances and foreign aid) and the use of international reserves.

not have in common with other developing countries. Sections 2 and 3 cover U.S. macroeconomic policies and how they have most seriously affected in recent years the environment in which developing countries live, with Section 2 concentrating on growth rates and interest rates and Section 3 on exchange rates. Key topics here are world commodity prices and the world debt problem. Sections 4 and 5 discuss U.S. trade policy; they cover respectively protection against manufactured imports and agricultural policies, particularly the dumping on world markets of surplus American rice that began in April 1986.

Thailand Compared to Other Debtors and Commodity Exporters

Tables 1 and 2 offer some statistics on international trade and financing for Thailand, and for three groups of developing countries for purposes of comparison. Thailand has run large trade deficits since the 1970s, due largely to the two major oil price increases and to high levels of military spending. But much of the deficit has been financed by private transfers (for example, remittances from workers in the Persian

Table 1
DEBT AND TRADE STATISTICS FOR THAILAND

	Unit	1979	1980	1981	1982	1983	1984	1985	1986
Debt (long-term and short-term)	\$b	6.863	8.256	10.960	12.244	13.951	15.362	17.682	19.065
Exports (goods and services)	\$b	7.475	8.203	8.777	8.871	8.383	9.571	9.4321	9.980
Debt/Export	%	106.0	100.6	124.9	139.4	166.4	163.3	187.5	191.0
GDP	\$b	27.24	33.45	36.03	36.79	40.18	41.96	38.57	42.33
Debt/GDP	%	25.2	24.7	30.4	33.3	34.7	37.3	45.8	45.0
Exports (goods)/GDP	%	19.4	19.4	19.5	18.9	15.8	17.7	18.5	17.6
Exports (g + s)/GDP	%	23.3	24.6	24.3	23.9	20.9	22.8	24.4	23.6
Debt Service	\$b	1.257	1.591	1.727	1.916	2.077	2.634	3.321	3.129
Debt Service/Export (g + s)	%	19.4	19.4	19.7	21.8	24.8	27.5	35.2	31.4
Current Account	\$b	-2.119	-2.205	-2.691	-1.130	-3.010	-2.206	-1.492	-0.750
Current Account/ Exports (g + s)	%	-28.3	-26.9	-30.71	-12.9	-35.9	-23.0	-15.8	-7.5
Real GDP Growth	%	+6.1	+5.8	+6.3	+4.1	+5.9	+6.2	+4.0	+3.8
Unit Value Change	%	+19.5	+18.2	+3.0	-7.1	+1.4	-2.6	-8.2	+0.5
Terms of Trade Change	%	+3.3	-4.8	-12.8	-9.4	+7.4	-0.7	-4.4	+5.9

SOURCE: 1979-85 Institute of International Finance, Inc., 2000 Pennsylvania Ave., Washington, D.C.; 1986 author's forecast.

Gulf), official transfers (foreign aid), and direct investment (as opposed to bank lending), none of which generates debt-servicing obligations. As of 1980, before the worldwide debt shock hit, Thailand's debt was equal to 25 percent of gross domestic product (GDP). This was about the same degree of indebtedness as the average developing country, but in a sense it was fortunate for the country. Many middle-income countries that, like Thailand, had achieved rapid growth rates in the 1970s had borrowed more heavily in order to do so. The 1980 average level of debt was 31 percent of GDP for a group of fifteen debtors chosen by the International Monetary Fund (IMF) as being particularly worrisome (which includes the Philippines and ten Latin American countries). As a result, the sharp increase in world interest rates in the early 1980s hit these countries very hard.

A second respect in which Thailand is fortunate is the degree of openness of its economy, characterized by a ratio of exports (goods and services) to GDP of about 24 percent. Again, this is no different from the average developing country. But the fifteen problem debtors average an export/GDP ratio of only 15 percent. To see why a high degree of openness is advantageous for a debtor country, a comparison of Korea versus the Philippines and Latin American debtors is instructive. Korea borrowed as heavily as the others (as a percent of GDP). But it was able to adjust to the debt shock quickly by boosting exports and cutting expenditures, and thus was able to retain the confidence of its creditors. In this process, Korea's high ratio of exports to GDP was extremely helpful. All the debtors were required to move from deficit on their balance of trade toward surplus in order to generate the foreign exchange to help service their debts. A country with a higher degree of openness is able to generate the required improvement in its trade balance by expanding the resources allocated to producing internationally traded goods by a relatively small percentage.²

The Philippines and Latin American debtors have fared much worse than South Korea. Facing a near cutoff in lending from their creditor banks, they were forced to eliminate their large trade and current account deficits in the three years following the onset of the debt crisis in August 1982.³ Lacking the ability to boost exports rapidly, they have had to achieve the improvement in their trade balances by cutting

²For a good general consideration of the relative fates of the East Asian and Latin American debtors, see Sachs (1985).

³The creditor banks have been induced to put in new money as part of rescheduling agreements. But the money only goes to pay a part of the countries' interest obligations (whereas in the 1970s, bank lending could be used to finance imports of investment and consumption goods). So the "resource transfer" now runs in reverse, from less developed countries to more developed countries. Figures in Sachs (1986) suggest that the banks actually succeeded in reducing exposure in many of the debtor countries as of 1986.

Table 2
DEBT AND TRADE STATISTICS FOR OTHER COUNTRY GROUPS

Ratio	Country Group	1979	1980	1981	1982	1983	1984	1985	1986
(1) Debt/Exports	Borrowers	120.4	110.4	122.9	148.6	158.8	152.8	163.0	166.6
	Commodity	164.6	157.8	190.6	237.7	253.0	250.0	265.5	253.3
	15 Debtors	181.7	165.8	199.2	263.4	286.3	268.1	285.9	304.8
(2) Debt/GDP	Borrowers	25.6	25.7	28.9	33.2	35.9	36.8	38.1	38.7
	Commodity	29.7	30.3	35.0	40.4	43.1	45.0	46.9	45.3
	15 Debtors	30.6	31.0	34.9	41.6	47.6	46.4	45.6	45.6
(3) Export/GDP	Borrowers	21.3	23.3	23.5	22.3	22.6	24.1	23.4	23.2
	Commodity	18.0	19.2	18.4	17.0	17.0	18.0	17.7	17.9
	15 Debtors	16.8	18.7	17.5	15.8	16.6	17.3	15.9	15.0
(4) Debt Service/ Exports	Borrowers	19.1	17.1	20.5	23.6	22.0	22.9	24.1	24.2
	Commodity	25.1	24.4	31.6	37.5	32.5	31.8	32.1	33.0
	15 Debtors	34.6	29.4	38.5	47.9	42.5	41.6	43.8	45.6
(5) Current Account/ Exports	Borrowers	-12.5	-12.6	-18.5	-17.8	-9.4	-4.1	-4.9	-6.8
	Commodity	-18.0	-24.5	-35.9	-36.8	-25.5	-15.9	-11.0	-8.5
	15 Debtors	-20.4	-17.8	-30.4	-35.0	-10.1	-0.6	-0.1	-5.2
(6) Real GDP Growth	Borrowers	+4.8	+4.7	+3.0	+2.1	+1.6	+4.7	+4.2	+3.5
	Commodity	+4.6	+4.3	+1.1	+0.3	-0.3	+3.6	+3.6	+3.7
	15 Debtors	+6.1	+4.8	+0.7	-0.4	-3.5	+2.2	+3.1	+1.5
(7) Exports Unit Value Rate of Change	Borrowers	+22.7	+24.1	+0.3	-5.7	-5.8	+0.5	-3.5	-1.1
	Commodity	+19.1	+14.5	-7.1	-9.2	-2.9	+1.5	-5.5	+8.4
	15 Debtors	+28.0	+34.1	+1.4	-7.1	-6.2	+1.9	-3.8	-5.6
(8) Terms of Trade Rate of Change	Borrowers	+4.1	+3.9	-2.3	-2.6	-1.7	+1.7	-1.7	-4.4
	Commodity	+0.4	-7.9	-10.4	-6.2	+0.9	+3.5	-3.2	+7.3
	15 Debtors	+9.8	+13.3	-2.9	-4.5	-3.6	+2.8	-3.1	-8.5

SOURCE: *World Economic Outlook* (Washington, D.C.: International Monetary Fund, April 1986): (1) Table A50, p. 248, (2) Table A50, p. 249, (3) [(1)/(2)], (4) Table A51, p. 250, (5) Table A35, p. 217, (6) Table A5, p. 124, (7) Table A20, p. 209.

NOTE: Debt includes both long-term and short-term debt. Exports include both goods and services. Export unit values are rates of change of dollar goods prices. Terms of trade are rates of change of exports unit values versus imports. Country groups: "Borrowers" are capital-importing countries, which are all less-developed countries except eight oil-rich countries. "Commodity" refers to primary product exporters, defined as countries whose exports of agricultural and mineral primary products other than fuel accounted for over half of their total exports in 1980. "15 Debtors" refers to fifteen of the most heavily indebted countries (including ten Latin American countries and the Philippines).

imports sharply instead (via devaluations, import controls and reduced government expenditures). The result has been (1) sharply reduced consumption, lowering living standards today, and (2) sharply reduced investment, eliminating the basis for a resumption of growth tomorrow.

The sense in which Thailand has been fortunate is only the same sense in which a man who is injured in an auto accident feels fortunate that he was not killed. As of 1980, before the storm hit, its debt was approximately equal to its annual exports, while other large debtors had a considerably higher debt/export ratio. (This is the direct implication of the fact that other debtors had both a higher debt/GDP ratio and lower export/GDP ratio.) As a result, Thailand's credit rating has remained good.⁴ Most importantly, it has continued to grow at a more rapid rate than most developing countries, in contrast to the large debtors, which suffered sharp real contractions in 1982 and 1983 (especially in terms of per capita income). But it has felt the same shocks in the 1980s that other countries have felt. By Thai standards, the 4 percent growth rate of 1985–86 represents a slowdown.

Table 3
TRADE STRUCTURE FOR SELECTED LESS-DEVELOPED COUNTRIES IN
1980–81* (percentage of total exports)

Country	Exports		
	Manufactures	Oil	Commodities
Argentina	21	4	75
Brazil	35	5	60
Chile	14	1	85
Mexico	12	67	21
Indonesia	3	79	18
Korea	81	1	12
Malaysia	20	27	53
Thailand	25	0	75

SOURCE: United Nations Conference on Trade and Development, *Handbook of International Trade and Development Statistics*, 1984 supplement (New York: U.N., 1984).

*Manufactures exclude Standard International Trade Classification (SITC) numbers 67 and 68, which are ores and metals.

The one respect in which Thailand's experience in the 1980s has been *less* fortunate than that of the average debtor is that it is an exporter of primary products, as Table 3 shows. Although manufacturing exports

⁴Ranking 33rd out of 109 as of September 1986 according to *Institutional Review*, and 39th out of 119 according to *Euromoney*.

have been growing, non-oil commodities still make up three-fourths of Thailand's exports. In this respect, it looks like Argentina, or even Chile. At the opposite extreme stands Korea, for whom manufactures constitute four-fifths of exports. Eight commodities alone—rice, tapioca, rubber, maize, tin, sugar, prawns and precious stones—together make up 43 percent of total Thai merchandise exports (as of 1985, down from 58 percent in 1981).⁵

There is nothing wrong with being a commodity exporter in general. Commodities did very well in the 1970s, for example. But it has been unfortunate for Thailand in the 1980s because, while exports by developing countries have suffered quite generally, agricultural and mineral exports have been hurt much more than others. Prices for these commodities on world markets have fallen, both in absolute terms and relative to the prices of goods that primary-product exporters import. The terms of trade for such countries fell by 17 percent in 1981 and 1982 together. For Thailand, the decline in the terms of trade was even worse at 23 percent. Table 4 shows the drastic declines in the dollar prices of some of the important Thai export commodities. Export revenues declined as well. As in other commodity-exporting countries, Thailand's debt-to-export and debt-service ratios increased even more rapidly than the average borrower after 1982.⁶ Thus, as of 1986, its debt statistics are a little worse than those of the average developing country, though still much better than the heavily indebted countries.

We turn now to those effects of U.S. macroeconomic policies on the world economic environment that are relevant to debtors and commodity exporters like Thailand.

Monetary and Fiscal Policies and the Impact on a Commodity-Exporting Debtor

The three macroeconomic variables among the industrialized countries that have the most impact on developing countries are growth rates, real interest rates and exchange rates. We consider the first two in this section, and the third in the following section.

The rate of growth of income is perhaps the most important of the three. Cline (1984), for example, considers that 3 percent is the crucial break-even point that growth in the industrialized countries must attain if the debt situation in the less developed countries (LDCs) is to improve.

In the longer term the rate of growth of "potential output" in industrial countries is determined by the rates of growth of the capital

⁵The source is the Department of Customs (and the Bank of Thailand for total exports).

⁶Avramovic (1986) speaks of Thailand and several other countries, mostly in Asia, as the "new debtors," as opposed to the earlier debtors like the Philippines.

stock, the labor force and productivity—factors that are not easily susceptible to government control in the short run. But the fiscal and monetary policies that governments adopt do have real effects in the short run. By the end of the 1970s there was a rough consensus, both within the United States and among other OECD countries, that it was worth paying the necessary price of some lost output and employment in order to beat inflation. The United States led the way with a sharp contraction that was propagated worldwide in the form of the 1980-82 recession.

Table 4
PRICES OF SOME THAI EXPORT COMMODITIES

Period	World Commodity Prices					
	White rice 5% fob BKK. (US\$/Ton)	Maize No. 2 Chicago (US\$/Ton)	Tapioca Rotterdam (DM/Ton)	Rubber No. 3 Singapore (S\$/Ton)	Tin Kuala Lumpur (M\$/Kg.)	Raw Sugar New York (Cents/Lb.)
1980	433	114	311	2,912	36.00	29.00
1981	484	122	290	2,062	32.30	16.85
1982	294	103	312	1,657	30.17	8.41
1983	276	124	398	2,121	30.20	8.48
1984	253	114	361	1,922	29.16	5.19
1985	217	101	349	1,587	29.67	4.05
1986 Jan.	239	87	336	1,512	unq.	4.87
Feb.	228	83	315	1,628	19.56	5.56
Mar.	218	81	343	1,614	18.40	7.07
Apr.	202	79	329	1,584	14.69	8.77
May	200	79		1,635	14.22	7.64

SOURCE: Reuters; Bank of Thailand, as reported in *Bangkok Bank Monthly Review*, June 1986, p. 276.

Period	Average Wholesale Prices of Commodities in Bangkok (baht/ton)						
	Paddy no. 1	Rice 5%	Maize	Tapioca pellets	Rubber grade 3	Tin concentrate	Black matpe bean
1980	3,260	5,671	3,048	2,524	18,730	226,282	n.a.
1981	3,746	6,500	2,909	1,907	14,880	204,428	8,460
1982	3,137	5,452	2,873	2,106	13,340	196,941	9,120
1983	2,982	5,177	3,154	2,511	17,748	197,151	9,152
1984	2,993	4,859	3,082	1,705	16,447	192,601	8,515
1985	2,759	4,610	2,840	1,721	16,164	213,497	7,702
1986 Jan.	2,475	4,386	2,366	2,302	15,550	unq.	7,259
Feb.	2,406	4,462	2,372	2,325	16,440	137,760	8,995
Mar.	2,381	4,373	2,500	2,382	16,470	119,843	10,143
Apr.	2,231	4,211	2,518	2,423	16,260	95,651	10,500
May	2,217	4,199	2,450	2,565	16,330	93,172	10,655

SOURCE: Department of Business Economics, Ministry of Commerce, as reported in *Bangkok Bank Monthly Review*, June 1986, p. 276.

The growth rate of income among OECD countries is a crucial determinant of the growth rate of world trade in general and of LDC exports in particular. The demand for the types of goods that LDCs produce is thought to be particularly pro-cyclical.⁷ This is why the volumes of these exports, after rapid growth in the 1970s, fell sharply in 1980–82.

The U.S. recovery began in 1983 and spread to other industrial countries. LDC export volumes responded well to the increase in demand, especially in 1984. But prices of LDC exports, particularly prices of commodities, which began to fall in the recession, continued a downward trend through 1985. The trend is clear, whether measured in terms of dollars or in terms of LDC import prices, as the last two rows of Table 1 show for Thailand and the last two rows of Table 2 show for other LDCs. Why did the prices of LDC commodity exports remain depressed even after the 1980-82 recession had ended? Individual commodities are affected by many individual factors such as the weather. But the general weakness of commodity prices relative to prices of manufactured goods throughout the first half of the decade needs an explanation. There is such an explanation in macroeconomics; but it requires a short digression on the theory of overshooting.⁸

The classical economic paradigm applies to agricultural and mineral products better than to manufactured goods or services. These commodities are relatively homogeneous, storable and transportable, and often are traded on competitive markets. One does not normally inquire into who the original producer was before buying an agricultural or mineral commodity. Arbitrage ensures that, for example, tin sells for essentially the same price in Bangkok as in London or New York. If there is a fall in the demand for tin, in the absence of government intervention, it rapidly is reflected everywhere as a decrease in the price. None of these propositions applies to automobiles or haircuts.

A key determinant of the demand for commodity stocks is the expected rate of change of the value of the commodity compared to costs of holding it, including the interest rate, storage costs, insurance, etc. Indeed nobody willingly will hold stocks of a commodity, assuming he or she is free to sell it at the going price, unless the expected rate of appreciation is as great as the interest rate plus other costs. When there is an increase in the interest rate, there will be a fall in demand for the commodity and therefore a fall in the price. When the real price (that is, the price of the commodity relative to a general price index) has fallen enough, there will be general agreement that it is "undervalued"

⁷See, for example, Goldstein and Khan (1985).

⁸The following discussion draws on Frankel (1984, 1986) and some of the references cited there.

in the sense that the real price has "overshot," and that it will, in the future, return to its higher equilibrium level. (The expectation of future appreciation will become sufficient to offset the higher interest rate.) As long as interest rates remain high, commodity prices will remain low, though both deviations from long-run equilibrium eventually must disappear if the commodity holders' expectations are to be fulfilled.

U.S. interest rates rose sharply in 1980 after a tighter monetary regime was installed by Paul Volcker, and interest rates in other industrialized countries followed suit. Indeed, this was the mechanism whereby the contraction was transmitted to the world economy. Monetary policy was eased somewhat after mid-1982, in response not only to the recession but also to the international debt crisis, which surfaced in August. Nominal interest rates declined (especially short-term rates). But the decline in nominal rates was less than the decline in expected inflation. In other words, real interest rates remained high (especially long-term rates) until they began to decline in mid-1984. This was a major factor depressing commodity prices even after the recession had ended.

Why were real interest rates so high throughout the early 1980s? This is a subject of some controversy, but the most widely accepted reason is the emergence of enormous structural budget deficits in the United States. The improbable "Laffer Curve Theory," which held that a reduction in tax rates would stimulate income so much as to raise total tax revenues rather than lower them, helped convince politicians to enact large cuts in personal income taxes beginning in 1981. While some categories of domestic U.S. spending were cut sharply, they did not constitute a large enough share of the budget to counteract the increased transfers under social security and farm support, and especially the large increases in military expenditure. The result was an astounding increase in the U.S. budget deficit equal to 4.0 percent of gross national product (GNP) between 1980 and 1985.⁹ The U.S. Treasury had to borrow to finance the gap, and the competition for funds drove up the real cost of funds in the capital markets. The increase in the expected rate of return in U.S. capital markets in turn attracted investors from other countries. As capital flowed to the United States from Europe and Japan it forced up rates of return there as well.

The increase in world real interest rates in the early 1980s due to the shift in the U.S. mix between monetary and fiscal policy had three effects on countries like Thailand. The first is the depressing effect on the price of commodity exports that we have already mentioned. The second is that, because much of LDC debt was either short-term or

⁹IMF, *World Economic Outlook*, 1986, p. 110.

floating rate, the increase in interest rates was quickly reflected in an increase in the debt-service burden of the debtors.¹⁰ Thailand's nominal interest payments went up by 29 percent in 1981 alone. This was as important a component of the increases in the current account deficit, accumulation of external debt, and debt/export ratio, as was the loss of export revenue. The third effect of higher world interest rates was the direct one on interest rates within Thailand, to which we turn briefly.

Most LDCs have financial markets that are tightly regulated domestically and highly insulated from disturbances externally. Hong Kong and Singapore are two that have gone the farthest in the direction of free and open financial markets. Some others have attempted to deregulate and liberalize their financial markets, particularly in the late 1970s, but with less success. (Chile is a well-known case where financial liberalization went awry.)

Thailand's financial markets long have been more open internationally than those of most LDCs. An oligopolistic banking system has in the past kept domestic interest rates from fluctuating freely. But unlike the case of most LDCs, the relatively stable Thai monetary policy and low inflation rates in the 1960s and early 1970s kept real interest rates from falling far below world levels. When U.S. interest rates rose sharply in 1981, the Thai banking system was somewhat slow to raise its interest rates accordingly; there was a period during which the differential in interest rates induced a large capital out-flow. When the Federal Reserve pushed down short-term nominal interest rates in the United States after August 1982, the differential vis-à-vis Thailand reversed. The Thai banking system was reportedly slow to lower deposit interest rates accordingly. The entire cycle was repeated in 1983–84. The lags in adjustment of local interest rates, and the direct credit controls that the Thai authorities have imposed, show that financial markets are not completely free and open. Nevertheless, the magnitude of the capital flows in response to interest differentials—and the fact that local rates are eventually adjusted—indicate a relatively high degree of capital mobility or integration into world financial markets.¹¹

Comparisons of local interest rates with offshore rates to measure the degree of capital mobility always are tricky because the former are quoted in local currency and the latter in foreign currency. To correct for the element of uncertain exchange rates, we need to observe a forward exchange rate. There exists no forward exchange market in baht internationally, but there is a rate quoted by a Bangkok bank. The figures,

¹⁰It has been estimated that for every 1 percentage point rise in interest rates, interest payments owed by the typical LDC that like Thailand borrows on world capital markets rise by approximately 1.25 percent of exports. (Goldsborough and Zaidi, 1986, p. 8. The calculation assumes 1985 levels of exports and debt.)

¹¹References for this paragraph are Greenwood (1986), Fry (1986) and Ganjarende (1986).

together with the Bangkok baht interest rate and Euro-dollar interest rate, are reported in Table 5. The table shows that most of the excess of the Thai interest rate over the world interest rate can be explained by investors' awareness that the baht might devalue against the dollar. Recent observations (spring 1986) show a discrepancy in expected rates of return of about 2 to 3 points. The magnitude of this gap would suggest a degree of insulation from world financial markets that is much greater than that of major industrialized countries, or Hong Kong and Singapore (with root mean squared differentials of 0.25 and 0.28 respectively), and greater even than Malaysia (1.51), but that is much smaller than the degree of insulation of Mexico and other LDCs, or even Denmark and Spain.¹²

Table 5
A COMPARISON OF THAI AND OFFSHORE INTEREST RATES

	Bangkok interest rate in baht (interbank call rate)	minus	Forward premium (baht/dollar)	=	Bangkok interest rate in dollars	vs.	Euro-dollar interest rate
1981	17.50		6.65		10.85		16.85
1982	15.50		5.10		10.40		13.16
1983	12.80		5.80		7.00		9.67
1984	14.30		4.30		10.00		10.84
1985	14.30		12.40		1.90		9.20
1986 Jan.	13.48		8.73		4.75		8.15
Feb.	11.80		5.70		2.07		8.00
Mar.	10.40		2.20		4.73		7.60
Apr.	9.30		0.20		9.10		6.90
May	10.10		0.20		9.90		7.00

SOURCE: *Bangkok Bank Monthly Review*, June 1986.

It is possible that because the increases in U.S. and world interest rates from 1980 to mid-1984 were transmitted to Thai interest rates, they have worked to reduce Thai spending. But the longer-term structural effect probably is more noteworthy: The increased volatility of U.S. and world interest rates in the 1980s has forced Thai interest rates to become more flexible. The implication is that future developments in world financial markets probably will be transmitted to Thai financial markets more rapidly than in the past.

¹²Frankel and MacArthur (1987), Table 3. The sample is September 1982 to March 1987, the maturity is 3-month, and the Euro-dollar interest rate and forward discount are observed in London. It should be noted that the figures for Thailand are very sensitive to the time of observation because the forward exchange "market" is very thin and the rate volatile.

Exchange Rates, Macroeconomic Coordination, and the Impact on a Commodity-Exporting Debtor

We have discussed the role of two of the key macroeconomic variables determined in the industrialized countries—the growth rate and the real interest rate. We have seen that the first is influenced by the overall degree of expansion of macroeconomic policy—monetary and fiscal policy together—and that the latter is influenced by the composition or *mix* of such expansion between monetary and fiscal policy.

The third key macroeconomic variable is the exchange rate. Here it is the *difference* between macroeconomic policies in the United States and other countries that matters. The precise way that differences in macroeconomic policies determine exchange rates is a more controversial question even than the determination of interest rates. But there is a general consensus that the exchange rate (for example, the price of dollars in terms of yen or marks) is determined by the relative demand for dollar assets and that an important determinant of the latter is the differential in expected returns. When real interest rates rose in the United States in the early 1980s, they rose more than in Europe and Japan. The approximate differential in long-term real interest rates between the United States and its four largest trading partners rose from -2 points in 1979–80 to $+1$ point in 1981–82 and $+2$ in 1983–84.¹³ As a result, there was an increase in demand for U.S. assets by investors around the world, and the price of the dollar rose sharply. In 1985 and 1986, U.S. interest rates declined substantially; the usual explanation given is the Gramm-Rudman-Hollings bill to reduce the U.S. budget deficit, and the continued easing of monetary policy. In any case, the demand for U.S. assets and the price of the dollar fell substantially beginning in March 1985.

As with the interest rate, we can begin our consideration of the effects of the dollar exchange rate on a country such as Thailand by considering the effect on commodity prices. If an agricultural or mineral commodity is sold on a unified world market, then it should sell for the same price in every country, when expressed in a common currency. (This is the “Law of One Price.”) An increase in the value of the dollar against the mark or yen must be reflected in a decrease in the price of the commodity when expressed in dollars, an increase when expressed in marks and yen, or some combination of the two. The exchange rate change explains why the fall in commodity prices was particularly large in dollars, aside from the effects of the 1980–82 recession and the 1980–84 increases in real interest rates.

¹³Frankel and Froot (1986), Table 1, or Council of Economic Advisers (1984).

Dornbusch (1985, p. 333) has estimated statistically the following equation to explain real commodity prices.¹⁴

$$\begin{aligned} \text{Rate of change of real commodity price equals} \\ & -1.67 \\ & -1.55 \text{ (rate of real appreciation of dollar)} \\ & +2.27 \text{ (rate of change of world industrial production)} \\ & -0.24 \text{ (rate of change of real interest rate)} \end{aligned}$$

The positive effect of production and the negative effect of the real interest rate are both as we have discussed; both show up in the equation.

The negative effect of dollar depreciation also is in the same direction predicted by economic theory, but is surprisingly strong. The denominator of the real commodity prices variable is the general U.S. price level. To the extent that prices of most U.S. goods and services are "sticky" (that is, fixed in terms of dollars in the short run), the coefficient on a change in the exchange rate tells us how that change is divided between the dollar price of commodities and the yen or mark price of commodities. One would expect such a coefficient to lie between -1 and 0 , according to the importance of the U.S. economy in world commodity markets. Johnson (1985, p. 41), for example, guesses that this number should be $-.50$, or according to some studies $-.75$. Thus, it is difficult to explain a coefficient that is actually less than -1 . It says that a dollar appreciation reduces commodity prices not just in terms of dollars, but in terms of marks and yen as well. The point for commodity-exporting countries would be that dollar appreciation worsens their terms of trade not just vis-à-vis imports from the United States but also vis-à-vis imports of manufactured goods and services from all industrialized countries. When a result runs as contrary to a priori theory as this coefficient being less than -1 , one must recognize the possibility that it is a statistical aberration.¹⁵

Given the decline in real interest rates since 1984, and the depreciation of the dollar since February 1985, one would expect on macroeconomic grounds a sharp rebound in real commodity prices. With the exception of gold and a few other commodities, there has been little sign of a recovery

¹⁴The dependent variable is the *Economist* dollar index of (non-oil) commodity prices deflated by the U.S. GNP deflator. The sample is 1970:2–1985:1. The t-statistics on the coefficients are -4.64 , $+4.74$, and -2.21 , respectively. Chu and Morrison (1984) find a similar effect of industrial production (an elasticity around 2), but less statistical support for the effect of the real interest rate.

¹⁵A 95 percent confidence interval would reach as far as -0.9 . Chu and Morrison (1984) and the IMF (*World Economic Outlook*, April 1985, pp. 134–138) find a large impact of the nominal dollar exchange rate on nominal dollar commodity prices, but not on real commodity prices. But Helleiner (1986, p. 10) refers to the Dornbusch finding as a "stylized fact."

in commodity prices, even in dollar terms, as of September 1986. *Micro-economic* factors probably are the explanation, and some important ones—those related to trade policies among industrialized countries—are discussed in subsequent sections.

Whatever the effect of an exchange rate change on Thai export prices and export revenue, there could be an additional effect on the debt/export ratio if the currency composition of the denomination of debt differs from the currency composition of exports. Many debtor countries, even if they did not have a severe shift in their terms of trade in the 1980s (for example, exporters of manufactured goods), nevertheless suffered from the sharp appreciation of the dollar to the extent that all of their debt was denominated in dollars but part of their exports were denominated in other currencies. For this reason, the dollar appreciation often has been listed as one of the three macroeconomic shocks, along with the recession and the increase in real interest rates, that precipitated the debt crisis in 1982.¹⁶

Some debtors have investigated the possibility of currency swaps of existing debt, or of a direct denominating of future loans in non-dollar currencies, in order to diversify the risk of future exchange rate changes. Thailand, like other ASEAN countries, has a relatively high proportion of its debt denominated in a non-dollar currency, namely the yen: 13.8 percent.¹⁷ But this number is still lower than the importance of Japan and other non-dollar countries in Thai trade, suggesting that the dollar appreciation of 1981–84 did have an adverse effect. It would follow that the dollar depreciation of 1985–86 is now having a positive effect, by reducing the cost of Thai debt. It has been estimated that for every 10 percent that the dollar declines, the debt-to-export ratio of the typical LDC borrower improves by 7 points.¹⁸

As with interest rate movements, we can ask what are the longer-run effects on LDCs of a modern world system that involves increased exchange rate volatility. Even if a country such as Thailand wishes to peg its currency to those of the major currencies in order to ensure a stable monetary regime, since the world's major currencies began to float in 1973 it no longer has the option of pegging to all currencies at once. In theory a small country can at least keep its "effective" (that is, trade-weighted) exchange rate stable, by pegging to a basket of currencies with the appropriate weights. In practice, most countries that have announced an official policy of basket-pegging, often with the weights kept secret, have accomplished a much lower degree of monetary stability than has Thailand with its simple policy of pegging to the dollar. One hopes that its devaluation against the dollar in November 1984 and new policy of a

¹⁶For example, Council of Economic Advisers (1984), chap. 2.

¹⁷As of 1986.

¹⁸From the debt-to-export ratio's 1985 level of 162. Goldsborough and Zaidi (1986).

flexible basket peg, as necessary as they probably were, do not constitute the same sort of "loss of virginity" that so many other LDCs have experienced.

There has been much talk recently about the need for increased macroeconomic policy coordination among the major industrialized countries. It even has been suggested that the primary beneficiary of such coordination would be the LDCs rather than the industrialized countries themselves.¹⁹ The case for coordination has been made in the 1980s in terms variously of each of the three macroeconomic variables—real growth rates, real interest rates and the dollar exchange rate. The first version of the argument would be that all countries should stimulate growth simultaneously, each being reluctant to expand on its own for fear of a worsened trade balance. The second version is that all countries simultaneously should shift to a mix of easier monetary policy and tighter fiscal policy, inasmuch as each otherwise would bid up real interest rates in (vain) attempts to attract capital, appreciate their currencies, and reduce their inflation rates. The third version is that the United States should reduce its budget deficit, shifting to an easy money / tight fiscal policy mix, while the Germans and Japanese simultaneously shift to *more expansionary* fiscal policies, with the goal of bringing down the value of the dollar and the U.S. trade deficit without causing a world recession. It is certainly true that any policy changes that succeeded in raising growth, reducing real interest rates, and reducing the value of the dollar, would be a big improvement over the macroeconomic environment of the early 1980s. But it is disconcerting that different macroeconomic models have conflicting implications for the directions in which the monetary and fiscal policy levers should be moved in order to accomplish such outcomes.

How should one add up the various macroeconomic factors of the 1980s to see the overall effect of U.S. policies on debtor countries? An obvious way is to measure the net effect via the current account. For example, in 1983–84, there was some debate on whether the additional export revenue that LDCs were earning on account of the then-strong U.S. recovery exceeded the additional dollar payments they had to make on account of higher interest rates, with the U.S. administration claiming that the export demand factor dominated so that the net effect was positive. It is certainly true that the debtors' current account balances improved steadily between 1981 and 1984. Dornbusch (1985, pp. 303–18) has argued against such "cash flow" calculations on the grounds that it treats the opportunity cost of resources allocated to export production as zero. The calculation is analogous to a bank

¹⁹For example, Sachs and McKibbin (1985). See also Dornbusch (1985), 346–47.

telling a homeowner that it is raising his or her mortgage payments, but not to be annoyed because the bank will allow the homeowner to work to earn the needed money. Dornbusch's own calculations of the 1983–84 effect on LDC welfare says that the negative debt factor was large enough to equal the positive trade factor, leaving a net effect close to zero.

In 1985–86, growth rates and interest rates both have declined. If the debtors' current account balances are the criterion, then the export demand factor again dominated the interest payment factor: debtor current accounts fell in 1985 and 1986. In a study of the impact of macroeconomics on six Asian countries, including Thailand, Schadler (1986, p. 369) concludes: "In 1985 and 1986 the slowdown in growth in industrial countries had a large effect on the current account position, debt profile, and GNP growth rate of the developing countries studied. Changes in other important variables in industrial countries—in particular, the decline in interest rates—went only a small way toward offsetting these adverse developments."

Import Protectionism in Industrial Countries

The opportunity to run trade balance surpluses should not be portrayed as a blessing conferred on the debtor countries. The large improvements in net foreign exchange earnings that many debtors, particularly in Latin America, have accomplished in the 1980s have been needed to service their debts, rather than contributing positively to growth.

It is important that the political process within the United States and other creditor countries acknowledge that the LDCs will have to run trade balance surpluses. There is a rampant contradiction between statements in creditor countries that imports from LDCs must not be allowed to hurt competing domestic firms (such industries as steel, textiles, shoes and sugar come up frequently), and statements that the debtors must meet their obligations. Only by exporting can the LDCs earn the foreign exchange to service their debts. This contradiction is something that the relevant U.S. interest groups must grasp and sort out.

The protectionist side, as usual, is the wrong side in this conflict. It is not just the LDCs but also groups in the United States that stand to lose from import barriers to LDC goods. Limits on the debtors' ability to earn foreign exchange are limits on their ability to service their debts; thus U.S. banks are hurt. They are also limits on the debtors' ability to import. Thus they hurt U.S. exporters in sectors where the United States has comparative advantage, whether in agriculture

(wheat, not sugar) or manufacturing (capital goods, not textiles). The interest groups that would stand to gain from U.S. trade liberalization include as well consumers and also the firms that must buy raw materials or intermediate inputs produced abroad. Finally, it is in everyone's interest politically to have more economic success stories like the four East Asian NICs (newly industrializing countries: Korea, Hong Kong, Taiwan and Singapore) to point to around the globe.

While protectionist barriers have in the past been substantially lower in the United States than in other countries, they have been rising in the 1980s in the form of non-tariff barriers, as Table 6 shows. Particularly disturbing is that the percentage of imports subject to non-tariff barriers is *higher* for goods coming from LDCs than from industrial countries. The pro-LDC measures of the Generalized System of Preferences (which cover only 7 percent of LDC exports²⁰) are an inadequate offset to other aspects of trade policy that discriminate against LDC exports.

Protection among OECD countries is said to discriminate against LDC manufactured goods in particular. In 1979, 34 percent of LDC manufactured exports to OECD countries were subject to non-tariff barriers.²¹ Much of this was textiles under the Multi-Fiber Agreement. Such statistics understate protection by not counting the exports that would have taken place in the absence of barriers.

Table 6
SHARE OF IMPORTS SUBJECT TO NON-TARIFF BARRIERS
IN INDUSTRIAL-COUNTRY MARKETS, 1981 AND 1984

Market	Percentage of Imports from			
	Industrial countries		Developing countries	
	1981	1984	1981	1984
European Economic Community	10.3	10.7	21.1	21.7
Japan	12.3	12.4	14.5	14.5
United States	7.2	9.2	12.9	16.1
All industrial countries	10.5	11.3	19.5	20.6

SOURCE: World Bank estimates based on data from the United Nations Council on Trade and Development (UNCTAD), in World Bank, *World Development Report 1986* (New York: Oxford University Press, 1987), p. 23.

NOTE: Data are based on 1981 weighted averages for all world trade in all products except fuels. Non-tariff barriers do not include administrative protections such as monitoring measures and antidumping and countervailing duties.

²⁰*World Development Report* (1986), 142. The GSP is reported to cover 15 percent of Thai exports to the United States in 1985 (*Far Eastern Economic Review*, Oct. 2, 1986).

²¹Hughes and Newbery (1986).

Some Thai manufactured exports that are the subject of real or threatened U.S. protectionist barriers include textiles, footwear, iron pipes and canned tuna.²² Hughes and Newbery (1986) argue that U.S. textile quotas against the East Asian NICs have actually benefited the ASEAN NECs (Newly Exporting Countries: Indonesia, Malaysia, Philippines and Thailand), as multinational textile firms sought to relocate in countries that were not constrained by U.S. quotas. They point out that the growth rate of manufactured exports in the latter group exceeded that in the former after 1973. But it appears that periods of rapid growth of Thai textile exports to the United States (1972–73 and 1980–84) each time were cut off by a strengthening of U.S. barriers,²³ before they ever were able to reach the level of other Asian countries. In 1985, President Reagan responsibly vetoed the Jenkins Bill, which would have further curtailed U.S. textile imports; but the domestic industry continues to push for relief.

Trade policies in industrialized countries work against exports not only of manufactured goods but also of basic commodities. Indeed, large stocks of mineral and agricultural commodities held by OECD governments are the major explanation for a puzzle noted in the preceding section, the fact that commodity prices have remained depressed two years after the value of the dollar began to decline.

The major relevant Thai mineral and agricultural commodities are tin, rubber, sugar, rice and corn (maize). In the case of tin and rubber, the United States maintains strategic stockpiles, releases from which are sometimes blamed for adverse impact on the market, for example as an alleged contributing cause to the October 1985 collapse of the world tin market.²⁴ But unlike the situation with agricultural commodities that are produced in the United States as well as abroad, the political interest group most relevant to the tin stockpile is the U.S. military; political factors in fact are more likely to lead to extra purchases of tin and thus to work to the benefit of Thailand, Malaysia and Indonesia as U.S. allies, rather than the reverse.²⁵ But trade policy with respect to rice and other agricultural commodities, where the relevant interest group is American farmers, is much less helpful to Thailand.

U.S. Trade Policy on Rice and Other Agricultural Commodities

A relatively robust empirical regularity in the area of “political economy” is that countries with low per capita incomes tax their

²²*Bangkok Bank Review*, Jan. 1985, Aug. 1985, Jan. 1986.

²³*Bangkok Bank Review*, Jan. 1985, Aug. 1985.

²⁴*Bangkok Bank Review*, Jan. 1986, p. 68.

²⁵Helleiner (1986, p. 8) gives the example of U.S. strategic stockpile purchases of bauxite to help Jamaica.

farmers and countries with high per capita incomes *subsidize* and protect their farmers. In the case of the developing countries, farmers are taxed primarily in order to subsidize urban consumers and the manufacturing sector. Thailand has long taxed its rice sector, though not carrying it quite to the self-destructive extreme of many African countries. In the case of industrialized countries, nostalgia for simpler agrarian times is certainly an explanation. But it is not a simple matter of each country envying those which have what it does not. The United States has a very large agricultural sector and would have one under free trade as well. In other words, it has a true comparative advantage in many crops. Yet political pressure in the United States to subsidize agriculture is almost as strong as in Europe and Japan.

Table 7 shows the degree of protection among industrialized countries, measured as the ratio of the price paid producers to the market price, for five agricultural commodities as of 1980–82. Rice and sugar, the two important to Thailand, are two that have been protected particularly strongly in the United States (though nowhere near as strongly as in Japan), even before recent changes. In 1985 U.S. protection of sugar went to absurd lengths to keep the domestic price at a level 3 to 6 times the world price.²⁶

Table 7
NOMINAL PROTECTION COEFFICIENTS FOR PRODUCER AND
CONSUMER PRICES OF SELECTED COMMODITIES IN INDUSTRIAL
COUNTRIES, 1980–82

Country or region	Wheat	Coarse grains	Rice	Pork and poultry	Sugar
Australia	1.04	1.00	1.15	1.00	1.00
Canada	1.15	1.00	1.00	1.10	1.30
European Economic Community ^a	1.25	1.40	1.40	1.25	1.50
Other Europe ^b	1.70	1.45	1.00	1.35	1.80
Japan	3.80	4.30	3.30	1.50	3.00
New Zealand	1.00	1.00	1.00	1.00	1.00
United States	1.15	1.00	1.30	1.00	1.40
Weighted average	1.19	1.11	2.49	1.17	1.49

SOURCES: World Bank, *World Development Report 1986* (New York: Oxford University Press, 1987), p. 112; Rodney Tyers and Kym Anderson, "Distortions in World Food Markets: A Quantitative Assessment" (background paper).

^a Excludes Greece, Portugal and Spain

^b Austria, Finland, Norway, Sweden and Switzerland

²⁶The internal-external difference in sugar prices was so great that entrepreneurs were importing high sugar content products such as iced-tea mix, and then sifting their sugar content from them to sell it at the high domestic price. *Economic Report of the President* (1986), 137.

Economists in public presentations often concentrate on the domestic costs of distortionary agricultural policy rather than the international costs. The reason is that the damage which protectionism does to trading partners is both self-evident and of little concern to the typical American voter, whereas there is a greater payoff to spreading the message that the *domestic* costs exceed the benefits. The benefits are limited to the increase in income of those farmers who receive support and protection. Even aside from the costs, this transfer is difficult to justify on the grounds of income distribution. Approximately two-thirds of U.S. payments in 1985 went to farmers who were wealthier than the average citizen.²⁷ The costs are legion. Beyond the budgetary costs of the direct transfers and the waste involved in storing and shipping unwanted commodity stocks, there are the higher costs to consumers and to food-processing firms (candy manufacturers have to pay more for sugar, bakers more for grain, etc.), the bidding of land away from farmers who could use it more efficiently for other crops, and the loss to exporters of foreign customers who no longer have the dollars with which to buy from them.

The key to the effect of agricultural policies on other agricultural producers such as Thailand is whether they raise U.S. production and exports of the crop in question, thereby depressing the world price, or the reverse. In industrial countries agricultural policy has usually operated to push up the price paid to domestic farmers and thereby to stimulate domestic production. Such effects result from protection against import competition (for example, quotas in the United States and variable levies in Europe), price support programs (direct acquisition of stocks at a support price), subsidized loan programs (which in the United States often become programs to support the price at the "loan rate," the price at which borrowers are free to default and sell their crops to the government) and quotas on domestic marketing. The resulting increase in domestic production drives down the world price. The negative effect on world prices is especially pronounced when the government sells unwanted stocks on the world market at prices that are less than the domestic price, or donates it as aid (though both means of disposal—especially food aid, provided it is made available on a reliable long-term basis—are obviously better from a social viewpoint than allowing crops to rot in warehouses). During the decade up until 1984, agricultural policies in the United States had features that implied less of a price-depressing effect on world markets than did support of agriculture in Europe and Japan. U.S. support programs for rice and a number of crops include acreage controls:²⁸ Farmers are paid not to grow crops. The direction in

²⁷*World Development Report* (1986), 119. In the case of the new rice program, much of the estimated \$800 million a year in budgetary costs will go as payments as high as \$1 million each to the largest rice growers.

²⁸*World Development Report* (1986), 129.

which this factor goes is to raise not only the price paid to domestic farmers but also the world market price.

U.S. agricultural exports increased rapidly in the late 1970s, largely for reasons unrelated to farm policy: Depreciation of the dollar, rapid income growth in some customer countries and the American comparative advantage in many crops. By the 1980s, U.S. agriculture had come to think of itself as dependent on exports. But when world prices for agricultural commodities began to fall, mostly for the macroeconomic reasons discussed above, the existing structure of U.S. agricultural policies was revealed to be particularly detrimental for U.S. exports. The world market price fell well below the U.S. loan rate, so that farmers had no reason to sell their crops on the world market. It was far more attractive to default on their loans and sell the crops to the Commodity Credit Corporation (CCC) at the higher price. The result was that exports plummeted and CCC stocks soared. As long as the pattern of stock buildup lasted, it was good for foreign producers, mitigating the decline in the prices they could receive. But the pattern could not last; the red ink in the U.S. trade balance and government budget statistics was too enormous.

In response, the U.S. 1985 farm bill (Food Security Act) reversed the policy thrust of the preceding decade. It joined the Europeans in actively subsidizing exports of some crops, in particular wheat, rice and cotton. The new policy on rice is the one relevant to Thailand. Indeed the rice export subsidy, which went into effect April 15, 1986, probably is having a far greater impact on Thailand now than any other U.S. policies.

Previously, U.S. farmers received deficiency payments to make up the difference between the target price and the loan rate.²⁹ As of 1985, the loan rate was much higher than the market price: \$11.90/cwt – \$7.20/cwt = \$4.70/cwt. As a result, the CCC was acquiring larger stocks than it knew what to do with. The change was to set the loan repayment price at the world market price, which was judged to be \$4.12/cwt (for long grain) the week of April 11, 1986. (The USDA must declare the price each week. This involves a certain amount of judgment, as there is no centralized rice exchange index as there is for many other crops.) This represented a near doubling of the subsidy to \$7.78/cwt. The intent is to end the piling up of rice stocks by allowing both the farmers and the CCC to sell the crops on the world market.

The prospect of large quantities of rice flooding onto the market drove down the world price.³⁰ Indeed the price declined in advance of April 15 (some 15 percent after January, in dollars, on “5 percent white” rice), as

²⁹The numbers shown are taken from Vachratith (1986).

³⁰The type of rice produced in the United States is not a perfect substitute for the type of rice grown in Thailand. Nevertheless, there is some substitutability; thus if consumers around the world buy more U.S. rice, they have a lower demand for Thai rice, causing the price of Thai rice to fall.

customer demand plummeted in anticipation of the opportunity to buy at lower prices. The presence of government intervention in the Thai market slowed down the baht price decline, but by May Bangkok prices had fallen to the lowest level in a decade, inflicting great losses on Thai farmers. Deprived of some traditional customers, they sought new markets for their crop. In certain cases the new customers who benefit from cheaper Thai rice are countries not loved by the United States, namely Iran and the Soviet Union. But from the Thai viewpoint the major point is the reduced price they can now receive, implying both lower income for the farmers and lower tax revenue for the government.³¹ New 1985 farm bill rules now also have gone into effect on cotton and corn (maize). Corn is one of Thailand's export crops, but thus far the USDA has resisted pressure from midwestern senators to set the loan repayment rate at the low level of the world market price. However, in August 1986 the United States sold a large quantity of raw sugar out of CCC stocks to China at prices well below world levels, further upsetting Thailand.³²

The two interesting questions are: (1) Did the U.S. government take proper account of the adverse effects that the 1985 farm bill would have on allies such as Thailand? and (2) What will be the longer-term effects of the bill?

On the first question, it is not a matter of weighing economic benefits versus political costs. Even on domestic economic grounds alone, U.S. agricultural policies are found to be detrimental. One might think that the foreign policy costs would be more visible to the non-expert eye than the economic costs. The list of sugar-producing countries that suffer from U.S. protectionist policies has a remarkably high overlap with the list of countries that are of most interest to American policy makers (Philippines, Brazil and Central America).³³ The irony of subsidizing wheat sales to the Soviet Union not long after imposing embargoes is also striking to many.

Apparently, the effects that the farm bill would have on allies like Thailand, Australia and the Philippines were pointed out to the Congress when the bill was debated. Secretary of State George Shultz felt strongly enough about it that upon his return from a European trip in mid-

³¹Some observers, both Thai and American, have looked to the volume of Thai rice exports in 1986 for early signs of whether or not the new U.S. policy is badly hurting Thailand. But volume is not a useful statistic for this purpose. Once a crop has been planted and harvested, farmers will not let it rot, but will sell it for whatever price they can. Thus, the effect of increased competition from American rice will be primarily to drive down the price that Thai farmers can get in the world market place and not, in the short run, to affect the volume of exports.

³²*Far Eastern Economic Review*, Oct. 2, 1986.

³³A mitigating factor for the sugar producers is that, under the U.S. quota system, they get to keep the "revenue" from higher U.S. prices, which would instead go to the U.S. government under a tariff system.

December 1985, he reportedly drove straight from Andrews Air Force Base to the White House to urge President Reagan to veto the bill. But logic was no match for the strength of domestic political forces, as is usually the case. There were Republican (and Democratic) Senators from farm states who were judged in the November 1986 elections primarily by what they had done recently to alleviate the plight of their farmers. There are no individual senators who have as much political reason to worry about the effect on consumers, on Thai farmers, or even on the world trading and financial systems.

On top of this usual problem, the media, Congress and the White House seem increasingly caught up in fads that are more appropriate to the movie or popular music industries than to serious policy making. The fad in U.S. trade policy is the belief that the large increase in the trade deficit in the 1980s is due to other countries' adoption of import barriers and export subsidies, that the United States is a "patsy" for keeping its market open, and that retaliation is called for. Such beliefs then give rise to the adoption of policies such as the rice export subsidy, even though the competitor has in fact not been subsidizing rice exports but doing precisely the reverse (taxing them)!

As to the future, it does not appear that accumulated government stocks have been worked down to a level which would indicate that the effect on world markets is only transitory. The key question for the

Table 8
INTERNATIONAL PRICE AND TRADE EFFECTS OF LIBERALIZATION OF
SELECTED COMMODITY MARKETS, 1985

Country or country group in which liberalization takes place	Wheat	Coarse grains	Rice	Pork and poultry	Sugar
(percentage change in international price level following liberalization)					
European Economic Community (EC)	1	3	1	2	3
Japan	0	0	4	1	1
United States	1	-3	0	-1	1
OECD	2	1	5	2	5
(percentage change in world trade volume following liberalization)					
European Economic Community (EC)	0	4	0	3	-5
Japan	0	3	30	-8	1
United States	0	14	-2	7	3
OECD	-1	19	32	18	2

SOURCES: Rodney Tyers and Kym Anderson, "Distortions in World Food Markets: A Quantitative Assessment" (background paper); World Bank, *World Development Report 1985* (New York: Oxford University Press, 1986), p. 129.

NOTE: Data are based on the removal of the rates of protection in effect in 1980-82. Data for the EC exclude Greece, Portugal and Spain.

longer-term effects of the current rice policy is whether U.S. production will increase. Fortunately, the 1985 farm bill included acreage limitations and other steps to limit the extent to which higher transfers induce higher supplies in the future.

Most important is whether the industrialized countries are able to move together toward a more liberalized world trading system in agriculture. Table 8 illustrates the economic benefits that liberalization would confer. The most powerful force pushing in that direction is the out-of-control budgetary costs of existing policies, which are registering with politicians even in Europe. In the United States, the current \$26 billion annual cost of farm subsidies—nearly a 100 percent cost overrun relative to what was forecast—sticks out like a sore thumb in the era of Gramm-Rudman. The United States and other agricultural exporters pushed to include agriculture at the 1986 meetings at Punta del Este, Uruguay, inaugurating the fourth major round of trade liberalization negotiations under the GATT (General Agreement on Tariffs and Trade). The objections of the Europeans, particularly the French, were successfully overcome; the meetings assigned a role for agriculture in the future negotiations.

Conclusion

The instinctive view of the man in the street is that any U.S. economic policy changes that help a country like Thailand probably do so at the expense of the average American. But it is a remarkable fact that, to the contrary, the same policy changes would benefit both the United States and its trading partners. On the macroeconomic front, a serious move to reduce the U.S. budget deficit—and the current Gramm-Rudman process is looking less and less serious—with the Federal Reserve allowing interest rates to fall, and Europe and Japan expanding their economies simultaneously, would reduce real interest rates, the value of the dollar, the U.S. trade deficit and U.S. protectionist pressures. On the microeconomic front, a reduction in protectionist barriers would allow the less-developed countries to export more, and therefore to grow faster and import more from the United States. International trade is not a zero-sum game, but rather one in which all countries stand to gain.

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15. Trends in the Thai Economy and Implications for Thailand's Foreign Economic Policies

MEDHI KRONGKAEW

This chapter attempts to delineate some important trends in various facets of the Thai economy and implications for Thailand's foreign economic policies. The word *trend* is used here to denote a continuation of some events that may prevail in the next three to five years, or are expected to happen in the next three to five years, and not a forecast of what will happen in the next six months or one year. In other words, it is concerned with the economy in a longer time horizon, or with economic problems that are more fundamental and persistent in nature. This chapter will point toward conclusions about the needs and urgency to arrest worsening trends and set the economy on a firmer footing for growth, stability and improved equity.

Overall Trends

Perceived from a vantage point of macroeconomic development, the Thai economy continues on its inexorable path of transformation from an agriculturally-based to industrialized society, at least in terms of productive or value-added contributions. From Table 1, which shows the sectoral distribution of production at current market prices, it can be seen that the share of agriculture in the country's gross domestic product (GDP) continually had declined from 39.8 percent in 1960, one year before the launching of the First National Economic Development Plan, to 29.6 percent on the average during 1970–79, and finally to only 17.5 percent in 1985 (the latest data available). In short, the relative productive contribution of agriculture in the Thai economy in the past 25 years was reduced by more than half. Replacing agriculture in economic importance and contributions were industries and services. Manufacturing, which became the most important activity in the industrial subsector, contributed 12.5 percent to the country's GDP in 1960, rising to 17.9 percent during 1970–79, and finally reaching 19.8 percent in 1985. Based on this simple index of relative productive

contribution, one can see that the share of the manufacturing subsector in GDP had surpassed the agriculture sector by 1984. For some, this has been regarded as a turning point in Thai economic development, signifying that Thailand has joined the rank of the newly industrialized countries (NICs).¹

Table 1
SECTORAL DISTRIBUTION OF PRODUCTION AT
CURRENT MARKET PRICES (as % of GDP)

	1960	1970-79	1980	1982	1984	1985
Agriculture	39.8	29.6	25.4	22.3	19.5	17.5
Crops		21.6	19.0	16.5	14.3	12.7
Others		8.0	6.4	5.8	5.2	4.8
Industry	18.2	25.7	28.4	28.0	29.1	29.8
Mining and quarrying	1.1	1.8	2.1	1.7	2.1	2.8
Manufacturing	12.5	17.9	19.6	19.5	19.8	19.8
Construction	4.2	4.8	5.8	5.1	5.3	5.1
Electricity, water supply	0.4	1.2	0.9	1.7	1.9	2.1
Services	42.0	44.7	46.2	49.7	51.4	52.7
Total GDP	100.0	100.0	100.0	100.0	100.0	100.0

SOURCE: Compiled by author from National Economic and Social Development Board (NESDB) data.

The service sector—which comprises wholesale and retail trades, public administration, banking, insurance and real estate—and ownership of dwellings showed a continuously rising trend from 42.0 percent of GDP in 1960 to 52.7 percent in 1985. A closer look revealed that this sector enjoyed the fruits of development in general, with the banking subsector reaping the highest benefits of all in the past 25 years.

Table 2 further substantiates the phenomena shown in Table 1; that is to say, it shows the annual growth rates of “value-added” of each major sector and some important subsectors. For the agricultural sector as a whole the growth rate between 1971 and 1980 averaged 4.3 percent per annum, which was quite attractive but lower than the growth of GDP overall. However, during the first half of the 1980s, which coincided with the Fifth Plan period, agriculture suffered from even slower growth, mainly resulting from stagnant or even declining

¹This view met with objections from various scholars. For an interesting discussion on this issue see Direk Pattamasiriwat, “Has Thailand Joined the Rank of Newly Industrialized Countries?” *Thammasat Economic Journal* (1986).

Table 2
GROWTH OF PRODUCTION, BY SECTOR, 1971-86
(annual growth rates, 1972 prices)

	1971-80	1981	1982	1983	1984	1985 ^a	1986 ^b	Fifth Plan		Sixth Plan
								Outcome	Plan	Plan
Agriculture	4.3	6.8	1.0	3.8	4.1	3.8	2.2	2.9	4.5	2.9
Crops	4.5	8.0	2.4	3.4	3.3	3.6	1.4			
Industry	9.3	3.8	3.0	6.7	8.3	4.4	5.0	5.1	7.6	6.6
Manufacturing	10.1	6.4	4.4	7.3	6.8	2.3	4.7			
Construction	7.1	-6.5	-2.6	5.5	6.3	2.4	-0.6			
Services	7.3	7.7	6.4	6.4	5.3	5.5	5.5	5.7	6.9	4.8
Total GDP	6.9	6.3	4.1	5.8	6.0	4.1	4.3	4.9	6.6	5.0

SOURCE: Compiled by author from National Economic and Social Development Board (NESDB) data.

^aPreliminary.

^bEstimate.

yields and the fall in the world agricultural prices. This, of course, had resulted in a rate of growth of the agricultural sector during the Fifth Plan of only 2.9 percent compared to the 4.5 percent plan target. Industrial sector activity also may suffer from lower growth rates but, on the whole, it still performed much better than the agricultural sector despite slackened world demand associated with recession and increased protectionism overseas. These growth differentials sped the decline of agriculture still further. Overall, however, the growth of the Thai economy in the next five years, during the Sixth Plan, is expected to be generally lower than the last plan period. For example, the growth of GDP during the Sixth Plan has been set at 5.0 percent, compared to 6.6 percent for the last plan, with agriculture striving to maintain its already low growth rate of 2.9 percent, and industry aiming for the highest subsector growth rate of 6.6 percent.

But while the share of the industrial sector in the gross domestic product continues to increase, this growth in production and income was not commensurately matched by growth in industrial employment. In other words, the economic transformation from agriculture to industry mainly applies to value added, not employment. As can be seen from Table 3, despite more than two decades of active development and economic transformation, an overwhelming proportion of the population still was engaged in agriculture. For example, the census data showed that in 1960, 82.4 percent of the population was found in the agricultural sector while the proportion in manufacturing was only 3.4 percent. In 1980, the agricultural population still was very high

at 72.5 percent. The labor force survey for 1983 has put the proportion of agricultural population at 69.1 and of industrial population at about 9.9 percent, while the share of GDP in each sector was almost equalized in that year. This "imbalanced" development is something which creates difficulties in the adjustment and development processes of the Thai economy for the present and future.

Table 3
PERCENT OF ECONOMICALLY ACTIVE POPULATION 11 YEARS OF AGE
AND OLDER, BY INDUSTRY: 1960, 1970, 1980, AND 1983

Industry	1960	1970	1980	1983
Agriculture	82.4	79.3	72.5	69.1
Mining	0.2	0.5	0.2	0.2
Manufacturing	3.4	4.1	5.6	7.3
Construction	0.5	1.1	1.6	2.0
Public utilities	0.1	0.1	0.3	0.4
Commerce	5.7	5.3	7.4	8.7
Transportation	1.2	1.6	1.8	2.1
Services	4.8	7.1	7.9	10.1
Others	1.7	0.9	2.7	10.1
Total	100.0	100.0	100.0	100.0
(Number [thousands])	(13,749)	(16,652)	(22,867)	(n.a.)

SOURCE: 1960, 1970, 1980 population censuses; 1983 labor force survey.

Beyond the sectoral changes of the Thai economy, there are other ways in which one can look at the trends in the economy. One of these is by checking the targets of a future (or present) development plan. Obviously this approach is not recommended if the philosophy of plan-making is for the country to strive toward some desirable but difficult or even infeasible objectives. But if the targets are set after careful studies and analyses of what is feasible rather than what is desirable only, then such targets can be seen as the expected trends for the economy. It is believed that Thailand's Sixth Plan is of the latter type. As such, macroeconomic targets in the Sixth Plan could be used to indicate the trends for the medium to long-term future.

From Table 4, where several salient macroeconomic targets in the Sixth Plan are presented with the actual outcomes from the Fifth Plan, several important trends can be scrutinized. A few of these are discussed below.

Exports. It is expected that the exports of goods and services will grow at about 9.9 percent per year in value terms on the average during the Sixth Plan periods from 1986 to 1991, or about 7.4 percent in volume.

Table 4
SALIENT MACROECONOMIC TARGETS IN THE FIFTH
AND SIXTH PLANS, 1982-1991

Items	Actual Trend: Fifth Plan	Targets: Sixth Plan
Balance of trade		
Annual average (baht million)	57,300	35,900
Trade balance/GDP (%)	5.9	2.7
Current account balance		
Average annual value (baht million)	36,800	11,800
Current account/GDP (%)	3.8	0.9
Exports of goods and services		
Rate of growth of value (% per annum)	9.0	9.9
Rate of growth of volume (% p.a.)	8.8	7.4
Merchandise exports		
Rate of growth of value (% p.a.)	7.6	10.7
Rate of growth of volume (% p.a.)	8.0	8.1
Average annual value (baht million)	176,100	290,700
Income from tourism		
Rate of growth of value (% p.a.)	12.2	7.4
Imports of goods and services		
Rate of growth of value (% p.a.)	3.3	9.3
Rate of growth of volume (% p.a.)	3.3	4.5
Merchandise imports		
Rate of growth of value (% p.a.)	2.9	2.9
Rate of growth of volume (% p.a.)	3.3	4.6
Average annual value (baht million)	233,300	324,900
Economic growth (% p.a. constant price)		
Agriculture	2.9	2.9
Manufacturing	5.6	6.6
Mining	6.5	6.4
Natural gas (million ft. ³ /day)	320	720
GDP	4.9	5.0
Expenditure growth (% p.a. constant price)		
Private sector		
Consumption	4.6	3.7
Investment	0.6	8.1
Public sector		
Consumption	3.6	5.3
Investment	2.4	1.0
Ratio of tax and non-tax revenue to GDP (%)	14.6	15.3
Population growth (%)	2.1	1.7
Municipal areas	3.1	2.9
Sanitary district areas	2.5	2.8
Villages	1.8	1.1
Inflation (%)	2.7	2.3

SOURCE: Compiled by author from National Economic and Social Development Board (NESDB) data.

Compared with actual outcomes of the Fifth Plan, the rate was higher in the Sixth Plan for value growth but lower for volume growth. This seems to indicate that export prices for Thailand are expected to improve in the next five years so that the country could earn more by exporting less, compared to what it was doing in the past five years.

Imports. The value of imports is expected to grow much faster during the Sixth Plan than during the Fifth Plan (9.3 percent compared to 3.3 percent). One major reason for the low rate of import growth during the Fifth could be the second oil-price increase in 1979–80, the devaluation of the baht in 1984 and other restrictive policies before and after that. Whether the increase in future import value will offset the increase in future export value remains to be seen.

Balance of Trade. The high trade deficit periods in the early Fifth Plan are not expected to be repeated during the Sixth Plan. The trade deficit during the Sixth Plan should average about baht 35,900 million per annum, down from baht 57,300 million per annum during the last Plan. In terms of ratio of trade deficit to GDP, it is expected to fall from 5.9 percent to 2.7 percent between the two plans.

Tax Efforts. The ratio of tax and non-tax revenue to GDP averaged about 14.6 percent for the Fifth Plan. This was much lower than 16.0 percent which was the revised target of the last plan. (The original target was 18.0 percent.) Therefore the new target of 15.3 percent for the Sixth Plan should be considered realistic, though somewhat on the low side.

General Economic Growth. The rate of growth of the whole economy is expected to be 5.0 percent per annum during the Sixth Five-Year Plan. This growth rate has been the lowest among all the development plans that the country had experienced, but this rate is reasonable considering the fact that the country is encountering numerous economic difficulties both domestically and internationally.

Savings-Investment Gaps

In a market economy such as Thailand, investment by private as well as public sectors counts toward generating national income and economic expansion. Investment can come from both private and public savings, domestically as well as from foreign sources. The imbalance between investment and savings can occur because the investment level is too high or the savings level too low. High investment is beneficial to economic expansion, but that must be matched by sufficient savings, or savings-investment gaps exist which have to be rectified by foreign borrowing, thus creating pressure on the country's current account balance. A persistent savings-investment gap reflects the inability or inefficiency of domestic resource mobilization, the

unproductive spending and consumption, the risk of soon losing international creditworthiness. The country's development effort could be seriously affected if this savings-investment gap is allowed to continue unchecked.

From Table 5, which shows investment and savings ratios and savings-investment gaps in Thailand between 1978 and 1985, it can be seen that the private sector percentage share of investment to GDP fell from about 20 percent at the turn of the decade to about 14.5 percent in 1985. Within this sector, savings are more than adequate to finance its own investment, with some surpluses available for the public sector. For the public sector which is here defined to include the central government and public enterprises, the savings-investment gaps remained serious throughout the past eight years or so. For the central government, the gap was as high as 5.4 percent of GDP in 1982, whereas for public enterprises the peak gap of 4.0 percent of GDP was experienced in 1980. All together, the public sector of Thailand suffered these deficits at a very high level of between 4.7 and 8.0 percent of GDP.

Table 5
INVESTMENT AND SAVING RATIOS,
AND SAVING-INVESTMENT GAPS, THAILAND, 1978-85
(as % of GDP)

	1978	1979	1980	1981	1982	1983	1984	1985 ^a
Private Sector								
Investment (I)	19.2	21.1	18.1	16.0	13.2	15.1	14.5	14.5
Saving (S)	19.3	19.4	19.6	16.4	18.3	14.1	15.5	15.8
S - I	0.1	-1.7	1.5	0.4	5.1	-1.0	1.0	1.3
Central Government								
Investment (I)	4.8	4.4	4.6	4.4	4.6	4.0	4.1	3.7
Saving (S)	1.9	1.1	0.6	0.6	-0.8	0.5	0.2	1.1
S - I	-2.9	-3.3	-4.0	-3.8	-5.4	-3.5	-3.9	-2.6
Public Enterprises								
Investment (I)	3.0	3.3	4.5	4.3	3.2	3.9	3.9	3.6
Saving (S)	0.9	0.8	0.5	0.7	0.9	1.3	1.8	1.5
S - I	-2.1	-2.5	-4.0	-3.6	-2.3	-2.6	-2.1	-2.1
All Sectors								
Investment (I)	27.0	28.8	27.2	24.7	21.0	23.0	22.5	22.0
Saving (S)	22.1	21.3	20.7	17.7	18.4	15.9	17.5	18.4
S - I	-4.9	-7.5	-6.5	-7.0	-2.6	-7.1	-5.0	-3.6

SOURCE: Compiled by author from data of Bank of Thailand.

^aPreliminary.

When the private and public sectors are combined, an interesting picture for the whole economy emerges. The overall investment ratios show a declining trend in the last several years, from 27.0 percent of GDP in 1978 to 22.0 percent in 1985. The same declining trend is observed also for savings. Although the savings ratios for 1984 and 1985 show a substantial rise over 1983, these were approximately the levels that existed in 1981 and 1982. As mentioned earlier, the continuous decline in investment rates already are sufficient cause for concern. The general decline or stagnation of savings rates contributes toward the basic economic difficulties. The savings-investment gap for 1985 may appear quite low (3.6 percent) but this figure was only preliminary, probably caused by an optimistic estimate of revenue collection in 1985. In all, it can be concluded that the savings-investment gaps have been a serious problem in Thailand for some time and still pose a serious threat to the future growth and stability of the economy. This "living beyond the means" syndrome is in need of some correction.

But how? It seems that the public sector is the one that has the problem. The general government, that is the central government and local government together, performs poorly in its revenue-raising activities. The general revenue to GDP ratios have been stagnating around 13–14 percent for years. In some years, the performance was so poor and the current expenditures so high that the government needed to borrow even to finance consumption, let alone capital expenditure. Only recently, this ratio has been nudged slightly upward in the 15–16 percent region through determined efforts of the Ministry of Finance to push for greater domestic resource mobilization. But a great deal more remains to be done. Several tax-reform packages which were designed for the Fifth Plan were still not fully implemented due to political risk and uncertainties. The other part of the public sector, the public enterprises, also contributed greatly to the deficits by their extensive investment programs (especially in public utilities such as telephone and water service, or in transportation-related fields such as aircraft purchasing). Recent efforts in many public enterprises to streamline operations and tariff structures paid off in increasing the revenues—but a great deal more remains to be done.²

²It should be noted that along with tax-restructuring programs, the public enterprise restructuring programs were included as a main activity of the last two of the World Bank's structural adjustment loans (SALs).

Foreign Debt Creation and Management

In cases where the raising of public savings cannot be done in time, the public sector deficits are financed by domestic bank and non-bank systems. When this financing method is insufficient, foreign resources will be sought through external borrowing. As mentioned earlier, foreign borrowing by the public sector was unusual in the sense that it is being used not only to raise investment but also to fill the disequilibrium gap of current expenditure deficit. This latter practice is of course objectionable, and various government agencies now are instructed to refrain from it. Still, foreign borrowing for investment purposes will need to be closely monitored so that the economy does not suffer from an excessive debt burden which could create dislocation or delay in investment activities.

At present, the indebtedness in Thailand is considered manageable by international standards, but there are certain features about Thailand's foreign debt situation that deserve close analysis. Some of the important indicators of foreign indebtedness in Thailand are depicted in Table 6. From this table several interesting points can be observed. For instance, on stock of debt, total foreign debt increased from \$1.09 billion in 1970 to \$16.06 billion in 1985, or about a 15-fold increase in 15 years. Certainly this rate of increase is worrisome. On long-term debt, there seems to be a changing role between private sector borrowing and public sector borrowing through time. In 1970, for example, the long-term debt of the private sector exceeded that of the public sector—four hundred million dollars compared to three hundred twenty million dollars, or 55.6 and 44.4 percent respectively in the overall distribution of long-term debt. In 1985, public long-term debt was more than double that of the private sector (\$8.16 billion and \$4.05 billion dollars respectively). Now about two-thirds of long-term foreign debt belongs to the public sector and about one-third to the private sector. In 1982, the share of public long-term debt was as high as 72.7 percent. In effect, the public sector has become the dominant generator of foreign debt.

On debt ratios, Table 6 shows that the total debt to GDP increased rapidly from 16.6 percent to 40.6 percent. In terms of private long-term debt to export values, the ratios fell between 1970 and 1980 but picked up again in the middle of 1980s. However, the public debt to export ratios showed a continuous rising trend until about 1983 when the ceiling appeared to have been reached. On debt service ratios, the private sector tended to maintain roughly constant ratios between 7.5 and 10.6 percent, whereas the public sector was shown to have been involved in greater and greater debt repayments. It can be seen that the public long-term debt service ratios increased from 3.4 percent in 1970

Table 6
INDICATORS OF INDEBTEDNESS

	1970	1975	1980	1981	1982	1983	1984	1985
Stock of debt								
(US \$ billion)	1.09	2.28	8.11	10.10	11.34	13.15	14.49	16.06
Total debt	1.09	2.28	8.11	10.10	11.34	13.15	14.49	16.06
Total LT debt ^a	0.72	1.36	5.80	7.22	8.45	9.66	10.92	12.21
Public LT debt	0.32	0.62	4.10	5.13	6.14	7.00	7.57	8.16
Private LT debt	0.40	0.74	1.70	2.10	2.32	2.66	3.37	4.05
Short-Term debt ^b	0.37	0.92	2.30	2.88	2.88	3.49	3.55	3.85
Distribution of LT debt (%)								
Public sector	44.4	45.6	70.7	71.1	72.7	72.5	69.3	66.8
Private sector	55.6	54.4	29.3	28.9	27.3	27.5	30.7	33.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Debt ratios (%)								
Total debt/GDP	16.6	15.5	24.2	28.0	30.8	32.6	34.5	40.6
Total debt/exports ^c	92.9	76.7	94.6	109.2	120.5	142.5	138.6	146.0
Public	27.3	20.9	47.9	55.4	65.2	75.9	72.4	74.2
Private	34.2	24.9	19.9	22.7	24.6	28.8	32.2	36.9
Short-term	31.4	30.9	26.9	31.1	30.6	37.8	34.0	35.0
Debt service ratios (as % of exports) ^c								
Total debt	17.1	15.1	17.3	17.4	18.9	22.9	24.8	26.1
LT debt	14.0	12.0	14.6	14.3	15.9	19.1	21.4	22.3
Public	3.4	2.4	5.1	6.7	8.3	10.2	11.9	11.7
Private	10.6	9.6	9.5	7.6	7.5	8.9	9.4	10.6
Short-term ^d	3.1	3.1	2.7	3.1	3.1	3.8	3.4	3.8

SOURCE: Adapted from World Bank, *Thailand: Growth with Stability*, Report No. 6036-TH (June 5, 1986), p. 91.

^aLT = Long-term debt, over one year maturity.

^bWorld Bank's estimates.

^cExports of goods and services.

^dInterest payments only.

to 11.7 percent in 1985. At present, this high level of debt repayment forms a substantial part in the annual expenditure budget of the central government, making other functional spending of the government difficult. The cost of borrowing also has become more expensive. As shown in Table 7, the composition of concessional versus non-concessional sources of external finance for the public sector reversed from 72.6 to 27.4 percent in 1970 to 22.8 to 77.2 percent in 1981. In other words, as Thailand became more developed it was deprived of opportunities to receive cheap loans.

In sum, the foreign debt situation has become more and more critical of late, particularly in the public sector. Although the overall

debt volume is still manageable, the government is now under increasing pressure to pay close attention to debt creation and management lest the country be plunged into the debt quagmire that one sees in some Latin American countries. Several economic projects which require large public investments (such as the Eastern Seaboard Development projects) were recommended for reconsideration, postponement or even abrogation. This is of course necessary if we wish to avoid the debt trap. The reorganization of the National Debt Committee and the setting up of an appropriate debt ceiling are the kind of measures that the government is adopting to cope with present debt problems.

Table 7
DISTRIBUTION OF SOURCES OF PUBLIC SECTOR
EXTERNAL FINANCE (%)

Type of Finance	1970	1975	1981
Concessional	72.6	50.7	22.8
Bilateral	27.7	31.7	17.3
Multilateral	45.0	19.1	5.6
Nonconcessional	27.4	49.3	77.2
Bilateral	11.5	3.6	8.8
Multilateral	5.7	35.7	23.4
Bonds	—	—	2.6
Financial institutions	0.8	10.6	40.8
Supplier credits	9.3	2.6	1.6
Total	100.0	100.0	100.0

SOURCE: World Bank, *World Debt Tables 1983-84* (1985).

Export Promotion and Related Policies

The discussion thus far has implied that long-term growth and stability in the Thai economy could be obtained partly by closing the savings-investment gaps through increased domestic resource mobilization and careful debt creation and management. There is another measure that can be used to help raise aggregate investment and savings. This measure is the promotion of exports.

In the past two decades or so, the approach to Thai economic development called for the agricultural sector to provide support for industrial and service sectors by producing cheap food for domestic consumption with the surplus for export. At the same time industrialization took the form of import-substituting activities with the government providing protection from overseas competition through the imposition of tariff walls and other import restriction practices. This protection is an acceptable policy provided it is not carried out for

too long, lest domestic inefficiency in resource allocation and management set in, thus wasting more resources. In Thailand this is exactly what had happened in industrial policy. It has been shown quite conclusively that import protection increased as the country became more industrialized. Between 1974 and 1978, for example, average levels of nominal protection of import substituting activities rose from 34.6 percent to 50.8 percent for products with low import competition and from 24.8 percent to 35.7 percent for products with higher import competition.³ With these incentives, import substituting activities expanded, creating higher costs for saving foreign exchange in contrast to earning through export activities. High costs also were caused by the relatively capital-intensive nature of import substitution and the lack of exploitation of economies of scale in producing for the small domestic market. The capital-intensity of the production process also limited employment creation, with the number of jobs created per unit of value added being three times as high in non-resource-based export industries as in import-substituting activities.

Realizing these adverse effects on the economy, the government set out to correct misguided policies by attempting the restructuring and reform of the tariff system. During the early part of Fifth Plan period, the overall tariffs were reduced as part of the structural adjustment of the economy, but recently the government was forced to rescind some of previous reductions or refrain from undertaking further tariff reform for fear that further reductions might worsen the fiscal position of the government and damage Thai companies. Moreover, the increased protectionism in OECD countries in recent years made trade liberalization less attractive. At any rate, over the long run, broad-based tariff reform still is desirable for efficiency purposes.

Concomitant with the removal of bias in favor of import substitution, export promotion policies would be set forth. Indeed, the government did pay attention to the promotion of exports, particularly manufactured exports, as early as the 1970s—but it was only recently that the government gave its all-out support for export promotion. At present, the following are some of the incentives that the government gives to exporters of manufactured and primary goods.

(1) Exemptions from import duties, business taxes and municipal taxes on imported materials used in export production (by the Customs Department).

(2) Rebates of import duties and indirect taxes paid on imported materials used directly in production for export, on imported materials

³See World Bank, *Thailand: Industrial Development Strategy in Thailand*, a World Bank country study (June 1980), p. 4.

used at previous stages of manufacture, and on domestic materials (by the Fiscal Policy Office).

(3) A rebate of 20 percent on electricity used in production for export (by the Electricity Generating Authority of Thailand).

(4) The preferential treatment of investments in export industries and trading firms (by the Board of Investment).

(5) The rediscounting facilities on loans extended to exporters (by the Bank of Thailand).

(6) The establishment of the export processing zone (by the Industrial Estate Authority of Thailand).

(7) The assistance to private firms regarding export facilities, and promotional activities such as the organization of trade fairs, the establishment of showrooms and the provision of information on Thai firms abroad (by the Department of Commercial Relations and its Export Service Center).

Table 8
TRADE INDICES AND TERMS OF TRADE, 1975-85
(1980 = 100)

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985 ^a
Exports											
Volume	51	71	82	88	96	100	112	125	113	137	155
Value	66	64	66	71	85	100	103	96	97	96	90
Unit value	34	46	53	62	81	100	115	120	110	132	139
Imports											
Volume	62	64	77	82	96	100	97	86	110	113	102
Value	57	60	65	70	81	100	118	121	114	115	117
Unit value	35	39	50	58	77	100	115	104	125	130	119
Terms of Trade	116	107	101	102	105	100	87	79	85	84	77

SOURCE: Bank of Thailand, *Monthly Bulletin*, various issues.

^aWorld Bank estimate.

Despite these active policy measures aimed at export promotion, Thailand is faced with external conditions beyond its control that have negative repercussions for its export performance. One of these is the deterioration in foreign terms of trade. As shown in Table 8, the index of export value began to decline from its peak around 1981 while the corresponding index of import value jumped from the same period and generally stayed up at higher levels throughout the first half of 1980s. In 1985, the World Bank has estimated that the index of import value would be about 117 (1980 = 100) while the index of export value would be only 90. The terms of trade thus falls to 77 in 1985 compared

to 100 in 1980. Thailand needs to reevaluate its export compositions and prices that eventually will arrest this declining trend in its foreign terms of trade.

Table 9
NON-TARIFF BARRIERS—PERCENTAGE OF INDUSTRIAL COUNTRY
IMPORTS FROM DEVELOPING COUNTRIES COVERED BY NTBS
(% of imports covered)

Exporter	All Goods				Manufactures				Agricultural			
	All	U.S.	EEC	Japan	All	U.S.	EEC	Japan	All	U.S.	EEC	Japan
Thailand	17.8	20.3	12.3	24.3	17.3	18.7	29.6	3.4	20.1	35.5	1.8	52.0
Indonesia	27.3	84.8	12.6	1.7	4.3	5.8	9.9	0.3	25.2	0.1	12.0	67.2
Malaysia	10.2	20.6	9.9	2.6	5.2	3.1	11.8	1.1	10.7	0.5	4.3	37.4
Philippines	14.9	20.0	21.7	4.2	20.1	19.5	36.1	2.2	13.1	20.3	5.0	11.5
China	26.2	59.1	34.1	11.5	30.5	51.7	40.2	6.0	36.6	59.2	19.4	41.8
NICs	23.8	38.6	26.7	6.3	22.4	23.6	26.7	3.5	24.7	21.4	9.1	43.4
Developing	32.2	53.6	22.4	8.1	20.5	19.4	27.6	4.2	23.6	19.5	17.5	45.9
Industrial	18.7	23.8	14.6	19.9	12.6	13.9	13.0	9.4	18.7	21.3	27.1	31.5

SOURCE: World Bank, *Thailand: Growth with Stability*, Report No. 6036-TH (June 5, 1986), p. 20.

NOTE: As of June 1984 with 1981 import weights.

Another problem facing Thailand's foreign trade is the increased protectionism from its major trading partners like the United States, Japan and the EEC. But in comparison with other developing nations Thailand is not unduly hurt by trade barriers (Table 9). For example, of all imports covered with non-tariff barriers in 1984, the percentage for Thailand was 17.8 percent, whereas for NICs it was 23.8 percent and for all developing countries 32.2 percent. Nevertheless, the effects of these barriers could be quite serious, and it is likely that if Thailand manages to raise its competitiveness further, it will face additional barriers to trade just as South Korea and other successful NICs have done. On this front, the World Bank has suggested five areas in which Thailand can move to fight protectionism—the diversification of market structure, the increase in product diversity, the better use of information about market opportunities such as greater utilization of GSP benefits, the lobbying in export markets, and the better use of GATT provisions.

Other Trends and Problems

Outside the realm of foreign economic policies, there may be many more trends and issues that are very critical to the economic future of

Thailand. Take for example, the question of appropriate labor absorption and employment policies in the situation where the majority of the population still is tied to the depressed agricultural sector. Or take the reduction of poverty accompanied by the worsening in the distribution of income. This paper has touched only a bare minimum of what really needs to be known about the Thai economy to form a base for sound policy decisions.

Conclusions

From the trends and scenarios examined, it may be concluded that despite the relative success of economic expansion and reasonable stability in the past several years, the Thai economy still confronts many fundamental problems. These manifest themselves not only in foreign economic policies but in much deeper and broader economic, social and political policies. The transformation of the economy may be judged successful in terms of productive contributions of a certain sector, but unsuccessful with respect to population and employment relocation. On some specific issues which were selected for discussion, the problem of savings-investment gaps remains critical for the long-term development of the country. Somehow these gaps must be seriously attended to. The foreign debt problems expose the country to the risks and uncertainties imposed by outside forces which may be potentially dangerous as well as useful. Increased exports seem to be the path by which the country could go forward, the direction which could lead to the solutions that Thailand is looking for.

16. Energy: Implications of the Oil Market Collapse for U.S.-Thai Relations

R. SEAN RANDOLPH

Energy production and consumption policy is a subject of major significance to the economies of both the United States and Thailand. The global turn of events that caused world oil prices to plummet in 1986 goes far beyond the framework of U.S.-Thai relations and therefore requires reference to several broader themes. Indeed, the dramatic changes in world oil markets over the past year amply illustrate the enormous impact that oil price levels have on the global economy in general and national energy sectors in particular.

U.S.-Thai energy relations do not operate in a vacuum but form part of a complex and dynamic web of international political, economic and commercial relationships. Bilaterally, energy trade between the United States and Thailand is minimal; but in commercial terms our energy relationship is important. While these commercial links are healthy, I believe that the drop in oil prices has brought new pressures to bear that best can be alleviated by an active dialogue among the parties involved and a common understanding of the long-term implications of the current oil glut.

As a starting point, I would offer the premise that the drop in oil price levels has had a significant impact upon energy industries in both the United States and Thailand, such that companies face diminishing returns from their investments in energy resource development. Both of our countries are blessed with indigenous energy resources and for various reasons, including reducing import dependencies, seek to develop these resources. While future price paths, a function of the balance between energy supply and demand, are fraught with uncertainty, I believe that the demand for oil will grow over the long term and that it would be unwise to halt conservation efforts or oil exploration development activities on the basis of short-run expectations. Over time there will be increasing pressure on companies in the United States, Thailand, the whole Pacific Basin and elsewhere to find

more oil and gas. Although this is a task for private enterprise, governments have a responsibility to create the appropriate environment for those ventures to be commercially viable and attractive. My basic theme is that one should not allow events in the short run to undermine long-term plans for development of indigenous energy resources, despite the relatively low cost of oil imports prevailing today. Instead, policy makers and entrepreneurs in both the United States and Thailand should continue their quest for new energy reserves and proceed with long-term development plans as expeditiously as prevailing economic circumstances permit.

Global Energy Situation

Petroleum has for many years been the primary fuel in the energy mix of the world's market economies and until recently it accounted for more than half of all commercial energy consumed. Ten years ago, according to calculations made by the U.S. Department of Energy, petroleum accounted for 55 percent of Free World energy consumption, or in absolute terms 47 million barrels per day out of a total quantity of energy consumed equivalent to 85 million barrels per day. The second most important commercial energy fuel after oil was natural gas (18 percent) followed by coal (17 percent), nuclear (2 percent) and other sources (8 percent). By 1980, after the second oil shock, oil's share dropped to 51 percent despite an actual increase in the quantity consumed, as a result of conservation and the use of alternative fuels by consumers.

In 1984 there were two significant developments in the Free World energy mix. First, oil use fell for the first time in recent memory to below the 50 percent level to the 47 percent mark. Second, coal use surpassed that of natural gas, having 20 and 17 percent shares respectively. These trends continued through 1985 and into 1986.

The recent sharp drop in world oil prices has, however, raised serious questions regarding the continuity of this process. It is a process which has been highly positive in terms of its impact on the energy security of developed and developing oil-consuming countries alike. The question that arises is whether under lower prices oil use will increase at the expense of other fuels, thereby reversing the trend of the past few years. Will prices for oil remain low relative to coal and gas and bring a turnabout such that oil use moves back above the 50 percent level? Or will oil prices rise sufficiently to maintain incentives for the continued development, production and consumption of alternative fuels such as coal and gas?

The dramatic price increases in the 1970s spurred major efforts to develop alternative energy sources and to use energy more efficiently.

From 1980 to 1985, OPEC producers attempted to maintain high oil prices at artificially high levels, a policy which in turn engendered market forces and national policies aimed at reducing dependence upon oil. Responding to the incentive of high prices, non-OPEC oil production was increased. In 1980 non-OPEC oil production amounted to about 21.5 million barrels per day while currently it is nearly 27 mbd; most of these production increases have come from Mexico and the North Sea. As one result, the members of the Organization of Petroleum Exporting Countries (OPEC) came to command a smaller share of the world market and therefore lost their predominant influence over it.

By 1985 Saudi Arabia's output was well below what its production share should have been as agreed upon by OPEC ministers in January 1984. In the fall of 1985 Saudi Arabia abandoned its role as the "swing producer" and doubled its production from 2.3 mbd to 4.7 mbd and through net-back pricing demonstrated a willingness to sell its oil at spot-related prices. In December 1985, OPEC nations endorsed this policy to secure and defend their market share. Amid the resulting flood of oil, world oil prices began to collapse from about \$25 a barrel down to \$10–15 a barrel. At one point during 1986 spot and futures prices dropped below \$10 a barrel. Over the course of 1986, the average cost of crude oil to U.S. refiners declined by 30–40 percent.

During that time OPEC had severe difficulty in reaching a viable agreement on production quotas for its members to support higher prices. The prospect of economic disaster faced by most OPEC countries as a result of prolonged low prices creates a major incentive for that organization to reach and adhere to some new production or pricing accord. Nevertheless, the centrifugal forces of diverse national policies and interests within OPEC undermines group cohesion and carries with it the potential for a renewed price collapse.

Non-OPEC oil output is also a factor and the cooperation of these countries has been sought by OPEC. Mexico, Norway, the Soviet Union and several small non-OPEC countries such as Malaysia have committed to reducing production on a level commensurate with OPEC cuts. Despite these developments there remains about 8–10 mbd of surplus production capacity in the world, of which nearly half is in Saudi Arabia. Thus, even with small increases in world oil demand, low prices could well persist for a considerable period.

Outlook for the International Oil Market

World oil markets will continue to face uncertainty, primarily as a result of the imbalance between current world oil supply and demand. Saudi Arabia's role is crucial. Another factor is the degree to which OPEC policies begin to reflect a greater sensitivity to market factors.

Based on experience, and on the reluctance of most OPEC members to accept a cut in their individual quotas, it will be difficult for OPEC to fashion a lasting production-sharing agreement for its own members, much less outsiders. Downward price pressure on the market may therefore continue. Oil exporting countries, particularly those which are heavily in debt, as well as energy industries worldwide and some parts of the banking sector will continue to suffer adverse effects from lower oil prices. As much as price, predictability and stability of prices are regarded as critical by the oil industry in its longer-term planning for exploration and development. Even should higher price levels be achieved, the radical swings of 1986 have severely affected industry investment levels. As a result, serious economic dislocations have occurred in many energy-producing regions in the world, including the Southwest United States. However, for oil-importing countries such as the United States and Thailand in general, the overall economic impact of low oil prices has been beneficial.

We know little about the short-term reactions of key oil market variables in the face of price declines of this magnitude. The major unknowns include the short-run responsiveness of oil demand and current production to sharply lower prices, the behavior of inventories, and the economic and political decisions made by oil producers, both OPEC and non-OPEC. A critical variable for the oil market in both the near and long-term is the response of oil demand to lower oil prices. Department of Energy projections suggest that the reaction of demand to lower prices will be significant but not dramatic. Other factors that could affect price include the Iran-Iraq war, which could disrupt oil flows from the Persian Gulf or, if hostilities stop, bring significant new supplies to the market.

All of this uncertainty creates a poor environment for the development of alternative energy supplies, including coal and natural gas. High prices for petroleum had in the 1970s and early 1980s caused energy importing countries to seek alternative energy sources and to implement conservation policies. The advent of lower prices, however, makes the utilization of alternative energy sources less cost-effective. The short- and long-term impact of the current oil glut therefore may well generate problems that were not anticipated under the previously prevailing high-cost market environment. On the other hand, it also may offer opportunities that need to be identified and taken advantage of.

U.S. Energy Sector

As the Free World's largest producer and consumer of energy resources, the U.S. energy sector relies heavily upon a vast domestic resource base to meet the petroleum, natural gas, coal and uranium-

based fuels required to drive our economy. The U.S. energy industry does not operate in isolation, however, as American consumers spend \$40 billion a year on net energy imports. By virtue of our role as a leading importer and exporter of energy goods and services, the U.S. situation has important implications for the world energy system.

In 1985 the United States consumed the equivalent of 34.5 million barrels of oil per day. Of this amount, 30.3 mbd equivalent was produced domestically or about an 88 percent share, with the rest supplied by imports. Meanwhile, in 1985 the United States exported the equivalent of 2 mbd of energy fuels, mostly coal. Net imports of crude oil and petroleum products during 1985 amounted to 4.3 mbd. Mexico was our largest supplier, providing 816,000 barrels per day, followed by Canada at 770,000, Venezuela at 605,000 and Indonesia at 314,000 b/d.

The U.S. economy in 1985 was primarily dependent upon petroleum, as evidenced by its 42 percent share of total energy consumed, followed by natural gas and coal each with 24 percent shares. Nuclear power accounted for another 6 percent along with hydro-power at 5 percent. Of the 30-plus mbd-equivalent of energy produced in the United States during 1985, coal once again was our leading domestic energy resource, accounting for 30 percent, followed by crude oil at 29 percent, and natural gas at 26 percent. This balanced mix of fossil fuel production and consumption has served to provide the United States with a strong energy industry.

U.S. Energy Policy Perspectives

The goal of U.S. energy policy continues to be that there should be an adequate and secure supply of energy available in the United States at reasonable cost. Our basic approach to achieving this goal is to maximize reliance upon free markets while promoting a balanced and mixed energy resource system. Our policy in this latter case is to seek improved energy security through diversification of supply, both in terms of imports and energy resources. The basic tools the Reagan administration has used to these ends have been: Encouragement of domestic energy production through removal of government regulatory burdens, continued investment in long-term research and development into alternative energy sources, and expansion of the U.S. Strategic Petroleum Reserve (SPR). These policies have proven successful over the past several years, as evidenced by the following examples from our domestic economy.

Since early 1981, market forces have reduced real oil prices on the market by more than 40 percent.

Total domestic crude oil production has risen annually since 1981, reaching in 1985 the highest level for any year since 1973.

Nuclear power has become the second largest source of electricity in the United States.

Net imports of crude oil and petroleum products, not including SPR imports, are about 32 percent of domestic oil consumption compared to 37 percent in 1980.

The key development on the current domestic and global energy scene is the sharp decline in world oil prices. Overall, we believe that the economic impact of current low oil prices will be beneficial for the United States and other oil importing countries, as reflected in higher economic growth and lower inflation. Lower oil prices also should provide a boost to the international economy.

It is a fact, however, that lower oil prices have led to serious economic dislocations for the energy industry. Our petroleum companies are facing a significant decline in income, and are moving to shut in high-cost wells, delay major projects and reduce work forces. Major oil companies have decreased their spending by about 30 percent for 1986. Independent firms slashed their capital programs by 50 percent or more for 1986. Lower capital expenditures and decreased drilling activity will have the effect of lower reserve additions and domestic production for future U.S. energy needs. Also, when prices inevitably rise in the future it will take several years before a significant new production response can be achieved. Skilled personnel and the readily available specialized equipment needed to develop oil reserves also will be reduced if oil prices remain low. The reduction in oil exploration and development expenditures will thin the ranks of independent drillers and producers who traditionally have drilled 70 percent of total footage in the United States. This gloomy prospect is tempered by our experiences in the 1970s and early 1980s, which showed that the U.S. domestic oil industry can respond quickly when prices rise.

While we believe that stability in the market is in the interest of energy producing and consuming countries alike, we also believe that that stability is best achieved in the long run through the operation of market mechanisms. We do not favor, therefore, a government role in the setting of price and production levels, either domestically (through an oil import fee) or internationally (through cartel-like behavior). While pressures exist to address current industry and producer problems with short-term fixes or measures designed to arbitrarily adjust the market, it remains our belief that effective long-term stability is achieved best through the operation of market forces. We have made great strides in this direction in the last few years domestically as well as internationally, and we believe that we should continue to hold to this longer-term perspective.

Thailand's Energy Sector

Like other developing countries, Thailand relies heavily on energy consumption to fuel the industrialization and modernization of its economy. Although its rate of economic growth over the last decade has been impressive, about 7 percent per annum, the demand for energy has grown even faster—such that its energy/economic coefficient is calculated to have been in the range of 1.1 to 1.2. This ratio is higher than most developed countries, including the United States and underscores the importance of energy to Thailand's economic future.

Imported oil has played a prominent role in Thailand's energy sector, as it has in most other countries. As the fourth largest oil importer among the developing countries, about 180,000 b/d, Thailand ranks only behind Brazil, South Korea and Taiwan. Thailand was seriously affected by rising oil prices in the 1973–81 period but was highly successful in adjusting to the new energy environment sustaining a high level of economic growth. Now, like other oil importing nations Thailand is reaping the economic benefits of depressed oil prices. The danger in the current situation is that the illusion of long-term market surplus can lead to complacency in terms of long-term energy planning. In other words, cheap imported foreign oil today brings current benefits, but this does not mean that there is any less need for sound energy policy.

Like the United States, albeit on a smaller scale, Thailand is endowed with a diversity of energy resources. Thailand is clearly no Saudi Arabia (proven oil reserves are no more than 156 million barrels) but Thai energy planners do have flexibility in pursuing coal, natural gas and hydropower options that many other countries do not have. Oil price rises in the 1970s encouraged the exploration and development of coal and lignite deposits—estimated to be about 250 million tons—and have justified investments in mining operations in several locations, particularly Mae Moh. Coal now is used in the power sector as an economic substitute for oil. The advent of domestic production of natural gas has had a significant impact on Thailand's economy and, in combination with increased use of lignite in the power sector and the cement industry, has resulted in a decrease in the nation's intensity of oil use. Proven reserves of natural gas—most of which are offshore in the Gulf of Thailand—are estimated to be about 210 billion cubic meters. This ranks Thailand ninth among the nations in the gas-rich East Asia region. Although reserve estimates actually have dropped in recent years as initial estimates have had to be reevaluated, natural gas to a large extent remains viable as the cornerstone of Thailand's energy

future in terms of developing an energy self-sufficiency in commercial fuels.

It is estimated that during 1985 total commercial energy consumption in Thailand amounted to 20.8 million tons of oil equivalent (mtoe) of which oil accounted for 10.3 mtoe. This is a significant drop from 1983 in both absolute and comparative terms when oil consumption amounted to 11.1 mtoe. Oil's dramatic drop in just two years can be attributed to significant increases in the use of both natural gas and lignite. Natural gas utilization surged from 1.4 mtoe in 1983 to 3.4 in 1985, with its share doubling from 10 percent to 21 percent. Lignite's shares doubled from 3 percent to 6 percent during the same period. Meanwhile, the share of hydroelectricity remained steady at 8 percent as did coal with a 1 percent share. Progress in substituting other fuels for oil has not always been easy but there appear to have evolved some structural changes in the nation's energy economy that should help alleviate the formidable foreign exchange drain upon Thailand's balance of payments brought on by the importation of oil.

Despite having reduced oil's share in Thailand's energy mix from about 80 percent in 1983 to less than 65 percent in 1985, the bill for imported oil in 1984 cost Thai energy consumers some \$2.5 billion and absorbed a third of the nation's export earnings. Thus, energy imports in general and the need for foreign oil in particular remain major concerns that must be addressed over the long term by pragmatic energy policies if national goals of economic growth and development are to be achieved.

The World Bank has projected that over the next five to seven years energy demand in Thailand will increase at a rate of 5-7 percent per annum, about the same growth rate as GDP. It also is predicted that if efforts to sustain exploration and development for gas, oil and lignite continue then the share of imports of total energy could drop to 33 percent by 1991, down from 54 percent in 1982. On the other hand, a halt in these activities could create requirements for imported energy such that imports would amount to 60 percent of energy demand. Obviously this would result in a significant foreign exchange drain, erosion in the balance of payments and concomitant drag on economic growth towards the end of the century that would undercut efforts toward continued economic development.

The stakes are high. For this policy to be successful the Thai government will need to work closely with the private sector, including both domestic and foreign investors interested enough in the exploration and production of energy to take considerable financial risks. In order to attract companies with the knowledge and expertise to find oil, gas and coal there must be adequate incentives, particularly in these days of low prices and dwindling corporate cash flow. These are difficult

times to implement an expansive energy strategy, but the lead times in energy development are long and commitments must be made far in advance. And for Thailand, the key to reducing oil imports will be the development of domestic natural gas and lignite as substitute fuels, with development of Thai hydro potential along the Mekong River contingent upon successful cooperation with Laos. There is currently, however, considerable uncertainty in the natural gas sector as consumption is not meeting earlier expectations; this could be a disincentive to potential foreign investors.

The current weakness in demand for Thailand's natural gas can most certainly be attributed to the collapse in world oil prices as certain key consumers have turned to fuel oil whose cost is more competitive than before. Hopefully, this is only a temporary phenomenon as natural gas is probably the single most important factor in Thailand's energy future. Future energy scenarios for Thailand are for the most part centered around the availability of gas, but if there is inadequate demand it hardly can be expected that resources will be developed to their potential. Those gas fields now in production or under development are expected to decline in the early 1990s after which it will be necessary to have other fields already developed and with production ready to go on-stream. But this will not occur without adequate price incentives for gas. High prices are certainly the best incentive for exploration and development because investors have some assurance of recovering their costs if commercial deposits are found. If prices cannot be guaranteed then clear guidelines need to be established as to how gas will be valued—perhaps tied to an international reference point—but at minimum some measure needs to be correlated with the market mechanism.

Another factor to consider is the volume of production. While falling oil prices obviously affect the commercial viability of capital-intensive energy projects, an assured market is necessary for gas projects. Natural gas is different from oil or coal in that it is not a mobile fuel and cannot be easily transported from one market to another. Like other commodities, oil and coal can be moved by truck, barge, rail or, if foreign markets are favorable, shipped abroad. In contrast, natural gas generally moves only by pipeline. International trade in gas in the form of LNG requires costly liquefaction facilities and ships uniquely designed to carry LNG which are invariably specifically built and dedicated to a single gas project. Thai gas, which is not currently exported, is produced by offshore wells and transported to shore by the world's longest submarine pipelines. By Thai law producers must sell their gas to the Petroleum Authority of Thailand (PTT), which also operates the nation's gas pipelines. For all practical purposes, PTT is the only customer for gas in Thailand and if it does not take the gas then this valuable national resource becomes unproductive. Therefore

natural gas in Thailand must have an assured market through PTT if investors are to be expected to make the required large front-end investments to make gas projects possible.

The Asian regional market for natural gas is characterized by Japan's dominance as a consumer and expanding markets in South Korea and Taiwan. At the same time, on the supply side, the market is very competitive with Indonesia, Malaysia, Brunei, Australia and the United States, all having significant natural gas reserves in addition to Thailand's own. Several countries already have LNG projects operating or under construction with assured contracts. Given the ample supply of gas in the region there is potential for expanded trade, but with lower-cost gas supplies available elsewhere in the Pacific, the prospects for the export of Thai LNG do not appear promising.

I would like also to say a word about how Thailand's complex hydrocarbon geology makes it even more imperative to sustain exploration and development efforts in spite of low prices. Unlike the world's giant oil fields such as in Saudi Arabia, where there are literally large underground pools of oil, the oil and gas fields discovered so far in offshore Thailand are characterized by a number of geological faults such that the reservoir is actually a number of separate smaller pools. This has the effect of increasing the number of wells necessary to attain maximum yield and of reducing the proportion of oil/gas that ultimately can be recovered from a given deposit. Moreover, for technical reasons the deposits are subject to comparatively rapid declines once they have reached peak production. These factors therefore contribute to the relatively high cost of oil and gas production in Thailand, as compared to Malaysia and Indonesia for example, and mean that without sustained exploration output will go down in a relatively short time. I make these points to underscore my view that in Thailand, more than in many other nations producing relatively small volumes of oil and gas, there needs to be an appropriate policy framework for oil and gas exploration and development to keep up with depletion of hydrocarbon reserves.

Thai Energy Policy Perspectives

The priority of reducing dependence upon imported oil is common to most import-dependent countries. Energy conservation is promoted to use energy more efficiently and to break the linkage between GNP growth and energy demand. Conservation is perhaps the most cost effective measure in reducing imports but cannot be wholly successful in isolation and so must be combined with a strategy for resource development. For nations such as Thailand that have some domestic oil and gas, two policy goals generally have been pursued:

Attract foreign capital to finance oil exploration and oil and gas development.

Use natural gas and coal domestically as substitutes for oil.

An important consequence of the fall in world oil prices has been the impact on exploration budgets of reduced corporate cash flow and lower anticipated rates of return. Given the expected growth in oil demand in Thailand and the long lead time for oil and gas field development, I believe that policy makers and energy executives should resist the temptation excessively to curtail exploration during this period of weak oil prices. There is strong reason to believe that during the 1990s oil demand will increase to the point that prices will rise again. I also believe that in the current market situation exploration and production terms should be kept under continuous review in order to stimulate and not discourage the participation of foreign companies willing to invest in the search for oil and gas.

I was therefore pleased to see that earlier this year Prime Minister Prem Tinsulanon established a new national energy policy committee, of which a prime task will be to restore incentives for petroleum exploration and production. Exploration in Thailand has come to a virtual halt because of low oil prices and concerns on the part of companies about production sharing terms and royalties. This commission will review the entire spectrum of factors, including pricing, taxes, leasing arrangements and the legal and regulatory framework for establishing joint ventures. I personally believe that Thailand's best interests lie in adopting a more market-responsive approach.

U.S.-Thai Energy Relations

The energy relationship between the United States and Thailand is centered in our private sectors and focused mainly on energy development and production, rather than energy trade. The present forum is an excellent example of how opportunities should be developed to exchange views on the evolving world energy situation and develop a better mutual understanding of our respective energy sectors. At present the United States has productive exchanges in place with key Pacific partners such as Japan, South Korea and Indonesia, and I hope that this current trip to Thailand will prove useful in further developing our Thai-U.S. bilateral relationship.

The nature of energy issues in the U.S.-Thai relationship reflects the basic objectives of U.S. and Thai energy policies. A vigorous private sector role in exploration for and development of conventional energy sources such as oil, coal and natural gas will be essential to maintaining an adequate flow of new energy supplies for both countries. With rising energy use and production, energy trade will become even more

important than at present. We believe as a matter of policy that this trade should be conducted on an open, free market basis. Finally, our mutual energy security will require a sustained commitment to research and development efforts aimed at further improvements in energy efficiency, conservation and alternative resource development. In all of these areas the United States can and expects to play an active and positive role commensurate with its growing interests in the Pacific region. Given our belief in the importance of a viable energy sector in Thailand and the ASEAN area, and given the many perspectives and interests that we share in common, I am optimistic that these many challenges can be successfully met and that U.S. energy cooperations with Thailand will serve to further strengthen what is already a strong and dynamic bilateral relationship.

Discussion Excerpts

THAI PARTICIPANT: I can't agree with Dr. Frankel more on the adverse effects of U.S. import protectionism and agricultural subsidies on Thailand and the United States itself. Only by exporting can the less-developed countries earn the foreign exchange to service their debts. The United States should differentiate Thailand, a not yet industrializing country, but a very friendly one, from developed countries such as South Korea and Japan and the EEC. The United States should be selective in its protectionism and penalties. If Japan and the EEC are the troublemakers, the United States should not put Thailand in the middle of its conflict with them. Why risk losing a good and loyal friend by using a shotgun approach?

THAI PARTICIPANT: Two-way trade between the United States and Thailand has increased steadily. Except for the years since 1985 the trade balance has always been in favor of the United States. This is according to Thai statistics. When the United States ran a surplus trade, disputes between the two countries were few and far between. When they arose they were solved in a spirit of friendship and mutual understanding. The last few years, however, have witnessed an alarming change in this spirit. Pressure politics has replaced amiable discussion. The Americans now say that there must be "free" and "fair" competition and a "level playing field." Unfortunately, the standard of what is fair is determined by the Americans and for the Americans. It demands concessions from trading partners big and small. In the case of Thailand it is enough to cite a few examples such as sugar, textiles and clothing. Rice and maize are facing unfair competition from the United States in world markets. There are enormous clouds hanging over our heads in the form of various trade bills pending in the United States Congress. These policies are short-sighted and self-centered.

AMERICAN PARTICIPANT: Several protectionist bills that have been discussed have not passed. The textile bill did not pass, nor did the tuna bills. From my perspective I don't see the prospects for these bills passing. But I would like to come back to macroeconomic issues. Economic advisers to the president were able to convince him and

members of Congress that by substantially cutting taxes without cutting spending we would somehow generate enough growth in the United States to cover these tax cuts. That has obviously proved to be a very, very wrong and unfortunate analysis.

THAI PARTICIPANT: I am very happy that we have picked up macroeconomic issues. What we are witnessing is the spectacle of a whale thrashing about and we as the little fish have to expect to get hurt. This year it will be tunafish and footwear. Next year it will be something else. If the fiscal deficit remains in the one hundred fifty billion dollar plus range there still will be a trade deficit regardless of what the United States does in the way of protection. The thing that drives the current account deficit ultimately is the fiscal deficit. That point cannot be emphasized enough.

AMERICAN PARTICIPANT: The U.S. trade deficit with Asia is over fifty percent of our total trade deficit. All the countries of the region have fueled their growth through exports, and principally through exports to the United States. How is it going to be possible for all the other countries of the world to achieve their aspirations to earn more foreign exchange through exports if the United States cannot sustain this level of purchases? I would submit that we have to work together to open up alternate markets in countries that are not carrying their fair part. Japan has a trade surplus with every country in this region and takes the lowest percentage of manufactured goods of any industrialized country in the world. We are taking the lead in trying to open up the Japanese market for the benefit of everybody, not just the United States.

THAI PARTICIPANT: I seem to be spying the elements of a deal that the United States seems to be proposing to Thailand. We will stop beating you up if you will help us beat the Japanese up.

THAI PARTICIPANT: I would like to correct the assertion that no other country except the United States has done anything to get the Japanese to lower their barriers. That is incorrect. Thailand has been doing this consistently for the past twenty years.

THAI PARTICIPANT: On Mr. Randolph's paper, what the United States does to promote oil exploration has a major impact on world markets. This is important for Thailand because we will have to continue to depend on the world market. We never will find enough energy to be independent. It seems the United States is doing precious little itself, the government particularly, to promote U.S. oil exploration.

AMERICAN PARTICIPANT: I am a great admirer of Thailand's political management and economic management. There are a couple of minuses. In the area of energy Thailand does not look good to a foreign investor. In the structure of the Thai system it is very difficult for

people to make decisions involving big dollars. A senior official I talked to recently said, "Look, nobody who has signed a big contract with a foreign energy operation has ever kept his job for six months afterward." Are there ways this problem could be addressed?

Part VI.
Trade Relations

17. U.S. Trade Policy: Implications for Thailand

MELVIN W. SEARLS, JR., AND LINDA S. DROKER

Many developing countries argue that U.S. trade policy is inherently protectionist, that it is designed to protect outmoded American industries at the expense of poorer countries, and that developing countries have little to gain from the United States or its policies. Thailand, an important ally of the United States on many fronts, has often been vocal in expressing views such as these. The purpose of this paper is to attempt to dispel these views and to demonstrate that in fact U.S. trade policy has been of substantial benefit to Thailand and other developing countries.

Before proceeding, it would be useful to spell out some of the economic, political and historical factors behind U.S. trade policy as it exists today.

The Context of U.S. Trade Policy

Economic Context

The origins of current U.S. trade policy should be viewed in the context of economic developments of the past two decades. From its position as the undisputed world economic leader at the end of World War II, the United States has been losing ground in a number of significant sectors. Heavy industry has been declining as a contributor to gross national product (GNP): production of goods accounted for 45 percent of GNP in 1970; by the second quarter of 1986, that share had declined to less than 40 percent. The share of manufacturing jobs in total employment has declined 29 percent since 1970, although this has been accomplished in part through rising productivity.¹ Service industries—finance, engineering, consulting, accounting, and other professions, not just low-skill retail and restaurant services—are accounting

This chapter should not be construed as a statement of U.S. Department of Commerce policy. Statistics and analysis are valid as of January 1987.

¹U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business* (Washington, D.C.: U.S. Government Printing Office, 1986); Warren Brookes, "Has the Trade Gap Really Cost Us Jobs?" *Washington Times* (September 15, 1986), p. 1D.

for an ever-increasing share of GNP and employment. Services accounted for about 50 percent of GNP in the second quarter of 1986, up from 43 percent in 1970. The rate of growth of services has been 2 to 5 percent greater than that of goods production since 1970.² Some sectors of U.S. agriculture are experiencing severe financial problems, and the number of people employed in farming is dropping more rapidly than it has in recent years. The 400,000 drop in 1985 was more than the total in 1980–84.³

The question of the international competitiveness of U.S. industry is one that arises continually in discussions of economic restructuring. U.S. goods can become more competitive internationally through more aggressive export sales efforts, improved quality, more technologically advanced products, better service, and more competitive international prices. However, particularly in developing countries concerned with saving foreign exchange, competition tends to be mainly based on price.

More competitive U.S. manufactures prices can result from a fall in the dollar exchange rate and through cuts in production costs that are passed on to buyers. Lower production costs can be achieved by improved productivity and efficiency but also by lower wages. To ensure that real wages and U.S. living standards (to the extent that manufacturing employment continues to account for a large share of personal disposable income in the future) do not suffer, U.S. manufacturing competitiveness must be restored through productivity increases, not solely through relative wage cuts and a dollar decline.

Strengthening our international competitiveness in manufacturing, while avoiding real wage declines, also requires resistance of protectionist pressures that would slow the pace of this restructuring. Trade restrictions designed to protect inefficient producers will result in a poor allocation of resources, which in turn could retard the growth of newer, potentially more competitive industries.⁴

Political Context

These well-known facts point to some fundamental changes in the U.S. economy. This restructuring is a necessary result of changes in resource endowments (that is, increases in human capital relative to manufacturing labor) and is occurring in all the industrial economies. This is not to say, however, that this restructuring is not painful. In a

²*Survey of Current Business*.

³U.S. Department of Commerce, International Trade Administration (ITA), Office of Metals, Minerals, and Commodities.

⁴U.S. Department of Commerce, ITA, Office of Trade and Investment Analysis, *United States Trade: Performance in 1985 and Outlook* (Washington, D.C.: U.S. Government Printing Office, June 1986), chap. 10, pp. 124-126.

democracy like that of the United States, where representation is frequently at the interest-group level, politically powerful groups will be able to press for policies which mitigate some of the pain of these economic changes. This has led to the rift which currently exists between the president and Congress on trade policy issues.⁵

Historically, the Democratic party was the party of free trade, while the Republican party favored high tariffs to support industry. The shift began in the late 1960s, when the AFL-CIO, with its long-standing ties to the Democratic party, formally renounced its support for free trade policies.

The present administration thus is the first free-trade Republican administration. The economic dislocations referred to above are occurring, for the most part, in Northeastern or Midwestern states which have long been Democratic strongholds; hence the recent calls for protectionism have come primarily from Democrats. Since 1986 was an election year, the trade deficit has become an explosive topic of debate within Congress, and between Congress and the administration.

The Trade Deficit

The burgeoning trade deficit is the central fact driving U.S. trade policy today. Trade has increased in importance as a share of GNP, from less than 10 percent in 1970 to over 15 percent in 1985. Moreover, before the 1970s the United States commonly ran surpluses on its trade account. By the mid 1970s, regular surpluses had turned to deficits, which totaled \$148.5 billion in 1985 and could reach as high as \$170 billion this year. Between 1981 and 1985, the deficit grew at a compound annual rate of 39 percent. It is important to note that this expansion of the deficit was the result of exports falling by 2 percent annually during this period, while imports rose by 7 percent. This points to a key fact: Relative to GNP growth, imports are not far off from their long-term trend.

After increasing proportionately to the U.S. economy throughout the 1970s, import growth fell more sharply than domestic economic growth during the 1981–82 recession. As the U.S. recovery took hold, we experienced rapid domestic growth. Making up for the earlier lost ground, imports grew even faster. Relative to GNP, imports are today slightly below their 1980 peak of 9.4 percent of GNP.

Like imports, U.S. exports increased relative to GNP during the 1970s, peaking in 1980, and then falling off with the slow world economic growth in the early 1980s. Unlike imports, there has been no

⁵For a basic discussion of the role of interest group politics in the forging of domestic trade policy in the United States, see Joan Edelman Spero, *The Politics of International Economic Relations* (New York: St. Martin's Press, 1977), chap. 3.

upturn in exports. From the 1980 peak of 7.9 percent of GNP, exports have fallen relative to GNP every year, standing at about 5 percent today. Had our exports recovered the relationship to GNP enjoyed in 1980, a substantial portion of the current deficit would not exist.⁶

There is an exception to this generalization that imports in themselves are not the problem. U.S. imports, particularly manufactured imports, from developing countries have been expanding rapidly in recent years, doubling between 1980–84 to about \$66 billion.⁷ U.S. imports from ASEAN reflect this overall trend, growing at 22 percent per year between 1980 and 1983. The share of manufactures in these imports has increased from 31 percent in 1970 to 49 percent in 1983. Yet the share of manufactures in Japan's imports from ASEAN increased only marginally during that period from 7 percent in 1970 to 8 percent in 1983. While a certain proportion of that difference is attributable to differing resource endowments between the United States and Japan, it appears likely that some portion is attributable to trade barriers which keep ASEAN exports out of Japan and divert them to the United States. In fact, we have estimated that, if Japan's share of manufactures imported from ASEAN were as high as the total for OECD countries (30 percent in 1983), Japan would have imported \$5.2 billion worth of manufactured goods from ASEAN, instead of \$1.4 billion. This implies that \$3.8 billion was diverted to other markets, including that of the United States.⁸

It is likely that this effect will be reinforced by the recent rise in the yen relative to the dollar. As Japanese exports decline, so too will their demand for the raw materials needed as inputs for the manufacture of these exports. The ASEAN countries, of course, are key suppliers of many of these raw materials.

With the exception of this factor, which for the most part is specific to the Asia-Pacific region, other external factors behind the enormous surge in U.S. imports are global in origin and scope. Among these factors are exchange rates, disparate economic growth rates in other countries and the debt situation among developing countries.

Exchange Rate Adjustment. A key element of the president's program for dealing with the trade deficit was realignment of the dollar relative to the currencies of many of our largest trading partners. From 1980 through February 1985, the value of the dollar rose steadily against other major currencies, contributing to an increase in U.S. imports and making it

⁶This analysis is taken from *United States Trade*, chap. 1, p. 9; U.S. Department of Commerce data; and Jeffrey Hardee, "U.S. Trade Policy" (unpublished paper, 1983), p. 28ff.

⁷*United States Trade*, chap. 11, p. 22.

⁸Linda Droker and Michel Neville, "Diversion of ASEAN Exports to the United States from Japan: Preliminary Findings," U.S. Department of Commerce, Office of Pacific Basin, Analytic Note (Washington, D.C.: U.S. Government Printing Office, September 1985), p. 3.

increasingly difficult for U.S. exports to compete in foreign markets, themselves experiencing little growth.

Following the Plaza Accord in September 1985, the U.S. government worked with other G-5 nations to achieve an orderly appreciation of other major currencies against the dollar. As a result of these efforts, the dollar has decreased 26 percent from its peak in February 1985 against a trade-weighted index of ten major industrial country currencies. On a bilateral basis, the dollar has fallen 41 percent against the Japanese yen and the West German mark.

The benefits to U.S. trade and current accounts that should accrue from this currency realignment are not yet reflected in overall trade performance figures. A number of factors account for this, including the so-called J-Curve effect. Because the demand for imports is inelastic in the short term, the total value of imports rises as the result of higher prices before the decline in import demand sets in. This appears to be a major contributing factor to the continuing high import levels.

Positive effects of the exchange rate changes on U.S. trade volumes began to appear in summer trade figures, with the August deficit declining to \$13.3 billion, down from the record \$18.0 billion registered in July. Though fluctuating from month to month, the deficit appears to have peaked at \$15 billion per month in the third quarter of 1986. Exports were up 9 percent in the fourth quarter and expected to resume their upward trend after a fall-off in January. Thus, the full effect of the exchange rate changes should be realized in 1987.⁹

Economic Growth Differentials. The United States enjoyed economic growth far exceeding that of other developed nations in 1983 and 1984. This faster growth contributed greatly to increasing the trade deficit. On average, domestic demand in the United States grew three times faster than in other OECD nations, providing a growing market for foreign goods, while slower growth abroad limited our ability to increase exports. As a result the trade deficit grew.

In 1985 the disparity in growth rate differentials changed significantly. The U.S. economy slowed, import growth declined to 6 percent, markedly less than the record 26 percent jump in 1984. Continued slow growth abroad, however, prevented the export increases needed to bring the trade account into balance.¹⁰

LDC Debt. Another problem area in terms of external demand for U.S. exports is the debt levels of the less-developed countries. In 1982, when

⁹Testimony of Secretary of Commerce Malcolm Baldrige before the Energy and Commerce Subcommittee on Oversight and Investigations, U.S. House of Representatives (September 9, 1986); U.S. Department of Commerce, ITA, Office of Trade and Investment Analysis; other Department of Commerce data as given in *Business America* (March 16, 1987), inside front cover.

¹⁰*Ibid.*

LDCs encountered debt-servicing difficulties, the growth of net new international lending to LDCs slowed dramatically. To produce the income necessary to service their debts, LDCs have limited their imports and tried to expand their exports. This has had a negative effect on the U.S. trade balance, especially in manufactured goods (see above, and note 7).

At the joint annual meeting of the International Monetary Fund and World Bank in October 1985, Treasury Secretary Baker announced the administration's debt initiative which has come to be known as the "Baker Plan." A central goal of the plan is to boost confidence in the medium- and long-term economic prospects of the main debtor LDCs by encouraging adoption of comprehensive macroeconomic and structural policies to promote growth and balance of payments adjustment and reduce inflation. Adoption of such policies affects the ability of debtor nations to obtain needed increases in international financial support.¹¹

Federal Budget Deficit. Another factor behind the trade deficit is the federal budget deficit. Our current account balance is directly affected by the combined federal, state and local government budget deficits and the rate of private savings and investment. The Gramm-Rudman-Hollings Deficit Reduction Act, which makes mandatory the reduction of the federal deficit, is a step toward solving our long-term economic problems.

Internal needs for private investment and government borrowing that cannot be satisfied by domestic saving must, out of necessity, come from foreign sources. The need to attract foreign capital to satisfy government borrowing in excess of domestic savings has required interest rates higher than countries competing for the same capital. The higher interest rates were partly responsible for the increase in demand for the dollar and thus the increase in the value of the dollar.

However, a high interest rate is only one factor attracting foreign capital. Because of the overall attractiveness of the U.S. economy—its size, recent growth rates, low inflation, political stability—foreigners continue to be willing to invest in the United States even in the face of declining interest rates. The differential between U.S. interest rates and those of other industrial countries has remained because of the coordinated effort among the G-5 to bring down world rates. This "safe haven" effect is likely to continue to reinforce interest rate differentials. At the same time, the LDC debt situation and a shortage of good investment opportunities overseas, relative to opportunities in the United States, have led to a decline in capital outflows from the United States, resulting in record net capital inflows.

Nevertheless, large, growing net inflows of capital to the United States and the corresponding trade and current account deficits cannot continue

¹¹Ibid.

indefinitely. Exchange rates and flows of goods and capital will always attempt to move toward equilibrium (other factors being equal), resulting in adjustments that eventually will exert pressure toward narrowing U.S. current account deficits. Legislation such as Gramm-Rudman-Hollings was deemed necessary to help ensure that the adjustments would come sooner and with a minimum of harm to major sectors of the economy and to the standard of living.¹²

Elements of U.S. Trade Policy

Free Trade

The foundation of U.S. trade policy in the current administration is free but fair trade. This remains broadly true despite the enactment or continuation, with the president's concurrence, of a number of sector-specific restrictions (discussed below). The President's Trade Policy Action Plan, announced on September 23, 1985, cites five guiding principles:

1. Free trade and fair trade are in the best interest of the citizens of the United States. Free trade produces more jobs, a more productive use of our nation's resources, more rapid innovation and a higher standard of living. Free trade also advances our national security interests by strengthening the economic and political systems of our allies. Fair trade based upon mutually acceptable rules is necessary for support of free trade.
2. The United States plays the critical role in ensuring and promoting an open trading system. If the United States falters in its defense and promotion of the free worldwide trading system, the system will collapse, adversely affecting our national well-being.
3. The United States role does not absolve our trading partners of a major obligation to support a more open trading system. This obligation includes: dismantling trade barriers, eliminating subsidies and other forms of unfair trade practices, and entering into trade liberalization negotiations in the GATT.
4. The international trading system is based upon cooperation. Since World War II, we have made significant progress in moving toward an open worldwide trading system. Protectionism threatens to undermine the system. Our trading partners must join us in working to improve the system of trade that has contributed to economic growth and security of ourselves and our allies.
5. America has never been afraid to compete. When trade follows the rules and there is an equal opportunity to compete, American

¹²Ibid.; Warren Brookes, "Debunking Net-Debtor-Nation Notions," *Washington Times* (September 29, 1986), p. 1D. See also *United States Trade*, chap. 1, p. 14, and chap. 10, pp. 123-125.

business is as competitive as any. This is fair trade and we will not impair it. When these conditions do not exist, it is unfair trade and we will fight it.¹³

Developing countries need to be reminded that the United States has one of the most open markets in the world. The fact of our enormous trade deficit reflects in part our commitment to maintain this open market. While certain sectors may be protected for various economic and historical reasons (see below), U.S. markets are much more open than those in Europe or Japan. In fact, the concern of many developing countries with perceived U.S. protectionism is more reflective of the importance of the U.S. economy for their growth, and a pessimism about prospects for opening other countries' markets. These factors have focused great attention on U.S. trade measures, but developing countries are substantially overstating the extent to which the U.S. market is closed to their goods.

Nowhere are the benefits of our trade policy to Thailand more evident than in our regional and bilateral trade statistics.

U.S. Trade with the Region. Since 1977, total annual U.S. trade with East Asia and the Pacific has exceeded our trade with every other region of the world. Today the region accounts for 35 percent of total U.S. two-way trade, compared to 26 percent for Western Europe, 14 percent for Canada and 14 percent for Latin America.¹⁴

U.S. trade with the region has grown dramatically in recent years. Between 1981 and 1985 it rose over 9 percent on a compound annual basis. In comparison, total trade grew only 3 percent annually during the same period. However, until 1986 this impressive growth was becoming increasingly lopsided. During 1981-85, for example, imports from the region rose nearly 14 percent on an average annual basis, yet U.S. exports to East Asia rose only 0.5 percent annually. In 1986, however, the gap began to close: Exports were up almost 11 percent compared to 1985, and imports up 15 percent. The U.S. deficit with the region increased by almost 30 percent annually since 1981, to more than \$96 billion in 1986.

U.S. Trade with Thailand. Thailand has participated fully in the U.S. import boom. Because of the openness of American markets, Thai exports to the U.S. have risen rapidly in recent years, from \$1 billion in 1983 to \$1.5 billion in 1985. The balance of U.S. trade with Thailand shifted from a \$28

¹³"The President's Trade Policy Action Plan," White House press release (September 23, 1985).

¹⁴These and following trade statistics from U.S. Department of Commerce data; exports, f.a.s. basis; imports, c.i.f. basis. Countries included in East Asia and Pacific are ASEAN, Australia, Burma, China, Hong Kong, Japan, South Korea, Macao, New Zealand, Papua New Guinea, Taiwan, and minor amounts of trade with other Pacific Islands and with Communist areas.

million surplus in 1983 to a \$700 million deficit in 1985. For 1986, the deficit could reach \$1 billion.¹⁵

As Thailand's largest trading partner, the United States takes about 20 percent of Thailand's total exports, including 30 percent of its textiles and apparel, a third of its steel products and half of its processed seafood, fruits, and vegetables.¹⁶ This trade volume is occurring despite textile quotas and countervailing and antidumping duty cases. Thailand's real GDP growth, which is driven in large part by exports, was 4 percent last year—the highest in ASEAN.

Anti-Protectionist Steps. The Reagan administration has not been protectionist, and has in fact resisted protectionism in Congress to the extent possible. A listing of administration actions in the past several years is illustrative.

- The president vetoed the Jenkins bill, and administration officials worked hard to keep the veto from being overridden. If the legislation had been passed over the president's veto, U.S. imports of textiles and apparel from Thailand in 1986 would have been cut by 30 percent in volume terms. Other developing countries would have been similarly affected. The legislation would have taken the place of negotiated bilateral agreements under the Multifiber Arrangement.
- In 1984 and 1985, the president rejected recommendations by the International Trade Commission to impose relief in the form of tariffs or quotas to protect the copper and footwear industries. These industries had filed escape clause petitions to seek relief from rapidly increasing imports. In the case of footwear, the commission's recommendations would have cut total U.S. footwear imports by 35 percent in volume terms. While Thailand is a relatively small supplier to the U.S. market, it would not have been able to double its exports (in dollar terms) to the United States since last year had the proposed quotas been implemented.
- The administration opposed congressional efforts to enact omnibus trade legislation, such as that contained in H.R. 4800, which was passed by the House in the spring of 1986, and elements of its Senate equivalent, S. 1860. Such legislation would remove the president's discretion to handle trade problems in certain sectors or with certain countries, and it could violate some international obligations and invite retaliation.

¹⁵U.S. Department of Commerce data.

¹⁶Thai Department of Customs, *Foreign Trade Statistics of Thailand* (Bangkok, December 1985).

Multilateral Approach to Trade Problems

The U.S. preference long has been for multilateral action. For this reason, a key element of U.S. trade policy has been promotion of a new round of multilateral trade negotiations under the General Agreement on Tariffs and Trade (GATT).

There is virtual worldwide agreement that although the GATT, the controlling element of the international trading system, has worked remarkably well over the last four decades, it needs to be strengthened and updated to deal more effectively with the problems of today's international business environment. Thus, the agreement at Punta del Este to launch the new "Uruguay Round" of multilateral trade negotiations is a major success for U.S. policy.

The new round will cover a number of critical issues—agriculture, services, intellectual property rights, investment, and dispute settlement. If agreements can be reached on these topics during the negotiations, they will be of long-term benefit to developing as well as developed countries.¹⁷

While the U.S. preference is for a multilateral approach to trade liberalization, it is significant that the United States is the only developed country with enough confidence in the relative openness of its own markets to offer to negotiate free trade areas (FTAs) with other countries. The U.S. and Israel already have reached such an agreement; negotiations with Canada are well under way; and administration officials have stated that, although currently the new round must be the first priority, the United States will consider offers to negotiate FTAs with any other country that expresses equal seriousness about reducing protectionism.

Fair Trade

U.S. officials, including the president, have stated on numerous occasions that there must be fair trade as well as free trade, that U.S. companies must have a "level playing field" in order to maximize exports. We estimate that \$20–\$25 billion of our trade deficit is a result of trade barriers in our markets overseas.¹⁸ An important part of U.S. trade policy is—and it has been—the development of efforts to improve the access of American companies to foreign markets. As such, these efforts cannot be considered protectionist.

Since the beginning of this administration, and especially since September 1985, unfair trading practices have received great attention

¹⁷Testimony of Clayton Yeutter, U.S. trade representative, before the Trade Subcommittee of the House Ways and Means Committee (September 25, 1986).

¹⁸Testimony of Secretary Baldrige before the Energy and Commerce Subcommittee on Oversight and Investigations, cited above (n. 9).

from the U.S. government. Many of these practices have been in effect for years. They involve many nations—including Thailand and others in East Asia—and many products.

For example, Thailand's markets are relatively open but are not entirely free from barriers, such as these:

- Moderate to high tariffs, most in the 30–60 percent *ad valorem* range. In April 1985, Thailand implemented a wide-ranging 25-percent average tariff increase as a revenue-raising measure. Some tariffs of interest to U.S. exporters have since been reduced, but the overall level is still high.
- The government tobacco monopoly bans foreign participation in manufacturing joint ventures and limits cigarette imports. (Thailand does import tobacco leaf from the United States.)
- Intellectual property problems exist: The patent law does not cover pharmaceuticals. Trademark counterfeiting is widespread—penalties are too low and the law is inadequately enforced. Piracy of copyrighted works also is widespread—current Thai law does not provide direct protection for U.S. works. The Thai government is in the process of improving some of these laws.
- Service industries face barriers: Foreign banks cannot open new branches and they meet other restrictions. Foreign insurance companies have to deal with discriminatory capitalization requirements and government preference for domestic insurers.

A total of more than 40 actions against unfair trading practices have been initiated by our administration since January 1985. Some of these actions emerged from the Trade Strike Force—established by the president last September and chaired by the secretary of commerce, to counter unfair trade practices.

The United States has also made full use of other tools available under its trade laws, including Section 301 of the Trade Act of 1974 (as amended by the Trade and Tariff Act of 1984). In the fall of 1985 we took the unprecedented step of self-initiating section 301 investigations. The president directed the U.S. trade representative to initiate four cases. The cases concerned Japanese access restrictions on tobacco products, Brazil's informatics policy, and South Korean intellectual property rights protection and insurance market restrictions. In October–December 1986, we successfully utilized Section 301 provisions to obtain improved market access in Taiwan for beer, wine and cigarettes.

Intellectual Property Rights

Intellectual property rights—patents, trademarks and copyrights—are an area in which we seek increased protection for our companies overseas. Infringements on the rights of U.S. firms are widespread in developing (as well as in some developed) countries, and are

especially prevalent in countries of East Asia including Thailand. Examples include piracy of copyrighted matter such as computer software and videocassettes; infringement of trademarks on garments, sports shoes, cosmetics and personal accessories; and infringement of patents on pharmaceuticals.

We are committed to improving the level of protection for U.S. intellectual property worldwide, whether through bilateral, multi-lateral or unilateral means. U.S. firms are often most competitive in industrial sectors embodying high technology. Thus technological progress is a critical aspect of U.S. competitiveness both at home and in foreign markets. Because new technology increasingly requires large investments in research and development, companies need to be assured that the results of their efforts will accrue directly to them or their licensees. Without this assurance, the R&D effort will not be cost-effective and probably will not be made.

U.S. efforts to gain improved intellectual property protection worldwide, while undertaken on behalf of American companies, nevertheless will result in substantial benefit to developing countries themselves, including Thailand. The developing countries may argue that the "costs" of protecting intellectual property—royalty payments, price increases to consumers, and the apparent loss of opportunity for the development of domestic industries—are prohibitive. Such arguments ignore the substantial benefits to be obtained:

- Local innovation, entrepreneurship and cultural creativity will be encouraged if they can develop without cut-rate competition from counterfeiters.
- Foreign investment will be attracted. Developing countries the world over are competing among themselves for scarce investment dollars. Developing countries thus need to make their investment climates as attractive as possible. Adequate and effective intellectual property laws contribute to the perception that a country is a good investment site. This kind of competition in the East Asia and Pacific region is increasing. Korea, Taiwan, Malaysia and Singapore already have taken steps or given commitments to improve the level of intellectual property protection they offer.
- If a country offers good intellectual property protection, foreign investors will be more willing to transfer higher levels of technology. Good policy in this instance would include protection for pharmaceutical and chemical compounds per se, as well as

copyright protection for computer software and, increasingly, special protection for semiconductor chips.¹⁹

Generalized System of Preferences

Finally, the United States has renewed its commitment to provide tariff preferences to developing nations. The legislation which implements the renewed Generalized System of Preferences (GSP) establishes a linkage between the program's duty-free benefit opportunities and the international obligations of GSP beneficiary countries. Critics of this linkage point out that including trade policy factors in the eligibility criteria violate the spirit and intent of the original GATT waiver under which GSP is considered as a non-reciprocal, unilateral grant.

We do not agree. The U.S. GSP program is consistent with our GATT obligations and is being administered in a generalized, non-discriminatory manner since its provisions are applicable to all beneficiary countries.

The U.S. GSP program is the most generous offered by developed countries in that it provides duty-free treatment in all instances, not simply reduced tariffs. The GATT enabling clause recognizes that recipient countries are expected to undertake increased obligations in the international trading system as their individual levels of development permit. The United States believes that a clear indication of an understanding of the responsibilities less-developed countries face today, as demonstrated by gradual but continuing steps in the direction of achieving a fully open trading environment, is necessary for the health of the international trading system and for continued viability of the GSP program.

As part of an overall review of the GSP program, we are carefully looking at those steps governments have taken and measuring them against development levels and product-specific competitiveness to determine an appropriate level of GSP benefits for each country. Under Title V of the Trade and Tariff Act of 1984, in making any decisions regarding a country's GSP benefits, the president must consider specifically the extent to which a beneficiary is

1. providing reasonable access to its markets for U.S. goods and services;
2. refraining from unreasonable export practices;
3. providing adequate protection to U.S. intellectual property rights;

¹⁹"The Economics of Protecting Intellectual Property," remarks given by Linda Droker, U.S. Department of Commerce, before the Joint U.S.-Indonesian Seminar on Intellectual Property Rights, Jakarta, Indonesia (February 18, 1986).

4. reducing trade-distorting investment measures (for example, local content or export performance requirements); and
 5. taking steps to grant internationally recognized workers' rights.
- All of these factors are considered along with the beneficiary country's level of development and product-specific competitiveness.

We have consulted with GSP beneficiary countries in the context of the general review of the program. Thailand is an important GSP beneficiary, ranking tenth in terms of the dollar value of U.S. GSP imports from all beneficiary developing countries. This entitles Thailand to duty-free treatment on a wide range of agricultural and manufactured goods, permitting increased Thai export volume and market share in certain categories.

In consulting with the Thai government, we have stressed the legislative changes to the GSP program and the potential for increased benefits for Thailand. The United States believes that, far from being protectionist, extension of the GSP program in this form allows us to respond better to both the concerns of U.S. industry and the changing needs of developing countries. The general review of GSP, the outcome of which was announced by the president on January 4, 1987, resulted in an increase in Thailand's potential GSP benefits by removing the ceilings on four categories. The potential increase, valued at \$16 million, was tied to Thai government commitments to improve specific intellectual property and market access problems.²⁰

Import Restrictions

A number of U.S. laws and regulations concerning imports are of concern to Thailand. It is an internationally accepted principle that countervailing duty and anti-dumping laws and procedures are not protectionist. Rather, countervailing duty (CVD) and anti-dumping laws are important tools for combating unfair trade practices. Our laws in this area have been in existence since 1897 and 1916. They enable us to counter unfair practices by imposing duties equal to the dumping or subsidy margins. U.S. companies have the right to seek redress under these laws and have been using this right with more frequency during the past five years. The U.S. government is committed to enforcing the laws. We have no control over the right of a private firm to initiate action.

The five recent petitions against Thai products were initiated by private firms or associations, and the U.S. government is required to investigate the allegations made in those petitions. In all the CVD cases, the final subsidy margins were determined to be less than 2 percent, indicating a low level of subsidization by Thai government

²⁰U.S. Department of Commerce, ITA, Office of Multilateral Affairs.

programs. In an anti-dumping case on steel pipe, the dumping margins (which reflect actions taken by private Thai companies, not the government) were between 15 and 16 percent. The margins represent the amount of additional duties to be assessed on imports to offset the subsidies or dumping.

Section 201 of the trade act of 1974 recognizes that nations may occasionally find it necessary to provide temporary safeguards for industries undergoing serious harm caused primarily by a surge in imports. Occasional U.S. safeguard actions in accordance with our trade laws are consistent with our GATT obligations. The relief granted must be determined to be in the national economic interest. It must also be temporary, decline over the period of relief, and offer the prospect of adjustment on the part of the U.S. industry so that it will be competitive after the relief is terminated.²¹

The United States maintains a number of sector-specific programs either to limit imports or to subsidize exports. Because these sectors are often of greatest interest to developing countries such as Thailand, they tend to take on a disproportionate significance in affecting developing countries' perceptions of the nature of U.S. trade policy. Currently these sectors include textiles, steel and agriculture. (Machine tools are excluded because the basis for limiting imports under voluntary restraint agreements is national security.)

Textiles. Protection for the textile and apparel industry by developed countries has a long history, beginning, in the U.S., under Section 204 of the Agricultural Act of 1956. The Long-Term Arrangement Regarding International Trade in Cotton Textiles, the predecessor to the Multifiber Arrangement (MFA), was negotiated in 1962, while the first MFA was negotiated in 1973. Under the MFA, the United States has negotiated 35 bilateral textile and apparel restraint agreements with major suppliers. The underlying policy is to relate total import growth to the growth in the domestic textile and apparel market.²²

We are committed also to conducting textile trade policy under the auspices of the MFA. That is why the president vigorously opposed passage of the proposed Textile and Apparel Trade Enforcement Act of 1985 (the Thurmond-Jenkins bill) on the grounds that it would violate our MFA commitments and our GATT obligations. Thailand in fact maintains its standard MFA growth rate of 6 percent per year in categories under specific limits, while Korea, Taiwan and Hong Kong will be allowed only minimal growth for the next several years. Moreover, while the situation

²¹"Trade Policy Action Plan."

²²U.S. Department of Commerce, Office of Textiles and Apparel, "U.S. Textile and Apparel Import Program" (February 2, 1984), p. 5.

in world textile trade remains far from ideal, Thailand and other developing countries have benefited from greater access to the U.S. market than either the European Economic Community (EEC) or Japanese markets. For example, the United States imported \$336.5 million of textiles and apparel from Thailand in 1985, compared to \$35.7 million for Japan and \$280.3 million for the EEC. U.S. apparel imports alone increased an average of 33 percent a year between 1981 and 1985, compared to 4 percent for Japan and 1 percent for the EEC.

Steel. In steel, the United States has negotiated voluntary restraint agreements with 19 countries. The program, due to expire in 1989, has succeeded in reducing import volumes and the level of import penetration with regard to countries under the arrangement. The purpose of these limitations is to allow the redevelopment of many areas of the U.S. steel industry which are essential to the country's national interest.

Agriculture. In virtually all countries, agriculture poses a complex range of problems. Countries with significant farming sectors have long had to face the question of how to assist this sector in times of low prices. In the United States, the traditional "family farm" is an important cultural value, and the failure of large numbers of small farms is an emotional issue having extensive political ramifications. Large, corporate-owned farms as well as family farms also are important politically to farm-state senators and congressmen. The loss of export markets abroad—due to recent exchange-rate problems and the long-term success of the "green revolution" that has enabled more developing countries to feed themselves—is a further factor depressing the U.S. farm sector.

But possibly the most important rationale underlying U.S. farm subsidization programs is the subsidies of others, particularly the European Community. We have stated on numerous occasions that we are willing to bring agriculture under GATT discipline and phase out subsidiaries—but only if the EC will do the same. Fortunately, the agreement at Punta del Este ensures that such subsidies will be on the negotiating table in the new Uruguay round.

Rice. The food security act of 1985 is the latest in a long line of laws designed to help the farm sector, with a major goal being to make U.S. commodities more competitive in world markets. Thailand is concerned with the rice title of this act, which provides U.S. rice farmers with a subsidy in the form of partial loan forgiveness. This means that U.S. farmers may borrow money on their rice crops at the domestic price, but repay the loans at the lower loan rate based on the Agriculture Department's "world price" formulation. What is often overlooked is the fact that the act also requires a 35-percent acreage reduction on the part of U.S. rice farmers.

The intent of the rice title is to export more U.S. rice. Over the past five years the U.S. world market share has fallen from almost 23 percent to less than 17 percent, while the Thai market share has risen from 25

percent to almost 40 percent. This U.S. loss of world market share was attributable to the high loan rates maintained by the U.S. farm program as it was constituted before the passage of the 1985 act. The act so far has been successful in that, since it went into effect in April 1986, U.S. rice exports increased nearly 27 percent over the April-August 1985 levels. U.S. exports were, nevertheless, lower than they had been in 1984.

The impact of the farm act on Thai rice exports was less than many in Thailand had expected in 1986, but it is likely to be greater in coming years. Of the grades of rice Thailand exports, only about 500,000 to 600,000 tons compete head-to-head with U.S. rice, mostly in Europe and the Middle East. Using 1985 statistics, Thailand exported about 4 million tons of rice valued at \$850 million. Since total Thai exports in 1985 were \$7 billion, the share accounted for by rice was only 12 percent; and direct competition from the U.S. affected only 13 percent of Thailand's rice exports in tons and less than 2 percent of Thailand's total export earnings.

Statistics show that the impact of the act on the *volume* of Thai exports in 1986 was not dramatic. Total Thai exports exceeded 4.3 million tons, about twice the volume of U.S. exports and the second highest on record. U.S. and Thai rice competed directly in few markets, but Thai *revenues* from rice exports were \$738 million in 1986, down by \$115 million from 1985. Much of this was a consequence of the fact that lower grades of rice were being demanded and shipped, and that the price of lower quality rice (which the United States does not export) fell.

Nevertheless, prices on each of the grades are interlinked and the presence of greater quantities of U.S. rice has had an impact on an already-soft market. Yet it is important to recognize that, even before implementation of the act, Thai farmers were receiving low prices. World rice prices have in fact been falling since 1981.

Early indications for 1987 are that some of the downward pressure on prices may be reversed at least partly because of smaller than expected harvests in producing countries, the Thai government's market intervention activities, and the possibility of large purchases later in the year by countries not previously in the market.²³

Sugar. The food security act also requires the administration to operate the sugar program at no cost to the government. This would require tightening our quotas by almost 30 percent. Thailand currently has a 1.4 percent share of our base quota. The administration has expressed concern about the effects of the level of the price supports on sugar-supplying countries and U.S. industry, and will be exploring ways to fulfill the president's commitment to change the program. A recent disposal of Commodity Credit Corporation sugar to China became an irritant in U.S.-Thai trade relations. China is a large importer of raw sugar, and certain of its suppliers had a crop shortfall this year. The CCC export to China was

²³U.S. Department of Agriculture, Foreign Agricultural Service, Grain and Feeds Division.

designed to fill this shortfall without displacing other traditional suppliers. The Chinese themselves made a commitment to this effect. The price and terms of the sale were set to meet competitive factors in that market. More recently, U.S. sugar growers decided not to forfeit some 250,000 tons of sugar to the CCC but instead to redeem it by repaying their loans and selling the sugar in the U.S. market.

Commodity Policy

Another element of U.S. trade policy is of interest to Thailand—commodity policy. As with other elements of our policy, the United States favors actions which foster free markets and opposes actions which restrict them. In order to stabilize volatile commodity prices around long-term price trends, however, the United States has been willing to consider appropriate proposals for market-oriented commodity agreements on a case-by-case basis. Among the factors we consider is whether the proposed price range is compatible with long-term market trends for the commodity. The United States subscribes to only two agreements designed to stabilize prices, the international coffee agreement and the international natural rubber agreement. The United States declined to participate in the now-failed sixth international tin agreement, although we did participate in its predecessor. The U.S. government considered the size of the tin buffer stock to be unrealistic and not designed to protect the interests of consuming countries. In fact, when the buffer stock reached its financial limits late last year, it could no longer achieve its ambitious goals of absorbing excess tin and maintaining an unreasonable price level in the face of falling demand. In commodity markets, the laws of supply and demand rarely can be circumvented for long.²⁴

Investment

Foreign investment issues have become an increasingly important component of trade policy. As with trade, we believe investment capital should be allowed to flow as market conditions dictate and not in response to government actions. President Reagan issued a statement in September 1983 elaborating on this view, emphasizing our "strong support for the concept of national treatment, which extends to foreign direct investors in the United States," and highlighting multilateral and belateral steps we have taken or plan to take to help liberalize international investment flows.²⁵ Placing trade-related investment measures on the Uruguay round agenda represents one success in this area.

²⁴U.S. Department of Commerce, ITA, Office of Metals, Minerals, and Commodities.

²⁵"International Investment Policy Statement," White House press release (September 9, 1983).

U.S. investment relations with Thailand have been happy and profitable for both sides. Since 1968 our bilateral investment relations have been governed by a Treaty of Amity and Economic Relations, which (with some sectoral exceptions) ensures the parties national treatment of each other's investments.

According to U.S. Department of Commerce data, cumulative U.S. investment in Thailand totaled \$1.02 billion in 1985, up 31 percent since 1982.²⁶ Principal sectors are energy, finance, electronics, food processing and consumer products. According to a survey conducted on behalf of the Foreign Commercial Service of the U.S. embassy in Bangkok, companies reported that government investment incentives and the country's prospects for long-term political and economic stability had brought them to Thailand. Major disincentives cited were high import duties, high corporate and personal income taxes, arbitrary or cumbersome customs and taxation procedures, lack of patent protection for pharmaceuticals, uncertainty about copyright protection for computer software, and restrictions on expansion.²⁷ Attention by the Thai government to these problems would encourage further U.S. investment.

Conclusion

Thailand as well as other countries, both developed and developing, will benefit from participation in the worldwide market liberalization and elimination of subsidies that is the ultimate goal of the new Uruguay round and of U.S. trade policy.

The United States is convinced that its support for free and fair trade provides the best hope for worldwide economic expansion. Thailand along with other countries has benefited substantially from its trade with the United States. The United States cannot, however, continue to be the sole locomotive for world economic growth. Other nations will need to assist us. Industrialized countries can help by accelerating growth in their own economies, which would increase demand for U.S. exports and further reduce interest rate differentials among these countries. The newly industrializing countries can help by accepting more responsibility as full-fledged members of the international trading community for upholding the rules of international

²⁶Bureau of Economic Analysis statistics. These figures represent the book value of U.S. direct investors' equity in and net outstanding loans to their foreign affiliates. Thus the position measures the net claims of U.S. parents on their affiliates. It is not a measure of the assets of the affiliates. Hence these figures are considerably smaller than those used by other sources, such as that in note 27, which uses a figure of 115 billion baht, or about \$4.3 billion.

²⁷Industrial Market Research Services and Jorges Orgibet Associates, *Final Report: Survey of U.S. Investment in Thailand, Prepared for Foreign Commercial Service* (Bangkok, April 18, 1986), section 4.

trade. Developing countries, including Thailand, can help by supporting U.S. goals in the new GATT round, by eliminating their own trade barriers, by giving equal consideration to American companies bidding on major government tenders and by improving intellectual property protection. In a world where any nation's actions can affect the economies of others, such cooperation has become essential.

18. U.S. Trade Policies—A Credibility Gap

PROK AMRANAND

The past few decades saw rapid growth of Thai exports to the United States. The increase was not merely in volume but also in the degree of dependence of individual export products to that market.

Example: More than half of Thai canned tuna now is purchased by the United States as compared to 15 percent in 1980. Yet Thai imports into the United States, with few exceptions, constitute only a fraction of the U.S. market share. Example: Thai textiles represent only 1.5 percent of U.S. textile imports, and a much lower percentage in relation to total U.S. textile consumption. To most Thai exporters, the U.S. market is a rich, almost untapped territory.

As we were about to enjoy the relatively open market and to follow our more industrialized neighbors like South Korea, Taiwan and Hong Kong into the huge green pasture, the gate was beginning to close. Like others, we were hit indiscriminately by the tide of protectionism. In Thailand, like many other countries, we believe that the new barriers against most of our imports into the United States are unjustified. We heard the arguments used by proponents of trade barriers, that U.S. imports have to be restricted to solve the unemployment problem, to remedy U.S. trade deficits and so on.

On the other hand, we heard more rational arguments from a larger sector in the United States that protectionism is, as Dr. Paul Volcker, then chairman of the Federal Reserve Board, said, "a wholly destructive idea that could cause a worldwide recession."¹ We also heard many leading economists and prominent businessmen who repeatedly pointed out the dangers of trade protectionism as well as the fallacies of the arguments for it. Dr. Henry A. Kissinger said that "protectionism will produce despair in the developing countries, will destroy their hopes for progress and make their debt problems unmanageable."²

¹*Bangkok Post*, February 28, 1986.

²*Washington Post*, October 8, 1985.

The major causes of the U.S. economic maladies are known to be the overvalued dollar, continued high interest rates created by heavy borrowing to finance accumulated budget deficits, and the high cost of production and inefficiency in certain industries.

We realize that in the United States government there are fair-minded people. For instance, when the U.S. tuna industry complained to the International Trade Commission that tuna factories were forced to close down because of increased imports of canned tuna, the ITC after a thorough investigation overwhelmingly voted in 1984 that the imports were not a "substantial cause of injuries to domestic industries." Thus there was no ground for restricting imports of canned tuna.

Despite strong resistance against protectionism from various sectors in the United States, we were dismayed to see that restrictive trade bills—one after another—were passed by the U.S. Congress. Therefore, all fingers were pointed at Congress, which appeared to have yielded too easily to pressure from special interest groups. However, to be fair, one must say that not all members of Congress easily submit to such pressure.

This time last year, when the Jenkins bill caused us many sleepless nights, Dr. Wiwat Mungkandi of Chulalongkorn University and I had a long "electric dialogue" with Congressman Philip M. Crane (R-Ill.). The first question put bluntly to him was:

We have noted your views that trade protectionism is not a long-term solution to your unemployment and trade deficit problems, as widely claimed. On the contrary, protectionism could trigger an economic crisis as in the early 1930s. We have also learned of your personal conviction that protectionism is not in the interest of the United States, as it will hurt both yourself and your friends and allies abroad. Yet, Congressman, over half of the United States Congress still hold on to the misconception, or perhaps a self-deception idea, that the United States must follow the path of protectionism. So, Congressman, how are you going to get the rest of your colleagues to stop fooling themselves and be guided by their own conscience, instead of being led by certain special interest groups? We in Thailand, like in many other countries, look up to the U.S. as the social conscience of the world and we expect to see most, if not all, of your colleagues act responsibly, befitting that crucial role.³

Congressman Crane's reply was candid and enlightening. He said:

A majority of the members of the U.S. House of Representatives and a majority of the members of the United States Senate today are taking a short-sighted and incorrect position in response to transitory hardship within their own constituencies and, as a result, they have a staggering

³United States Information Service (USIS), Bangkok, *Backgrounder*, November 15, 1985.

impact on Thailand, one of our most faithful, loyal and consistent allies, in one of the most troubled spots of the world.⁴

Congressman Crane added that he was “distressed that we have members of our legislative chambers here that are not looking at the issue as much as they are looking at the next election.”

Regarding the strength of the pressure groups, Crane remarked: “Those people who were injured tend to be more organized and vocal in their communications with members of Congress, and many members of Congress run scared of that. But that may not represent the majority. It may be, and usually is, that those people protesting are better organized and vocal.”⁵

That dialogue Dr. Wiwat and I held with Congressman Crane aided our appreciation of the American political and legislative process—something that we in Thailand are not so familiar with.

While there were strong sentiments in the U.S. Congress to legislate more and more restrictive trade measures, the U.S. administration may appear to be right-minded, a champion of free trade. But that is not quite true. The executive branch of the U.S. government is not entirely virtuous either.

For years, even before being elected to the White House, President Reagan preached to the world the magic of the free, unfettered marketplace. But lately, his actions have not been consistent with what he preached. His administration has used enormous economic power to destroy free market mechanisms in the world economy. This started even before the farm act was signed and implemented by his administration.

In June 1985, the secretary of agriculture decided to provide a huge subsidy of US\$2 billion for wheat exports to Algeria, in order to fight against its European competitors which traditionally had been assisted by their governments. Then on September 23, 1985, President Reagan announced the formation of a “war chest” of \$300 million and a “strike force” to recapture export markets. In terms of international economics this is tantamount to allowing export subsidies to distort free trade and competition, a violation of a basic GATT (General Agreement on Tariffs and Trade) principle. And more recently, after the enactment of the Food Security Act, further disruption of the world’s free market mechanisms was achieved by the so-called champion of free trade, which gave massive and unprecedented subsidies to a variety of agricultural export products.

The irony of all this is that if a foreign country should give a subsidy to goods exported to the United States, it would be considered illegal, an unfair trade practice or dumping, and would be subject to punitive

⁴Ibid.

⁵Ibid.

measures such as imposition of a countervailing duty (CVD). Now the United States itself has adopted that illegal practice at the sacrifice of its longstanding principle and at the great expense of its trade partners, friends and allies. It is evident that the United States wants to have it both ways. As a consequence, such duplicitous action leaves an unfavorable impression that the United States is a nation of dual standard, one for international dealings and another for domestic purposes.

In fact, the international image of the United States, even in the eyes of its old friends and allies, has not been so bright and shiny lately. The perception that the United States is the custodian of international norms has been eroded by its recent actions. For instance, regarding U.S. refusal to pay the United Nations dues in accord with commitments to the world body, Elliot L. Richardson, a prominent international jurist, four-time cabinet member and former U.S. Ambassador to the Court of St. James, wrote that

the legal course has been ignored. Ironically, in their collective resort to illegality, Congress and the Administration have injured America's stature and credibility as a defender of international law at precisely the time that it is exhorting others to join in the defense of international law against terrorism. That is a double standard that should be disquieting to United States policy makers.⁶

Further, Mr. Richardson posed a crucial question: "As the casual disregard of United States treaty obligations in one case tends to debase the value of the United States signature on any treaty—does the United States want to have to explain to allies and fellow signatories when its word is good and when it might be winking?"⁷

Another recent incident which shows U.S. disregard for international norms occurred when the Reagan administration announced in July 1986 its decision to defy the World Court's adjudication and judgment in the case of Nicaragua versus the United States. This particular instance provoked within the United States itself an expression of shame. The International Court of Justice historically was supported by the United States and was utilized to America's advantage during the Iranian hostage crisis. Now, the United States treated that independent institution which has been universally recognized as a custodian of international law with disrespect, thus undermining its very stature.

There are other instances that may be cited to show such dualism in U.S. policies and performance, leaving people like us in Thailand in a state of confusion and uncertainty. Being a superpower, the United

⁶*International Herald Tribune* (Asia Edition), May 21, 1986.

⁷*Ibid.*

States is becoming accustomed to violating international trade rules and other norms—and getting away with it.

In politics memories normally are short. International differences and conflicts tend easily to be forgiven and forgotten as national interest veers and shifts. But in the international economic field, that is not quite so, since business is tangible and it takes time and money to plan and develop. International business would be badly inhibited if the policies and directions of the world's largest trading country were fast-changing and devoid of credibility. A healthy growth of world trade cannot be achieved if the rest of the world business community is kept guessing as to which set of rules the superpower is going to use. This particular point is of grave concern among those who seriously are anticipating a worthwhile outcome to the forthcoming GATT round of multilateral negotiations, aimed at reducing barriers and subsidies in international trade.

The last (Tokyo) round of GATT negotiations took seven arduous years to complete and more years to get the various codes and agreed documents ratified by national governments. In the forthcoming round, the scope of negotiations will be broader and the number of active participating nations will be larger. Although the target set among the GATT members is to have the negotiations complete in four years, I feel that that is over-optimistic.

A point of serious concern is that, after the tremendous effort, time and resources spent on such difficult negotiations, will the United States finally ratify and honor all or any of the agreements reached at the negotiation table? Will succeeding administrations remain firm in support of negotiated results achieved by U.S. trade representatives? Will Congress overturn the administration's stand at a final stage? With United States credibility continuing to erode, I fear that other participating governments may have to expect the worst in order to avoid disappointment.

Already Thailand's trade problems with the United States have become a wedge that drives us apart. As Thailand's dependence on the U.S. market is increasing, that wedge is bound to get deeper, unless the protectionistic trends in the United States are arrested and U.S. credibility restored.

Thailand is not alone in this predicament. Other U.S. trade partners and friends—even those with close special ties with the United States such as Canada, Australia and the EEC members—find themselves alienated by America's deleterious trade policy. Canadian Prime Minister Brian Malroney, for example, condemned in May 1986 the U.S.

imposition of tariffs on wood import as "an unfortunate action taken by friends who go astray."⁸

If such a country as Canada, with its considerable leverage and ability to retaliate can do so little to get the United States to go straight, what can a small, far-away country like Thailand do but exert greater effort to help ourselves?

⁸Ibid., May 29, 1986.

19. A Comment on U.S. Trade Policy

SURAKIART SATHIRATHAI

U.S. arguments in defense of its trade policy are well known. This comment¹ intends neither to defend Thailand's position nor to offend the United States, but aims to present the kind of perspective that is needed to support substantive cooperation. The comment is divided in three parts, namely, specific issues of concern, perspectives and what should be done.

Specific Issues of Concern

U.S. Antidumping and Countervailing Duties Laws

It is often argued by the United States that anti-dumping (AD) and countervailing duties (CVD) measures are not protectionist, for they are designed to counter unfair trade practices of foreign subsidies and dumping. This is true in form but not in substance. It is difficult to understand how trade from Thailand is unfairly practiced when the U.S. CVD imposed on Thai products sold in the United States is as small as 0.75 percent on rice and 1.2 percent on garments. On the rice issue, it is clear that 0.75 percent is the justification for the allegation of unfair trade practices in Section 1165 of the Farm Act. With such an allegation, export subsidies can be granted to U.S. exporters who compete with exports from the alleged unfair trading country such as Thailand (Sections 1165 and 1127 of the Food and Security Act of 1985).

Furthermore, it has been argued that anti-dumping and countervailing duties measures are not protectionistic, for their purpose is to assure a "level playing field." Even setting aside the unclear determination of what constitutes export subsidies and what does not, the U.S. imposition of CVD to offset subsidies without prior proof of injury caused by such subsidies is in itself protectionistic, contravening international regulations on subsidies and CVD. It also is asserted by the United States that Section 301 of the Trade Act of 1974 (as amended)

¹This comment is based primarily on Melvin W. Searls, Jr., and Linda S. Droker, "U.S. Trade Policy: Implications for Thailand," this volume.

aims to counter unfair trade practices, not to create unnecessary trade barriers. Although the purpose of the law is not disputed, we have seen difficulties in deciding "unfair trade practice." Section 301 creates an uncomfortable feeling for a U.S. trade partner like Thailand. It is generally accepted that the application of the section is more political, at least more than Section 303 of the Tariff Act of 1930 concerning CVD to offset subsidies. For example, it gives power to the administration to self-initiate investigation on any trade issue without petition from the injured parties in the U.S. The application of the section is broad, covering everything from the tariff increase to the increase of subsidies for U.S. exporters. When U.S. domestic law instead of international trade law is applied to international trade issues, and particularly not in a legalistic manner, the U.S. discretion over legal application predominates.

Rice

The Food Security Act of 1985 (better known in Thailand as the U.S. Farm Act of 1985) has provided enormous export-promoting subsidies to U.S. rice exporters. These subsidies have increased U.S. competitiveness against Thai rice sales in international markets such as the Middle East and Latin America. The United States has argued that Thai exports rose in 1986 despite the farm act. However, the effects on Thailand are not seen in the mere volume increase. The increased volume accompanied by a decrease in prices led to lower income for farmers.² Thai rice export prices had to be lowered in order to sustain exports while the U.S. price was sharply decreased. It must be noted that the increase in Thai market share in the early 1980s and at present has not been a result of any subsidies. Furthermore, the argument that U.S. rice export pricing is not predatory is hardly convincing, for an export price of approximately US\$3.50 per cwt. contrasted with a production cost of US\$11.90 cwt. Finally, the U.S. argument that an acreage restriction required under the farm act will phase out subsidies is partially misleading. An acreage restriction does not always result in proportionally less production, particularly when production technology is introduced.

Intellectual Property (IP) Protection

This comment will set aside jurisprudential issues of intellectual property rights and their protection. Still, one cannot be convinced by the U.S. claim of lack of intellectual property (IP) protection. The claim makes it seem as if Thailand has no IP law. Indeed, the Thai trademark

²See Jeffrey A. Frankel, "Impact of U.S. Economic Policies on a Commodity-Exporting Debtor: Thailand," this volume.

act was enacted in 1931, the copyright act in 1978 and the patent act in 1979. Thailand has been a party to the Berne Convention on the Protection of Literary and Artistic works (under the Berlin Act of 1908) since 1931. Most of the oft-cited benefits such as innovation, creativity and foreign investment have already been encouraged and guaranteed under the Thai law. The concept of "good protection" of intellectual property as linked to transfer of technology is uncomfortable to the Thais when "good protection" is defined according to the United States to include pharmaceutical and chemical compounds, computer software and semiconductor chips.³ To the Thai community, this brings up the question, "Good for whom?"

Generalized System of Preferences (GSP)

It has been argued by the U.S. administration that the granting the Generalized System of Preferences (GSP) by the United States is not discriminatory because the program applies to all beneficiary countries. However, this statement is misleading. The GSP is discriminatory from its inception, for it favors developing countries over developed countries and more importantly it gives different degrees of favor to different developing countries. Indeed this latter discrimination is restated by U.S. law and Administration policy. Title V of the Trade and Tariff Act of 1984 requires conditions the president has to set forth prior to his extension of GSP benefits. For example, whether a beneficiary country provides adequate protection of U.S. intellectual property, reasonable access to its markets for U.S. goods and services, steps to secure internationally recognized workers' rights, and so forth. It also is noted that the GSP concept sprang from the non-reciprocity principle embodied in Article 36 (8) of the General Agreement on Tariffs and Trade (GATT). With the above-mentioned conditions for granting GSP, the non-reciprocity principle is no longer applied. The GSP recipient has to reciprocate the United States in order to receive such privileges.

Services

The United States has advocated liberalization of trade in services, for it considers itself as having comparative advantage in the financial arena of banking and insurance. However, other aspects of service also must be liberalized. For example, airline restrictions such as landing rights must be relaxed. Furthermore, a liberalization of services must be accompanied by free movement of labor and capital. For example, a liberalized hotel business also must include permission for personnel to work in the other country. Free trade in services must therefore take into account a liberalization of other crucial elements.

³Searls and Droker, "U.S. Trade Policy."

Concept of Graduation

The U.S. view is that GSP privileges, as one of the special and differential treatments provided for less-developed countries (LDCs), must be gradually phased out. This process is called graduation. It is argued that an LDC is no longer eligible for privileges once it has developed to a certain stage at which it can undertake full obligations under the GATT. Even setting aside the issue of who is to decide that development level, asking the LDCs to graduate is rather ironic. It is in fact the developed countries, particularly the United States, which should be graduated from special exceptions they enjoy under the GATT. Those legal and illegal exceptions are indeed numerous. They include huge export subsidies on U.S. agricultural products; grandfather rights exception to GATT allowing U.S. laws that existed before 1947 to remain in force despite their contravention to the GATT; the 1955 waiver for Article 22 of the U.S. Agricultural Act, allowing the United States to adopt any measures to protect its price support policy; the imposition of CVD without an injury test requirement; VER (voluntary export restraint) arrangements for various products; and so forth. I believe many LDCs are willing to adopt the GSP graduation scheme if the same principle is applied to the existing U.S. privileges under GATT.

Standstill and Rollback

The United States often has referred to standstill (not to take any new GATT illegal measures) and rollback (to phase out existing GATT illegal measures) principles pledged in the ministerial declaration to launch the Uruguay round of the multi-lateral trade negotiations (MTN). We want to see that such reference is accompanied by true commitment to those principles. Huge export and production subsidies provided under the Farm Act for U.S. rice exports affecting Thailand are clearly inconsistent with GATT law, spirit and intention and with the ministerial declaration. The use of GSP, which emanated from GATT's non-reciprocity principle, to pressure developing countries for a return benefit of protection of U.S. intellectual properties should be the subject of discussion under the standstill and rollback principles. Reference to those principles makes the new round of MTN look promising. Yet a mere reference without true commitment to the principles would only disabuse developing countries of any realistic hope for the success of the MTN.

Perspectives

Apart from specific issues on which Thai arguments need to be elaborated, there has been a tremendous amount of misperception of

Thai-U.S. trade relations. The U.S. arguments or complaints could be categorized as follows: First, the United States has domestic economic problems, and its trade deficit figure is huge. Second, despite those problems, the United States has still helped other nations and opened its market to their products. It has attempted to negotiate an opening of the Japanese market, which, if successful, would benefit developing countries as well, including Thailand. If other nations are more protectionistic than the United States, then why is the United States always the target of the anti-protectionist movement? Third, the United States has argued that it supports the free trade principle. Attempts have been made by the administration to stop or reduce protectionism. The president has rejected several recommendations by the International Trade Commission to impose import relief in the forms of tariffs or quotas.

The above arguments are well-founded. Positive U.S. action against trade protectionism has been deeply appreciated. However, the following perspectives also must be taken into account.

First, the above arguments are sound and acceptable if the United States does not stretch our understanding of U.S. problems to include our submission to all the U.S. requests. It does not follow that, since the United States has such problems, Thailand has to entertain all U.S. requests.

Second, the United States also must understand Thai domestic problems as they ask Thailand to understand theirs. For example, the United States must appreciate political and economic effects in Thailand if patents on pharmaceutical products, seeds and agricultural machinery are to be accepted under the Thai law. Like the U.S. response to Thailand's request, there are also issues on which Thailand appreciates U.S. problems but cannot accommodate U.S. wishes, given existing political constraints.

Third, the U.S. efforts to fight against protectionism are accepted and appreciated. However, such appreciation should not prevent Thailand from being dissatisfied with protectionistic measures the United States itself has not rectified. For example, the Rice Title of the U.S. Farm Act of 1985 which in effect provides huge subsidies for U.S. rice to compete directly with Thai rice in the international markets. This issue cannot be overlooked when rice farmers account for half of the population in Thailand.

Often the United States has referred to the private sector's right to petition for CVD, AD or import relief actions. This reference is valid, but the Thais need not be happy with those actions or threatened

actions.⁴ Since the United States often has asked Thailand to understand that it cannot eliminate those actions because they are permitted by law, the Thais also want our American friends to understand the same in the case of Thailand. If Thai law permits or does not permit certain things about which the United States is not happy, then we hope equal understanding would be entertained by our friends.

Suggested Remedies

We have heard a lot of what Thailand should do to improve our trade relations. Let's mention what Thailand has done for the United States, and then discuss what the United States should do. Despite U.S. actions that affect Thailand's exports, the Thai government has been exceptionally generous to the United States in entertaining requests to help the United States solve its problems.

1. The Thai government decided to reduce tariffs on wheat.
2. The Thai government decided to change the import regulation for soybean from quotas to a tariff system.
3. A new trademark bill is being drafted.
4. Concerning the copyright issue, even the United States is not a member of the Berne Convention on the Protection of Literary and Artistic Works. Thailand has made an effort to find ways under the Thai-U.S. Treaty of Amity and Economic Relations (1968) to justify amending its copyright law to include U.S. work copyrighted in the United States.
5. There have been discussions already within the government as to whether the law should be amended to include patents of pharmaceutical products, seeds and agricultural machinery.
6. As a member of G-14 (fair agricultural trading countries), Thailand has been at the forefront in setting up this group and negotiating with the European Economic Community (EEC) on reduction of agricultural subsidies for the United States in the meeting at Punta-del-Este, Uruguay in September 1986.

Having mentioned the above, let's focus on what the United States should do.

First, the U.S. administration should explain to the American public and Congress about Thailand's problems and the effects of U.S. trade policies on Thailand. It should explain why Thailand is important to the United States (if it is really important), and what kind of cooperation is needed between the two countries. This preceding suggestion mirrors exactly what the Thai government has done for the United States. Indeed, the Thai government has done a marvellous job of it.

⁴For example, AD on steel pipe, several attempts against canned tuna, CVD on garments and an attempt at CVD on textiles, CVD on rice, and so forth.

Second, the United States should rectify unnecessary measures that have adverse effects on Thailand—particularly when those measures are unfair to American taxpayers, as under the farm act.

Third, if a sincere solution to our trade problem is to be sought, a free trade area (FTA) agreement between Thailand and the United States may be a good idea, especially if the FTA includes both industrial and agricultural products.

Fourth, the United States should not talk about trade cooperation while using trade policy as a coercive device. An example of this is the threat of withdrawing GSP benefits to pressure Thailand into amending its intellectual property laws. It is hard to understand coercion as cooperation.

Finally the rice title of the U.S. Farm Act of 1985 provides agricultural subsidies and cannot be considered a multilateral issue to be negotiated only in the new GATT talks. The farm act has a provision on "Thai rice." It contains an unjustified allegation that Thailand practiced unfair trade (a subsidy against which only 0.75 percent CVD is imposed), and its impact is on direct competition with Thai rice—all of which clearly indicates the bilateral nature of this problem. Therefore the problem should be dealt with bilaterally. The United States should find ways to help alleviate this problem. It should not multilateralize an issue which clearly is bilateral.

Discussion Excerpts

THAI PARTICIPANT: I would like to turn around the lopsided arguments made by our American friends. This is not to defend Thailand's position on trade relations, but it is important to have a full picture of the perspectives of both sides. The United States Farm Act has heavy production subsidies which have international effects quite contrary to Article 16, Paragraph 1 of GATT, and it has clear export subsidy measures in contravention of the spirit and purpose of GATT. Most developing countries, including Thailand, tax agricultural exports instead of subsidizing them.

I think the Thai government has been exceptionally generous in trying very hard to solve problems for the United States. We decided to redraft the trademark act to increase the penalty, to have better coverage and that is a difficult thing to do. We also decided to amend the copyright act. The government had to try very hard to convince various interest groups that this is something we had to do for the United States. Now you are not satisfied because it does not include computer software, and we will try to amend it. So I think for a small country we have done a lot. I think the United States should do as good a job as the Thai government has done.

AMERICAN PARTICIPANT: I had a bet with someone in this room about the tone of the discussion today—whether it would be a fiery, emotional debate or whether it would be more dispassionate and focused. So far I am losing the bets!

I think I can safely say there is a very high certainty that a trade bill will pass in Congress in 1987, but it is less certain that the president will sign it. I think there is very little Thailand has to fear from such a bill. It will be aimed more at countries like Japan and the EEC countries with whom we have more trade difficulties.

Thailand has to remember that there are congressmen who are opposed to protectionism. Don't assume you do not have allies in the United States. You have to learn who those allies are. You have to learn to use those allies, to work with them. To brand all of the U.S. government as monolithically protectionist is unfair and untrue.

AMERICAN PARTICIPANT: Yes, there is some new trademark legislation in Thailand, but the true test will be in enforcement and adequate penalties to encourage people not to violate intellectual property rights. One of the reasons we are stressing intellectual property rights protection so strongly is that it is the new techniques, technologies and processes that we feel are the key to the rebirth of U.S. competitive global business. Without adequate protection most foreign firms may possibly avoid Thailand either as an area where they will sell their products, or certainly as an area where they would do local R&D (research and development) work.

AMERICAN PARTICIPANT: While most of the Americans here will be leaving at the end of the week, I will be staying on here in my position. I am concerned that there really is a credibility gap over trade issues. One gets the impression from reading Ambassador Prok's paper that our bilateral trade is moving in a very unfavorable manner for Thailand. Statistics that Mr. Searls has cited indicate quite the contrary. I also am particularly concerned with the emotional coverage of trade relations in the Thai press. Minor items are portrayed as massive efforts by the United States to block Thai exports to the United States. It is a very worrisome point.

THAI PARTICIPANT: While I agree Thailand now how has a trade surplus with the United States, the actual value is negligible from the U.S. point of view. The question is really one of perception. I hope our American friends will be in a better position to appreciate the intensity of the emotional feelings that have been expressed by your friends in Thailand. Whether you like it or not, we have a gut feeling that we are not being treated fairly by you. You have very large trade imbalances with Japan, Taiwan and South Korea. You are only beginning to suffer a small trade imbalance with Thailand. While we are willing to help you with your problems, we believe the threat hanging over our neck is big enough and serious enough to give us a scare. We have enacted a number of measures to facilitate solving your problems. So far we have not heard very much about what you are trying to do for Thailand. What are you going to do about the rice section of the Farm Act?

It is worrisome to me to see the erosion of your belief in internationalism and multilateralism. Your behavior is giving rise to the view that you are trying to be a world economic policeman. What are you going to do in the next four to five years before GATT is finalized? I am prepared to bet that trade relations between Thailand and the United States are going to get worse before they get better. We must get out of this decades-long illusion that there is such a thing as a special relationship between Thailand and the United States. If the stresses continue they will spill over into the political relationship. I think we have to face up to the fact that things are not going to go too well between

our two countries. The very basic relationship and friendship between our two countries is going to continue, but there must be a spirit of give and take.

AMERICAN PARTICIPANT: I disagreed with several of the statements of Dr. Surakiart. One in particular was that U.S. farmers are doing very well as a result of the generosity of the U.S. government. We wouldn't have had 5, 6, or 7 percent of farmers close up shop last year and leave if that were the case.

A few weeks ago a delegation from the U.S. rice industry was here in Bangkok. Some of the things they said during their visit are important. Even the rice industry in the United States recognizes the Rice Title of the Farm Act as a transitional program. The U.S. rice industry was basically on its back. What this legislation aims to do is give it some breathing room.

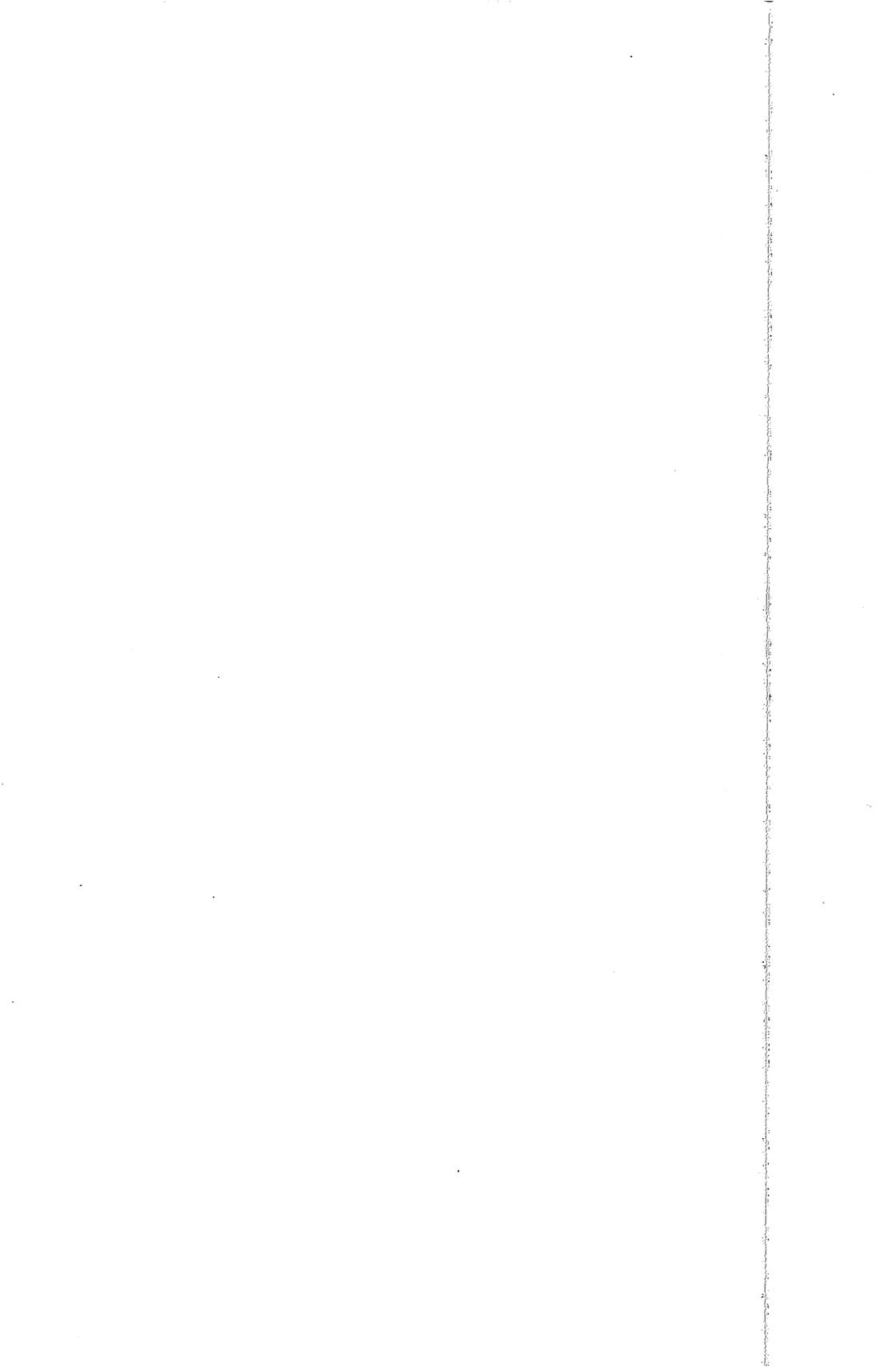
It is also useful to review the impact of the title on the world market and on Thai exports in the current year. It is difficult to do this. We are talking about a program which has been functioning only three or four months. Now the fact of the matter is there has been a deterioration in world prices. No one is going to dispute that. But in the last few weeks the price of rice has been increasing, and rice prices should continue to rise over the next two months as the result of increased demand.

THAI PARTICIPANT: It has been a strange phenomenon that I have been having throughout this year that I have been having to teach Americans the workings of a free market, particularly Americans from the Reagan administration of all people. The clear and stated purpose of the U.S. Farm Act of 1985 is to increase the market share of U.S. rice. I cannot see how in the world rice market, a freely functioning market, that can happen without there being an adverse impact on prices. The main impact is on prices. Of course the Brazilians buy some and the price has its ups and its downs. But the dice should not be loaded. A country that is efficient *today*, not in four or five years, should be able to export rice at whatever the market will fetch.

The U.S. rice industry is selling the U.S. public a bill of goods. It is difficult for me as an outside observer to understand why American taxpayers have been forking out a billion dollars a year to rice farmers, of whom the first four hundred farmers obtain four hundred million dollars. These are the numbers I have been given. Why is it possible in a system like the United States for that to happen? It is flabbergasting. When it begins to hurt our rice farmers you will understand the emotionalism that it summons. I think you are winning your bet now. Why this meeting is so emotional is because of the feeling is that you are saying one thing to us about how the market works, but the United States does not practice it.

AMERICAN PARTICIPANT: I disagree. I think I have lost my bet.

Part VII.
Economic Adjustment Problems



20. Thailand's Agricultural Future: What Are the Questions?

AMMAR SIAMWALLA

Thai agriculture is now at a crossroads. The dynamism shown in the past three decades of expanding land frontiers and burgeoning markets is at an end. Despite the lack of agreement on what the future holds, past ways of doing things—whether by farmers, bureaucrats, or foreign lenders—will no longer suffice.

The following is an attempt to peer into that future and engage in an exercise of prophecy to surmise what the interesting questions will be, so that worthwhile subjects of inquiry may be studied in depth. This does not attempt to be a definitive or even a consistent forecast of that future.

The Output Mix

What output mix Thai agriculture will be producing in the next fifteen years is a question that precedes the issue of the resources that will be used in agriculture. It is only after understanding what this mix will be that the issue of land use, employment and investment requirements can be answered.

For purposes of this chapter "agriculture" is defined to include crops, livestock and inland fisheries. The sector is redivided into three categories: the traditional staples, which include all crops except fruits and vegetables; fruits and vegetables; and livestock and inland fisheries.

The general thrust of the argument presented below is based on the expectation that the external prospect for the traditional staples will remain bleak for the next 10–15 years, and that the main task for the

This chapter was written in response to the request of the Regional Mission in Bangkok of the World Bank. I am indebted to Quill Hermans, Chief of the Regional Mission, for his initiative in the matter and to Tom Daves for his strong support. Dr. Phaichitr Uathavikul kindly read the first draft and gave his characteristically probing comments. The section on flexibility owes a great deal to his comments and to an earlier discussion with Dr. C. Peter Timmer. Although this chapter was written under contract with the World Bank, the views expressed belong solely to the author. Neither the Bank nor the Thailand Development Research Institute is to be held responsible for the contents.

government is to prepare for a downward adjustment in the traditional sector. Part of the resources in this sector, but unfortunately only a relatively small part, will switch over to nontraditional crops.

Although their prospects appear bright, the problem with this latter sector and with the livestock sector is that they are relatively capital-intensive and absorb relatively little land and labor.

It will be shown that from the private sector point of view, the problem is intimately connected with the question of the supply of long-term capital. From the public sector point of view, the issue is an important one, although if the strategy suggested in this essay is adopted, risks will be minimized.

The Staples

The last three decades have seen a steady expansion in agricultural production. Much of this expansion is in what have become the great staples of Thai agriculture: rice, rubber, maize, kenaf, sugarcane, cassava and lately the oilseeds including soybeans and oilpalm. The only poorly performing commodity in this part of Thai agriculture is coconuts.

The most important reason for this pace of development is the large land surplus enjoyed by Thailand. Land has been surplus in Thailand for centuries, but the 1955–80 era was unique in Thai economic history because of two new factors—the tractorization of agriculture and the expansion of the road network. The former lifted the constraint on the pace of expansion of the cultivated area, and the second made profitable the expansion. In economic jargon, the former lowered the supply price of land while the latter increased the demand price of land. Both combined made for an expansion in cultivated land at the speed of 3.2 percent per annum between 1961 and 1977 and of 2.3 percent between 1977 and 1984.

The major assumption underlying this paper is that these two developments, the gradual disappearance of land and of markets for staple commodities, are permanent and are unlikely to reverse themselves. There is, as we have said, no unanimity as to the question of how much cultivable land there is available, but it is highly unlikely that the rate of expansion of cultivation of the last thirty years can be resumed. The more controversial claim is that the present malaise in the world markets for agricultural commodities is a permanent phenomenon.

The basis for this second claim¹ is that the protection in the developed countries' agriculture now has been capitalized into the value of

¹The arguments in the next few paragraphs rely heavily on data from the World Bank, *World Development Report 1986* (New York: Oxford University Press, 1987), although the particular twist given here is of course absent from that report.

the land, so that its withdrawal will entail a major redistribution not only of income but of wealth as well. To the extent that this wealth has been placed as collateral for loans, its sharp fall in the event of the removal of protection will lead to a credit crisis in most developed countries (except perhaps Japan). Politically and socially, therefore, the developed countries simply cannot afford to lower their protection substantially. This is not to say that Thailand should not strive with whatever resources it has at its command to fight against these measures, which act detrimentally against basic Thai interest. It should not expect much in results, however, and certainly should not let false hopes delay the task of adjustment.

On the other hand, the developing countries which have also been important markets for Thai agricultural produce face a set of pressures. While they are surplus producers for agriculture as a whole, they are deficit in cereals and oilseeds, the kind of commodities that form the backbone of Thai agriculture. Consequently, they have been importing significant amounts of these commodities. This tendency to import cereals and oilseeds has been assisted by the general policy of extracting from agriculture (agricultural disprotection). Over time, however, both the successful countries (generally in Asia) and those that are less successful (generally in Africa and Latin America) have begun to dismantle the agricultural disprotective measures. The successful ones do so because that is the historical path taken by most countries: As a country develops, the rate of disprotection declines and that of agricultural protection increases. The unsuccessful ones do so because it is increasingly seen that many institutions, particularly the multilateral donor agencies such as the World Bank and International Monetary Fund (IMF), are beginning to stress the costliness of the disprotective measures, and are exerting pressures on the concerned governments to remove them.

Whatever benefits the decline in agricultural disprotection may bring to these countries, its impact on Thai agriculture will be adverse. For those who wish to see concrete examples of this trend, consider the disappearance of Indonesia as Thailand's rice market, and consider the emergence of China as Thailand's major competitor in the maize market.

The conclusion is therefore inescapable. The markets for the great staples of Thai agriculture, particularly the cereals and tapioca, will be depressed for a long time by the overcapacity in world's agriculturean overcapacity which very few governments show any willingness to eliminate.

The problem that the Thai government has painfully to confront is as follows. Given its inability to compete in subsidies with the likes of the United States and the European Community (EC), and given the growing inappropriateness of growing land-extensive commodities

such as maize and tapioca in an increasingly land-scarce context, how does the Thai government cope with the Thai farmers' move away from dependence on cereals?

It first must be pointed out that it is not necessary for the government to *lead* the farmers in that direction. As world prices of the cereals and tapioca continue to plummet, many farmers will themselves turn away from these crops. In doing so they will necessarily suffer a fall in income as they will be moving to a crop which was less preferred at the time when the prices of cereals and tapioca were healthier. The task facing the government is twofold: forecasting the type of crops farmers are likely to switch into; that is, predicting the crops that are less likely to suffer from the general overcapacity in the world market and examining what constraints there are to the expansion of these alternative crops; and forecasting the group of farmers most likely to switch and find means of cushioning the fall in income of those (mostly rice farmers) who cannot switch, and those who will leave agriculture altogether.

There are possibilities in fruits and vegetables. Developments in the livestock sector also would lead to a continuing deficit in the proteins that go into the animal feed. These alternative crops are clearly the next step up the agricultural ladder for most Thai farmers. Specifically they will be quite technology- and input-intensive. The consequence is that the farmers making the switch probably will be in the irrigated areas. The costly nature of the production makes water assurance a necessity.

It is unfortunate that the subsector that will have the suppleness to switch to the crops of the future will be the already privileged irrigated farming population, mostly in the Central Plains. At a generous estimate, these irrigated farms constitute no more than a quarter of the total. The other side of the coin is that the farmers in the rain-fed areas (both those growing rice and those with upland crops) will be stuck with products whose price prospects will remain bleak, although the withdrawal of parts of the Central Plains from rice production may help sustain rice prices somewhat.

Some new crops are being developed for those rain-fed areas and are being pushed by the corporate sector, the most promising at the moment being cashew nuts and sunflowers.² The future of Thai agriculture as a whole depends very much on land use in this vast area which takes up about two-thirds of the total cultivated area. In general, however, if we go by what we can see on the horizon, there is little that can be achieved in this region.

It may be argued that the yields of most crops in Thailand are low and that farmers are prone to adopt a land-extensive technology because land

²Even though the sunflower seed is oil-bearing, it is of some interest because it also has a high protein content.

is cheap. Consequently, Thailand has a great deal of potential for intensification, even within the present product mix.

The pessimistic picture outlined above refers mostly to cereals and other food items such as sugarcane, oil palm and coconuts. Thailand exports most of these items.³ There are crops in which Thailand can follow an import-substitution strategy, notably cotton and protein-rich oilseeds such as soybeans and sunflower. In the context of worldwide subsidies, the Thai government can afford to and probably will support the production of these items by means of import protection, although this may adversely affect the exports of downstream industries such as textiles and poultry.

The future of rubber will have to be studied in a worldwide context, particularly as the oil price has changed significantly.

Table 1
VALUE OF HORTICULTURAL EXPORTS
(million baht)

Item	1979	1980	1981	1982	1983	1984
(1) Vegetables, fresh and preserved	210.85	204.84	313.80	506.74	667.44	719.56
(2) Fruits, fresh and preserved (excluding pineapples)	511.06	581.48	942.36	1,326.24	1,306.31	1,440.78
(3) Flowers	383.78	435.04	412.82	352.80	384.42	417.57
(1) + (2) + (3)	1,105.69	1,221.36	1,668.98	2,185.78	2,358.17	2,577.91

SOURCE: Ministry of Agriculture and Cooperatives, agricultural statistics of Thailand, crop years 1983-84 and 1984-85.

Nontraditional Crops: Fruits and Vegetables

These goods are for convenience' sake listed as nontraditional items, in order to mark them off from the conventional staples of agricultural trade such as rice, maize, cassava, sugar, rubber, soybeans, mungbeans, etc. They are the fruits and vegetables (including garlic, onions and chillies) whose combined value added in 1985 was almost the same as the value added in paddy. Although many of these items are not currently exported, it should not be assumed that these commodities are not ever going to be sold abroad. Growth in the exports of these products in the last few years have been extremely

³The case of coconuts is of interest. As a producer of oil, its future is bleak, for it cannot compete effectively against oil palm. However, as an item of direct consumption and as a source of coconut milk, there is a growing market. Coconut production is gradually being relocated as a consequence, with areas closer to Bangkok preferred.

rapid (see Table 1). The following characteristics distinguish them from the traditional commodities.

First, domestic demand traditionally has been the lead factor in the expansion of this type of commodities. Eventually some of them will be exported, but the exportable volume also will be subject to demand constraints in the foreign markets as much as in the domestic market. The contrast with the situation for commodities such as maize or sugar is obvious. In the case of the latter commodities, Thailand can at any given time, if it has the supplies, export very substantial quantities without affecting the ruling world price. In the nontraditional commodities, this cannot be done. To put it briefly but technically; the demand curve for these items in the foreign market is downward sloping.

Additionally, most of the items in this group are perishable, and the quality requirements in both the foreign and domestic markets are quite strict.

These characteristics have important consequences for the development of the products, making them different from the staples. The major staples normally are handled by commodity traders. Some of these have developed the markets for their commodities at an early stage, but very quickly each of the commodities becomes a very substantial item of export capable of sustaining a large number of very competitive traders. From that point on, the test of success for these traders is no longer just their efficiency at merchandising and handling, but much more importantly, their speculative ability both in the domestic and in the foreign market.

For the nontraditional crops, this development path is unlikely. Rather, they may follow one of the two following alternative routes. The first route has the primary impetus from the supply side with new varieties being developed, usually by the farmers themselves—remember that farmers in these crops are usually among the best educated and most innovative. After a while this would begin to exert very strong downward pressure on prices, at which point export markets begin to be seriously considered. The example for this line of development is Lamyai (longan). The second route would require a demand-side impetus, usually from the foreign markets. In this case, the initiative is usually from multinational or importing firms, most often in collaboration with local firms that are able to work with farmers to develop a regular supply. An example for this line of development from the past would be canned pineapples.

Whatever the path, once the product moves into the international market, a new breed of exporters different from those who specialize in the major staples takes over. Because for each item, the number of exporters it can support is small, these specialist traders will have to

develop and nurse their markets themselves. The tasks of these specialists are in many respects extremely complex and sophisticated, involving a constant interchange of information on market requirements and production capabilities of the farmers. Remember also that with these commodities, the traders are dealing with farmers who are themselves technically sophisticated and advanced.

The cost of developing these products for the market would involve some technological research and a great deal of market research. This implies high-risk capital requirements on the part of the intermediaries. There is also sometimes the need for farmers to invest a considerable amount of long-term capital (that is longer than for one season typical for field crops).

What are the policy issues that the government has to face with respect to these commodities? It may appear that the major task is for the government to find out where the future goldmines are and inform the "private sector" (whatever is meant by the term) of the results. This is unfortunately not an area where the government has a comparative advantage. It is hard to conceive of a bureaucratic structure having the incentive to search out and detect profitable opportunities successfully. Rather, the task of the government is to adjust the legal framework so that private entrepreneurs can on their own do the research and development and, having done so, have the opportunity to capture the benefits resulting from their efforts. The issue is identical to that of intellectual property rights.

Flexibility

The above presentation has been based on a somewhat dogmatic forecast of continued surpluses of the major staples in the world markets for the next fifteen years or so. This forecast is in keeping with the present expectations in the marketplace. However, one has to look back only a decade to the mood prevailing in 1973–76 regarding the continued food shortage in the world to learn to be cautious in trusting too strongly such a forecast. While our present forecast is a best guess based on the information presently available, prudence requires us to contemplate and prepare for the alternative situation when your guess could turn out to be wrong.

The issue is one of how much *flexibility* we want to maintain in Thai agriculture. As has been noted by practically all observers, agriculture in this country has been remarkably flexible. The explanation for this flexibility has tended to be put in human terms—the farmers' responsiveness and willingness to adapt to changes. To the extent that this is true, there is no reason to expect such behavior to change.

There is, however, also one important objective factor at work that ensures this adaptability of Thai agriculture. Much of the observed

responsiveness has been with respect to upland field crops such as maize, kenaf, cassava and sugarcane. These crops require relatively little in the way of fixed capital that is subsector specific.⁴ Where a great deal of specific capital is invested, for example in rubber trees, the flexibility declines. In the case of irrigation, the question is being now tested as to how specific to the rice subsector the investment has been. Given the inflexibility of rice land, farmers of this crop have historically shown less inclination to change.

The future direction of the Thai agricultural sector forecast in this paper involves a great deal of fixed investment specific to the crops or products grown. The case of tree crops is obvious. Livestock, particularly cattle, also involved specific fixed capital, as does investment in aquacultural ponds. The flexibility of the farms that make these investments would be considerably reduced. Individuals who make these decisions to invest and those who lend to them would no doubt take into account the riskiness of the situation. The problem of risk thus is tied up with the problem of the supply of long-term capital, whether in the form of equities or of loans.

Flexibility in Thai agriculture therefore is something that private actors—whether they be farmers, lenders or businessmen—have been themselves striving for. Their actions, particularly in the capital market, underscore this point. Far from having too little flexibility in the economy, it may well be the case that the Thai agricultural economy yearns for too much flexibility and is unwilling to invest in fixed capital even though such investment is profitable. The “shortage of capital,” particularly the virtual absence of long-term capital, is in part a reflection of this preference for flexibility.

If the strategy outlined in this paper is adopted, then the flexibility requirement most likely will be met. If other strategies are followed, particularly where public investment is involved, then careful consideration has to be given to this question. The issue of flexibility is probably more important in the allocation of public money between agriculture and nonagriculture than among the subsectors within agriculture.

Land and Labor

The examination of the output mix in the previous section leads naturally to the question of how land and labor will adapt and reallocate themselves in the economy. A main problem is that the staple

⁴The discussion slights the fact that some of these crops require rather large amounts of fixed capital in the processing part, for example in sugar mills. Cassava demands rather large investments in transport and handling, but these remain flexible. In fact, one issue that seems to concern the agri-business sector that invests heavily in plant and equipment is the excessive willingness to switch to other crops when prices fall.

occupies a great deal of labor. It is unlikely that the newer, more sophisticated agriculture (fruits, vegetables and livestock) will absorb a great deal of either land or labor. In particular, if we confine ourselves to the rainfed areas, the prospects there do not look very good. For farmers in those areas, they may either have to abandon agriculture altogether or else turn towards much more intensive agriculture. The first option would be compatible with at least a constant standard of living if nonagricultural employment expands rapidly enough. The second option is similarly acceptable only if new technology is forthcoming that allows a higher level of labor productivity to overcome both the lower land/man ratio and very low product prices.

Land

Land availability plays a role in the growth of the production of traditional staples of Thai agriculture, including rice. In the remaining years of this century, less land will become available. Consequently, regardless of external market conditions, continued strong growth of agricultural production through expansion of the cultivated area cannot be expected. Growth through yield increases (intensification) potentially is more attractive. This, however, cannot be achieved without more labor inputs or new technology.

If to the land constraint we add the problem posed by the external market environment, another issue arises. Most of the traditional staples, particularly maize and tapioca, are land-extensive. The newer, more sophisticated cropping system Thailand is expected to move into uses relatively little land per unit of output. Thus while fruits and vegetables contribute 29 percent of value added in crops in 1985, they probably take up much less than that percentage in land area.

The amount of land used per unit of labor, however, may be a different matter; while vegetables use little land but a great deal of labor, the opposite may be true for fruits. We may expect generally a slowdown of the expansion in the demand for land to parallel the slowdown in the expansion of its supply.

Disaggregating, we may expect a growing contrast in the future intensity of land use in irrigated versus rainfed areas. The World Bank study of irrigation indicates that the bulk of the irrigated area in the Chao Phraya system is unsuited for crops other than rice.⁵ It is true that the Central Plains region, possessing clay soils and prone to flooding, is superbly suited to growing rice. The point at issue is not absolute advantage that the Central Plains area has in producing rice, which no one disputes, but rather its comparative advantage vis-à-vis other

⁵World Bank, *Thailand: Irrigation Subsector Review*, Report No. 5847-TH (Washington, D.C.: World Bank, 1986).

crops. It is unfortunate that the costs and returns calculation to back the claims made for rice by the Bank concentrated on field crops such as maize, soybeans and mungbeans. If the alternative crops are the higher valued crops requiring a great amount of cash inputs, particularly if aquaculture is included, then the irrigation facilities presently available in the Central Plains do count a great deal. But modifications have to be made to these facilities, both by the government and the farmers themselves.

Table 2
CONTRIBUTION TO EMPLOYMENT GROWTH OF ECONOMIC SECTORS
(labor force aged 15 and over, in percent)

Industry	1960-70			1970-80		
	Male	Female	Total	Male	Female	Total
Agriculture, forestry, hunting and fishing	34.23	23.28	57.51	26.44	29.92	56.36
Mining and quarrying	1.68	0.59	2.27	0.04	0.10	0.14
Manufacturing	3.77	4.35	8.12	4.44	4.69	9.13
Construction, repair and demolition	3.90	0.77	4.67	1.88	0.58	2.46
Electricity, gas, water and sanitary services	0.32	0.10	0.42	0.42	0.09	0.51
Commerce	1.77	2.54	4.31	4.76	7.24	12.00
Transport, storage and communication	4.12	0.30	4.42	1.88	0.26	2.14
Services	12.44	9.38	21.82	5.23	5.07	10.30
Activities not adequately described or unknown	-1.70	-1.84	-3.54	3.80	3.18	6.98
Total major industry group	60.53	39.47	100.00	48.89	51.13	100.00

SOURCE: National Statistical Office (Bangkok), 1960 population census and 1970 and 1980 population and housing census.

The question of land use in the rain-fed areas remains a difficult one. Some of the recent development towards silviculture (forestry development) appears generally to be ecologically desirable although much controversy surrounds the cultivation of eucalyptus trees in particular. Even without the problems connected with the eucalyptus, another source of concern is the low labor intensity of silviculture. Given the immediate problem facing the labor force in agriculture in the next ten years (see the next subsection), it appears that silviculture as a solution to the ecological problem will become economically viable only towards the end of the century.

Labor

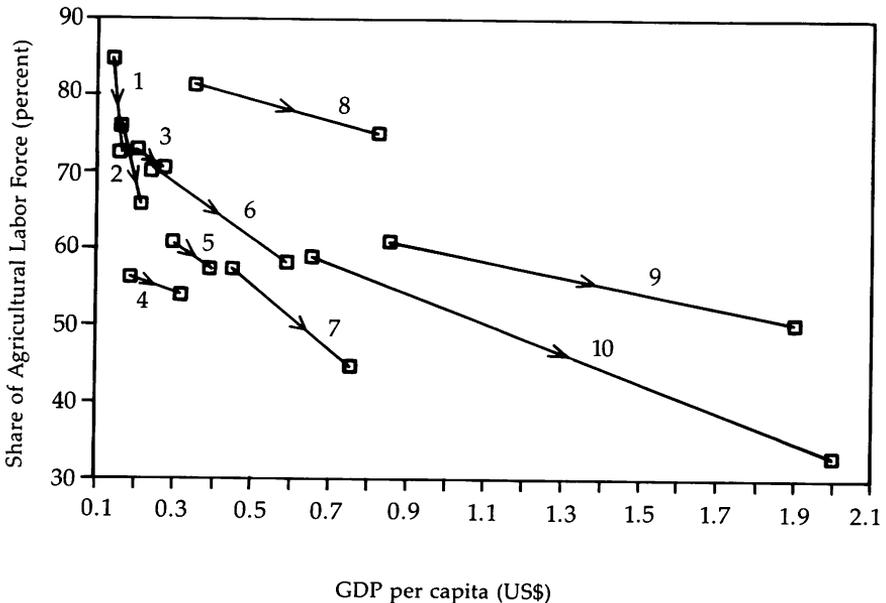
Table 2 shows the immense importance of agriculture as an absorber of the incremental labor force in the 1960s and 1970s. This absorption

cannot continue or if it does, it can only do so by pressing down on the implicit wage rate within the agricultural sector, as falling world prices for the product get passed on to the owners of land and labor, particularly the latter.

Compared to other Asian countries, Thailand has had a unique experience in this respect. It has seen its per capita gross domestic product (GDP) rise considerably without agriculture's share of the labor force declining as much as it has in other countries (see Figure 1).

Figure 1

Relationship between the Share of Agricultural Labor Force and GDP per Capita, Selected Asian Countries, 1965-83



- | | | |
|---------------------|-----------------|----------------|
| 1. Bangladesh | 4. Sri Lanka | 7. Philippines |
| 2. Burma | 5. Pakistan | 8. Thailand |
| 3. India | 6. Indonesia | 9. Malaysia |
| Initial Point: 1965 | End Point: 1983 | 10. Korea |

SOURCE: World Bank, *World Development Report 1985* (New York: Oxford University Press, 1986).

A great number of individuals who are enumerated in the censuses and the labor force surveys as being in agriculture obtain a significant portion of their income from outside the sector. Be that as it may, the fact remains that agriculture has been providing an important source of livelihood for close to three-quarters of the population, a ratio more typical of countries such as Bangladesh or Burma.

Within agriculture the number of people making a living from fruits, vegetables, livestock and fisheries is still small (although large when compared against the manufacturing sector). The overwhelming bulk of the agricultural population still grows field crops, particularly rice (see Table 3). (Many of the fruits and vegetables are grown as subsidiary crops of the traditional crop growers). Two possibilities are left to field-crop farmers.

Scenario 1. If nonagricultural employment expands sufficiently rapidly, at least more rapidly than in the past, then more households will find it worthwhile to abandon agriculture altogether and take up full-time residence in the urban areas, presumably around Greater Bangkok.

Table 3
AGRICULTURAL LABOR FORCE CLASSIFIED BY MAIN OCCUPATION
(aged 15 and over, in thousands)

Labor Force	1970	1980
Agriculture		
Rice	9,873	12,082
Maize	337	619
Rubber	344	648
Cassava	98	464
Other field crops	270	408
Coconuts	86	126
Fruits, vegetables and horticulture	447	819
Livestock	2	91
Fisheries (inland and marine)	116	190
Other agriculture	111	83
Subtotal	11,684	15,530
Manufacturing	644	1,267
Other activities	2,686	5,044
Total	15,014	21,841

SOURCE: National Statistical Office (Bangkok), population and housing censuses, 1970 and 1980.

Scenario 2. If nonagricultural employment fails to expand, then many farmers will attempt to avoid a fall in income, either by clearing new lands, a continuation of past practice, or by intensifying the labor input

per unit of land. Given the difficulties of finding new lands, the intensification option is more likely. This option is not all that impractical in that yield per unit of land for most crops is quite low by international standards.

It must be borne in mind, however, that the low yields and the extensive technology that accompanies it can be explained by the availability of cheap land in the past. A decision by farmers to intensify their cropping practices can happen then either because the increasing land scarcity (falling land/worker ratio) forces implicit wages to fall thus inducing farmers to use more labor on their land, or because new technology is found that is labor-using.

Which of the scenarios will turn out to be true depends primarily on the labor absorptive capacity of the nonagricultural sector. This central role of the nonagricultural labor requirements is new in Thai economic history and is in a sense an indicator of the size of the crisis facing Thai agriculture.

The task of the government is twofold to ensure that policies in the nonagricultural sector are not in any way biased against labor, and to emphasize agricultural research that increases the yield potentials of intensifying farmers. This latter prognosis contains more than a bit of "whistling in the dark" because much of the labor-biased agricultural technology (for example, the seed-fertilizer technology) tends to be more relevant to the irrigated than to the rain-fed areas where the main problem remains.

As the labor force is expected to shift toward the nonagricultural sector, another look should be taken at education policy. In general, public tertiary education in the provinces has tended to stress teacher training and agriculture. The expansion of technical training for the sons and daughters of farmers should be explored further.

Capital Technology and Organization

As the agricultural sector will be restructured, new capital will have to be injected into it. Financing sources for new capital will have to be found, particularly inasmuch as the newer goods are relatively capital-intensive, and the role of public capital is expected to be smaller. Expansion of more long-term credit to farmers to finance their investments can be achieved best through the land titling program.

As the structure shifts towards the production of more sophisticated goods, the problem of the linkages between finance, production and markets (in short, the organization of agriculture) becomes more complex. Agribusinesses probably will play a more central role in the delivery of new technology and of credit to the new expanding sectors. The rules of the game that will signal the incentives for these firms

become a central problem, and it is strongly suggested that this issue should be examined in depth.

Public research should concentrate on the traditional crops to facilitate the intensification of their production. This recommendation is made despite the poor market prospects for these crops.

Public and Private Capital

Agriculture production increases have been possible in the past as a result of capital accumulation by the government, the farmers themselves and the corporate sector. From the public sector, there has been over the past four decades a massive investment in the irrigation system. Except in the far north, there was relatively little private investment in irrigation.

Given the concentration of much past investment in irrigation to paddy areas and given the dim prospects for rice, it now is generally agreed that the pace of investment in this area cannot be continued.⁶ The emphasis is now on the rehabilitation and/or improvement of the irrigation system to maximize its efficiency and to increase its flexibility to grow crops other than rice.

Investment by the corporate sector plays an important role, too. Expansion in Thai agricultural exports in some commodities (such as sugar and cassava) could not have proceeded without heavy investments from processors and shippers. It is expected that with the growth of new goods, similar investments also will be forthcoming, particularly in conjunction with the delivery of new technology. No support from the public sector appears necessary in this regard.

The contribution of the farmers in investment has been very important, but not much noticed. Farmers engage in three long-term investment activities: They clear new lands. They grow perennial crops. They increase their livestock herds.

A new investment that we expect to continue is the adaptation of the water control system at the field level to grow crops other than rice. Much of these investments have been incremental and probably self-financed. Very little long-term credit is supplied from outside the farm, even from the informal sector.

The cause of this shortage of long-term credit is the preference for flexibility on the part of potential lenders as well as the investors themselves. There are also enforcement problems connected with long-term loans, particularly in cases where the loan is not covered by collateral. These enforcement problems are strong enough to stump even the informal sector, which otherwise has no difficulty with short-term loans.

⁶Ibid.

One solution to the long-term credit problem is to proceed ahead with the full titling of agricultural land so that it can be used as collateral. This seems to be a better and, from the treasury's point of view, cheaper solution than to inject more long-term funds, say through the Bank for Agriculture and Agricultural Cooperatives (BAAC), into agriculture. Because of unsecured loans, BAAC will have to deal with the kind of enforcement problems that appear somewhat intractable. Also, by following this route, the issue of how much flexibility the country should buy would be sidestepped, as the decision would become private rather than public.

Technology

The changes that will be occurring in Thai agriculture as outlined above need to be supported (and in some cases cushioned) by applying new technology to particular aspects of the problem. Not all new technology, however, has to come from public research. The first issue that has to be tackled is the division between public and private research.

It might appear at first sight that the role of research, public as well as private, is to promote those products that will be in rising demand—fruits, vegetables and livestock. These commodities also happen to be the ones in which there is a great deal of private research and development activities. Fruits and vegetables have very intensive organizational linkages between producer and market (as to quality and variety in demand), all these linkages being mostly in private control. Private research would be more responsive to market demands. The role of public research, given that it inevitably has to engage in some inspection work, should be concentrated on sanitation, pest removal and detection. It may also be involved in some joint activities with the private sector on packaging research.

The role of public research, however, should be concentrated on the "losing" crop, the staples. This subsector is a very large part of agriculture and occupies a large number of farmers (particularly rice). In the absence of much new land, and if nonagricultural sector employment fails to grow sufficiently, the only option that farmers of these crops face is intensification. Without any new technology such as high yielding seeds, intensification is possible only because of a decline in the implicit wage rate from them and their family members. Research in the staple commodities therefore should continue and, in fact, be emphasized despite the poor prospects.

The advocacy of research into the losing crops is not based entirely or even substantially on equity grounds. An expansion of this activity can be defended on efficiency grounds because agricultural research in Thailand has been shown to yield a very high rate of return (72 percent

per annum by one estimate based on data for 1974 to 1979).⁷ Even with much lower product prices now expected, the rate of return is not expected to decline to the point where it becomes profitable.

Organization

The organizational framework that guides production and trade in various agricultural commodities has evolved in response to the particular requirement of each of the commodities, and is usually specific to each commodity. Transfer of the framework from one commodity to another is usually inappropriate. Pineapple canneries at one time attempted to transfer the contractual arrangement of the sugar mills to their own industry and found, to their cost, that it did not work. The phenomenally successful integrated approach initiated by the poultry and poultry-feed firms will be irrelevant for cassava or maize producers. Conversely, the arm's-length markets typical in rice would be unworkable in sugarcane. Even for a specific commodity, the organizational framework may not remain static but may change, for example, from the point when the technology is exotic and has to be transferred to the farmers to the point when it has become commonplace.

There is no simple formula such as "integrated agriculture" that is applicable to all agriculture at all times.

The task of researchers and policy makers (and agri-businesses) is to surmise from a knowledge of the technology not only of production, but of processing and marketing as well the most efficient organizational framework for each crop. Usually but not always, the most efficient framework is what the market over time will adopt. The inefficiencies that could arise from this "market knows best" approach may be of two kinds.

First, the time taken from the market to adopt the most efficient organizational mode may be long and usually involves painful bankruptcies. Such disruptions could be short-circuited by a technocrat who knows better than the initiating entrepreneurs.

Second, the legal and policy framework may provide inadequate incentives for the development of new products.

The role of government in tackling problems of the first type can be rejected on the ground that the comparative ability between technocrats and entrepreneurs will not be as assumed. The government generally should confine itself to the questions of the second type. It needs nevertheless to forecast the type of organization that will be dominant for a given commodity or commodity group, because the

⁷Robert E. Evenson and Suthad Setboonsarng, "Research, Extension, Literacy and Productivity Growth in the Agricultural Sector in Thailand," 1984. I am indebted to Dr. Suthad Setboonsarng for calculating for me the rate of return based on results from the paper.

shape of that organization has implications for its own role in investment and research.

For traditional products, the organizational framework within the private sector has evolved to a stationary point. Unless a newer, more profitable technology demands a change, there is no reason to reorganize the production and marketing system. For these crops much already has been published on the issue of the organization of the marketing system and the role of the public sector in it, and the question does not merit any new study. The problem in this area is the lack of will to implement, not the lack of knowledge.

For the new sectors, the role of private firms in development is emphasized. They may carry out a significant amount of both agronomic and market research. To the extent that these activities bring them naturally in close contact with growers (where the latter's performance can be monitored) they also may be willing to supply credit or at least to administer the credit supplied by others. Their incentive to do all this depends critically on how much control they eventually will have on the profits to be made from these activities. If the nature of plant reproduction is such that those who develop a new variety can control its further propagation, then there is an incentive for the firm to engage in research. If the firm can control the marketing of the output, then they will supply the credit to growers.

Such control mechanisms are sometimes inherent in the nature of the production system for the specific crop under examination. Where they do not exist, can they not be created by policy, say by granting a monopoly right to the firms chosen to do the development work? It is very tempting to recommend such an approach, particularly as it would lift the burden of doing the research and development work off the government, as well as solve the credit needs of the farmers.

Such an approach would be fraught with dangers. It is by no means easy to ensure that such a monopoly-granting right will be used only in cases that are justifiable on the proper grounds. Even if this test is passed, it is difficult if not impossible to ensure that, once granted the monopoly right, the firm will perform its part of the bargain.

While considerably more thought has to be given to these questions, it might be suggested that the public sector set up an inspectorate for sanitation and quality-control purposes for exports, inject more credit for long-term purposes, and increase research on non-crop-specific issues such as entomology and disease problems.

The scope and emphasis on these issues require more study.

Problems Needing Attention

The position taken in this chapter—almost its main premise—is that the staple crops have a rather dismal future; the growth points are at the fruits, vegetables, and livestock sectors. The first questions that have to be addressed are the relative size of these sectors in land use, labor and capital and the impact that their growth will have on these factor markets. The issues raised by tree crops (fruits and nonfruits), for example, have not been systematically addressed in any previous study, except in the case of rubber. Work needs to be done in this field.

The livestock sector will demand increasing amounts of protein feed. How will these be met over the future through imports or domestic production? If through domestic production, then what protein crops hold the most promise?

The allocation of rural labor between farm and off-farm employment has been very deeply studied, so that we now have a macro picture of off-farm employment. Not so the allocation of labor among crops, for instance, between what farmers regard as primary crops and secondary crops. The decision by which households allocate this labor and the market process that links different households is still rather poorly understood.

We also need to know how much nonagricultural employment there is of the kind that will admit workers who still wish to retain a stake in agriculture. Is it possible that increasing numbers of people will abandon that stake altogether and become full-fledged urban workers?

We need to create a credit system that can administer long-term credit for farmers and determine how far titling of land goes toward solving the long-term credit problem. Finally, we need to determine the optimal organizational arrangement that will promote innovation and exports in the fruit and vegetable sectors.

21. Science and Technology in the Context of Thai Industrial Diversification

VICHITVONG N. POMBHEJARA

Before the Second World War, industrial activities in Thailand were confined exclusively to rice processing, saw milling, handicraft works, plus a cement plant, a brewery and a cigarette factory. Although limited industrial development was conceived, its implementation was retarded by lack of technology, entrepreneurs and financial support. Shortages of basic manufactured goods during the war forced the government to embark upon a few industrial activities, but the war ended before they gained momentum. Thailand first witnessed the emergence of a manufacturing sector in the late 1950s, by which time the volume of domestic markets already warranted production for import substitution.

During the past 25 years since the country launched its first economic plan, the manufacturing sector has grown substantially. While the growth rates averaged around 7 to 8 percent per annum, its contribution to the gross national product (GNP) has increased from 10 percent to about 20 percent. Most spectacular has been the trend in diversification. The traditional activities now are proportionately less significant. The present structure of Thai industry is diversified to cover practically all consumers goods, mostly for domestic market, whereas many industries are promoted for exports. There is also a tendency toward production of intermediate products in the country, representing an attempt to move from assembly stage to semi-manufacturing, and finally to complete manufacturing. The continuous industrial growth and diversification have been impressive enough to lead to an expectation that Thailand very soon will enter the ranks of newly industrialized countries. The enthusiasm was apparently high during the Fifth Plan, although its vigor was declining toward the end of the plan period.

The philosophy of private enterprise as cornerstone of industrial development was conceived clearly in the First Development Plan

(1961–66). In that classic document, it was stated that private investment in manufacturing would be promoted, particularly in the areas that would serve domestic market. The government also guaranteed that it would not compete with private enterprise, and that it would confine its activities mainly to research, survey and promotion. At its inception, the plan was criticized for failing to lay down an industrial development program to guide potential investors. Nevertheless, production targets were fully achieved and many new industries were established during this period under the policy's impact.

Thailand entered the Second Plan (1967–71) with confidence in rapid industrial expansion. The Board of Investment vigorously provided fiscal incentives to attract private and foreign investments to diversify Thai industry. While the broad policy emphasizing the role of private enterprise was continued, the Second Plan expressed a preference for industries utilizing local raw materials as well as those with Thai equity participation. It was during this period that industries such as textiles, cement, paper, steel, beverages and oil refineries made impressive progress. Also it was the beginning of an era of an automotive development policy that imposed local content requirements.

Toward the end of the Second Plan, the Thai economy (whose growth had been uninterrupted for a decade) encountered its first big setbacks—sectoral growth slowed down, external trade deteriorated and unemployment became a problem. The Third Plan (1972–76) therefore shifted the objective from continuing rapid growth to maintaining stability. Sectoral development was reexamined in the light of strengthening the existing position before further strides were attempted. Thailand's manufacturing sector then was growing at about 12 per cent per annum, with 3,000 new establishments employing some 20,000 more workers each year. It was also during this period that the country set up its first industrial estate. Recognizing the key role of private investment, the private sector for the first time was invited to participate in the formulation of the nation's industrial development program. Attention also was given to statistical information to support planning and policy decision making. It was found that structural weakness derived from lack of basic industries and interlinkages between industries. Being dependent on imported capital goods and input materials, the industrial expansion exerted pressure on the balance of trade and payments. Industrial policy therefore began to shift from import substitution to export orientation.

The Fourth Plan (1977–81) witnessed further deterioration in the overall economic performance. Exports of canned fruits, electronics, garments and furniture parts were advocated. Investment promotion shifted emphasis towards export activities. By this period, the share of manufacturing in GNP had reached 20 per cent, and the plan set a

higher target for industrial growth. Industrial activities also were to expand beyond Bangkok. Industrial diversification at the same time continued to increase.

The export orientation strategy was given emphasis in the Fifth Plan (1982–86). The continuing deterioration in the balance of trade, mainly caused by the rising costs of imported energy and capital goods, made it necessary for Thailand to accelerate her industrial exports. The government made efforts to attract foreign investors to exploit Thailand's energy sources, as well as to invest in export industries. Under export promotion, diversified products began penetrating world markets.

The Sixth Plan (1987–91), launched in October 1986, expresses concern over the country's economic prospects, especially the government's financial position and the rising debt burden. While rural poverty remains unsolved, the country is faced with increasing unemployment. The plan advocates that the economy must grow at a satisfactory rate to alleviate problems of external payments, debt burden and unemployment. Manufacturing exports are expected to boost the economy. The Sixth Plan recognizes that because of protectionism and worldwide competition, traditional export products from agriculture are losing ground in the world market. Thailand therefore must turn to manufactured goods to meet world demand. A fully coordinated program of production, marketing and employment with support from science and technology is envisaged. Regulations and practices obstructive to exports are to be eliminated. Thailand is prepared to fight for her economic survival in the world market.

Reviewing Thailand's industrial development in the past 25 years, it seems appropriate to ask a few basic questions, the answers to which will perhaps help clear illusions that have blocked the right path to industrial development. These questions unfortunately are never seriously presented to policy makers. Many thinking Thais are concerned about the country's economic problems and about how these problems are conceived by our policy makers. The concern tends to increase when, perhaps for political reasons, views are expressed that the problems are temporary and caused by worldwide economic and financial crises. Those who have an opportunity to go through economic planning documents of the past years realize that planners for generations have recognized disequilibrium in various aspects of the national economy for more than a decade. What is perhaps not fully known is the root of the problem.

The first question is whether Thailand's economic development is guided by a development philosophy of national self-reliance. Every nation that has succeeded in economic development is firmly attached to this philosophy. The concept of self-reliance which is different from

seclusion is the cornerstone of national independence. A self-reliant economy is open to international economic relations. It buys and sells goods and services. It invests abroad and welcomes foreign investment. It exchanges and transfers technologies. The difference between a self-reliant economy and a non-self-reliant economy is that while the latter indefinitely depends on other countries for brainpower, technology, market, finance and employment, the former is determined to stand on its own feet as far as possible. Development is reflected in the level of self-reliance attained. An economy like Thailand—with rich natural resources, energetic people, relatively large domestic markets, well-developed infrastructure and a valuable stock of scientific and technical manpower—definitely possesses a great potential to be self-reliant. Its economy can grow independently and honorably if it is properly managed under a self-reliance concept. Thai history reveals a traditional attachment to national independence and self-reliance.

Secondly, there is a question on the manufacturing value-added side. Industrial activities have created substantial value-added in the GNP during the past 25 years. However, since the main contributing factor is the imported technology, net domestic gains are not likely to be significant. As long as technological self-reliance is still at low level, industrial growth will be meaningful only statistically. While Thai workers earn incomes in exchange with labor, the rest of manufacturing value-added goes abroad. There is also confusion over the term "foreign investment," for that term includes hardware and software technologies that actually have been invested abroad. The only "investment" foreign investors and their Thai counterparts make in the country is factories. The magnitude of foreign investment is therefore misleading. The presence of imported machinery and equipment in the country is not "investment." Those hardware technologies are brought into the country only to produce goods to satisfy Thai consumers, and Thailand must pay for them. This point is not clear in the minds of policy makers.

The third question concerns the domestic market. The Thai market is large and very attractive in the eyes of foreign businessmen. The 52 million consumers desirous of improved quality of life require basic goods and services in modern living. In the past, most of these were supplied through imports and paid for with primary-commodity exports. At present most goods and services are being produced in the country itself, yet Thailand's external debts are soaring. The domestic market is saturated as a result of investment promotion for import substitution. At present, there are thousands of goods "made in Thailand," and the task of import substitution has been accomplished. This is another example of illusions when it comes to the Thai industrial development. There should be a distinction between goods that

are "made in Thailand" and goods that are actually "Thai made." If goods are made in Thailand by foreign enterprises, say by multinational corporations, the phenomenon cannot be considered an import substitution. It is still an import—just of a different form without basic change in substance. Since the government has concentrated its industrial promotion efforts on enterprises with imported technology, while neglecting locally developed technologies, the country's domestic market is almost totally occupied by multinational firms and saturated with foreign goods "made in Thailand." Also there are foreign goods "made in Thailand" being exported from Thailand. Thai manufacturing export statistics are again misleading.

The last question touches on technology transfer. It always is taken for granted that once machinery, equipment and technical formulas are imported into the country, and Thai personnel are trained to handle them, the technology is "transferred" automatically. But technology is transferred only when complete knowledge of the technological concept has been acquired—how it is designed, how it works, how to repair it, how to make improvements on it, and so on. The acquisition of this knowledge will be possible only in the presence of research and development (R&D) on the technology itself—research in order to acquire a complete understanding of the technology and development to aim at quality improvement, lower cost of production or adaptability to market demand. It is a mistake to assume that technology is transferred when Thais have been trained simply how to work it. In that case, the Thais are only users of the technology, and may remain users forever. Since R&D is costly and its results rather uncertain, financial authorities tend to be reluctant to render their support because their rate of return measurement is not quite applicable in this special case. It is precisely for this reason that, despite decades of investment promotion, Thailand has rarely transferred in any technology.

Impressive diversification achievements have contributed very little to the country's industrialization. Nevertheless, once confusion over basic thoughts is cleared, illusions about achievement are removed and a proper policy framework is set forth, then the Thai industrial sector can be put on road to progress. The key element is of course technological self-reliance, acceptance of which will automatically lead to serious support for R&D activities in industry. It also will lead to a distinction between "Thai made" goods—those made by technologies that have gone through R&D in Thailand—as opposed to goods "made in Thailand" by multinational corporations with imported technologies. If the Thai-made goods are given support to increase their share in the home market, perhaps by means of fiscal incentives, the Thai economy will rely more on its own market of 52

million customers. Thailand is rich in natural resources that can be technologically developed as material inputs for its own industries. Besides, the country has invested heavily in scientific and technical personnel who now are ready to perform R&D and other technical assignments in conjunction with the country's energetic entrepreneurs. Thailand does not lack the prerequisites of industrialization. What is really needed at present is a right sense of direction within a right frame of mind.

Economic historians and development economists have been aware of the close relationship among science, technology and economy in modern economic growth since the Industrial Revolution. Science-based technology has shifted the world economic equilibrium to higher levels. Improvements in the quality of life have been brought by technological progress.

The power of science and technology is strongly felt in all aspects of economic life. Factors of production are increasingly dependent on science-based technology for their productiveness. While capital investment and its rate of return are determined by technological progress, higher labor skills are required to meet technological changes. The utilization of natural resources is completely conditioned by the availability of technologies. Because of its impacts on production, the share in value-added is dominated by technology.

On the international level, technology is decisive with regard to trade, investment and production. Economic power is no longer decided by territory, population and natural resource, but rather by the level of technology. It is the technological discrepancy that divides the world into developed and developing countries. The worldwide gap between rich and poor nations is essentially a technological gap.

The powerful impacts of science and technology are not confined to macro scenarios; they also touch on economic life at the micro level. Individual economic life is sustained by a balance between needs and their satisfaction. Economic equilibrium is lost when needs are not satisfied. Needs often are created by effects of new products and services. If at the same time technological capability is inadequate, economic life will suffer a disequilibrium whose prolongation can ruin individuals as it does the national economy.

Developing countries, which by definition are nations that lack technological self-reliance, usually depend on developed countries for goods and services to serve their demand, though this structural weakness is not always clear. Goods and services made in the country are mostly foreign, and substantial parts of the value-added are remitted abroad, leaving behind only wages that will be spent on foreign-made products. Developing countries indeed pay a high price for their

economic subsistence. In maintaining economic equilibrium on external technology, developing countries find it difficult to eliminate poverty and to overcome backwardness. At the same time, growth acceleration often leads to increasing external debts beyond the country's ability to repay. External debts are direct results of growth without technological self-reliance. At certain levels, the debt burdens also interfere with economic stability itself.

Because science-based technology is expensive and not effected simply through trading, there is a need for national science policy—a public policy that reflects an integrated socio-techno-economic approach. Science and technology will be acquired primarily to strengthen the nation's economic self-reliance and productive capability. Without consideration of socio-economic factors, a national science policy may embark on expensive adaptation of technologies irrelevant to the country's own conditions. Similarly, economic policy tends to restrict efforts to build up indigenous technology if it merely gives support to imported technologies. An integrated socio-techno-economic consideration is therefore necessary.

Three main areas deserve special attention—investment promotion policy, research and development activities, and the domestic market.

Foreign investment is attractive because it is expected to bring along new technology and modern business management. There are no reasons for a free-enterprise country to raise objections to foreign investment. What is desired is that the investment actually must be made in the country. The prevailing situation is that practically all "techno-products" are being produced abroad, or in other words, their "investment" already has been made. In this case, investors are merely selling their techno-products, and investment promotion is in fact a promotion of foreign-made capital goods, while the less-developed countries (LDCs) receive very little benefit. This happens because the LDCs do not seriously consider technological self-reliance in their own investment promotion objectives.

It may be argued that dependence on foreign technology is caused by a lack of alternatives; developing countries lack "brainpower" to develop technologies by themselves, it is said. But in some developing countries huge investment has been made in human capital, including scientific and technical personnel. These highly trained people normally are engaged in teaching. Many of them have left their countries to seek employment elsewhere, which is apparently an economic loss for their homelands. If investment promotion requires investment in technology, local scientists and technologists will be given an opportunity to gradually build up technological capability. By concentrating

the promotion efforts on imported technology, government policy itself obstructs the achievement of technological self-reliance.

Investment promotion policy therefore will have to be reviewed. It should be selective in promoting imported technologies, while giving serious support to development of indigenous technologies. By means of this kind of approach, enormous foreign exchange will be saved, and the country will be on road to economic self-reliance.

Technological capability toward self-reliance is determined by the extent of research and development. R&D expenditures are regarded as national investment in the same way as investments in infrastructure and in human capital. Developing countries seldom pay serious attention to R&D. They often confuse "technology purchase" with "technology transfer." Technology transfer is hardly possible without R&D activity.

Because R&D activities are costly and do not aim at immediate profits, research and development may sound like a luxury to developing countries. To minimize costs, developing countries may spend less on basic and applied research and more on development phases. Research is certainly very important as technological foundation, but most of it can be transferred from abroad at less cost than being carried out in the country. There are of course certain cases where basic or applied research must be done at home. The economics of R&D presents many challenging questions, particularly with regard to project selection in the face of limited financial resources.

R&D activities are expected to cover a range of activities from basic to applied research to development, from development to engineering including demonstration, and from engineering to commercial production. Each step possesses unique characteristics and requires personnel with specific types of background.

With proper support given by investment promotion policy and local R&D activities, developing countries can be in a position to increase their reliance on the domestic markets. Very often it is found that a domestic market has been under the control of foreign goods both imported from abroad and manufactured in the country itself. Developing countries must aim at taking back the domestic market as far as possible. There must be a clear distinction between "local products" and "products made locally." Local products should be promoted through fiscal incentives that will not be regarded as tariff walls discriminating against foreign goods in the world market or contradicting to the free trade principle.

Economic self-reliance is not only legitimate, but it directly works toward restructuring international economic development through narrowing the existing technology gaps.

22. Foreign Investment and Technology Transfer

THOMAS J. WHITE

Thailand presents to the potential foreign investor a climate that is generally regarded as good and in many respects getting better with each passing year. At the same time there are problems that have not been resolved and new problems emerging. Where problems exist, they are often the result of administrative actions and the manner in which law and regulations are interpreted and implemented rather than being the result of conscious policy decisions. The most serious difficulties that have been encountered are in the areas of taxation, customs and intellectual property rights.

It is expected that Thai-American business relations will continue to become more complex in the next few years as they increasingly have become during the past decade. Competition especially with regard to some commodities is expected to become more intense but the volume of trade and investment is expected to increase. Problems are expected to become more intricate and tied to higher stakes. Because of the excellent pattern of relationships, goodwill and deep personal friendships that have developed between Thais and Americans over the past 150 years, there is a reservoir of historical understanding on which to draw. This—plus a lot of energy, attention, hard work and greater understanding—will have to go into the building of the new era of Thai-American economic relations that has begun in the 1980s.

One of the bases of Thai-American economic interaction is the bilateral Treaty of Amity and Economic Relations adopted in 1966. This gives “national treatment” to American citizens and corporations working in Thailand, except for a few types of business. The treaty is similar to a number of others between the United States and its trading partners and it has worked well and been much appreciated by the American business community.

The primary objective of the American Chamber of Commerce in Thailand is to promote the development of all aspects of commerce between our two countries. We in the chamber accept this as a major responsibility and believe that those who are familiar with our efforts

recognize that we have adopted strong positions both in the United States and Thailand in pursuit of genuine improvement.

One of the major activities of the chamber is to keep track of the investment climate in most nations around the world, and to identify—in a responsible and tactful manner—areas of concern to the potential investor. In the case of Thailand, the American Chamber of Commerce for almost ten years has conducted regular surveys of its members, asking their opinion of the Thailand business climate. Happily, this survey has indicated steady improvement in the investment climate in Thailand, from a point in August 1981 when 74 percent of the respondents were cautious or pessimistic regarding investment in the Kingdom, to the most recent survey indicating that 65 percent of those responding now are optimistic.

In 1985 the six other major foreign chambers joined in this survey so that now the results are presented not only from the American chamber but also the seven combined foreign chambers.

A key element in the improvement of the investment climate has been a greater awareness of the role of the private sector and foreign investment as well as a series of positive steps taken by the government to promote investment. The Office of the Board of Investment (BOI), the government agency responsible for investment promotion, has made some effort to streamline investment procedures by establishing a one-stop Investment Service Center, and by strengthening its capability to assist investors in information gathering and compliance with various government regulations. In 1984, the BOI stepped up its investment promotion effort in the United States under an aid program funded by the Office of Private Enterprise of the U.S. Agency for International Development (AID). In 1986 the American Chamber of Commerce, U.S. Foreign Commercial Service and the BOI began collaboration in a large-scale "mini-ambassador" program that will make it possible for Thailand-based American businesspersons, when visiting the United States, to speak to interested business and investment organizations about doing business in or with Thailand. This past summer our members spoke to approximately 300 such persons and we expect to double that number in 1987.

Other recent positive developments have included the establishment of a separate Investment Service Center in the Ministry of Industry and a Joint Public/Private Sector Consultative Committee to which the foreign chambers have gained access. In addition, the Thai government has taken a number of other actions to improve the investment climate and these are recognized and appreciated. Measures taken in 1986 include reduction of corporate and personal income taxes, a tax amnesty to clear case backlogs, elimination of price controls on various items, reduction of bank interest rate ceilings, gasoline price and

electricity rate reductions and reduction or elimination of many export taxes or premiums and reductions of license or tariff restrictions on a number of items.

There is, without doubt, strong competition worldwide and within ASEAN to attract investment both foreign and domestic, and this competition is focused in two areas: direct investment incentives and creation of an attractive investment environment ("hassle factor" reduction).

Since many American businessmen and most potential investors come to the chamber to receive briefings on operating in Thailand, we believe we not only perform a valuable service but also have a good feeling for investors concerns. In the area of direct investment incentive Thailand is competitive, with minor changes, so the area of greatest potential is in improvement of the business environment. Our surveys over the years have shown clearly problems perceived by both actual and potential investors. The area of taxation is one in which, although progress has been made, there is a need for continued, aggressive and speedy attention.

The major problems result primarily from three factors. First, in many areas, laws and regulations relating to taxation (and in some cases relating to commercial and business operations generally) are unclear and not up to date for modern business. A second major problem area is the designation of various tax matters (and, again, other matters affecting commercial and business transactions as well) to government agencies that do not always cooperate one with the other or, in some instances, that do not have incentives to know precisely what the other is doing. The third has to do with the level of staffing and professionalism devoted to the tax audit function.

I feel compelled to point out that foreign investors do not object to paying taxes since this is a cost of business anywhere. Tax rates are compared and they of course affect investment decisions. But the areas of greatest difficulty are the availability of clear, consistent interpretations, obtaining of tax clearances, containment of retroactivity and assessment of penalty. Uncertainty and ambiguity are the major problems.

Another problem in the tax area is the absence of a Thai-U.S. tax treaty. Thailand has such treaties with at least eighteen other countries including Japan, Korea, Taiwan and all its major European trading partners. The lack of such a treaty places U.S. companies at a disadvantage compared to those from other countries when competing or investing in Thailand. It is not my intention to attempt a detailed discussion of the reason for the lack of such a treaty but rather to point out that it is a serious gap in the Thai-U.S. economic relationship.

In the United States we know very well the difficulty of tax reform and restructuring even as we have urged it in Thailand. But it is a major

investment consideration for both domestic and foreign investors. We believe it is necessary and will prove beneficial in the long term and we support efforts to broaden the tax base, to restructure and reduce the business and excise taxes and to improve administrative procedures.

The last point I would like to mention in this context is a "hassle factor" item: Tax clearances. While we understand the need for such clearances, we believe they should be linked to the work permit and therefore issued for one year at a time. We do not see the need for such clearances for spouses or dependent children.

The second primary area of investor concern is related to the first because in Thailand the customs department is utilized as a principal revenue source supplementing the lack of direct taxation. From the perspective of the American chamber, specific problems relate primarily to duty assessment and retroactivity. It is a major problem for business operating in Thailand and a major concern of potential investors. It is suggested that Thailand join the GATT (General Agreement on Tariffs and Trade) Customs Valuation Code, which is subscribed to by the majority of trading countries. It would not only standardize Thai customs valuation procedures allowing acceptance of bona fide invoice value as assessable value but also result in faster procedures which are more equitable. This would greatly reduce the customs department workload and eliminate high costs to both importers and exporters in bank guarantees alone. It is further suggested that a shorter time limit be established for the reopening of cases and that penalties be allowed only where there was proven criminal intent or false declaration. We believe it is possible to have customs controls without undue delay or cost, thereby promoting economic activity and technology transfer; present procedures are inhibiting to both functions.

The third problem area is industrial and intellectual property rights, which of course relate to technology transfer. Progress is being made but the pace is slow, so results cannot be assessed at present. This is an area in which a great deal of education is required to convince government officials, businesspersons and the public of the benefits to be derived.

In general, Thai laws and regulations regarding intellectual property rights need to be strengthened, interpretation of the law needs to be made more clear-cut, and there is a great need for enforcement of existing law. It is particularly important to speed up the legal process with regard to the arrest and bringing to trial of violators.

Legal remedies recommended by our chamber include amendments to the Thai penal code and other relevant laws to increase maximum punishments for trademark, copyright and patent violations; specific protection for computer technology and software;

prohibition of limitations on unauthorized public performances; clarification by the Thai government on the applicability of the Treaty of Amity and Economic Relations to copyright works; establishment of a government agency specifically charged with supervision; receipt of complaints and prosecution of court action on matters involving intellectual property rights; and improved patent protection for pharmaceuticals, industrial products and chemicals.

Continuing the theme of creating an environment conducive to investment and technology transfer, we would recommend that even greater consultation take place between government agencies and the business community so that both sectors may better understand the reasons underlying the impacts of new laws, regulations and interpretations.

To a major extent commercial technology transfer is interrelated with investment and requires much the same environment. Conversely, as with the old adage "you can lead a horse to water, but you cannot make him drink," if the principals are not willing and sufficient rewards are not available, transfer cannot take place. This is a gross simplification but is designed to indicate that the best transfer takes place where the incentive is adequate, the capability is present and the system is receptive.

Today such technology transfer requires many support systems such as intellectual property protection, flexible modern accounting practices, tax and investment promotion, adequate markets, personnel and educational facilities, sub-contractor capability and materials availability.

As with the horse led to water the transfer is something that is difficult to force but works well when naturally developed and properly stimulated. Therefore it is suggested that, if the investment climate is right, technology transfer will follow.

Discussion Excerpts

AMERICAN PARTICIPANT: There are things that America is doing for Thailand. There has been a continuous and harmonious history over the past thirty-six years of a technical and economic cooperation program between Thailand and the United States which has seen something on the order of \$900 million to finance commodities, training and technical assistance. Some 15,000 Thais trained in the United States now constitute a significant portion of the leadership in the public and private sectors in Thailand. There has also been an effort to strengthen Thai indigenous technology, research and development. Our program strategy has been to respond to development priorities identified by Thais, particularly as reflected in the five-year plans. There is a new "science and technology for development project" in which the United States is cooperating with the Ministry of Science and Technology and other institutions in Thailand. It represents a \$35 million contribution from the United States and almost a \$15 million contribution from the Thai government. Its purpose is to strengthen Thai scientific and technical capacity.

AMERICAN PARTICIPANT: What bothers the American speakers is that there are all these attacks directed primarily at America even though it is less protectionist than the European Economic Community (EEC), Japan and Thailand itself. Thailand's exports to the United States are growing at a tremendous rate. If that is the case, why is there a problem on Thailand's part? What I hear is Thais talking about old emotional ties, special relationships, and regretting that those things do not seem to count anymore. What I conclude is that the real issue on the Thai agenda is that they are dealing with a totally different United States than they dealt with in the past. We used to tell Thais, "Devalue your currency so you can export more to us, so you can be stronger." But now we are saying "Please revalue your currency upward so we can import a little less from you." We used to celebrate all Asian countries' export successes except Japan's. Now we are telling them it is all a disaster. We used to tell these countries to use infant industries arguments to protect their industries while they built them up to compete with us. In short, we did not used to talk about "fair trade" or "level

playing fields." The reaction on the Thai part is to see the United States playing a role like West Germany or Italy, trying to maximize its benefits on a level playing field rather than be a great leader of the Western alliance generously offering its markets. Most American participants probably do not realize how radical a reversal this is. In order to make the technical discussions we have had fruitful, we need to have the real source of the problems on the table.

THAI PARTICIPANT: Dr. Vichitwong has commented on the state of real industrialization in Thailand and suggested that value added is not a good measure of industrialization. Thailand has entered the second stage of industrialization. The reason we now are entering that stage using more local technology and local components is mainly because of the efforts of the Thai private sector and Thai private industrialists. Siam Cement Company, for example, has been able to build up engineering technology which serves as an attraction for foreign investment. We certainly should try to support these local industries even more. One way to support them is through the public sector programs. This is one area where we have cooperated with the Agency for International Development (AID). We need the cooperation of the public and private sector to really make it work. We have already allocated more than a billion baht of resources to support the kinds of things which Dr. Vichitwong has mentioned that we should try to do. It is important to get the private sector involved. We believe that unless the bankers are informed about research and development possibilities here in Thailand it will be very difficult to get the private sector's support because they will need the bankers. I am very glad that five banks have joined with AID to provide venture capital to support local research and development.

In the politics session we talked about a moving equilibrium. This afternoon Dr. Vichitwong discussed economic equilibrium. I am not as pessimistic as he is about reaching economic equilibrium. Already this year the current account will be close to equilibrium if not in surplus. And in the next few years if we keep present policies going we expect that equilibrium will be reestablished.

THAI PARTICIPANT: Agricultural diversification may be desirable, but we now are being clobbered into diversifying. In the context of Thailand, diversification is already taking place in areas that are quite prosperous relative to the other areas. The problem is in the areas which cannot diversify. They are the ones that are being clobbered.

AMERICAN PARTICIPANT: We have a shift in the past two years toward the priorities of economic relations. I would anticipate that would continue to be true for the foreseeable future. I think we are in an era when economics is going to take priority, both in the sense of its importance and also in the sense that it shapes other factors. I do not

regard this as wholly disadvantageous. There are many aspects of this that are hopeful and promising. It is true that in this conference there was a certain feeling of the looming up of certain problems in U.S.-Thai relations. The two perspectives that seemed most pronounced were the American perspective that we were making progress in containing protectionism and were still the most open of the major societies versus the Thai apprehension that protectionism was closing in. History sooner or later will demonstrate which of these perspectives is correct.

THAI PARTICIPANT: Economic and political forces are closely intertwined. The success of democracy depends upon a healthy economy. Revenue from trade is important to promote economic development. Economic development and trade serve to cushion the growth of a democratic form of government. And the growth of the latter, based upon General Chavalit's argument, will in turn serve to fulfill Thailand's security needs to fight against Communist aggression. Because of the systemic nature of security, one cannot compartmentalize trade, politics and security. Protectionist policies threaten economic growth, and indirectly, threaten democracy and play into the hands of Communist movements.

AMERICAN PARTICIPANT: I am struck by some broad areas of agreement at the conference. We seem to have agreed on a view of the region's security problems. We appear to want market economies at home and open world markets. We want, for example, to make the next GATT (General Agreement on Tariffs and Trade) round succeed. We also have debated some problems and differences. To some extent these are reflections of Thailand's economic growth so that it now competes with the United States in some world markets. The change also reflects evolution in the United States. Our relative economic position in the world has deteriorated. Despite our domestic problems we remain internationalist, but we will never again have a dominant position economically or a thick cushion to protect us against the vagaries of the international market. The United States will negotiate harder and pursue its interests more strenuously. Our bilateral relations will require more work, more discussion between us, and better understanding of each other's problems. There has been discussion here about emotionalism. What has impressed me most is how we have been able to deal dispassionately with so many difficult matters.

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