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POLITICAL ECONOMY OF DEVELOPMENT IN  
THAILAND : MODELS, STRATEGIES AND CONSEQUENCE

BY

APICHAJ PUNTASEN

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1. INTRODUCTIONS

The evolution of a development policy and its implications cannot be analyzed in complete isolation from its historical context. Traditionally, in any less developed country, the interactions of the dominant factors are normally consequential for policy formulation and policy outcome. These factors are external influences, internal conflicts of class interests, and influential individual actors or a collection of them, who follow their own rationale at specific times in history.

As such, the development of the Thai economy can be analyzed within the context of the interplay of this set of three important factors. Three broad periods signifying different development strategies will be discussed. The first one covers the period from 1855 to 1932. The strategies adopted during this period were Westernization with increasing centralized control plus a conservative fiscal policy. The second period covers the period from 1932 to 1957. The policy adopted during this period could be labeled as the increasing tide of economic nationalism or state capitalist development. The third period extends from 1957 to 1980. Authoritarianism and modernization with strong external dependency symbolizes this period. Currently the strategies adopted could be labelled as the incrementalist

approach to problems of structural crises (Kangsanant, 1984, p.3).

Although 1957-1980 will be the emphasis of this study, without adequate discussion of the two preceding periods, the said period cannot be put into a proper perspective. The Thai economy prior to 1885 was basically a self-sufficient economy consisting of two dominant classes, namely, broad peasantry and the ruling class. The ruling class lived on agricultural surplus of the peasantry and the monopoly of foreign trade. Naturally, the ruling class wished to exercise strong centralized control of the population. However, poor transportation and communication facilities made a large degree of decentralization of power, or the lack of control, inevitable.

The conclusion of the Bowring Treaty in 1855 changed this situation. The free trade policy imposed by the imperialists on the Thai ruling class had brought them financial difficulties. International division of labour brought about by the free trade forced Thailand to emerge as a dominant rice export country. Increasing centralized control by the ruling class was exerted with the aim of unifying the country under the pretext of the threats of colonialist aggression. This move was made possible by the contemporary development of transportation and communication technology. It was carried out unopposed because it coincided with the British interests. The strong centralized control required efficient bureaucracy. This had led to the emergence of a new ruling class: the civil and military bureaucrats. At the same time the government had to pursue a

highly conservative fiscal policy for fear of colonization through economic domination. The consequence thereof was a slow growth under Westernized pattern. Meanwhile the peasantry controlled directly by the ruling class were heavily exploited while those living outside the orbit of authorities managed to live a relatively freer life.

The new class of civil and military bureaucrats was partially drawn from the royal and noble families. However, quite a few of them were drawn from the originally Chinese immigrants and their descendants who engaged exclusively in non-agricultural pursuits (ranging from wage-labour to manufacturing, trading and shipping and tax farming). Yet another group was from the peasant class and low ranking government officials.

This new group of bureaucrats started to emerge as a strong political force towards the end of 1920's. The fact that some of them had witnessed heavy exploitation of the peasantry by the royal families and nobilities, combined with the distasteful experiences of the imposition of quasi-colonialism by Western powers on Thailand, the inability to move upward in the bureaucratic hierarchies because the top positions were normally reserved for members of the royal families plus the fact that these people were trained in Western countries where absolute monarchy was an outmoded form of government, the frustrated new bureaucrats were successful in overthrowing the absolute monarchy in June 1932. However, this group was not entirely homogeneous. It consisted of liberal and conservative civil bureaucrats and many of them were military officers with authoritarian tendencies. However, their common objective was to overthrow the

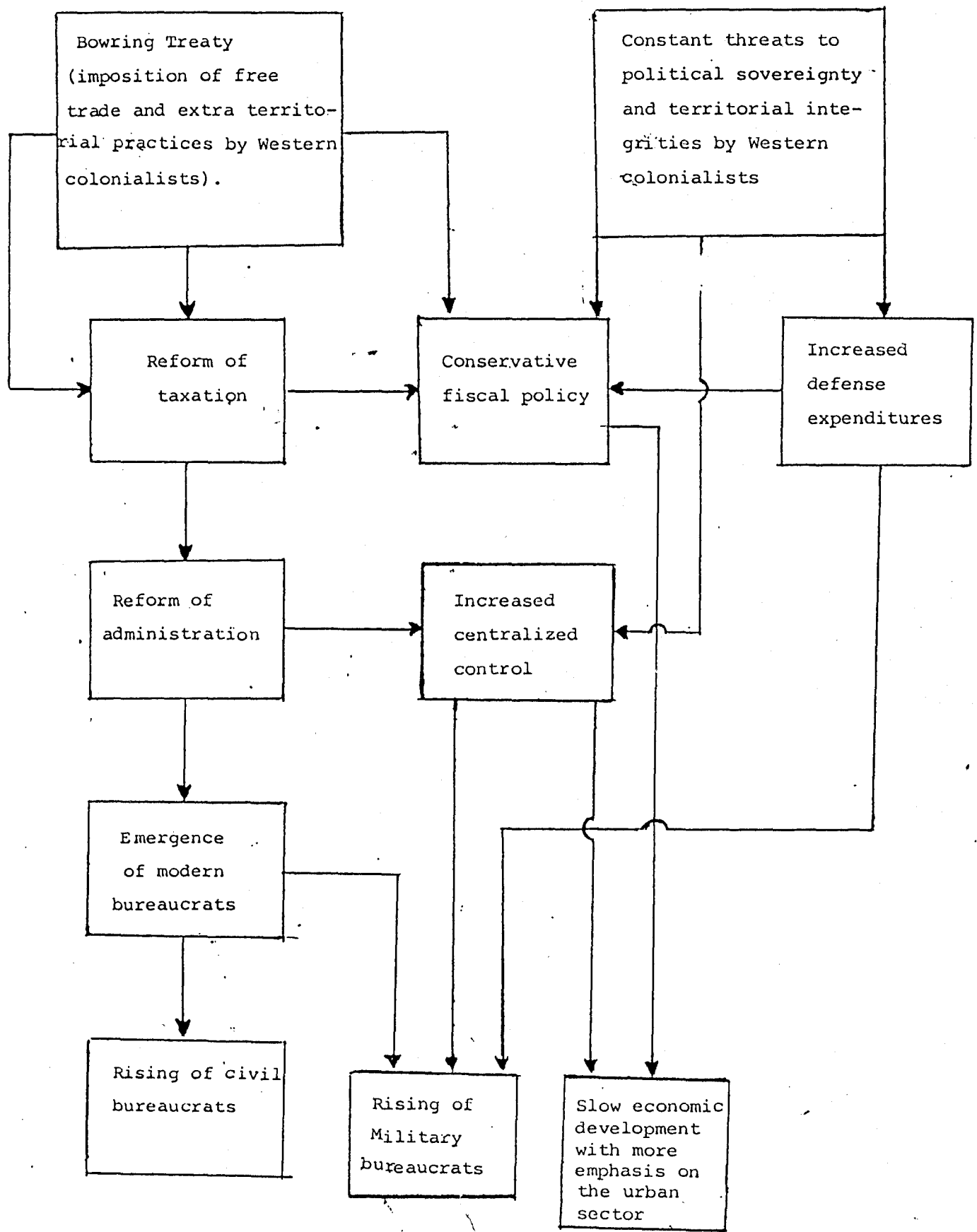
absolute monarchy and to inculcate a new sense of nationalism since most economic activities were in the hands of either Westerners or Chinese.

Therefore the overthrow of the absolute monarchy, ushered in a period of economic nationalism. Its main purpose was to halt the expansion of Western and Chinese businesses, while at the same time encourage the Thai to gain experiences in some business practices which was rarely the case before 1932. Nevertheless, an implicit motive was also to build up a new economic base for the new bureaucratic group to counter the influence of the royal families and foreigners.

Japan's rapid mobilization and development of military forces in Southeast Asia and their eventually invasion in late 1941 into Thailand helped strengthen the militant faction of the military bureaucrats who spurred up nationalistic feelings and developed antagonism against Western powers. Prior to the final defeat of the Japanese army by the Allies after destruction of Hiroshima by an atomic bomb in August 1945, the military bureaucrats were removed from power. The conservative and liberal factions of the bureaucracy who were partners in the underground resistance against the Japanese army were back in power with the conservative faction out in front at the beginning. The rising prestige of the liberal faction later on brought them back to power. The United States gained the highest respect from the Thai government because of its strong support for the resistance movement during the War and the unfailing support for the Thai government in its very difficult

Diagram I

Beginning of Lopsided Development and the  
Emergence of Military Bureaucrats



negotiations with Britain as the winner and Thailand as the loser, of the War.

A few years later internal political turbulence plus the return of the conservative faction who collaborated with the military bureaucrats brought the downfall of the liberal faction. The fear of the rapid rise of communism in Eastern Europe and the potential expansion of communism in East, South and Southeast Asia plus the global desire of the United States to become a new imperialist replacing the declining power of Britain, had moved the United States to strongly back the military regime in Thailand although it was once bitter enemy of the United States. Their common interest as expressed by the military bureaucrats was their strong anti-communist stand.

While the United States government provided them with strong support, the military bureaucrats became the strongest by using the American arms to silence their liberal opposition in the government and other opponents among the military. The new military government assumed almost absolute dictatorial power. Apart from the military might, the United States also wished to open the Thai economy up to support the penetration of foreign capital so that the country would be drawn into the orbit of world capitalism. This strategy was aimed primarily at extracting surplus from the country and at the same time setting up what the United States believed to be a strong economic foundation to fight against communism.

This latter aspect had not been advocated vigorously by the United States during the regime of Field Marshal Pibun, leader of the military bureaucrats then. Pibun and his military



clique continued to accumulate their own economic wealth and fortune under the guise of economic nationalism or state capitalism through the establishment of various public business enterprises run and controlled by his military supporters.

Toward the end of Pibun's regime, the Americans began to increase its pressure to open up the Thai economy. At the same time an economic chaos resulted partly from mismanagement, together with American suspicions that the military bureaucrats in Thailand were playing off the Americans against a communist block to enhance their negotiating power, Pibun group was finally removed from power in late 1957 by Field Marshal Sarit who once led a faction under Pibun, with strong support from the United States.

The rise of Sarit suited the American interests, in the sense that the United States was pushing for a stronger policy for the opening up of the Thai economy, under the pretext of economic development led by "growth strategies. Sarit himself also gained from this move because he could amass his own private fortunes and had little interest in the state-owned business enterprises. Development planning was consistently proposed, planned and implemented with the help of the World Bank. This had brought Thailand into a new development era.

With the combination of a long-term strong military dictatorship of Sarit and his successor, the Thanom-Prapass clique from 1957 to 1973 with technical help from civil bureaucrats for economic development planning and its implementation, a cross-bred politico-bureaucratic animal known

as the "technocrat" had emerged. (Chamarik, 1986;p 1-3). Since the rise of Sarit, there has been forged a strong alliance of the urban middle classes, referred to by Phongpaichit as "an urban middle class revolution" (Phongpaichit, 1980; p.2). Unlike during the Pibun regime, there has been virtually no conflict of interests among urban middle classes during the Sarit regime. Foreign investment was strongly encouraged. The government through the recommendations of the World Bank provided all necessary investments in infra-structures to accommodate private investment. Cheaper sources of loanable funds for investment were supplied. There has been no more discrimination against Chinese investment in Thailand. There has been a strong collaboration among military bureaucrats, technocrats and businessmen in their business endeavours. Two major groups being left out and heavily exploited were the peasantry and urban workers. These two groups have no strong political power bases and political institutions whatsoever to protect their interests.

This imbalanced development program caused by the unequal representation of internal politico-economic groups has resulted in the lop-sided development of the national economy. While the growth of the urban sector was achieved at a rather impressive rate the rural sector was left stagnant behind. This has led to the bankruptcy of the rural sector. Useful natural and human resources were heavily drained out of the countryside. Recently urban unemployment especially among the educated ones becomes increasingly evident. Rapid deterioration of the balance of trade was followed by a chronic deterioration in the balance of payments after the two oil price shocks resulting from the

combination of the increasing degree of openness of the economy and the increasing dependency on the world market. Foreign debts have similarly piled up. Debt service ratio has increased at an alarming rate. All have resulted in the so-called "structural crises".

Although the Thanom-Prapass dictatorial regime was overthrown in October 1973 as a result of student-led uprising, the return of a new rightwing dictatorship soon after 6 October 1976 bloody suppression of students kept the technocratic class intact. There has been a slight decline of power of the military bureaucrats, however. After a strong armed insurgency of the communist forces during 1977 and 1978 when urban intellectuals joined guerilla forces after 6 October 1976 in greater numbers, the ruling regime adopted a softer line approach. Limited democracy was introduced. Serious consideration was given to effective rural development in 1980 as a result of the well-known Order 66/2523 of the Prime Minister's Office and followed by that of 65/2525. The new period of incrementalist approach to structural crises has actually begun. Whereas the position of the military bureaucrats has slid further, under a regime of elected government the power of the technocrats in the design and implementation of public policies remained intact. The future of Thai economy will depend on the contest of two opposing forces, namely, the incrementalist reform and the degree of deterioration of structural crises.

Having reviewed the politico-economic developments throughout the relevant periods, we turn to detailed discussions of the developments during these periods.

## II. WESTERNIZATION WITH INCREASING CENTRALIZED CONTROL, 1885-1932

The conclusion of the Bowring Treaty in 1855 forced on the Thai monarchy was admitted by Bowring himself as aiming at undermining the financial position of the Thai government. He said: "...it was clear that my success involved a total revolution in all financial machinery of the government, that it must bring about a total change in the whole system of taxation, that it took a large proportion of the existing sources of revenue, that it uprooted a great number of privileges and monopolies which had not only been long established, but were held by the most influential nobles and the highest functionaries in the State." (Bowring, 1857; p.227)

No data on the tax structure were available prior to 1892. Nevertheless evidence in the 1892 tax structure indicate the heavy reliance of the government on the revenue from opium, gambling farm and prostitution. About 44 percent of the government revenue was received from these sources, while indirect tax (import, export, inland transit and excise taxes) was only 28 per cent (Ingram, 1955; p.185). The percentage received from indirect tax right after the conclusion of the Bowring Treaty would have been much lower than the 28 per cent figure in comparison to the period prior to the conclusion of the treaty. This source of government income could have amounted to more than 50 per cent of the total government revenue because of the trade monopoly by the king. Therefore the treaty had brought a considerable change to the government financial position.

The first immediate impact of this treaty was the weakening of the financial bases of most influential nobles and highest functionaries including the monarchy. However, the financial position of the monarch was founded on a stronger base because he wielded a stronger political power.

A significant direct consequence of the treaty was the rapid expansion of rice exports from originally about 2 per cent of total production before 1856 to the initial 1,169,000 picul exported during 1857-1860, to the amount of 6,167,000 picul during 1886-1890, more than 5-fold increase within a period of 20 years (Saysawang, 1975, p.42). The rapid expansion of rice export was due mainly from the expansion of cultivating land. This was done by the combination of tax incentives, opening up of new land through the digging of new canals in the Central Plains. The increase of rice farmers had brought about the decline in the labour control by the feudal lords. Consequently, their economic position was further weakened. The final blow came after the abolition of slavery through a decree promulgated in 1874. All these actions amounted to stronger economic and political powers of the monarchy. The increasing strength of the absolute monarchy helped pave the way for the subsequent reform of the bureaucracy in 1892.

### 2.1 The Formation of New Bureaucracy

In April 1892, a massive administrative reorganization took place aimed at improving the efficiency of the bureaucracy. The main feature of this change was to switch from territorial responsibility to functional ones of several existing ministries.\* New ministries with clear functional lines of responsibilities

were established, and several existing departments were classified along functional line and were placed under direct control of respective ministries. There were then a total of 12 ministries: Public Works, Interior, War (Defense), Finance, Public Instruction, Justice, Foreign Affairs, Royal Household, Capital (Bangkok Metropolis), Agriculture and Commerce, Royal Services and Royal Scribes. (Riggs; 1966, pp.116-118).

Such reform of the bureaucracy was made possible by the return of young members of the royal families after completing their education in England, Denmark, America, Prussia and Russia (Jumsai, 1951, p.19) also with the help of foreign advisors. The lower ranking offices were filled by graduates from domestic schools. By 1885, schooling for the ruling class was well established. They were Suankulap school, Mahathat College (a school for Buddhist monks, a semi ruling elite school inaugurated in 1882), the Saranrom School (a Thai school under the Department of Royal Scribes), Suan Anand School, the Survey School and the Military Academy, together with several other schools run by missionaries. These were later on supplemented by the King's College in 1897 and the Civil Service Training College in 1899. The mass education was virtually left with poorly organized monasteries. Therefore education was used for the reproduction of existing classes. However, sons and daughters of Chinese businessmen and some from peasant origin could penetrate into the ranks of bureaucrats through missionary schools, and Mahathat College. Reform of administration in 1892 had led to the emergence of a new political force, namely, the bureaucrats.

Because the role of military for the defence received greater emphasis because of continual external threats especially from Britain and France, the military bureaucrats had grown from for the first time in the Thai history into a prominent force.

## 2.2 Increasing Centralized Control

Economic control was the sole motivation of British influence over Thailand. Ingram made the following statement (Ingram, 1955; p.173): "Approximately 70 per cent of Thailand's imports originated in Britain and a large part of exports went to British territories." British firms located in Bangkok were prominent in this trade, two or three principal banks were British and British firms dominated the tin and teak industries. Beginning in 1905 sterling loans were sold chiefly in Britain. Finally, after the political crisis of the 1890's, it was informally recognized that Britain had a paramount interest in Thailand. Some have said that Thailand.

Under such an atmosphere of economic and political threats from Britain, the ruling monarch found it necessary to unify his power against internal conflicts, and at the same time to unify the whole kingdom through increasing centralized control. However, this aim well coincided with the British interest in maintaining order and stability for its own economic power. Therefore, the move to achieve centralized control of the ruling monarch received strong encouragement from the British colonialists.

From 1894, the system of segregating provinces into four classes was swept away and new divisions into circles, provinces

districts, sub-districts and villages were instituted. Eighteen administrative circles were created and the royal commissioners in each circle were given control over provincial governors and over local military forces (Carter, 1904, p.14). The new circles of Kedah of seven Malay provinces in the south, Chiengmai in the north and Udon and Ubon in the northeast were added (Landon, 1980, pp.73-74).

For the first time, the government took official notice of the locally elected village headmen, giving them the responsibility for reporting crime, maintaining registers of the population, and aiding district officials. An intermediary between district and village was provided in the organization of sub-districts (group of ten villages), supervised by sub-district chiefs who were elected by village headmen (Vella, 1955; p.345). Thus, the center or the metropolis had complete control down to village levels.

However, effective control would not be possible without the help of modern transportation and communication technology. The main purpose of the construction of the first railway in Thailand was to bring different parts of the country within closed communication system. The railway would render possible that close and beneficial supervision which would be necessary for effective administration (Graham, 1924; p.145). The first-railroad of twenty-kilometre line from Bangkok to Paknam was completed in 1893, followed by Bangkok to Korat which was completed in 1900. By 1910 the total length of lines opened was 932 kilometres, more than two and a half times the length of the working lines in 1900 (Ingram; 1955, pp.85-86). Following the



construction of railways were the provisions of postal, telephone and telegraph services. All these transportation and communication facilities, apart from generating revenue for the government, were used to facilitate centralized control by the Bangkok government. Of course, with the introduction of these new technologies of transportation and communication together with the expansion of the rice trade, the urban economy under the centralized control tended to expand at a more rapid rate, while the rest of the country remained rather stagnant or deteriorating. As Bell pointed out (Bell, 1970; p.11): "The implications of this change were to make the country dependent upon international trade, and to foreclose one alternative path of development by eliminating the pockets of local capital accumulation and skilled associated with the traditional rural industries."

Although the alternative path of development was foreclosed, the rate of exploitation of the rural sector has been quite light. This was because the rate of expansion of the urban economy as a whole was still quite low, which was due mainly to a conservative fiscal policy.

### 2.3 Conservative Fiscal Policy

The Bowring Treaty had restricted the financial position of the government. This had led to the reform of tax administration followed by the overhaul of the bureaucratic structure in 1892. The government also had to be careful with its spending because its main policy was to achieve fiscal autonomy. This policy could be achieved on the one hand by

increasing government revenues, and on the other by restricting government expenditures. The government strongly correlated solvency and sovereignty (Ingram, 1971; 153). This fear was not invalid under constant colonialist threats. At the same time internal borrowing was not the viable option for the monarchy either. It would be the disgrace of the monarchy as well as a sign of a deterioration in his absolute power. Therefore the very conservative fiscal policy had to be pursued, Landon concluded. "Although the policy consciously entailed a certain 'cost to the nation' in terms of economic development, decision-makers viewed it as the only viable alternative in terms of preserving the independence of the nation". (Landon, 1980; p.76). Because national independence had the top priority, not surprisingly, defense expenditures received high priority. The average share of the national budget for defence during 1891 to 1910 was 21 per cent of the national budget. Its importance was second only to royal expenditures whose average share of the national budget during the same period was 23 per cent (Ingram, 1955, p.193).

Because of this conservative fiscal policy, the government usually avoided any investment that did not pay for itself directly, although the overall economic gain would be substantial. For example, the first large-scale irrigation project in Thailand (the Rangsit scheme) was not undertaken by the government but by a private concern, the Siam Canals, Land and Irrigation Co., which secured a concession in 1889 to dig canals in a vast tract of flat and swampy land northeast of Bangkok (Ingram, 1971; p.81). The only foreign loan committed by

the Thai government during that time was in 1902 for the construction of railroad from Lopburi to Utaradit. The amount was 1 million through the selling of the Thai government bond in London and Paris. The amount offered for the loan was eight times higher than the original requested. The Thai government managed to pay up the debt before the due period of 7 years (NESDB, 1980; p.10).

Due to the insistence of revenues from investments in public enterprises hard pressed by the necessity of a conservative fiscal policy and the increasing expenditures on defence, most of these investments were paid by themselves. Apart from railroad, there were postal services, telephone and telegraph, and Bangkok water works. The revenues from these commercial services rose from nothing in 1892 to 13 per cent in 1926 (Ingram, 1955; p.178).

Because transportation could pay for itself plus the political need to provide more efficient centralized regional control by center, investment in transportation always received higher priority than that in agricultural development. In 1902, J.H. Van der Heide, a Dutch irrigation expert was hired to draw up the overall irrigation plan in the Central Plains. The report was published in 1903 with the estimated cost of 47 million baht (Van de Heide, 1903). This amount was a little higher than the cost for the Lopburi-Utaradit railroad at the going exchange rate then. The project was rejected on the ground that the loan for the railroad was just committed. After the railroad loan was paid, the project was still stalled. Not until 1948, when the

project was restudied by the team of experts of the World Bank and the loan of \$18 million was approved in 1950 (UN, 1950; pp.22-24).

Another reason for the complete negligence of the agricultural sector by the government was also pointed out by Kridakara. He argued that there were only feudal lands in Thailand and not feudal lords. (Kridakara, 1970, pp.1-2). What is actually meant by this statement is that most feudal lords in Thailand were absentee landlords. They were only interested in extracting surplus from the peasantry. Since they did not engage directly in farming and their political power was diminishing, they had no motivation to exert any political pressure on the central government to improve the agricultural land. This had resulted in the decline of the rural sector, and the peasantry were heavily exploited.

#### 2.4 Strong Emergence of Military Bureaucrats

As mentioned earlier, the reform of bureaucracy in 1892 caused the emergence of a new political force known as the bureaucrats. However, because of the increasing territorial threats and fear of losing political sovereignty, the military bureaucrats took the lead. The territorial threats were not unreal. In 1904 and 1907 under treaties signed with France, Thailand had to yield two Cambodian provinces and the province of Saiburi (West of Mekong and opposite Luang Prabang). In a treaty signed with Britain in 1909, Thailand had to give up four Malay provinces of Kedah, Peris, Kelantan and Trengganu. These territorial surrenders brought only the extention of judicial rights over the Asian 'proteges' of the two colonialist nations

(Wilson, 1962, p.8).

Because of the strategic position of the Ministry of Defence, high ranking members of the royal families many of whom were sent for military training in Europe were appointed to top military positions in the ministry. At least two of Chulalongkorn's sons who were later to become Kings of Thailand, Wachirawut (Rama VI) and Prachathipok (Rama VII) had their military training in Britain and France, respectively. Consequently, the favourable share of the national budget for defense should be well expected. It was Chulalongkorn's policy "To fill the key positions of the army with princes to ensure the loyalty of the Army." (Chakrabongse, 1943, pp.88,168).

In 1904, Western-style conscription was adopted to replace the old system of raising military forces only from those whose patrons were connected with the departments having military responsibilities. With this policy of expansion, the military bureaucrats in Thailand began to emerge as a strong political force for the first time in the Thai history. After the founding of the Survey School and Military Academy, commoners had more opportunity to penetrate into some high military ranks. By Western standard, the Thai army was not that strong. This was due to its recent development. Nevertheless, in 1917 as a political gesture, the Thai army was sent to fight in Europe on the side of the Allies against Germany.

Military expenditures continued on the increasing trend during Wachirawut's regime. In 1920, 27 per cent of the government budget was allocated for the purpose (Ingram, 1955;

p.1920). Apart from regular military spending, he established a personal paramilitary corps for himself known as Sua Pa or Wild Tiger Corps (Kreenly 1970; p.258). Gradually, top positions in the military were taken over by ambitious military elites of non-royal family origin. This rising trend of the new group of army was one of the factors responsible for the subsequent overthrow of absolute monarchy in 1932.

## 2.5 Diagrammatic Representation of the Development During 1855 to 1932

As demonstrated in Diagram I, The Bowring Treaty had caused the reform of the system of taxation, the introduction of a conservative fiscal policy and the reform of administration. The constant threats to political sovereignty and territorial integrities by Western colonialists, brought about the increase in defense expenditures. The threats in combination with the increase in defense expenditures and the reform of the tax system also partially explained the conservative fiscal policy. The reform of administration could also be explained in part by the reform of taxation. The reform of administration had led to the emergence of modern bureaucrats. The reform of the bureaucracy together with the fear of external threats resulted in the increased centralized control. The increase in centralized control together with the conservative fiscal policy led to slow economic development with more emphasis on the urban sector. The emergence of modern bureaucrats on one hand contributed to the rise of civil bureaucrats, and on the other, to the rise of the military bureaucrats. However, the rise of the military bureaucrats was much stronger because it was reinforced by the increase in defense expenditures and the increase in centralized control. Therefore, toward the beginning of 1932 the three main features of the Thai political economy could be clearly detected : the rise of civil bureaucrats, the stronger emergence of military bureaucrats and the slow and lopsided development in

favour of the urban sector, while the rural sector especially agriculture that was brought into the orbit of the world capitalist market was heavily exploited.

After World War I, the political position of the Thai government was enhanced. In 1924 Dr. Francis B. Sayre, a professor from the Harvard Law School and son-in-law of U.S. President Woodrow Wilson was employed as the advisor in foreign Affairs to the Thai government. With the help of Sayre, a series of negotiations for the abolition of various special rights and privileges which the West had enjoyed since the mid-nineteenth century were begun. Not surprisingly, the first Western country who agreed to sign the new treaty was the United States. The conclusion of this treaty provided a strong foundation for negotiations with other European nations (Sayre, 1957, Chaps. 7 & 8). Most unfavourable treaties were abolished in 1926. The significance of this action was on the one hand to give the impetus to the subsequent industrial development. On the other hand, the American influence in Thailand, never before in the Thai history, became more visible.

## 2.6 The Overthrow of the Absolute Monarchy in 1932

The People's Party that overthrew the absolute monarchy in 1932 was not a unified group. The group was formed by three factions, the liberals, conservatives and a strong faction of ambitious military bureaucrats.

Dr. Pridi Phanomyong, leader of the liberal faction, was born in 1900 in a middle class farmer family of Ayuthaya. He developed his sympathy to farmers since he was young. He



observed that about 60 per cent of the farmers under the irrigation scheme of the Siam Canals, Land and Irrigation Co. of about one million rais were tenant farmers and very poor. They did not receive any help from the government. At the same time they were subjected to a capitation tax, were to be conscripted to work from 15 to 30 days annually. On top of that they had to pay land tax and rent. He visualized then that if Thailand were governed by a parliamentary system all these troubles of the farmers would be resolved (Siammai Editor, 1983,; pp.84-86). Upon receiving his doctorate in law and economics from the University of Paris, he returned to Thailand in 1929 and served as the secretary of the Department for Drafting Legislation and as a teacher in the Royal Law School (Wilson, 1962; p.122).

The military bureaucratic faction was led by Phraya Phahon and was succeeded by Pibun later on. Phahon was born in 1887 in Bangkok. He was also a son of a military man of the rank of colonel. He graduated from the Military Academy in 1903 and was after his graduation sent to Germany and various countries in Europe as a military student for about nine years. he returned to Thailand shortly before 1917 (Wilson, 1962, p.119). He represented the moderate group of the military faction.

Pibun, born in 1898, was a son of farmer and his village was not far from Bangkok. He received his primary education from the temple and was later graduated from the Military Academy in 1918. Later on he was sent to continue his military studies in France where he met Pridi. He returned to Thailand before 1932 (Wilson, 1962; p.119). He was the most ambitious military man.

Khuang Aphaiwong, a leader of the conservative faction, was born in 1902 in Batambang, a Cambodian province, at that time a part of Thailand. His father was governor of the eastern circle and a descendant of the family of hereditary rulers of Thailand's Cambodian realm whose line dated from the Thonburi kingdom. Not like Pridi and Pibun who were graduated from common secondary schools, Khuang was graduated from Thepsirin School and Assumption College. He was sent to France at the age of 16 to study engineering. Khuang returned to Thailand in 1929 and worked with the Telegraph Department as an engineer (Wilson, 1962, pp.124-125).

The historical profiles of these leaders of the different factions in the People's Party served as a useful backdrop. They could partially explain the split along different ideological lines reflected by their class background and training. All these factions planned the overthrow of the absolute monarchy for different reasons. The military bureaucrats were alienated by the behavior of their royal top commanders. The rumour that many of them would be removed from the posts as a result of the Great Depression in the 1930's prompted many of them to join the rank of plotters.

The conservative faction viewed the absolute monarchy as the outmoded form of government. It should be overthrown so that further reform would be made. The liberals joined the plot because they hoped to restructure the society so that productive forces could be released for the increase in productivity and for better welfare of the masses especially the peasantry. Of course

the Great Depression in 1931 set the stage for a perfect execution of the plot. On June 24, 1932 the absolute monarchy was overthrown.

Soon after the new government was formed, Pridi was assigned with the task of drafting the National Economic Program. The draft was based on point sixth of the Declaration of the People's Party. It stated in part:

"The economic well being of the people must be accomplished. The new government will provide employment to all of its citizens. The national economic program will be formulated and the citizens will not be left hungry". (Collection of Pridi Phanomyong's Works, 1983, p.167).

The essence of this program was to provide social assurances for all through a guaranteed work plan. Modern technology would be introduced to improve the efficiency of the work force. A government should provide land and capital for production purpose. The cooperative system would be introduced (Collection of Pridi Phanomyong's Works; 1983, p.167). The program was criticized by King Prachathipok as a "Bolshevist Plan". (Golay et.al., 1969, p.274). In his own words, Prachathipok commented. "I do not know whether Stalin copies Luang Pradit (Pridi) or Luang Pradit copies Stalin. The only difference is that one is Russian and the other is Thai" (Mokarapong, 1972, p.158) The program was finally rejected. This action reflected the existence of strong conservative elements within the government. Pridi was requested to take a temporary self-exile in France on April 12, 1933. On April 19, 1933, Phraya Manopakorn, the first conservative Prime Minister of

Thailand made a sweeping promotion for eighty-two army officers; among them were all members of the junior military faction in the People's Party who had remained somewhat passive during the conflict over the issue of Pridi's program. Pibun was promoted to the rank of lieutenant colonel. (Mokarapong, 1972, p.161). This marked the attempt at political collaboration between the conservative and the military bureaucrats. On June 20, 1933, Praya Manopakorn government was overthrown and was replaced by the government of Praya Phahon. Pridi was summoned back from France on September 29, 1933. The communist charge against Pridi was dropped by the parliament on March 31, 1934. He was kept out of the economic ministries in order not to provoke the conservative forces within the government and among the public. He was asked to serve as the Minister of Interior where he made the first attempt at local self-government in the Municipalities Act of 1933. Later on, he took the portfolio of Foreign Affairs and presided over the negotiations of new treaties with the world powers (Wilson, 1962, p.123.)

### III. INCREASING TIDE OF ECONOMIC NATIONALISM

The task confronting the People's Party after the overthrow of the absolute monarchy was enormous. The country was plagued by poverty resulting from the Great Depression in the 1930's. As said earlier, most peasantry were poor and had been heavily exploited during the old regime. The rate of literacy among the Thai people was quite low because education in the past was only confined to that of the ruling class and the

bureaucrats. This factor alone had made it very difficult to install a solid foundation of democracy. Within the People's Party, there was a potential split in ideology between the conservatives and the liberals while the military bureaucrats preferred to take a passive role. This potential ideological split originated in the very unfavourable political climate against the liberals since most bureaucrats from the old regime who remained were all conservatives. Consequently, it was very difficult for the liberals to foster any radical changes through their progressive politico-economic schemes.

Industry, trade and commerce were either in the hands of Westerners or Chinese. Industries in Thailand were still at infantile stage since Thailand had only achieved fiscal autonomy after 1926. The imposition of free trade on Thailand since 1855 caused a long-term stagnation of the industries. The only bright spot which remained was the decline in Western influence on the politico-economic activities. Most of them were busy solving their own problems resulting from the Great Depression. Besides, they were quite busy fighting among themselves.

Under such circumstances, the best that the People's Party could do was to follow a moderate reform program, such as to relieve tax burdens on the farmers, to stimulate the expansion of education for the masses, \* to make few attempts at decentralization to counter the increasingly centralized control tendency in the past. The task for further negotiations of treaties were also awaiting. Of course, the military bureaucrats would also like to see the improvement in their force efficiency

and organization. At the same time the government was faced with virtually no foreign exchange reserves. Meanwhile Phahon had to struggle hopelessly for the survival of his own government. On the one hand, he had to fight against a stream of opposition from the old conservatives. On the other, he had to withstand the chaotic parliamentary system resulting from its unfamiliarity with the Thais.

### 3.1 The First Wave of Industrialization

Industrialization in Thailand began at a very humble stage. The first attempt of the new government was to start importing fuel. The Fuel Division was set up in April 1933 within the Ministry of Defence to import fuel directly from abroad. At the same time, the first spinning and weaving factory equipped with modern machinery was also established by the Ministry of Defense. This factory under the name of Siam Cotton Mill started to operate in 1935 for the purpose of supplying cloths to the military. In 1935, the Ministry of Defence also set up a second paper mill, the Siam Paper Co. Ltd., in Kanchanaburi with a registered capital of one million baht. It produced around ten tons of paper per day (Suehiro, 1985, p.2-39). It should be observed that all these factories were started by the Ministry of Defense. The main advantage was that the market and manpower were already in existence. Therefore the creation of industries was in line with the promotion of economy of self-sufficiency and the expansion of armaments in the 1930s.

However, not all industrial activities were in the hands of the Ministry of Defense. In 1936, the first government organ

which was to be responsible for controlling and promoting industrial activities was established as the Industrial Division in the Ministry of Economic Affairs (Prasartset, 1979, p.43). After that, the Ministry of Economic Affairs<sup>\*</sup> set up the first state-owned sugar mill in Lampang Province, the Thai Lampang Sugar Mill, to be followed by a second mill located in Utaradit Province (Suthiro, 1985, p.239).

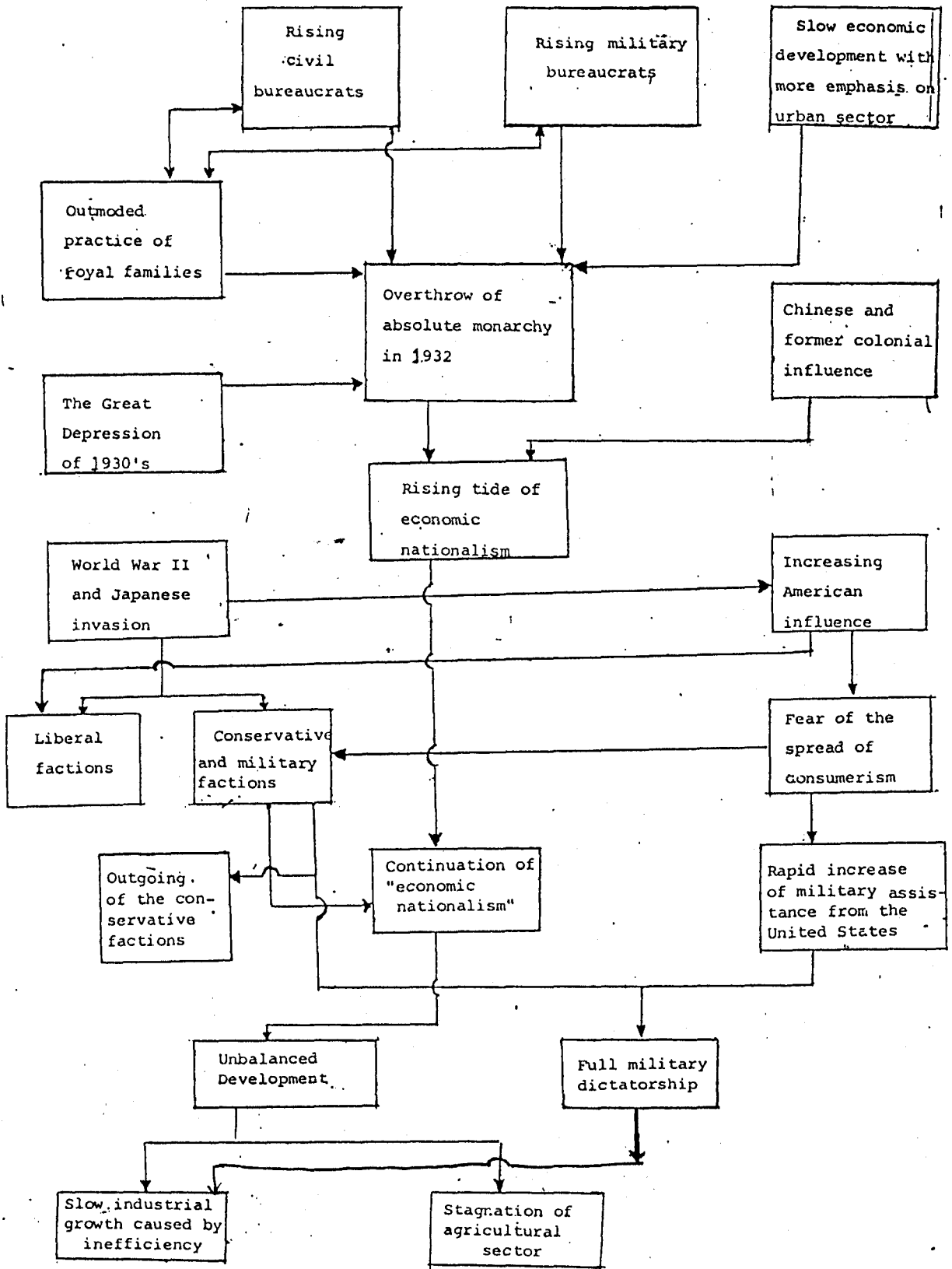
The Thai government was involved directly not only in establishing industries, but it also gave financial support to private businesses. In 1934, the state provided a good deal of financial aids for two privately owned manufacturing companies, Boon Rawd Brewery Co., and Siam Paper Co. It may be said that such an attempt was made because private commercial banks were unwilling to finance such a long-term industrial project (Golay, 1969, pp.309-311).

In spite of all these efforts by the government, foreign capital still dominated the Thai industrial scence.<sup>‡</sup> In 1938, the total amount of foreign investment was 2,480 million baht. Of this amount, 80 per cent were British and Chinese (Gallis, 1942, p.70). Therefore in 1938, Thailand was still at the dawn of its<sup>\*</sup> policy of economic nationalism.

### 3.2 The Second Wave of Industrialization (1938-1944)

Towards the end of 1938, Phahon was defeated<sup>\*</sup> in parliament and resigned as the Prime Minister. Phibun succeeded him. Pridi was asked to serve as the Minister of Finance. This time he was able to implement some of the programs proposed in his National Economic Program earlier. Not like Phahon, the

Development During 1932-1957





Phibun government was much stronger and received strong backup from the military bureaucrats. The rise of Phibun indicated the strong upper hand of the military bureaucrats.

As indicated earlier, the fact that foreign investment was quite dominant in the Thai economy in 1938, plus the fact that all unequal treaties were completely abolished in 1937, the Thai government was ready to pursue a strong policy of economic nationalism. This policy was also supported by the government which declared in 1932 that it would take a strong action so that the Thai economy would be freed from the Chinese and Europeans (Department of Secretariat of the cabinet, 1932, p.1). At the same time the government was, for the first time in the strongest position, politically speaking.

In a radio speech a month after the new government came to power, Pridi the Finance Minister, declared that a primary goal of the government was to encourage the entry of ethnic Thais into the profit-making activities of the country (Landon, 1941, pp.173-174). Later on the Minister of Economic Affairs launched another attack on the Chinese exporters for degrading the quality of rice exported. He also deplored the Chinese dominance in the rice trade. He announced that the government intended to take over all activities connected with production and marketing of rice. In his concluding remarks he asserted:

"I have been asked what kind of trade this is- is it free trade? socialist? or communist? or what? My answer is that it is Thai-ist. This is a word that you will not find in any dictionary, but its meaning is obvious.\* It is a system to help

the Thai. It is not intended to destroy the alien traders, but to create Thai traders. Naturally, they may be some loss to the aliens. Our purpose is not destructive and negative but positive. We are going to help the farmers and to create a Thai business community" (Landon, 1941, p.174).

Soon after the announcement, the government-controlled Thai Rice Company was formed through the purchase of ten Chinese rice mills. Other targets for the nationalization of foreign businesses were the Western-own oil companies, internal shipping companies, and the British-American Tobacco Company. In April 1939, the government passed the Liquid Fuel Act to establish the government control over importation of oil. The government also acquired certain market share from the two existing companies, and Standard-Vacuum. The government was also empowered to control the distribution and prices of foreign companies. The companies objected to these provisions and terminated their activities in Thailand by the end of July, thus leaving the government in complete control (Golay, 1969, p.302). Like the Fuel Act, the Thai Vessels Act was also passed in April 1939. The provisions were that all vessels above a minimum size operating in Thai territorial waters had to be owned by Thais or by corporations 70 per cent of whose shares were held by Thai nationals. In addition, the crews had to be 75 per cent Thai. Following the enactment of the legislation, two foreign-owned ship companies were liquidated and the British owned Siam Steam Packet Company, which had held a virtual monopoly over national shipping was sold to the government (Thompson, 1941; p.xx). On March 22, 1939, a Tobacco Act was passed establishing government

control over the growth, importation, manufacture, and distribution of tobacco and tobacco products (Ministry of Finance, 1940; p.26). By 1941, the British-American Tobacco Company was nationalized and received 5.5 million baht for compensation (Ingram, 1955, p.137).

During 1938 to 1944, as summarized by Suehiro, the Thai government took control over the four broad categories of industries and businesses (Suehiro, 1985, pp.2-39 to 2-45), namely:

3.2.1 Rice milling industry and its related industries such as commercial banking, insurance business and shipping services; Thai Rice Co., Ltd. (1938); The Provincial Bank (1941); The Sresethakit Insurance Co., Ltd. (1942); Thai Navigation Co.; Ltd. (1940); The Easarn Produce Trading Co., Ltd. (1941); and the North Product Trading Co., Ltd. (1941).

3.2.2 Imports and distribution of imported and domestically produced goods: The Thai Niyom Phanich Co., Ltd. (1939); The Thai Niyom Insurance Co., Ltd. (1940); and the Changwát Phanich Co., Ltd. in each province.

3.2.3 Commercial Banking business: The Bank of Asia for Industry and Commerce (1939); National City Bank of Thailand (later the Siam City Bank 1941); and the Bank of Ayudhya (1945).

3.2.4 Manufacturing and handicrafts industries : The Tobacco Monopoly Factory (1941); Thai Industries Promotion Co., Ltd, (1942) and the Thai Industry House (Rarn Thai Utsahakan, 1937).

It can be observed that most of these activities flourished before the end of 1941. On December 8, 1941, Japanese troops landed in Thailand. The government was busy with other political engagements. Pridi was removed from the Ministry of Finance to the pseudo-honoric position of Co-Regent (Proceedings of the National Assembly, (1941), n.o. 3/248) This move was for Phibun to purge Pridi from his Cabinet. Since Pridi was a staunch opponent of the Japanese, the move to get rid of Pridi from the Cabinet would pave way for Phibun to give full cooperation to Japan. This new post was proven to be greatly useful, because Pridi could use the prestige of his office to secretly organize the Free Thai Movement. This group helped Thailand to win World War II on the Allied side at the end.

During 1938 to 1944 although the government had not accomplished as much as it hoped to do, its actions represented the best attempt on its part. Even though the Thai economy was not freed from foreign domination, its influence was greatly reduced. On the other hand, more Thais entered manufacturing and commercial trades.

### 3.3 Increasing American Influence Over the Thai Government

In the period from 1931 to 1941, Thailand became the object of increased Japanese attention. Foran gave three reasons for it (Foran, 1981; p.5) (i) The growth of Japanese industry in the early 1930's enabled Japan to make inroads into export markets such as Thailand previously controlled by other powers, particularly Britain. From 1925 to 1935, Japan's share in the total Thai imports rose from 3.5 per cent to 29 per cent

(Mitchell, 1941; p.382). (ii) The nationalist leaders in Thailand had caused a swing of the country away from Western exploitation toward economic self-sufficiency. (iii) The Sino-Japanese and European wars prompted Japanese logistic considerations of Thailand both as a prospective source of rice and as a strategic step in the Masterplan for East Asia.

\* As early as April 1938, one British officer observed: "Siam should be regarded as a potential and even probable, enemy in a war between Britain and Japan ?" (BPRO. 1938, NGO 1416/71/g). On the other hand, original Japanese slogan of "Asia for Asiatics" in 1938 which was later developed into the proposal of the Greater East Asia Co-prosperity Sphere was attractive to some of the Thai military leaders. Therefore, after the landing of Japanese troops in Thailand about twenty minutes before the attack at Pearl Harbour, and after the bombing of Pearl Harbour, the Thai government agreed for the passage of the Japanese troops (Foran, 1981, pp.21-22). In early January 1942, using the emergency of the war as the pretext, Phibun postponed the 1942 assembly election for two years, elevated himself to the rank of Field Marshal and became a dictator. On January 25 he declared the war against the United States and Great Britain. (Foran; 1981, p.27). While Britain accepted the war declaration, the United States regarded Thailand as enemy-occupied territory. These different attitudes between the two Western powers resulted in different treatments for the Thai government at the end of the war.

Three days after the Japanese invasion into Thailand, Seni Pramoj, the Thai minister to Washington then took a decisive

step to disobey the home government and denounce Phibun's opportunistic policy. Later on the Free Thai Movement in the United States was organized with the help of the Office of Strategic Services (OSS), under the supervision of General William Donovan. Twenty young men in the United States were formed into a unit of the OSS under the Thai flag and wearing the Thai uniforms. In London, the Thai minister was willing to close his office and return to Thailand. However, thirty six members of the Thais in the UK led by Prince Suphaswas were accepted by the British government as the Free Thai Movement to cooperate with the British Forces within the "Pioneer Corps" (Foran, 1981, pp.68-73). In Thailand, Pridi also organized the Free Thai Movement independently and tried to contact the Movements both in the United States and in Britain. It was not until July 1944 when the movement in Thailand and those from outside started to coordinate their works. In 1944, German position in the European War had been weakened, so had that of the Japanese. The eventual downfall of Phibun came when his Petchabun and Saraburi Bills were defeated in the Parliament and he resigned from the premiership. Khuang was appointed as the new Prime Minister. Meanwhile, Prince Aditya the Co-Regent resigned from his post leaving Pridi as the sole Regent. Thus, Pridi was in the more ready position to coordinate the Free Thai Movement. The Pacific war ended abruptly after the destruction of Hiroshima and Nagasaki in August 1945.

Towards the end of the war the United States saw its role quite clearly to emerge as the new super power. Therefore

the lines taken by the United States and Britain toward Thailand at the end of the war were different. While the U.S. intended to take a lenient attitude toward Thailand to gain more acceptance, Britain insisted that Thailand should be treated as a defeated enemy in order to maintain its superiority over Thailand and Southeast Asia.

Meanwhile Seni was recalled from the United States to assume the premiership in order to facilitate the negotiations with the two Western powers. Two major conditions were set forth by Britain to the Thai government. The first demand was for a British military mission to supervise the Thai government on all defense measures.\* This demand was equivalent to the control of Thai troops by Britain. This would give Britain the military power over Thailand. The action would be in direct conflict with the American interest. The second demand was for Thailand to provide 1 1/2 million tons of rice for war reparation. After a long series of intervention by the United States, in the end Thailand only had to pay the war reparations in the form of rice on an installment basis less than the amount originally demanded by Britain.

All the moves made by the United States from the beginning of the war won the great admiration of the Thai people, especially those who associated with or supported the Free Thai Movement. As the United States' prestige among the Thai people reached its zenith, its position as the new super power had completely eclipsed the role of the British colonialists.

### 3.4 Further Political Developments

Actually the United States foreign policy for a long time was influenced by the Council on Foreign Relations. Members of this Council were drawn from the elite group of businessmen, lawyers, academics and government. Since 1941, according to the Council, the main interest of the United States was to have access to the economic wealth of the Philippines, Malaya, and the Dutch East Indies, and the prevention of Japanese occupation of the region. The whole Pacific Area was singled out as significant market and "foremost source of the most important raw material imports of the United States" (Shoup, 1977). Therefore the lenient American attitude shown towards Thailand during the War was part of its deliberate policy which aimed at increasing its influence within the Pacific region and at the same time at reducing British influence. Apart from military and diplomatic supports, the IMF and the World Bank established in 1945 and 1946 with the strong support of the American government were also used as its powerful tools to accommodate American economic policy. The establishment of these two organizations and that of the United Nations were part of the recommendations of the Council on Foreign Relations as well (Bell, 1978, p.74). In conclusion, the efforts were part of the whole design of this brain trust for the global domination by the United States.

The above discussions were quite crucial to the understanding of subsequent political developments in Thailand which also shaped the direction of the economic development of the country. The conservative and liberal factions of the People's Party joined their forces in forming the government for



the first time in the January 1946 election, since they worked quite closely together during the War under the Free Thai Movement. Khuang was elected to form the Cabinet upon the winning of the election. Soon after, there was the repeal of the Anti-Communist Act promulgated in 1933 resulting from the USSR's pressure for Thailand which was applying for membership in the United Nations. After the repeal of this law, Thailand was accepted as a member of the United Nations. The military bureaucrats were out of the political circle temporarily. Unfortunately the honeymoon period of the two factions was short. In March 1946, the new constitution was adopted. It removed the 1932 clause which restricted the royal family from taking part in politics but allowed for a bicameral legislature in which the upper house or Senate was to be chosen by the popularly elected lower house. This move would reinforce the strength of the dominant parties which would ensure the strong executive power (Vella, 1955, p.389). Khuang resigned from the premiership and Pridi was asked to step down from the Regent to become the next Prime Minister. This coincided with the return of young King Ananda to Thailand upon the invitation of Pridi after the war in December 1945. There was high political optimism during that time. "There seems little reason to doubt that full-fledged democracy will be attained in Siam. The king brought up by democratic parents is a genius supporter of democracy and will depend on it. Laung Pradit (Pridi) the ex-Regent, recognized as Siam's flaming liberal and unswerving son of democracy, has blazed the trail for it" (Prabha, 1946; p.117).

There was also the move within Thailand to support the Vietnamese settlement against the French colonialism. Some of the arms received by the Free Thai Movement were given to the Vietnamese to fight for the war of independence. With the repeal of the Anti-Communist Act, the Chinese Communist Party of Thailand began to emerge from underground. In early 1947 Bangkok was also an early center of activity for Indonesian Communist Party after the Dutch moved against Indonesia. The truly liberal stand of Pridi could have brought some concern to the United States government.

The first fatally political blow to hit the Pridi government was the assassination of the King on June 9, 1946. With the calculation of all political circumstances, Pridi failed to bring the assassin forward. This had become the target of attack by the conservative faction with the support of military bureaucrats who were temporarily removed from the political circle. Problems of corruption which resulted from the unrealistic salary scale in the civil service hard hit by the crippling economy after the War were also used for the attack on Pridi. In August, 24, 1946, Pridi decided to step down and asked Rear Admiral Thamrong Nawasawat to replace him. Meanwhile more progressive activities went on in Thailand. In 1947 a Southeast Asia League with anti-colonialist policy was organized in Bangkok. At the same time economic problems which plagued Pridi's government could not be easily resolved during Thamrong's government. Meanwhile the United States which was in the good financial situation to help the Thai government out of this serious economic situation stood by and observed the gradual

Since 1948, Phibun faithfully served the American policy of anti-Communism. Both military and economic supports from the United States began to pour on the Thai government. It was not until 1956 when his loyalty to the United States was in doubt. Consequently, the United States arranged for Sarit to topple Phibun in 1957 marking the increase of American influence over the political and economic development in the subsequent periods.

### 3.5 American Military and Economic Aid to Phibun's Government

By 1948, the preeminent position of the United States in the Cold War caused the influence of the Americans to overshadow that of the British. The new era of international relations had opened the way for the United States to become more deeply involved in Thai political affairs (Darling, 1965, p.68).

In May 1949, Thailand was admitted as the forty-eighth member of the World Bank and the IMF. Bangkok was selected as the Far Eastern headquarters of many agencies of the United Nations, a move which gave additional respectability to Phibun regime. Shortly thereafter a Thai military mission was invited to make a tour of army and airforce installations in the United States. By the end of 1949, the United States was making a plan to provide additional economic and technical aid under Truman Point Four program. Dean Acheson, then the U.S. Secretary of Defense argued that the policy would bring economic advantage to the United States. It would be a precondition for the acquisition of raw materials and new markets for the American manufacturing and agricultural products. (Acheson, 1950, p.553).

Soon after Mao Tse-tung won the revolutionary war in China in 1949, in February 1950, Ambassador-at-large Phillip C. Jessup arrived in Bangkok for a three-day conference with all the United States ambassadors in the Far East. Jessup was carrying a secret order from the State Department to insist on the firm policy of the United States government to deter the communist influence in Asia and Southeast Asia (Graebner, 1969, p.78). The diplomats attending this meeting voiced their concern with serious Communist threat and considered various proposals to strengthen the defenses within the region (Darling, 1965, p.69). After that, President Truman approved a \$ 10 million Military Grant to Thailand and \$ 15 million to Indochina in 1950 (Numnon, 1983, p.2). Phibun himself made a personal political gain from the strong support of the United States. Virtually, he had no other political bases except his military bureaucrats after he staged the coup against Khuang. The strong military backup by the United States provided him with stronger muscles to suppress his political oppositions (Numnon, 1983, p.3).

To reciprocate the American support for his regime, Phibun chose to follow the American policy against Communism closely. On February 28, 1950 he recognized Bao Dai regime and the French-sponsored government in Laos, Cambodia and Vietnam, closed Viet Minh headquarters in Bangkok, and objected to the application for the United Nations membership of the People's Republic of China. In July 1950, Phibun offered to send 4,000 ground troops to South Korea. The Thai government also contributed 40,000 metric tons of rice valued at \$4.4 million for Korean relief (Darling, 1965, p.78).

Alarmed by a strong militant move the patriotic Thais had formed into a Committee for Universal Peace of Thailand on April 22, 1951, (Katithamanit, 1985, p.13). Phibun made several attempts to suppress this move and finally arrested the group members on rebellious charges, known as the peace rebellion on November 10, 1953.

In July 1950, the United States complemented Phibun's deeds by concluding an education exchange agreement under the Fulbright Act. Later on an Economic Commission led by A. Griffin visited Thailand and other Southeast Asian countries. Griffin proposed to Phibun that Thailand needed capital, technology, skills, and modern administrative organization. The Economic and Technical Cooperation Agreement was signed by Phibun in September 1950. Upon the recommendation of Griffin, the amount of \$ 8.9 million was allocated to the Thai government during the fiscal year of July 1950-June 1951. This Agreement was designed to open the Thai economy up for greater foreign investment and trade.

By 1949 American business in Thailand increased quite rapidly. Annual trade had climbed from its pre-war level of \$ 3 million to \$ 60 million. American corporations purchased large quantities of rubber and tin for the first time. Fifty American firms were operating in Thailand in contrast with only two companies before the War (Darling, 1985, p.81). An observer pointed out: "American businessmen, ignoring recent political upheavals which have converted Siam from a shaky democracy to what seems to be a strong military dictatorship cloaked in democratic forms, are invading Siam with the head-long fever of

forty-niners rushing West to hunt gold. Every trans-ocean plane brings another load of pioneers." (Martin, 1948, p.34).

In October 1950, the Military Assistance Agreement was also concluded. In January 1951 the first shipment of arms arrived, followed by the establishment of Military Advisory Assistant Group (MAAG) to train the armed forces. By 1952, the American community in Thailand had expanded considerably and included a growing embassy staff, a MAAG mission, a Special Technical and Economic Mission (STEM), a USIS staff, a few Fulbright scholars, several hundred of Protestant missionaries and several scores of businessmen. For the first time in history government officials outnumbered the missionaries (Darling, 1965, p.82).

Economic and technical assistance was increased gradually. By 1952 the total amount was \$16 million in addition to the World Bank loan of \$ 25.4 million in October 1950 for the construction of irrigation projects, the rehabilitation of railroads and the development of Bangkok Harbour.

After Eisenhower became President of the United States in 1952, there had been a change to enhance the militarist policy. William Donovan the ex-OSS chief and a close friend of Eisenhower replaced Stanton as the American Ambassador in 1953, followed by John Peurifoy in 1954 and Max Bishop in late 1955. These ambassadors always pleaded for increased military assistance to Thailand in order to protect Thailand from communism. During this time most Americans became victims of their own propaganda and were willing to undertake any concrete action that appeared to deter the supposedly rising tide of Communism. In turn, all military equipment given to the Thai

government to protect the country from communist aggression were used for internal suppression of the government oppositions to enhance its dictatorial power. In many cases the equipment was used to make internal clashes among the contending military and political forces more violent than before. By the end of 1957 the United States had spent a total of \$ 138 million foreign aid in Thailand with most of this money devoted to the armed forces. A much larger undisclosed amount had been used for direct military assistance since the programs had been launched in 1950. According to Bishop, the amount spent on direct military aid was "in the hundreds of millions of dollars" (Darling, 1965, p.132). In his memoirs Phibun noted: "I wish to express my gratitude to the American people (sic) for their help to the Thai people while I am in the government." (Numnon, 1983, p.10).

However, toward the end of 1957, Phibun was removed from his office by the coup staged by one of his former supporters, Sarit, who in turn received support from the United States. Phibun regime was supported by two rival strongmen, Phao and Sarit. Phao was formerly a military officer and a son-in-law of Phin who organized the coup against Thamrong for Phibun in 1947. Later he was promoted to the police chief. He received strong support from the Central Intelligence Agency (CIA) of the United States, through its front organization known as the Overseas Southeast Asia Supply Company (Lobe, 1977, p.21). Phao had tried to organize the Police Department into his personal army. In 1956, the CIA's affairs with Phao and his police ran into serious complications. Since early 1955, Peurifoy generally distrusted

Phao and indicated a desire to curb the police's rapidly expanding power (Darling, 1965, p.104). Two principle criticisms leveled at Phao concerned his ruthless political maneuverings and his excessive financial corruption even by the Thai standards, the brutality of his police, the political murders performed by his subordinates. (Lobe, 1977, p.27). Later on in August 1955, Peurifoy was killed in an automobile accident on his way back to Bangkok from Hua Hin. Because of distrust of Peurifoy against Phao, Sarit received increased American military aid. The strong American support to Sarit prompted Phibun to promote Sarit in March 1955 to the rank of Admiral of the Navy and Air Marshal of the Air Force. By 1956 he was promoted to the rank of Field Marshal.

With a great uncertainty caused by the rivalry of his two major supporters, Phibun decided to gain some mass support. This coincided with Peurifoy's idea to curb the growing influence of Phao. Peurifoy encouraged Phibun to make a world tour in June 1955. On his return, Phibun announced that a general election would be held in February 1957. Since then, he made extraordinary efforts to promote his own image as a staunch supporter of democracy. He made a remark in July 1955: "Coup d'etat had become 'outmoded'. Any coup now would mean overthrowing the King as a constitutional head of the nation and setting up a republic. This we cannot allow" (Darling, 1965, pp.142-143). This remark could also mean an implicit warning to Phao to hint of his many unknown activities. Phibun was also instrumental in passing several acts to support his new democratic program. Among them were an act for the registration



of the political parties, the first in Thai history, and an act for decentralization of power to local governments. He also set up two institutions of public information. There were the regular press conference of the Prime Minister and the free debate on the government policies, in a "Hyde Ark" style.

Unfortunately, in the actual election on 26 February 1957, it was well publicized that the results were heavily rigged. There was general atmosphere of dissatisfaction and widespread protests. The government was finally formed in March, but persistent conflicts within the government were becoming serious. A newspaper owned by Phibun launched a bitter attack against the United States. It was discovered later that Phibun purposely encouraged some local newspapers to do so. It was revealed that Phao was in secret negotiations with China also in an attempt to establish some kind of clandestine trade. (Darling, 1965, p.169). Unpublished sources disclosed that both Phibun and Phao encouraged progressive students and journalists to visit the USSR and the People's Republic of China in an attempt to gain some political balance with the West. Dissatisfaction of the United States with Phibun and Phao stemmed from the fact that foreign investment did not receive adequate support as planned by the Griffin team. Although, a more recent Agreement on Guaranteed Investment of the Americans was signed on September 1, 1954, followed by the promulgation of the Investment Promotion Act on October 12, 1954, the foreign investment situation, especially that which concerned the Americans, was not much improved. Actually, the new Investment Act was used for the

expansion of the economic base of Phao-Phin and their clique (Patmanant, 1985, pp. 244-246). All these dissatisfactions prompted the United States to turn to support Sarit to overthrow Phibun and Phao on September 16, 1957.

### 3.6 Revival of Economic Nationalism

After the War, the various civilian cabinets were quite busy solving economic problems left by the war. Among these problems one was the rapid rise of inflation caused by a combination of the immediate loss of rice paid as war reparations, to the British, the drain of foreign exchange reserves and the wide circulation of the yen during the war which had no value after the defeat of Japan. Taking the 1938 cost of living index to be 100, the index increased to 222 in 1943 and further to 1,072 in 1946 (Suehiro, 1985, p.3-1). It was not until 1948 that the economy began to return to its normal path.

The high inflation rate was used as an excuse by the 1947 coup group to topple the civilian government. Coup plotters gained special support from the war veterans who found no jobs after the War. Therefore after the coup, the task of the coup group was to build an economic base for the military. They argued that they had to create new jobs and new income bases for the war veterans. The War Veterans Organization and the Soldier Unity Corp. (Thaharn Somakkee) were organized. These two organizations were to become a strong economic base for the military group supporting Phibun later on.

Meanwhile, Phibun attempted to carry out his economic plan which aimed at creating the "Thai economy for the Thai

people" (Suehiro, 1985, pp.2-3, 3-3). This time the purpose and practice of economic nationalism differed greatly from that of the People's Party in 1938. There were three sets of motives then. First, the new ruling elite wanted to create employment opportunities for the Thai outside the bureaucracy which was facing financial stress during the depression. Second, they wanted to contain the role of ethnic Chinese in commerce and industry to pre-empt them from rising to political dominance. Third, they wished to enlarge their own economic bases to match those of the royalist faction which they replaced. (Jacobs, 1971, pp.130-31). It was a rational political move at that time for the People's Party. The propagation of state enterprises this time was for Phibun who had less power to control the military split in loyalty among them, to use the enterprises related businesses to reward his supporters (Silcock, 1967), pp.160-161). Muscat described the state enterprises then as "bureaucratic capitalism" by pointing out that they were "creatures of the bureaucracy rather than instruments of the state." (Muscat, 1966, pp.197-198). Thirty seven public enterprises were established during 1953 to 1957 after the passing of the Public Enterprise Act of 1953. These enterprises were paper factories, sugar and gunny bags, forestry products and plywood, stationery pharmaceuticals, light engineering, cement, oil refining and brewing (Silcock, 1967, p.263). It was estimated that the investment in public enterprises was close to 40 per cent of the total investment during the same period (Ingram, 1971, p.230). However they produced about 21 per cent of total value added of manufacturing in Thailand (Suehiro, 1985, p.3-5). These two

figures also indicate roughly the inefficiency of the state enterprises.

Not only did they involve in public enterprises, the military leaders also had their hands in semi-government and private businesses especially those set up by the Chinese. Their sole purpose was to expand their economic and political bases. Between 1947 and 1957, the group led by Phin known even today as the "Soi Ratcha Kru group" was involved with 10 commercial banks, 15 industrial firms and 7 commercial firms. On the other hand, the Sarit group including Thanom and Prapass controlled 12 commercial banks, 15 industrial firms and 10 commercial firms by the end of 1950's (Suehiro, 1985, p.3-10). The same pattern of their business control apart from direct takeover of the business was the reorganization of ethnic Chinese manufacturing firms into a new integrated firm. This new firm in turn became the share holder of the Soldier Unity Corp. By 1952 the Soldier Unity Corp. integrated 132 rice mills and 38 saw mills, the great majority of which were Chinese, into a group as share holders. The other pattern was monopolisation of selected industries through their company. For example, the Soldier Unity Corp. and the National Economic Development Corp. served as holding companies for the expansion of economic activities of Phin's group. The War Veterans Organization and its related corporations had the monopoly for the distribution of liquor and cigarettes produced by government factories, were sole agencies for refined sugar. It had a monopoly on the marketing of pigs and pig butchering, and a monopoly on the export of livestock to

the Philippines. By so doing, it hardly required the group to put in any capital investment for all of their economic activities. Suehiro made the following observation (Suehiro, 1985, p.3-26): "Bureaucratic capital, by its nature, aims at exploiting and appropriating the economic surplus for political purpose, not economic purpose. It pays little attentions to the improvement of technology and the expansion of production capacity. Even though a firm suffers economic loss, the military and political leaders who enter into board of directors will not worry about its situation at least so far as its provides a certain amount of income for them in the forms of salary, bonus and others. A major motivation of bureacrats to take part in economic activities is not to expand production but to expand their political power. Economic activities are not a purpose but a means for them." As the result, the industrial sector in Thailand only grew at a slow pace during the said period. The annual average growth rate of the industrial sector from 1950 to 1957 was only 5.6 per cent. This figure is much lower than that during the 1961-1966 period (the First Six Years Economic Plan) of 10.2 per cent. Compared with the annual rate of growth of the Gross National Product (GNP) during the same period of 5.4 per cent, the above industrial growth rate implies a slow growth of the sector.

The evidence discussed thus far is quite conclusive. In spite of the large amount of military expenditures in Thailand by the United States plus some economic and technical aid and long-term loan for the construction of some infrastructure by the World Bank, the United States-backed military dictatorial regime

in Thailand performed very poorly. It was notable in the area of industrial development that it hindered rather than helped the development of the sector. The intervention of military leaders in the industrial sector for their own economic and political gains only introduced inefficiency to the industry. If the kind of economic nationalist policy pursued during 1938-1941 were to be followed after 1944, industrial development in Thailand could have been significantly different from the situation just discussed. This is not to mention the cost of political suppression brought about by the dictatorial regime and the setback in the development of the democratic process of the country.

### 3.7 Overall Economic Assessment During 1944-1957

It was not until 1948 that the Thai economy began to revive to its normal situation. Exports started to exceed imports again as it had always been in the pre-war period since the mid-nineteen century. Exports of rice had picked up and rice was sold at the world market price because the reparation obligations were over. Therefore, the value of exports increased quite significantly from 1.091 million baht in 1947 to 2,484 million baht in 1948. Imports only rose from 1,113 million baht in 1947 to 1,754 in 1948 (Ingram, 1971, p.335). As a temporary measure to keep domestic price of rice lower than the world market in order to hold down the rapid increase in inflation rate, premium was charged from quotas allocated to rice exporters. The premium charge was also supplemented by the practice of multiple exchange rate in 1949. While the multiple

exchange rate system was abolished in 1955, the dictatorial regime of Phibun continued to keep the rice premium and adjusted the rate to cover the revenue lost from the new system of exchange rate. The premium was used as one of main sources of government revenue. In 1951 the amount of rice premium collected was about 15 per cent of total government revenue. The figure rose to 18 per cent in 1955. Rice premium was no longer used as a temporary measure to keep the inflation rate down as it had been originally designed.

In 1949, the United States began to import tin and rubber from Thailand in great quantity. This had boosted the exports substantially. The Korean War during 1950-1951 had further stimulated the Thai exports and the economy. In 1949 exports rose to 2,981 million baht and increased to 3,922 and 4,413 million baht in 1950 and 1951 respectively. Imports during the said period was much lower amounting to 2,276, 2,881, and 3,714 million baht from 1949 to 1951, respectively.

Unfortunately, this boom was only short-lived. Since 1950, as military assistance from the United States started to pour into Thailand together with a sizable amount of loan from the World Bank, imports started to increase at a quite rapid rate. Deficits began to appear in the Thai balance of trade during the normal years for the first time in the Thai trade history. It continued up to the present with only one single exception, in 1955. The rapid expansion of military assistance also brought about the increase of the budgets for the defence and bureaucracy. While public administration and defense

accounted for about 2.8 per cent of the GDP in 1951, it was increased to 4.8 per cent in 1955. In terms of absolute figures, it was more than double in size. This rapid increase in military expenditures had caused a chronic budget deficit on the part of the government. Although some part of the deficit was covered by foreign aid and loan, the rest had to be gained from internal revenues. This chronic government budget deficit to be partly paid for by rice premiums had turned the premium collection into a permanent measure.

The collection of rice premium well suited the nature of the dictatorial regime. It provided a sizable source of revenues to the government to help pay the deficit caused by a rapid military expansion. It helped suppress the price of rice and agricultural products for urban consumers, the source of political support for the regime while the peasantry were kept docile because most of them did not understand the working of economic mechanism. Moreover, the low agricultural price helped keep urban wages from rising rapidly. The steady migration from the farm sector because of the depressed farm price ensured continued supply of urban workers. This factor in itself would keep the urban wages down. The low food price helped reinforce the low urban wage situation. The dictatorial regime which had under their control numerous industrial and commercial enterprises would definitely gain from the surplus wealth extracted from the farm sector through industrialized and commercialized processes.

All the factors discussed led to the unbalanced



structure of the economy which resulted in the slow growth of the economy. The farm sector was heavily exploited. Their earnings forgone resulting from the low value of their products deprived them of their ability to accumulate their own capital. Therefore, there was almost no improvement of agricultural technology during the said period. Increases in agricultural outputs were achieved only by means of the expansions of land for cultivation. Also the fact that the War Veterans Organization had monopoly power over numerous saw mills in Thailand had caused rapid depletion of the forest lands, while the agricultural sector remained stagnant, especially in production technology. The industrial and commercial sectors did not grow at a satisfactory rate inspite of the favourable factor of low wage rate. This was because of inefficiency brought about by monopoly and corruption of military leaders who controlled over businesses. Meanwhile foreign investment did not succeed in penetrating the Thai economy because of the strong "economic nationalist" policy of the dictatorial regime. Therefore improvement of efficiency as a result of competition was not possible. This practice of "economic nationalism" by the Thai government had brought some frustrations to the Americans in their attempt to open up the Thai economy for their investment.

After a short boom period from 1948 to 1953, the Thai economy again began to stagnate in 1954 and only grew at a slow rate of 2.8 per cent annually between 1955 and 1957. Overall, the 1944-1957 period saw some further expansions of the urban economy plus some improvements in the infrastructure. However,

the agricultural sector remained backward technologically, while the industrial and commercial sectors grew at a slow rate because of inefficiency. Nevertheless, the urban-rural gap was wider than that of the preceding period (1932-1944).

### 3.8 Diagrammatic Representation of the 1932-1957 Period

The development during 1932-1957 is summarized in Diagram II. Now let us turn to the modern period.

IV. AUTHORITARIAN REGIME AND MODERNIZATION WITH STRONG DEPENDENCY  
(1957-1980)

Towards the end of Phibun regime in 1957 there was a slight change in the American policy during the second term of President Eisenhower. More attention was given to infrastructural development for defence against communism. Highways were constructed. Among them was the "Friendship" road from Saraburi to Korat. The project started in 1954 and was completed in 1958 (Numnon, 1983, p.8). This was originally designed to be a strategic road and it was. Nevertheless, it became part of the infrastructure that caused the rapid increase in agricultural production in the Northeast.

The World Bank began to take more active role in developing infrastructure in Thailand. In August, 1955 the World Bank provided an additional loan of \$12 million for railroad improvement followed by another loan of \$3.4 million for improvement of the Bangkok Harbour in September 1956. In May 1957 the World Bank agreed to loan Thailand \$ 100 million for the Yanhee Dam project for hydro-electric power (Darling, 1965, p.132). In November 1955, with the recommendations of the World Bank the Thai government made request to the Bank to send a team of experts to conduct an economic survey in Thailand. The team arrived Thailand in July 1957 and worked in Thailand until June 1958. In July 1958, a report was eventually published in a book form under the title of "A Public Development Program for Thailand" (IBRD, 1960, pp. Kor and Khor). This document was used later on as a guideline for the subsequent economic development

planning in Thailand.

The increasing role of the World Bank on the development of infrastructure in Thailand resulted from various reasons subsequently given by the American team of economic advisers to Thailand after the conclusion of the Economic and Technical Cooperation Agreement in 1951. Among them was a reason that it was possible that the Americans could be involved in the internal Thai military and political affairs through economic aid. This situation would have never been materialized if it were to be organized by an international organization. However this was the true motivation which made the Thai government decide to switch to the World Bank for the loan instead of the grant aid from the United States (Friedman, et.al., 1963; p.53).

The policy shift of the United States during the last part of the Eisenhower Administration was to open up the Thai economy to the world capitalist system. This would lead to the increase in foreign investment, and in turn improve the internal production efficiency while at the same time allow for foreign economic domination. The whole development effort would not cost the Americans as much because the majority of the development projects would be financed by the World Bank loan. At the same time the United States could continue to give more military assistance. With this new approach it was expected that the combination of military strength and modernization of the economy through the rapid advancement of capitalism would make it possible for the country of bastion to withstand the communist aggression. This had led to a new development era in Thailand.

#### 4.1 Political Development During 1957-1959

After the coup in September 1957, which ousted Phibun and Phao, Pote Sarasin, former Secretary General of the South East Asia Treaty Organization (SEATO) and the ex-Thai Ambassador to Washington was chosen to lead the caretaker government. He was selected because he would follow the American policy sincerely as he did in the past. SEATO organization was known as a collective defense measure initiated by the United States during the Manila conference on September 6-8, 1954. Fortunately, this organization was not active militarily and was scrapped in favor of the new bilateral defense treaty known as Thanat-Rusk Agreement in 1962. At present this treaty is still in force. The old SEATO was replaced by the Association of Southeast Asia (ASA) in August 1961. This organization is now known as the Association of South East Asian Nations (ASEAN).

Pote was chosen as Prime Minister in order to organize the coming general election in December 1957 to prepare Thanom to be the Prime Minister. Thanom was chosen Prime Minister on January 9, 1958. Sarit remained behind; he took no position other than the supreme commander of the armed forces. His political inactiveness was caused by his poor health. He suffered from cirrhosis of the liver resulting from his habit as a heavy drinker. After the coup he retreated in his sea resort home for months. (Chompunit, p.158-159). After Thanom became Prime Minister, Sarit was invited to the United States as a guest of President Eisenhower to undergo medical treatment at Walter Reeds Hospital in late January 1958. Before he left the hospital on March 19, 1958, he wrote in his memoirs on March 17,

1958": I am very pleased. I have made all necessary arrangements for the whole day. I am extremely happy but also saddened by the fact that I shall not live very long. From now on I shall seek maximum pleasure in life and work for the country". (Sarit's memoirs, 1958, March 17). Three days after he checked out from the hospital he sent a cable to be announced to the public by Thanom confirming that he was still chairman of his political party, the National Socialist (Chart Sangkom) party. In his meetings with President Eisenhower and his top cabinet members, such as McEnroy, Secretary of Defense and Douglas Dillon Under-Secretary of State for Economic Affairs, Sarit asked for their support for his intention to return and run the government in Thailand. He proposed to fight the communists. The Americans were quite pleased by his proposal. They advised him to adopt all the points proposed after he returned to Thailand (Patamanant, 1985, p.253). The United States wished to see the new leader in Thailand a staunch fighter against communism. A person of character as Thanom was too weak to control the army and to combat the aggressive communists currently active in Laos (Department of States, 1963, November 17). He met Dillon again in May 1958, and was recommended to encourage foreign investment. It was suggested that foreign investment would help fill the development gap left by the U.S. economic aid (Patamanant, 1985; p.254). He agreed with the suggestion and cabled Thanom to send him the Investment Promotion Act of 1954 for his consideration immediately. Sarit returned to Bangkok in June 1958 to bolster the government. Later he took off for England for further

medication and to plan to seize full political power upon his return to Thailand. Sarit and his close aides prepared all necessary declarations and policies after the coup in Sunning Dale, a suburb of London. Upon his return to Thailand this time he declared the coup against the Thanom government on October 21, 1958, and assumed power as a full-fledged dictator on February 9, 1959.

#### 4.2 Policy Development on the Part of the United States and the World Bank

A slight shift to give a little more weight to non-military activities in combating Communism started after the death of John Foster Dulles, the U.S. Secretary of State. Nevertheless, the so-called "economic aid" to Thailand during 1957- 1960 was only 12% of the total American aid to Thailand. Increasing emphasis then was given foreign investment. The new American Ambassador to Thailand after Bishop was Alexis Johnson who sought to make Thailand a "pilot plant" capable of demonstrating to other underdeveloped nations in Asia that private foreign investment could serve as a major impetus to rapid economic growth. The precondition for the success was "political stability" (Darling, 1965, pp.172-173). This would require a "benevolent" military dictator on the one hand and the increase in foreign investment on the other. In a sense, Sarit was like a new version of American Frankenstein's monster. He was brought back to life after his major operation at Walter Reeds hospital and was instructed to carry out new American policy in combating the Communists in Southeast Asia.

At the same time there was also a modification of SEATO policy as well. At the fifth council conference in Wellington, New Zealand, in April 1959, Dillon stressed the fundamental need for economic development irrespective of the communist menace. Part of the final communique of the SEATO conference read (SEATO, 1959): "It was recognized that the rising of living standard and the provision of opportunity for advancement are important to security of the Area. It was agreed that poverty and underdevelopment are problems affecting several countries in the Area that must be dealt with on the broadest possible basis."

The World Bank also made a concerted effort to propagate the idea of encouraging private investment. In its report, of "A Public Development Program for Thailand", the part which discussed the allocation of resources between public and private sector, strongly advocated for the expansion of the private sector (IBRD, 1960, pp.311-312): "The policies and projects proposed thus far will maintain the present rate of expansion or higher. The improvement of economic services by the government will open the opportunity for private investment to increase its rate of profit. These services include road construction joining all parts of the rural areas to stimulate farmers to increase their products through more investment. The increased supply of energy, transportation and railroad, good road and telecommunication system will induce more investment in industrial and commercial activities."

Such a proposal implied that the role of the government was to be responsible for infrastructural investment, in order to facilitate private investment. Of course, the capital required



for such investment had to be financed mainly from the World Bank's loan.

The new American policy to fight the communists and the World Bank recommendation seem to present a complete package of development strategy for the Thai government. This has been the main feature of the first two Economic Development Plans in Thailand (1961-1971). This complete development package both by the United States and the World Bank led Pongpaichit to conclude that it marked the beginning of an "urban middle class revolution." With the new policy encouraging private investment and foreign investment, there would be no longer conflict of economic interests among urban middle classes as experienced during Phibun regime.

#### 4.3 Encouragement of Private and Foreign Investment

While the World Bank was engaged in preparing the plan for the Thai government to encourage private investment through the construction of infrastructure, Sarit was quite busy implementing the policy suggested to him by the United States.

In the Revolution Party Announcement No.33, a number of incentives were offered to private and foreign investment (Royal Gazette, 1958, Part 103).

(i) The state will not engage in new industries to compete with the existing private firms.

(ii) The state will not confiscate or nationalize private businesses.

(iii) The following privileges will be granted to private and foreign investment:-

(a) exemption of import duties for machineries, accessories and spare parts used in industries at the beginning of the operations or in the expansion.

(b) There will be exemption from corporate income tax for industrial company or partnership within an appropriate period specified by the committee set up by the Announcement. The minimum must not be less than 2 years and the maximum must not be more than 5 years.

(c) Exportation of products will be encouraged.

(d) Remittance of foreign currency will be allowed.

(iv) The state will exempt or reduce import duties for necessary materials for industrial uses that must be imported. The state will exempt or reduce export duties for the said exportable products. The industries will be protected from importation of the same product.

The above announcement was later followed by the Announcement No.47 for foreign investment promotion (Royal Gazette, 1959, Part 7) and the announcement No.49, for the repeal of the Limited Land Tenure Act of 1954 (Royal Gazette, 1959, Part 8). This act was enacted by Phibun to limit the amount of land for industrial and agricultural purposes up to 50 rai. Its main purpose was to ensure an equal spread of land holding and to discourage land speculation by absentee landlords. It was noticeable that the economic bases of Phibun and his supporters were not in land. However, for a large-scale industry the limit of 50 rai may be insufficient for the purpose. Instead of changing the upper limit, Sarit scrapped the law altogether, on

the grounds that this law had become a major obstacles for Sarit and his supporters to occupy a sizable amount of land gained from the construction of new roads connecting different parts of the country. In scrapping the law, Sarit had inadvertently increased the rate of tenancy among farmers and the destruction of forestry in Thailand. The privileges given to foreign investors were still not fully satisfactory from the American point of view. G.B. Beitzel was employed by the United States Operation Mission (USOM) to supervise the revision of Investment Promotion Act of 1960. Most of the new proposals were included in the Investment Promotion Act of 1962 (Thanapornpan, 2523, p.38). As a result of the effort on the part of the Thai government, private foreign investment from the United States increased quite significantly. Prior to 1960, private investment from the United States was quite insignificant. It was increased to 34% during 1960-1964 and further to 44% during 1965-1972. (Patamanant, 1985, p.279).

Evidence cited above indicate quite clearly that the American attempt to open up the Thai economy since Phibun's regime was not quite successful. Nevertheless, a new attempt from the begining of Sarit's regime finally bore the fruit.

#### 4.4 Rural Underdevelopment

While the urban sector began to enjoy the fruits of the new policy of industrialization encouraged by the Investment Promotion Act of 1962, and the conducive atmosphere to support industrial investment was created by the construction of infrastructure, planned and implemented by the World Bank, the

rural sector was left stagnant. On top of the government policy to suppress farm prices, the policy directed by the U.S. government during this period led to further underdevelopment of the rural sector. Ironically, such an attempt was made in the name of rural development.

Soon after John F. Kennedy became President of the United States succeeding Eisenhower in 1960, Kennedy and Robert McNamara, experiencing the Cuban Revolution in 1959, planned for the Counter-insurgency (COIN) in the Third World (Bell, 1978, p.63) The main tactics adopted were the Green Berets (Special Forces) and the Green Revolution (rural development).

Project Agile created as a top secret program in the Pentagon by McNamara in 1961 sought to combine the research tasks posed by insurgency into a research and development program for overseas mercenary armies in client regimes (Klare, 1972, p.215). Project Agile would support research and development carried out by Advanced Research Project Agency (ARPA) of the Department of Defense. Agile's R & D systems were intended to provide a basis of knowledge, techniques and technology from which to draw "blueprints" for deterring insurgency in its early stages (Defense Appropriation, 1968, p.590). In Thailand, the majority of the staff were civilian researchers supplied by the RAND Corporation Research Analysis Corporation, Stanford Research Institute, and other Agile contractors (Klare, 1972, p.228). Several rural development projects in Thailand were parts of the outcome or the inputs into the research works of Agile. Among them were Mobile Development Units (MDU), Accelerated Rural Development (ARD), Community Development (CD), Village

Information System and other related village security development projects. On the military aspect, villagers were taught how to depend on themselves through the Village Security Team and "protected" by the Border Patrol Police For actual armed combats, a Thai Special Forces Group was trained by the US Green Berets, at Lopburi especially for this work.

The MDU was justified as a military response to a growing emergency. The MDUs, commanded by military officers and containing technical specialists, included the staff deputed for varying lengths of time from civilian agencies. The purpose was to promote intensive and rapid development in a few model villages, to win the friendship of the people and to gain information on subversion (Scoville, 1974, p.55). On the other hand, the role of the ARD according to Field Marshal Thanom, Sarit's successor, in one of his address, was defined as follows, "Need for an Acceleration of Rural Development in Areas Threatened by Infiltrations. The program should speed the action. The amount of resources should be used most effectively to produce physical and mental impact on the life of rural people within a minimum time" (Scoville, 1974, p.62). The main function of the ARD was, however, to build roads into all strategic villages. Because of heavy corruption involved in the project, in the project evolution, the project went from good to poor. This was measured by the reduction in the distance of road constructed each year for the same amount of resources. However, the harmful effect to villagers under this project was soon to be seen as when the road was cut into their village, quite a few of

villagers must be evocuated deeper into the new forest lands because their land became more attractive in price. The rapid increase in debts brought by modern facilities was the consequence unexpected by the government. After all, the Thai government and its American counterpart were not so concerned for the improvement of the welfare of the rural people. One paper presented to a RAND Corporation Conference on Thailand in November 1967, made the following comment (Hugh, 1969, p.179): "For example, economic development activities of different kinds calculated to increase income and productivity of the mass subsistence farmers in Northeast Thailand and to induce incentive of change and self-betterment can, quite conceivably, facilitate the insurgency by their very success." The failure of all these rural development projects was graphically summerized by Bell (Bell, 1978, p.64): "The peasants literally 'refused development'. In 1960 six provinces in Thailand had been termed 'sensitive' to insurgency, but by 1975 the number had risen to forty, emcompassing two thirds of the entire country (and by this time the majority were under martial law). In many cases the programmes had the reverse effect to that anticipated, not because they were merely foolish and ill-intentioned, but the opportunities which they created were used spontaneously by rural peasants against imperialism and exploitation, in outbursts of mass discontent and violence. Not only was the program predicated on the most crude assumption regarding poverty and its relationship to revolt, but the rural life itself was undermined by many programmers and the interference led to immiseration and disruption." In sum the deal offered by the Thai government to

rural people had gone from bad to worse. Their income was suppressed by the low farm price policy and their livelihood was interfered and interrupted by all these U.S. sponsored rural development projects.

#### 4.5 Further Political Development

Sarit died on December 8, 1963, two weeks after the assassination of President Kennedy in Dallas, Texas, leaving behind \$137 million of his personal fortunes accumulated during the last 5 years of his life and hundreds of concubines. Thanom succeeded Sarit as a new Prime Minister. Prapass was appointed a Deputy Prime Minister and held a powerful position of Minister of Interior. They continued to enjoy the dictatorial power passed on to them by Sarit. In order to tighten their political control, Col Narong, son of Thanom married to a daughter of Prapass, was groomed for high positions. In the early 1970's, they became the infamous 'trio'. The trio continued to build their own business empires exemplified by Sarit and were engaged in a number of monopolized trade and industrial activities. The gradual withdrawal of American troops in Vietnam began to take effect on the Thai economy in 1968. Contradictions arose within the ruling classes. Those civil bureaucrats and technocrats who had their education in the West, mostly in the United States from various training programs in the past, began to be agitated by the visible socio-economic degradation brought about by the Vietnam War with the support of the dictatorial regime in Thailand. These groups favoured modernization and greater social justice and they increasingly clamored for greater political

democracy, which implied both a greater share of power, and a rationalization of the development process. Such strong discontent had pressured Thanom to promulgate a new constitution in 1969 followed by holding of the first elections in 12 years (Bell, 1978, 66).

The brief period of semi-constitutional rule came to a halt when Thanom staged a coup against himself in November 1971. This time Thanom even increased his dictatorial rule. The country was now run by a five-person National Executive Council which excluded from influence the civilian technocrats most concerned with reform. There was a militarization of all senior posts and unprecedented concentration of power (Bell, 1978, p.67). Thanom hoped to apply a tough line of "law and order" which was quite successful during Sarit regime.

This time the contradictions had cut deeper into the interests of the monarchic institution in Thailand. Its implicit political role was highly minimized. The businesses controlled by the Crown Properties Office were contained by the growing business empires of the ditatorial trio (Thanom-Prapass-Narong). Eventually, the existence of the institution itself was threatened by the rapid increase of the military power. Visible manifestations of dissent were growing. Sporadic protests in factories, technical colleges and universities became common scenes in Bangkok in late 1972. Finally a broad anti-military, nationalist movement emerged. Factory workers joined with students in street demonstrations in which almost half a million people were ultimately involved in the days before the ouster of



the trio on October 14, 1976. The group was finally faced with an internal revolt in their own ranks and fled the country. The successful overthrow of the dictatorial trio must be understood as the triumph of a faction of the ruling elites who used student movements and the popular resentment as their front. The fundamental class relations were left intact. The military power was only temporarily shaken. Nevertheless the whole military setup remained unchanged.

The brief period of democracy and freedom was installed in Thailand during October 14, 1973-October 6, 1976. Liberal activities began to emerge. Several reform plans were discussed during the period of elected civilian governments in 1974 and 1976. However, their plans were either half-hearted or strongly opposed by the conservative groups. Moreover, the U.S.-backed military power was still quite strong. As the protest against American imperialism became more frequent, the military began to gather their strength to resist any reform program for the military by the civilian government. In many cases they were directly involved in planning instigations that caused public unrest.

The final victory of Communists over the Americans in Indochina in 1975 had caused a clear open split between students, workers, and peasants on the one hand, and the broad alliance of the ruling classes on the other. Weaknesses of the former groups in terms of their size, strength and experience put them at a disadvantage in trying to contain the power of the conservative groups who returned to power after the massacre of students and intellectuals at Thammasat University campus on October 6, 1976.

The military-backed rightwing civilian government of Mr. Thanin Kraivixian was installed. Many students and intellectuals fled to join armed insurgents led by the Communist Party of Thailand (CPT). Thanin was quite confident of the strong military support for his government and planned to be in power for 12 years. Meanwhile, he applied all tough measures to deal with the remaining liberal and progressive elements who still remained in the city. His authoritarian measures resulted in more defections of intellectuals to the side of the the guerrilla forces. Thanin reacted to this situation by passing an act allowing the Thai government to purchase arms by loan for the period of 5 years at \$1,000 million. His strong reactionary attitude had caused widespread dissatisfaction in all circles including the military itself who viewed his strong suppressive action as lending indirect support to the growing forces of the armed insurgents.

On October 20, 1977 Mr. Thanin was removed from power by a military coup led by Gen. Kriengsak Chamanand. Gen. Kriengsak who became the Prime Minister, dismantled some of the repressive

measures imposed during the Thanin government to ease the situation. Student leaders arrested during the October 6, 1976 coup were released. Later on a limited form of parliamentary system was introduced. Some students started to return from the jungles upon promises of royal amnesty. However, Kriengsak's foreign policy on Indochina after the invasion of Kampuchea by Vietnam in 1978 was not approved by the influential faction of the ruling group and some military factions. His foreign policy was interpreted as being too friendly to the U.S.S.R. and Vietnam.

On the other hand Gen. Kriengsak's attempt to expand his own economic bases was not particularly welcomed by others in the ruling group because it was achieved at the expense of others. On February 29, 1980, he was pressured to resign from his post during a parliamentary session. The parliament then voted for Gen. Prem Tinsulanonda to succeed him. Prem became Prime Minister in March 1980. The first general elections after 1976 were carried out in 1983 with a limited form of representation. Some called it half-leaf constitution or half-leaf democracy. The elected parties were pressured by the military to nominate Prem to be the new Prime Minister. He has since remained in his position until now (1986).

Not like Kriengsak, Gen. Prem's foreign policy especially towards Vietnam and the U.S.S.R. has been marked by increasing hostility. This policy line has been well supported by the ASEAN especially Singapore. However, in fighting local insurgents his crucial policy was contained in the orders of

66/2523 (in 1980) and 65/2525 (in 1982). The essence of these two orders was to change the tactics of fighting the insurgents from direct armed suppression to more lenient and accommodating approach. The main slogan is : "political action must come before military action". This policy together with the conflicts in Indochina, had caused the split in the two powers who were main supporters of the CPT, the People's Republic of China (PRC) and the USSR, and some ideological conflicts within the ranks of the CPT itself. The strength of the communist forces in Thailand have now been reduced to small scattered groups.

For the first time in the history of the Thai rural development history, there has been some signs of genuine efforts to effect actual improvements of the livelihood of the rural people. The main aim of this effort was still the same, namely, to fight Communist insurgents. However, this time the tactics' used are to follow the 66/23 and 65/25 orders. There has been an increased understanding on the part of the government that genuine rural development is a more potent weapon to combat Communism in the rural areas. Rural insurgents draw their strength from rural poverty. This was true in the past and is still true at present.

Gen. Prem is a relatively modest Prime Minister by the standard of his predecessors. He does not appear to make any great attempt to expand his own economic bases. But businesses of other influential members of the ruling faction have been allowed to flourish. Therefore, there has been no strong pressure from this group to replace him by other potential leaders. Nevertheless, there were two major coup attempts against him.

The first one was in April 1, 1981 which was more of a misunderstanding. The second one was on September 9, 1985. This one was because of jealousy among the military ranks, and failed miserably. Political developments explained thus far are designed to provide the political background since the Sarit regime. During Sarit Thanom-Prapass-Narong times, Thailand was under two strong authoritarian regimes. After that Thailand experienced a brief interval of liberal atmosphere with some limited freedom during October 1973-1976. After brief return of an authoritarian regime in 1977, there has been some slow improvement in civil liberties. After 1980, some further improvement in liberal atmosphere has been evident. All these changes in political climate have resulted in varying degrees of different economic development during the 1975-1980 the period.

#### 4.6 Continuation of American Influence During Sarit Regime and Subsequent Periods

Unlike Phibun, Field Marshal Sarit prepared to carry out American military and economic policies both diligently. The relationship continued to follow the same pattern upto the end of the Thanom-Prapass-Narong regime. Both military assistance and the "rural development" projects were intensified during the said period. The so-called "economic" aid during 1961 and 1971 amounted to 70.8 per cent of the total foreign aid that Thailand had received (Attakorn, 1985, 347).

Since 1963 when President Lyndon B. Johnson decided to step up the military offense in Vietnam, Thailand became partner in war with the United States. The Thai government had signed at

least five military pacts with the United States during the period, i.e., (i) The Research and Development of Radio Communication (ii) The Organization and Operation of Research and Development of Radio Communication (iii) The Agreement for the Utilization of U-Tapao Air-Base (iv) The Thai-American Common Air Defense Pact (v) Specific Military Planning Pact or Taksin Plan (Numnon, 1983, p.24). Many American military bases were constructed in Thailand, and the Thai government allowed for the use of American troops of these bases free of charge (Thailand Hearing, 1970; p.623). American troops began to flow into Thailand. The number in 1966 was 6,500. It was increased to 34,400 in 1967 with the peak number of 47,600 in 1969. After 1969 the number gradually declined. Nevertheless the number in 1974 was still as high as 35,000 (Elliott, 1978, p.42). Thailand also sent troops to Vietnam. In May 1973 the number sent was 2,207 and toward the end of the year other 11,000 troops were sent to Vietnam. Moreover, Thai mercenaries known as rangers were trained in various parts of Thailand and were sent to support the CIA troops of the H'mong hilltribe of General Vang Pao in Laos (Numnon, 1985; p.26).

During that time the Thai economy was boosted by the rapid increases in military expenditures. The amount spent was about 40 per cent of the annual value of commodity exports from Thailand. The military spending in the Northeast was almost equal to the value of gross regional product (Hunchangsith, 1974). It was estimated that the total expenditures of the United States in Thailand during 1964-1969 were \$1,000 million.

Numnon argued that these expenditures usually in turn led to the rapid increase in imports of luxurious consumption goods such as automobiles, refrigerators, air-conditioners, radios and televisions and other electrical appliances. Thailand's balance of trade was in seriously chronic deficit. The ratchet effect from this rapid increase in the imports of consumer durables during the rapid increase in the U.S. military expenditures in Thailand had resulted in the deterioration in the balance of payments after the slow-down of military expenditures in 1969.

Other adverse consequences were the increase in the crime rate, rapid expansion of undesirable services such as massage parlours, night clubs, hotels and motels. The problem of juvenile delinquency became much more serious. Rapid deterioration of vernacular culture resulting from deep penetration of inferior Western culture, was reflected in the problems of the so-called 'hired wives' and the Amerasians. All these problems put a great pressure for the government to reintroduce a new constitution in 1969, and led to the eventual collapse of the dictatorial regime of Thanom-Prapass-Narong in 1973 (Numnon, 1983, pp.28-29).

After the defeat of the United States in Indochina in 1975, the resentment against the American domination over the Thai government was quite high. M.R. Kukrit Pramoj, the Thai Prime Minister then was pressured to send an ultimatum to the U.S. to withdraw all American bases in Thailand by March 20, 1976.

By March 20, 1976, some American troops still remained in Thailand. Kukrit again ordered full evacuation of all

American troops by July 20, 1979. Such hostility against the American presence in Thailand during the said period was partially responsible for the return of the dictatorial regime in late 1976 with some implicit support from the United States.

However, since the U.S. defeat in Indochina, the American public started to watch closely their leaders' decisions relating to military activities. There has been a change in the foreign policy of the United States to be less visible in the Southeast Asian region. Many of the so-called "economic" aid projects were asked to be replaced by two of its allies in the Pacific, namely, Japan and Australia. On the political front, some of its political influence has gradually been transferred to the PRC since the first visit of President Richard M. Nixon in 1972. The great rift between the two communist countries, the PRC and the USSR, had made such an arrangement possible. During 1972-1982, the percentage of the "economic aid" from the United States to Thailand dropped quite sharply. It was only 17.8 per cent of total foreign aid received by the Thai government. Meanwhile the aid under the Colombo Plan began to increase in its significance. Its percentage share rose to 43.6 during the same period. The two main contributors to the Colombo Plan were Japan and Australia (Attakor, 1985, pp.447-448). In 1984, the economic aid to Thailand from Japan was 57.3 per cent of the total foreign aid to Thailand (White Paper, 1985, p.9). Several reasons explained the reduction in direct American influence in Thailand. Among them were the preoccupations of the Americans in other regions especially in Latin America, the rapid decline of CPT's



influence in Thailand, and the increasing role of the influential faction of the ruling class in Thailand. The last factor provided a good insurance of contemporary political stability in Thailand.

### 3.7 The Role of World Bank on Thai Economic Development

As Permtanjit argued, the loan policy of the international institutions and that of the governments of the capitalist centers are quite systematic. The history of foreign aid has paralleled the history of exploitation of resources from the Third World countries (Attakor, 1985, p.333) The main purpose is to shape the political and economic systems of those countries to be in line with the benefit of the donor countries. Such development will become a major obstacle to statist development. Foreign assistance is normally reinforced by a powerful system of social control to limit one form of development and to encourage the other (Permtanjit, 1985, pp.152-153).

Actually developing countries have no other alternative but to depend on technology and management from developed countries. Although evidence has indicated abundant resources in developing countries, most of them are not able to mobilize surplus resources through their own technical and social revolution for their own public capital accumulation. Thus in general the main aim of foreign aid is to stimulate investment in economic and social infrastructure. Although some projects may help stimulate domestic industries, a thorough analysis of the situations usually reveal the encouragement of private capital

accumulation rather than that of the state. This technique is known as the principle of strategic non-lending (Wood, 1980, p.12). This strategy can be achieved by two means:

(i) International financial institutions or aid agencies refuse projects for which private investors or lenders can be found. This forces the aid seeking government that seeks foreign aid to accept terms of private investors or lenders.

(ii) Aid agencies can use the threat of not providing aid even for those projects which private investor cannot be found in order to influence government policy and generally to foster a more satisfactory investment climate.

The purpose of such strategic non-lending in both cases is to maximize the role of the private sector and to open it to foreign penetration. This policy to avoid competition with the private sector is generally held by the American aid conditions and the World Bank. The example for Thailand was quite clear during the end of Phibun regime and the beginning of Sarit's. One reason among many for Phibun to be removed from power was that Phibun did not seem to comply with the above policy while Sarit was quite eager to give full cooperation to it.

From the Thai experience, most of the infrastructure investment projects received full support from the World Bank. In fact all these projects were initiated by the World Bank itself. The advantage of encouraging the Thai government to do so was a permanent control of the World Bank over the Thai government. The reason was quite simple. Since all these projects can hardly earn direct foreign exchanges, the benefits in terms of foreign exchanges will be generated by foreign

investors. These foreign exchanges are normally allowed to be remitted under the standard investment promotion act. Therefore, the government will only be left with the debt burdens. This will give the World Bank the power to control the aid seeking government. Another clear example discussed earlier was the attempt made by the U.S. government to limit "economic" aid to the Thai government to relieve its own obligations. At the same time the U.S. government did advise the Thai government to borrow from the World Bank instead. This way, the World Bank could enhance its role in controlling the economic development direction of Thailand. In fact, according to Permtanjit, the World Bank's report on the Public Development Program for Thailand was used as the basis for the first two economic development plans in Thailand covering the period 1961-1971. Around mid-1971 the World Bank had prepared a document No. EAP-2 with other six supplementary reports during the preparation of the Third Economic and Social Development Plan in Thailand (1972-1976). The last two publications are : Thailand : Toward a Development Strategy of Full Participation and the Industrial Development Strategy in Thailand, both published in 1980. These two reports were designed to guide the Fifth Economic and Social Development Plan in Thailand (1982-1986) (Permtanjit, 1985, p.170) Although the Thai technocrats played a major Role in the preparation of reports, they were molded to think along the line set by the World Bank. There was no report prepared for the Fourth Economic and Social Development Plan. The Plan was formulated in Thailand around 1975. This year was the year when

the anti-American feeling among the Thai intellectuals was at its peak. The World Bank did not lend any money to Thailand for the first time that year (Permtanjit, 1985, p.45). The deliberate action of the World Bank was to starve the Thai government from its need of foreign exchanges after the rapid increase of oil prices in 1974. This was aimed at undermining the economic stability in Thailand in order to pave way for the return of a new dictatorial regime.

Since the World Bank normally appears to be systematic in its approach to planning for development, its works normally require teams of "experts". These "experts" can best function under the dictatorial regime which can ensure "political stability". At the same time, the authoritarian regime is familiar only with the use of power. Normally, such a regime is not very good in the matter of technical details. Therefore, the regime will be well prepared to receive advices from these "experts" generally known as "technocrats". Also, the authoritarian regime does not need to operate by following the will of the majority of people. The two (the authoritarian regime and the technocrats) thus work hand in glove together. Since Sarit's time, the heavy intervention of the World Bank has given rise to a new breed of animal called technocrats. These technocrats finally emerge as a new political force on its own, different from the military bureaucrats. However, they are still subservient to the military bureaucrats because they are smaller in number and not very well organized and above all they do not have a strong political muscle. This new breed of animal has a strong role to play in the development planning of the Thai

economy. This fact well explained why the Fifth Economic and Social Development Plan for Thailand (1982-1986) did not require the expertise of "foreigners".

#### 4.8 Logic of Economic and Social Development Plans in Thailand

The best view on this topic is raised by Atikul (Atikul, pp.151-152). He argued that to ask the question "development for whom" one must start with three criteria for judging.

(i) Whether those who will be affected by the economic development plan have any opportunity to participate in the planning process.

(ii) Whether the government's intention specified in the Plan is consistent with the budget allocated for it.

(iii) Who are the actual beneficiaries of the development Plan.

The first half of the First Economic Development Plan (1961-1963), stated vaguely the intention to increase productivity and the quantity of agricultural products including forest reserves, and the improvement of transportation and communication. Industrial expansion would be achieved through investment promotion to stimulate private investment. There would be considerable expansion of energy supplies and other public utilities (NEDB, 1960, p.3).

The second half of the first Plan specified the objectives more clearly,

(i) to raise productivity per head and the increased products should be equally distributed.

(ii) to increase production from private efforts

through government effort.

(iii) to give highest priority to the increase in agricultural products and their quality.

(iv) to expand industries.

(v) to increase competition in trade and to prevent monopoly.

(vi) to extend modernization into other regions.

In spite of the well-intended objectives of the first Plan, actual implementation was quite different from what the Plan was set out for. As discussed earlier, dams were built for hydro-electric power to supply electricity to urban population and urban industries. Roads were constructed mostly for security reasons. Consequently, there has been the expansion of cultivable land at the cost of rapid destruction of forests. Agricultural outputs increased due to the increase in land used not the increase in productivity since the farm prices were heavily depressed. There was no evidence of any attempt at the redistribution of wealth stated in the Plan. Monopoly in businesses caused by political influence was more of the case than the exception. The only goal of the Plan which was achieved was the rapid increase in investment in infrastructure and all incentives and privileges provided for private investment. The overall growth rate target was achieved because the plan put a strong emphasis on growth through extraordinary high rate of investment. This high investment was made possible through loan from the World Bank. Therefore it was more of the artificial stimulation rather than a well thought out plan.

Actually the Plan was led by theories developed in the early 1960's based on the popular U.N. concept that economic expansion and development are identical. Economic expansion can be achieved by capital accumulation advocated by Arther Lewis. Meanwhile, the Harrod-Domar model with strong emphasis on economic expansion began to be quite popular then (Atikul, 1981, 157).

The second Plan included the social aspect of development as well. This was also affected by the newly developed theory of modernization which was basically the Harrod-Domar model plus social aspect of development. The additional emphasis in the second Plan was the maintenance of economic stability. Actually there were no basic differences between the first and the second Plans. The only difference was that more details were given in the second Plan.

Objectives specified in the Third Economic and Social Development Plan (1972-1976) were the followings:

- (i) to promote the maintenance of national security.
- (ii) to solve economic problems and to increase national income by appropriate utilization of the existing resources.
- (iii) to solve the balance of payment problem.
- (iv) to maintain economic stability.
- (v) to improve standard of living and income of regional and rural people.
- (vi) to increase public services in order to reach the majority of people.
- (iii) to reduce the growth rate of population.
- (v) to improve employment situation.

In order to meet the set of objectives outlined earlier, the following measures were to be taken.

(i) Restructuring of production's to be consistent with market conditions.

(ii) Promotion of exports and restructuring of imports.

(iii) Maintenance of economic stability through appropriate monetary and fiscal measures.

(iv) Encouraging private investors and Thai entrepreneurs to play active role in economic development.

(v) Redistributing income as widely as possible.

(vi) Increasing social justice through better scheme of redistribution of fruits from development.

(vii) Devising family planning scheme.

(viii) Encouraging education and training.

(x) generating more jobs.

However, there was an attempt at formulating some long-range objectives:

(i) to restructure the economy for a more balanced growth through the improvement of agro-business and production and the introduction of modern technology to agro-industries for domestic use and exportation.

(ii) to increase cooperation between public and private sectors.

(iii) to stimulate regional development through the improvement of city planning and development.

(iv) to plan for optimal size of population to reduce excessive rate of unemployment and to increase per capita income.



Most of the objectives stated were of short-term nature except the latter four. These objectives actually indicated the failures of the two previous Plans. The first objective reflected more of the security threat to the Thanom-Prapass-Narong government. The second one indicated the deterioration in the growth rate and the inappropriate utilization of resources. The third one aimed at the balance of payment problem resulting from the gradual withdrawal of American troops from Thailand. Actually all the problems implied in the first four objectives and the eight one (to increase employment), were due mainly to the continual withdrawal of the American troops from Thailand. The fifth objective reflected the failure to raise income of the rural people. The gap was created by rapid urban development. The sixth objective reflected the failure to provide adequate public services such as water supply, irrigating water and electricity to the majority of people. The seventh objective reflected the rapid increase in the rate of population growth due to rapid decrease in infant mortality.

The only three out of the nine measures specified in the Third Plan were accomplished to a certain degree by the end of the Plan. The first one was the improvement in manufacturing exports. More varieties of manufacturing goods were produced and exported. There was a definite family planning program at the end of the Third Plan. Before the Third Plan Prapass strongly objected to the idea of family planning. He had his opinion that the country would be strong militarily only when it had large population. The ability to introduce family planning in the Third Plan showed some victory of the technocrats over the

military objection. The last successful attempt was the rapid expansion of education at the intermediate and higher levels, especially, in vocational education, teachers' training and higher education. The rapid expansion of intermediate and higher educational institutions during that period now resulted in severe problem of graduate unemployment. All in all, the Third Plan had not brought about any different results from the last two.

Unfortunately, since the Third Plan covered the three-year period of increasing political freedom (1973-1976), some of the programs not stated in the Plan were implemented. Rural Employment Scheme during the Dry Season, the Development of Tambon Council and other programs that would benefit the urban poor such as free bus fare and free medical care for the poor. Unfortunately, most of these programs had no chance to be implemented in full because of the weakness and the short tenure of the civilian government.

Since the Fourth Plan was formulated during 1975 and the early part of 1976, most problems inherited in the first three Plans were pointed out. They were unequal distribution of income, increasing social problems (i.e. prostitutions, increasing crime rate and juvenile delinquency, Amerasians resulting from American troops in Thailand), unequal distribution of social opportunities, population and unemployment problems, the rapid deterioration of natural resources and increasing problem of the deterioration of natural environment. The Plan had provided measures to solve these problems. The measures had to

be the long range ones. However there was also one contemporary problem, namely, the rapid increase in oil price. And the World Bank had added to the severity of the problem by freezing the loan to Thailand. Therefore the immediate measure stated in the plan was the rapid economic rehabilitation. Because of the return of the Tanin dictatorial regime toward the end of 1976, the security problem was added. Included in the measure was an attempt to increase the defense capacity and to solve security problems in sensitive areas.

None of the measures written in the Fourth Plan were implemented except one less sensitive issue of improving educational opportunity in order to enhance social opportunity for the majority of people. More emphasis was given to improvement in the quality and quantity of compulsory education services. However, the last added measure was implemented immediately by Mr. Thanin by passing the act allowing the government to borrow up to \$1000 million from foreign agencies to increase defense capacity. Another achievement not specified in the Plan was the continued increase in exports stimulated in the Third Plan by some additional measures during the Fourth. the other useful project not specified in the Plan was the rehabilitation of the rural sector affected by natural catastrophe. This project was initiated by Kriengsak. However, the main purpose of this project was to avoid further socio-political complications. This was because many students and intellectuals had joined the armed insurgents during that time.

The Fifth Plan was formulated after the resignation of Kriengsak was replaced by Gen. Prem. It was also formulated

after the Order No.66/23. This Plan discussed two few economic problems, namely, rural poverty, urban unemployment, chronic deficits in trade balance and current balance and rapid increase in foreign debt. Of course, the military-backed regime of Prem also expressed its concerns over internal security problem and external defense.

Therefore, the corresponding measures were designed as follows:

(i) Solving poverty problem through the acceleration of rural development in the backward region.

(ii) Maintaining economic and financial stability.

(iii) Restructuring of rural agriculture and industry for production improvement.

(iv) Maintaining social stability through order, discipline and justice including social safety. Providing educational and employment opportunities for the poor.

(v) Integrating security with economic development.

This Plan was the first one of its kind that saw rural development actually carried out for the improvement in living condition of the rural population. However, the budget allocated for the purpose was still insignificant in comparison with the magnitude of the problem. At the same time defense expenditures are still maintained at a very high level and many of them are concealed under the rural development budget, especially that on rural security.

The Plan can be said to take the incremental approach to solving the structural crises, and it is moving in the right

direction. However, with the severe magnitude of the problems, the Plan can achieve only little.

In sum, most of what are stated in each Plan are the statements of intent of the government, or more correctly, of the technocrats who designed the Plan. The actual implementation of the Plan is regulated by socio-political and class structure within the Thai society. Also, part of the outcome of the Plan has been controlled externally by the United States in the 1970s and earlier and the World Bank from the inception of the First Plan. Therefore, it is not too difficult to understand why the Plans have actually accomplished many things especially those that well serve the interest urban middle class, and the external sector. The plan had stimulated especially that of the urban sector, the rapid increase in services of public utilities for urban population (i.e. electricity and water supplies, better system of tele-communications, and road network throughout the country), rapid rate of growth of industrial sector and satisfactory expansion of manufacturing exports. Yet, the workers and peasantry have been kept in absolute poverty. They are denied decent education opportunities, they are provided with no social welfare and assurances. Income gap and social opportunity between the two classes (urban middle class versus workers and peasantry) have been much widening. Unemployment problem almost reaches the tolerant limit. The three questions raised earlier in this section must be reviewed again. It is quite clear that those who are most affected by the plan have little to do with the formulation of the plan itself. In most cases, the government intentions indicated in the Plans are just

the statements of intent. Finally, most beneficiaries of the Plans are urban middle class and the external sector. the Plans in short reflect quite clearly the class line in the Thai society.

#### 4.9 Modernization With Increased Dependency

What will be discussed in this section are the empirical evidence on the implementation of the "Plans" especially that of first four Plans.

Because of the artificial stimulation from the rapid increase in investment in infrastructure, while the planned growth rate was 5.5 per cent, the actual growth rate was 8.1 per cent. This high rate of growth was due mainly to the rapid expansion in the agricultural sector, so while the planned rate was only 3.3 per cent the actual rate was 6.2 per cent. Actual investment in agricultural sector was only 84 per cent of the Plan while actual total investment was about 88 per cent of the Plan. Actual investment in manufacturing, mining, energy and transportation were higher than that set in the plan. Nevertheless, the rapid increase in agricultural products during this period was due mainly to the expansion of new arable land facilitated by the increase in the length of roads constructed. The rate of growth of transportation and communication during this period was as high as 17.4 per cent while that of manufacturing, mining, construction and public utilities was only 9.9 per cent.

During the second Plan the growth rate slowed down to 7.2 per cent annually. This was due mainly to the decline in the growth rate of the agricultural sector from that of 6.2 per cent during the first Plan to only 4.3 per cent in the second Plan. The industrial sector still grew at the increasing rate of 12.7 per cent. Foreign loan used for social overhead capital was \$530 million. The declines in the rate of growth of agriculture.

during this period can be explained mainly by the law of diminishing return. Since the best plots of land were used up in during the first Plan, naturally what resulted was the lower yield per area for the additional plots of land brought into cultivation.

The average annual growth rate declined further to 6.2 per cent during the third Plan (1972-1976). Part of the decline was due to the 1973/1974 oil price shock. Open unemployment began to appear as one of the notable statistics during this plan. Toward the end of this plan the rate was almost one per cent. This figure was quite significant because seasonal unemployment which was the major part of unemployment was not included in the open unemployment figure. The rate of open unemployment in cities then was 2 per cent. The average rate of inflation was at the recorded high of 11.4 per cent. Again, this was also due mainly to the oil price shock.

The overall rate of growth during the third and the fourth Plans (1972-1981) was 7 per cent. While the rate of growth of the agricultural sector was maintained at the rate of 4.1 per cent. The industrial sector grew at the rate of 10 per cent, while the service sector grew at the rate of 8 per cent. The figures shown thus far have indicated quite clearly the achievement of growth objective or modernization brought about by the series of development planning. The question to be raised is what happened to the other side of the coin.

While the share of GDP of the agricultural sector was



reduced from 42 per cent in 1960 to 22 per cent in 1983, employment share of this sector was reduced from 82 per cent down to 70 per cent only during the same period. On the other hand the industrial sector whose average annual growth rate was around 10 per cent during the entire period, increased its share of employment from originally only 4 per cent to 11 per cent. The rest was taken up by the service sector. Consequently, There was quite a wide income gap between those employed in the agricultural sector and the rest. The ratio in 1983 was around 1: 8.5. This last figure indicated quite clearly the deteriorating position of farm sector after more than 20 years of development efforts. This figure indicated quite clearly the bias toward the urban middle class which reaps the economic gains from past development planning.

Moreover, open unemployment increased quite sharply. rose from 0.8 per cent in 1976 to 1.7 per cent in 1982, while rates in the cities rose from 2.0 to 3.8 per cent during the same period. Again all these unemployment rates did not include seasonal unemployment (Puntasen, 1985, p.140). When seasonal unemployment figure was included, the unemployment rate in 1985 was increased to 6 per cent. (Puntasen, 1986, p.6-9). Worse still unemployment rates of educated persons were among the highest. The rate for high school graduates in academic track was 10 per cent, while the rate for those in vocational tracks was as high as 21 per cent in 1985. The rate for graduates in higher vocational education was 16 per cent, while the rates for those who graduated from teachers' training colleges and those

with bachelor degrees from the universities were 6.0 and 4.8 per cent, respectively (Puntasen, 1986, p.6-32). Unemployment problem in Thailand is no longer a cyclical problem but a structural problem because it does not indicate any close association between economic fluctuation and the rate of unemployment.

This structural problem was caused by the increasing dependency on world capitalist economy. The rate of openness of the economy was increased from 32.4 per cent in 1960 to 55.1 per cent in 1982. (Phipatseritham, 1985, p.11). This problem actually started from 1949 when the United States began to provide Phibun with military assistance in 1949. However, the rapid increase in the degree of severity was due to heavy investment in the infrastructure during 1961 and 1966, together with the step-up in the U.S. military expenditures in Thailand since 1964 with the peak in 1969. The affect of the U.S. military assistance to Thailand since 1949 has brought about the deficit in the balance of trade for the first time in the Thai history in 1952. Since then the deficit has become chronic with the exception of only one year, 1955.

Nevertheless, there had been no serious problem on the balance of payment until 1975. most of the time before 1975 the balance of payment was in surplus because of the capital inflows from foreign investment, foreign military expenditures, and foreign loan. The serious deficit in 1975 was due mainly from the embargo of loan from the World Bank. Since then, the balance of payment was in chronic deficit. Foreign debts rose very

rapidly since 1974. The total amount of foreign debt was about 1.2 times of the foreign exchange reserve in 1977 (Permtanjit, 1985, p.150). This figure rose to 6 times over of the foreign exchange reserve in 1981. This rapid increase was due in part to the military loan decided during the Thanin regime in 1977. Chronic deficit in the government budget has been the main feature of the Thai economy since early 1950's because of the expansion of military budget of the Phibun government to match the increase in the U.S. military assistance. There was only one exception in 1974 when the Thai government decided to collect the exorbitant rate of \$250 per ton of rice premium to suppress the domestic price of rice raised by rapid increase in the world price. Over expenditures on the part of the government was attributed in part to the rapid expansion of defense budget. The defense budget in Thailand in 1951 was only 11 per cent of the total government expenditures. This figure moved up further to 14 per cent in 1955, and was 16.4 per cent in 1965. By 1979 it was increased to 21 per cent of the government expenditures. The current percentage of defense expenditures was around 19 or 20. The other part was due to regressive tax structure. Because the government represents the interests of the urban middle class, it has no political will to reform the tax structure. Such a reform attempt would definitely hurt the urban middle class who has much stronger political voice. Since the government was constrained by the increasing tendency on military expenditures on the one hand, and the need to increase the expenditures to maintain high rate of growth on the other, the reform of tax structure was not

possible. The only way out was to borrow from overseas especially for redevelopment purposes (Worasophontaweeporn, 1985, p.3-78). This has resulted in the rapid increase of foreign debts.

One of the problem that created more external dependency of the Thai economy was cicated by development strategies imposed on Thailand by the World Bank since 1960. Among them was the development of import substitution industries encouraged by the Investment Promotion Act 1962. Although such development caused a decline in imports of final consumer goods, imports of capital goods, intermediate goods and raw materials increased significantly (Thanapornpan, 1980, p.18). The increase in such imports was caused by no real import substitution but by the imports of everything including production technology. The only part developed in Thailand was the assembling. Because imported technology was capital intensive, employment in the industrial sector was not increased at the rate expected. Tambunlertchai has founded in his study in 1980 that for each one million baht value added to the industries, the import substitution industry only employs 22 unskilled workers and 4 skilled workers while the export industry employs 36 unskilled workers and 3 skilled workers (Tambunlertchai, 1981, p. Table 25, 27, 29). Export industries began to appear significantly on the export list since 1972, the beginning of the third Plan. This expansion of export industries contrituted considerably to the increase in employment in the industrial sector. Nevethelless it did not contribute to the improvement in the balance of trade. This is because the import substitution industries were still found in dominant indu

stries. Also, income elasticity to import consumer goods was greater than one. Therefore the increase in industrial exports would induce more imports resulting in the deterioration in the balance of trade (Chunanunthum; 1979, pp.26-32). The increasing openness of the Thai economy resulting from the development strategy explained earlier caused three negative structural impacts. Firstly, a substantial amount of investment fund was used while employment was not increased at the same rate. Secondly, the economy was increasingly dependent on exports. Any fluctuation in the world market would result in more fluctuation of the domestic economy. Thirdly, chronic deficit in the balance of trade was the result of this development strategy. This situation would pre-empt domestic accumulation of capital, which would in turn lead to indefinite foreign debt burdens. Again this would in turn cause increased dependency on foreign capital market.

At the same time the rural economy was left to remain backward. Income gap between urban and rural sector rose sharply, and unemployment increased at an alarming rate. Foreign loan has already reached the absolute limit since the debt service ratios from both private and public sector increased to 27.7 per cent in 1985. The government is not in the position to stimulate the economy through the increase in government expenditures without risking high rate of inflation since its balance has been in chronic deficit. The reform of tax structure is not easy to come by because there is a strong political pressure against it. Thus, the nature of modernization with

increasing dependency as it has been the main feature of the Thai economy since 1957 has led to the situation known as "structural crises".

##### 5. An Incremental Approach to Structural Crises

Prospect of social revolution in Thailand is not yet in sight in the near future. The strong control by conservative groups of the political structure reinforced by the military bureaucrats and technical assistance from the technocrats is one among many explanatory variables. The only viable solution to this problem is the incremental approach to structural crises. In fact this approach has been adopted since 1980 when the Order No.66/23 was announced by Prem. A little more sincere commitment on the part of the government on rural development could have resulted in change in this direction. However, resources committed for the purpose are still insignificant. There has been some visible progress on manufacturing exports. Unfortunately, with the present magnitude of the problem, this little progress amounts to nothing.

Towards the end of the fifth Plan there has been a farther attempt to solve the problem of deficit trade balance by way of credit squeeze in 1984. Such an effort has caused the sharp reduction in imports but at the same time it contributed as well to the depressed economy. Devaluation was used as an alternative measure in 1985, with the result still unclear. The complication is due to the increased productive measures adopted by most developed countries especially the United States, the

major importers of Thai manufacturing products, and the consistent deterioration in world prices of agricultural products. The upper ceiling for new foreign borrowing from all sources not beyond the limit of \$1,000 million annually has been imposed toward the end of 1985. The squeeze in government budget for the 1985/1986 fiscal year has been announced during the same period. The zero growth budget is the term frequently referred to.

The six Economic and Social Development Plan to be effective during 1987 and 1991 is being formulated in the same spirit of the incrementalist approach. Three directions are to be adopted in this Plan. (NESDB, 1985, p.3-4).

(i) Restructuring important economic and social sectors started in the fifth Plan. Simultaneously both growth and more equitable distribution must be sought out within the limitation of monetary and fiscal stability.

(ii) Improving efficiency in production as well as its quality. Improving a search for new market and production technology in order to enhance international competition.

(iii) Improving administrative efficiency of the public sector to be compatible with its financial capability. There will be the division of development responsibility between, public sector, public enterprises and private sector. The three sectors will be integrated systematically.

What is aimed at by this Plan is the continuation of tight fiscal measures, streamlining of government bureaucracy and

improving competitive ability of manufacturing exports. The government will encourage the private sector to contribute more to the development effort. The approach is in the nature of tightening knots and bolts of the loose engine rather than the overhaul of the whole engine. Of course, there is a slim chance for the success of this approach, if the reform is decisive enough to catch up with mounting problems, especially through the decisive reform of the tax structure, tight fiscal management, steam-lining of the bureaucracy and quicker pace of development for the rural sector.

Unfortunately, with the strong bureaucracy controlled by the conservative political structure with the increasing role of the technocrats, the main group of beneficiaries are still urban middle classes. The masses continue to have very little to say about the development plan that will give rise to true democracy. There is not much hope for the success of this incremental approach. Although, outside influence is not as strong as in the time of Phibun and Sarit regimes, the built-in politico-economic system controlled by the urban middle class reinforced by the heavy dependency structure will block all alternatives for significant changes in development direction. Unless, there is a major political reform, the potential productive forces in the Thai economy will never be completely released for better utilization.

## 5. Epilogue

There is one contrasting development feature behavior



between the two periods of 1855 and 1932 and that of 1957 and 1980. The former was plagued by the fear from a visible foreign domination in the form of colonialism. Consequently tight fiscal management was adopted as a strict rule for all investment projects. By such strong fiscal discipline deficit government budget, chronic trade deficit, chronic deficit in the balance of payment and foreign debt followed by high debt service ratio have never become development problems during the said period. Besides, the country managed to achieve higher degree of political sovereignty and economic independency in the early 1930's.

The aftermath of the said policy has led to the economic nationalism in the late 1930's. Had the country continue to develop along the line experience in the late 1930's. Thailand would have been able reach the stage of state capitalism at least to a lesser extent to the level achieved by Japan nowadays.

Strong political rival had led Phibun to receive full military and economic support from the United States. This action has completely foreclosed the chance of alternative development except to be the orbit of world capitalism. Although, Phibun had tried very hard to maintain his economic nationalist policy, he met with little success. The main stumble block was the big crable in the whole set up cause by the strong American intervention with the support from the World Bank.

Finally, his whole policy only degenerated into the so called "bureaucratic capitalis-" and Phibun himself was finally removed from power. Part of the problems was even the form of "bureaucratic capitalism" remained to be a major obstacle to the full development of the dependent capitalist economy designed for most under developed countries.

Actually, Phibun still had his choice whether he wanted to continue with his economic nationalist policy if he prepared to accommodate Pridi in 1946 and 1947. However, his own personal ambition plus the fact that imperialism had disguised itself under the economic cloak on one hand, and illusive guarantee of political sovereignty by the United Nations on the other, Phibun had no second thought but to pledge him into the open arms of the American imperialist.

By the time of Sarit regime, the U.S. involvement was deep rooted that no alternatives were available. In fact, Sarit himself was only reduced to American puppet. Since then there was no way out from the full control of the American imperialist politically and economically. The Thai economy has been in the full orbit of world capitalism since then. The main difference between 1855-1932 and 1957-1980 is there for the control of imperialism. All economic problems cited above during 1957-1980 have never been the cases during the former period of economic development.

Since 1980, direct political influence of the United States has declined gradually. Unfortunately, the whole

politico-economic system in Thailand has been well entrenched to the advantage of the urban middle class. urban middle class has been securely protected by conservative political structure backed by military bureaucrats with the support of the newly emerged technocrats. Simultaneously, the economy has been well locked into world capitalism with full dependency. The only possible reformed measures are the tightening of knots and volts. Any major economic reform will not be possible without any radical change from the present political structure. The tight fiscal measures and disciplinaries reverts the trend back to the mid nineteenth century. Unfortunately the pace has been so slow that the chance to succeed experienced in the past is almost nil.

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