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CENTER DISCUSSION PAPER NO. 84

THE HISTORICAL DETERMINANTS OF UNDERDEVELOPMENT  
IN THAILAND

by

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**Note:** Center Discussion Papers are preliminary materials circulated to stimulate discussion and critical comment. References in publications to Discussion Papers should be cleared with the author to protect the tentative character of these papers.

## I. The Framework of Analysis

It is the contention of this paper that the contemporary phenomenon of economic backwardness reflects the perpetuation of tendencies which are rooted firmly in underlying historical patterns of development. Underdevelopment can thus be thought of as a dynamic historical process, in which the foci of analysis of each historical period are a political economy and its characteristic mode of production. The underdevelopment of Thailand is the result of a prolonged process of specialization, consequent upon exposure to the forces of world trade, which led to a very specific pattern of resource allocation. This paper develops an overview of the historical dimensions of this underdevelopment which is intended to serve as an alternative to the existing treatment of Thailand<sup>1</sup> and of other backward economies.<sup>2</sup>

The methodology of political economy treats the economy as part of a larger social system in which social, political and economic forces are related to each other in an organic way. The historical approach is concerned with explaining not merely the performance of national income as an aggregate but the factors which shape the constituent elements, affect their dynamic path and determine the resultant distribution. It thus focuses on the patterns, processes, and resultant structures of different stages of underdevelopment.

The character of a political economy reflects, primarily, the nature of the productive apparatus and its method of solving the basic economic problems, in particular the characteristic way in which the economic surplus is appropriated. Each historical period can be delineated by the dominant mode of production and its accompanying, and interacting, organizational structure.

The fundamental mechanism of control over the dynamic changes which occur from one period to another are the forces which accompany the process of capital accumulation and the productive and organizational relationships linking capital and labor.<sup>3</sup>

Underdevelopment will persist, it will be argued, if the mode of production contains forces which prevent the diffusion of economic gains and if the resultant structures contains mechanisms which resist change: through the entrenchment of an existing method of surplus appropriation, or the existence of powerful beneficiaries who may oppose changes in an on-going mode of operation. The dynamic forces of capital accumulation may lead to gains in the income of small sectors, or interest groups, which must be weighed against the costs of not affecting the overall development of an economy, or of a people.

#### The Historical Determinants in Thailand: A Summary

The contemporary underdevelopment of Thailand is explicable only in terms of its historical experience of which the principle features can be summarized as follows:

1. An exogeneous increase in the demand for primary agricultural commodities led to a fundamental change in the mode of production through specialization and division of labor and these resulted in a specific form of resource allocation in the domestic economy. This change occurred through the harnessing of pre-existing surplus capacity, and the extension of commercial agriculture permitted a greatly enlarged surplus without significant changes in the techniques of production.

2. The process of specialization into rice production destroyed a complex pattern of subsistence agriculture, local handicrafts and manufacturing activity.

3. The form of appropriation of the economic surplus became that of a transfer of agricultural products from the hinterland to Bangkok. In the metropolis-satellite relationship which emerged, capital was largely in the hands of an alien (Chinese) comprador-merchant class and a European investment class.

4. The beneficiary classes included (i) foreign factors, who provided labor, capital and entrepreneurship for the export industries (both mineral and agricultural), the inflow of which gave rise to a small enclave of modern manufacturing and the remittances from which form a further leakage from the flow of domestically-generated savings; (ii) the comprador-merchant class and a class of "bureaucratic capitalists,"<sup>4</sup> and (iii) a class of "luxury importers" (a emergent bourgeoisie) in the metropolis who diverted part of the surplus into a demand for luxury goods from abroad.

5. The accompanying organization changes, which allowed this transfer to take place more efficiently, included: the provision of a limited infrastructure (a communications system), an enlarged and reformed administrative bureaucracy (both to supervise the transfer and to bring as much of the country as possible under metropolitan control), and functional agencies (import-export firms, trading towns, and a distribution network).

6. These changes contain mechanisms for exaggerating underdevelopment:

the dicotomy between the satellite and the metropolis became more apparent as the new mode of operation of the economy enriched the capital and port (Bangkok) through the surplus-transference process.

7. In addition, the absence of any significant linkages or feedbacks from the extension of agricultural cultivation meant that they were few spread effects resulting from increased output, and the level of well-being remained constant, or may have even declined due to the break-down of previous social relationships.

8. The relative distribution of income tended to worsen, and while 85 per cent (or more) of the population remained on the land their income levels did not raise aggregate demand for consumer goods to a level that permitted their domestic manufacture. Accumulated capital was used for trading purposes, real estate, or luxury consumption and a very small percentage was converted into manufacturing within Thailand itself.

9. Thailand became a part of the world economy and of an international division of labor. As a supplier of primary agricultural commodities and importer of consumer goods, self-sufficiency was replaced by reliance upon the world market, in particular upon trade with a restricted number of Western countries. Threats to its territorial independence from the West forced it to act like a colony and limited the possibilities of domestic development.

The Main Historical Periods: A Summary

Within this framework the main historical periods, which are to be explored at greater length below, can be summarized as follows:

(A) Prior to the middle of the 19th century Thailand was a self-sufficient economy, based upon a loose village agricultural structure with enough non-agricultural production to supply necessary implements and household goods. Capital was in the form of land and stored-up value of agricultural products. The most important mechanism was control over labor, rather than land (which was in relatively abundant supply); one-third to one-half of the population existed in a state of bondage and most of the remainder were subject to onerous forced labor duties. A small amount of capital was used for manufacturing of both primitive industrial and household goods and exports consisted as much of these as of agricultural products. Under this system of "Oriental Despotism"<sup>5</sup> the entire economic surplus was appropriated by the governing class, though the agency of "bureaucratic capitalists," and was used to serve the national needs for defensive warfare; power and wealth were defined by status relationships centered around the king.

(B) From the opening up of the country to trade with the West in the middle of the 19th century, a new pattern of surplus appropriation came into existence. The primary feature was the extension of mercantile capital necessary for the storing, transportation and processing of agricultural produce, and an important controlling device control was ownership of this capital. Important

organizational changes accompanied this change in the mode of production; new beneficiary classes emerged in the form of a new merchant class who transferred the surplus from the agricultural hinterland to Bangkok, and with the entry of foreign factors of production. The emergence of a wage labor class was greatly accelerated.

(C) Since 1945, despite gains in national income and a more diverse pattern of economic activity, underdevelopment has persisted and the mode of operation is reflected in the basically unchanged structure of the economy. An increasingly lop-sided pattern of growth has left the agricultural sector (over 80 per cent of the labor force) stagnant with low levels of income and well-being. Metropolis-centered development underscores the unequal distribution of gains in income both regionally and interpersonally. Bangkok appears less and less a part of Thailand. External trade reflects a basically unchanged pattern of primary exports and consumption goods imports while foreign aid and international loans have consistently compensated for a deficit in the balance of trade. In spite of the enlarged manufacturing sector, employment in the metropolis has increased very little, leading to a swelling of the underemployed labor force which is in sharp contrast to the boom in construction, commerce, real estate and other services which absorb large amounts of the enlarged national surplus. There are increasing tensions between apparent attempts to diffuse development and the underlying forces of the political economy which resist any changes in the fundamental direction of economic activity.



## II. The Pre-Trade Economy: Thailand Before the Bowring Treaty, 1855.

The Thai nation took shape through a number of separate kingdoms: Sukhothai, Ayudhya, Bangkok. The pattern which emerged from the Ayudhyan dynasty (1448-1767), which established many of the essential features of modern Thailand particularly in governmental organization, was a nation based on self-sufficient village life and composed of quasi-independent regions, whose primary concern was defensive, and offensive, warfare.

The characteristic form of political organizational and mode of production from the 15th to the 18th centuries was that of an "Oriental Despotism." The national bureaucracy created by King Trailok in 1450, the framework of which survived almost intact into the 19th century, is a clear expression of the political and organizational framework corresponding to the basic mode of production. All but a small part of the national surplus was appropriated by the king and it was used both to sustain the ruling group and to ensure the self-survival of the kingdom. From 1488 to 1787 there was at least one notable military undertaking every four years but although nation-holding was a primary function, "the Thai king was not primarily a warrior, nor was his essential a garrison state."<sup>6</sup> The bureaucratic structure arranged the provinces around the central territory of the kingdom in four classes, according to their strategic importance to the defense of the kingdom. Each province was controlled by ministers of the king's council and the basic functions of local government were<sup>7</sup>

to maintain peace and order; to collect  
information on manpower, elephants, and

other resources; to mobilize military conscripts upon request and use corvée labor; to collect a share of the area's wealth for provincial use and for transmission to the capital.

The bureaucracy, in addition to its functional significance, performed a vital social role as the basic instrument for providing social order and continuity-it thus served as "the framework of the strata of society between the king and the peasantry."<sup>8</sup> Social relationships were defined by the sakdi na, or dignity-mark system, whereby numbers designated the amount of land over which a noble or commoner had nominal jurisdiction, indicating heirarchal position in the society rather than actual control.

Since land was in relatively abundant supply, control over labor power was the most critical feature of the system of authority. At the base of the society was a landless laboring slave class, accounting for between one-fourth to one third of the population.<sup>9</sup> In addition, an onerous system of corvée labor applied to commoners, ensuring a supply of labor to the nobility and to the king for public works<sup>10</sup> or military service.

The economic base of the society was one of self-sufficient village life.<sup>11</sup> The Asiatic mode of production although it conveys a limited portrait of this society, and of its dynamic changes, refers to the "self-sustaining unity of manufacture and agriculture" which "contains all the conditions for reproduction and surplus production within itself."<sup>12</sup> Originally a wandering tribal people, sedentary cultivation became possible when the Thais settled in the fertile river plains. The communal system, based on tribal and kinship

groups and an internal division of labor, in response to the differential availability of land in relation to labor and the more complex needs of the economy with growing population, gave way to a system based on the bondage of the masses of the people.

From the 16th to the 19th centuries, economic activities were greatly enlarged, producing a highly diverse economy with abundant local handicrafts and household industries to provide for requirements in housing materials, clothing, agricultural and domestic implements, through a wide range of industries: metal production, tin mining and smelting, pottery and earthenware manufacture, paper-making, sugar manufacture, iron works, cotton and silk growing, weaving and spinning, shipbuilding, rice mills, saw mills and the production of building materials such as tile, brick and lime.<sup>13</sup>

Apart from the small pockets of capital accumulation which were devoted to these non-agricultural production activities, the bulk of capital consisted of land and stored-up agricultural produce. The small amount of internal trade was already a Chinese monopoly by 1850,<sup>14</sup> and a large part of it consisted of tax payments flowing to Bangkok from the provinces.<sup>15</sup> Supplies of necessary European and Asian products were obtained from abroad through shipping routes between Bangkok, Penang, Malacca, Singapore and Canton. Exports included high value products such as ivory, deerskins, metals and woods, as well as agricultural and some manufactured products.<sup>16</sup>

A class of owners of capital who acted as commercial or fiscal agents for the state shared in the national surplus. These "bureaucratic capitalists"

included tax collectors, private businessmen and members of the bureaucracy engaged in trade and industry. The vast extension of mercantile activity made possible by increased trade was the major dynamic force promoting change in the next historical period.

There was a deep-seated resistance to opening up the country to trade with the West, both because of the long-standing royal monopoly of trade and also from the awareness of the restrictions which this would place upon the king, and the possible threat to national sovereignty. Before the first treaties were signed however, from the turn of the 19th century, economic changes were already putting pressure on the existing organizational system. A new supply of labor in the form of immigrant Chinese became more attractive than the corvée and wage labor became more common during the reign of Rama II (1809-24). Also tax-farming privileges were sold to willing Chinese bidders, enlarging the class of bureaucratic capitalists. In the reign of Rama III (1824-51) this system, found more efficient as a way of guaranteeing royal revenues, was extended to 38 objects of taxation. The deeply entrenched pluralistic aspect of underdevelopment in Thailand thus dates from the early 19th century when the Chinese gained control of distribution and became an important beneficiary class.

However the decision made by Rama IV to concede to British and American pressures and commercial interests was a decision of realpolitik, characteristic of Thai diplomacy, and suggestive of the real dangers which were felt from British and French territorial ambitions.<sup>17</sup> The Bowring Treaty, 1855, granted trading rights and extra-territoriality to the British, and it was followed by treaties with the U.S. and France in 1855 and with ten other European powers by 1870.<sup>18</sup>

III. The Repercussions of Entry into the  
World Economy, 1855-1938

The immediate and long-term effects of nominal political independence from the West was a dramatic change in the mode of operation of the political economy. Specialization led to a vast expansion in commercialized agriculture, brought about the decline of rural industries,<sup>19</sup> with attendant social implications, and brought into being new beneficiary classes. The dynamic of this process of reallocation of resources and redirection of activity was the expansion of mercantile capital in the agricultural sector, reflecting the enlarged importance of trading activities. A necessary corollary was the creation of a new infrastructure to administer to the needs of an enlarged economy.

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 the skills associated with the traditional rural industries. Against the gains from trade recognized in traditional theory must be weighed the opportunity cost of the emergent structure of underdevelopment, its economic and social costs and the limitation of future options other than dependence on primary exportation and the importation of foreign manufactures.

The figures for rice production and export from 1857 onwards reflected the generation of an enormous agricultural surplus.<sup>20</sup> From the similarity in initial conditions, Thailand would appear to have started at roughly the same

level as Japan, although its subsequent development is strikingly different. Since money incomes and per capita consumption appear to have risen very little from 1865 to 1930,<sup>21</sup> indicating that the enlarged surplus was not retained in the agricultural sector, the possibility existed of striking gains being made by certain beneficiary groups in the society.

Specialization took the form of a reduction in Z goods<sup>22</sup> activity, a reallocation of activity towards increased crop production, and a redirection of consumption towards imported manufactures.<sup>23</sup> This specialization was encouraged by the terms of trade which favored the rice farmer over the urban wage-earner from the 1820's to about 1910.<sup>24</sup>

Foreign competition caused the disappearance of most household industry, for example, paper, pottery, shipbuilding, sugar industry and much of the textile industry (although this showed an unusual resilience). However some new manufacturing was created, largely through the activities of Chinese middlemen, notably inland boatbuilding, rice and saw mills and the brick, tile and lime industries (for building materials).

Among the opportunity costs of this specialization process must be counted the social costs of the disruption of primitive society. A contemporary observer, at the turn of the century, expressed it as follows:<sup>25</sup>

The people, from a self-supporting primitive community, have become large producers of agricultural products for export, and consumers of imported products of foreign industries... In consequence the principal primitive local industries have died out...The economical evolution has thus led to great alterations in the whole social fabric of the country, by changes in the system of production ensued from it, and by the gradually increasing tendency

for specialisation of work...This of course is beneficial to foreign trade and industries, but greatly detrimental to the people concerned. A country of capitalists would be able to stand such conditions; but in primitive countries supplanting of the products of local and domestic industries easily may lead to economical and social disturbances and financial difficulties, if no compensation can be found in development of production in other directions...Many people have suffered and are still suffering from the operation of the country being opened up in an inconsiderate way.

There are a number of striking features regarding the development of Thailand as an open export economy:

(1) The smallness of the area affected and the general unevenness of development meant that the impact of external demand was restricted to the teak-producing regions of the north and a triangular area of the Central Plains.<sup>26</sup>

(2) The dominant mechanism of development was of a transfer of the exportable agricultural surplus from the hinterland to Bangkok, a process which gave rise to the characteristic metropolis-satellite relationship, a feature of many other underdeveloped countries.<sup>27</sup>

(3) The almost total absence of Thai participation in trade, commerce and manufacturing; thus there was no tendency until very recently towards the development of an indigeneous bourgeoisie, the social structure remained characteristically one of rice farmers (over 90 per cent of the population) and members of the government bureaucracy.<sup>28</sup>

(4) The natural implication was that the Chinese very early on formed an alliance with the Thai ruling groups and took the initiative in all types of non-agricultural activity. But they did not transform the surplus over which

they gained control into industrial forms. This reflected a preference for greater liquidity due to economic insecurity as aliens, and the remittance of profits back to China. The magnitude of this flow was put at around 1,250 million baht from 1890 to 1941.<sup>29</sup> The lack of transfer of the profits of agricultural distribution, processing and exporting into industrial forms was an important constraint on future development.

The profound changes which took place in the mode of operation of the economy had their counterpart in the related changes in organizations and institutions. The national/military structure or "system-maintenance bureaucracy,"<sup>30</sup> which had been adequate for a nation of quasi-independent regions in ensuring the provision of sufficient resources for the maintenance of the court and defense of the kingdom, came under serious strains and gave way to a much reformed apparatus.

The immediate impact of the treaties in the second half of the 19th century was the loss of the king's control over state trading, taxes and the revenues from customs duties on trade commodities. The government encouraged rice production by offering incentives to farmers to enlarge the area under cultivation and by enacting liberal laws regarding unclaimed lands. Furthermore, improvements in infrastructure (railways, irrigation, canals), and the abolition of the corvée and slave labor, generated classes of peasant owners and wage laborers in agriculture. Export revenues from agricultural goods became a main source of revenue for the Bangkok government.

The later part of the nineteenth century saw sweeping changes in the



organization of the government, both in response to the changed economic circumstances and to the instability in foreign relations which threatened loss of territory. These changes were begun by King Mongkut and carried out more fully by King Chualongkorn (1868-1910) who overhauled the existing bureaucracy and attempted to convert it into a functionally effective, productive set of Western-style administrative agencies which would encompass the vulnerable extremities of the kingdom. He also reformed the fiscal system to reduce the dependence on tax farming and the corruption of provincial governors and officials, attempted vigorously to unite the kingdom by the creation of postal and telegraph services, the continued expansion of communications, completion of maps and surveys, and began the first public educational system.<sup>31</sup>

In spite of the persistent vulnerability of the kingdom, territorial independence was preserved and the Thais maintained a continuity in their governmental and political institutions which was unbroken from the beginning of the Chakkri dynasty in 1767. Their freedom from direct colonial rule reflected their diplomatic skill but was also the outcome of an agreement between the French and British to preserve a buffer state between their respective interests in Indo-China, Burma and Malaya.

Nominal independence from the West imposed, however, serious costs on the Thai government since it severely restricted its ability to pursue an independent development policy. From 1892 to 1941 only 11 per cent of the government expenditures was spent on development,<sup>32</sup> while the terms of the foreign treaties effectively prevented the imposition by the government of any new

direct taxes.<sup>33</sup> Foreign influence was reflected in the conservative monetary policy of maintaining 100 per cent reserves, and dependence on foreign banks (a Central bank was not established until 1941). British financial advisors were prominent in all these decisions and the British exerted an important influence over economic development:<sup>34</sup>

Approximately 70 per cent of Thailand's imports originated in Britain, and a large part of her exports went to British territories. British firms located in Bangkok were prominent in this trade, two or three of the principle banks were British and British firms dominated the tin and teak industries. Beginning in 1905 sterling loans were sold chiefly in Britain...The principle aim of British policy was to maintain order and stability, and to prevent anything from disturbing or endangering her trade or investments...Some have said that Thailand was a colony in all but name.

The maintenance of a buffer state in Thailand also made it unnecessary for the British to incur any military expenditures in order to protect Burma and Malaya on the Thai borders.<sup>35</sup>

In summarizing the events of this phase of the post-trade economy the focus of analysis has been to show how fundamental changes in the mode of operation of the economy led to a deeply entrenched method of surplus appropriation characterized by extensions of mercantile capital, specialization, and trade dependence. The decline of rural industries was not matched by the development of manufacturing, and the government was hampered in managing the domestic economy by the de facto degree of foreign influence. The subsequent phase of Thailand's post-trade experience reflects very closely these historical determinants.

#### IV. The Repercussions of Trade: Some Further Analysis

The above descriptive changes can be amplified and supported by reference to some existing theories and analytical devices. This section examines the relevance of the concepts of "export economies," the "staples theory" and linkages, and the "tree-star structure" to the experience of Thailand. It will be seen that these represent only partial descriptions of the underdevelopment problem.

The vent for surplus model emphasizes the expansion of agricultural output for export utilizing surplus capacity and existing techniques of production, which gives rise to an export-oriented economy without any reduction in domestic production.<sup>36</sup> This model depends on the assumption of surplus labor in the pre-trade economy, it de-emphasizes the role of Z goods, or non-agricultural activities, but points to the "colonial" trade pattern which emerges through export expansion and to its inadequacy as an engine of growth.

A characteristic of export-oriented economies, as analyzed by Levin, is the presence of foreign factors of production in the export sector. The international mobility of these factors is in sharp contrast to the general immobility of domestic factors; their inward flow gives rise to a class of luxury importers and represents a leakage from domestic savings in the form of remittances abroad.<sup>37</sup> For growth to occur outside the export sector there must be sufficient demand to encourage it. However, in this type of export economy wealth becomes concentrated into the hands of luxury importers and

foreign factors which results in a very small domestic market.<sup>38</sup> Manufactures tend to be imported, not domestically produced.

The stimuli which are provided by primary production can be thought of in terms of linkages, and these depend on the technological characteristics of the primary commodity, and on whether the economy is an export enclave or an open peasant economy.<sup>39</sup> An open export economy has distinctive features which can be analyzed in terms of factor input coefficients, income distribution, infrastructural requirements, linkages and other external benefits.<sup>40</sup> The input coefficients for capital and skilled labor are lower in peasant agriculture than in an enclave economy, and fewer foreign factors are likely to be imported; the needs for unskilled labor are higher and the lack of productivity change limits the need for fixed capital, while increasing the need for commercial capital. The external training and skills induced by peasant agriculture are likewise lower than in enclave developments, whereas infrastructural penetration (communications) will be deeper in the open peasant economy but limited in complexity.

Estimates of linkage effects measure the impact of a particular activity in terms of the forward, backward, and final demand linkages. For the principle primary commodities in Thailand, estimates made by Ayal are as follows:<sup>41</sup>

(a) Rice: backward linkage was no more than 15 per cent of total rice production; the additional external effects of expanding the market economy through infrastructural development may have been considerable but cannot be strictly measured. The forward linkage induced (chiefly rice milling) was 20 per cent.

(b) Wood: backward linkage close to zero; some forward linkages in the form of saw mills, furniture, and paper-making establishments (employing a total of 100,000 people in 1960). Since teak was the primary export yet accounted for no more than a quarter of annual wood production the linkages for that wood alone are unclear; final-demand linkage was small.

(c) Rubber: Small backward linkages, as even the communications system existed before the plantations; forward linkages were also small since the processing was restricted to smoking or crepping, and very little domestic industry utilizing rubber was created; final demand linkages: a rough idea is obtained by the total employment in rubber (150,000 in 1951).

(d) Tin: Backward linkages were virtually zero and forward linkages extremely small since nearly all the ore was exported to Malaya for smelting. It should also be noted that non-dredging methods of production, requiring very little fixed capital, continued to operate fairly extensively after the introduction of (imported) dredging equipment.

The linkage effects into the economy from the primary production of these four commodities from which Thailand derived historically between 70 to 90 per cent of her export value (from 1860-1950) were thus very small. The staples theory is of some value in explaining the persistence of established production functions in these primary commodity industries and thus the limited structural change which occurred from the export of primary agricultural commodities.

The historical determinants of underdevelopment can be further examined in terms of the "tree-star" structures which emerged as a consequence of

differential patterns of development. In a broad overview of the economic history of Europe, Fei and Ranis capture the nature of the transition from pre-capitalist formations to industrialization in terms of the changing relations of production.<sup>42</sup> Their analysis, like the analysis above, hinges upon the dynamic effects of the expansion of commercial capital and trading relations in a previously stagnant and largely self-sufficient economy.<sup>43</sup>

The importance of trade in their analysis rests on: (i) the impact of the Smithian division of labor, made possible by greater exchange and trade; (ii) changes in the method of organization to a task-specific division of labor, individualistic capital accumulation and the increasing importance of owners of mercantile capital as opposed to the landed aristocracy; (iii) "learning by contact," through an increased flow of goods and ideas and consequently broadening horizons; and (iv) the emergence of a national economy, with greater physical and psychological unity. In varying degrees these factors describe aspects of the impact of trade on the Thai economy.

In the "tree-star" structure in which Fei and Ranis represent the impact of these forces, the stars represent a geographic area of agrarian activity surrounded and linked by nuclear families, and the trees represent the existence of an "interregional pattern of connectivity" of communications and transport networks. The tree-star structure thus corresponds to the social infrastructure of interregional trade, the basis of which is the extension of commercial capital. In the transition from "agrarian feudalism" to a higher phase of development which they call "mercantile agrarianism" there are forces at work which expand the tree-star structure: increased

trade and the division of labor lever agricultural productivity which leads in turn to the growth and spread of commercial capital. This permits eventually an even higher stage of development to be reached: "cumulative ever-expanding forces inevitably propel the system towards transition to full-fledged industrial capitalism."<sup>44</sup>

By contrast, the pattern which emerged in the post-trade economy of Thailand was one of a vast extension of commercial capital without increased agricultural productivity; increased output was exogenously induced through external demand, and was not "population pulled" or "agricultural productivity pushed" along the lines of the Fei-Ranis model (for Europe).

The functional character of commercial capital covered the time necessary for the transportation, storage and processing of agricultural commodities. The tree-structure which developed in Thailand did not radiate in all directions to form links between the stars, but was uni-directional-towards the port of Bangkok. As it did not link villages it discouraged interregional trade and the local accumulation of capital for non-trade uses. The strong tree structure which emerged in the post-trade economy, it may be argued, actually stunted the weak stars by eliminating existing rural industry and trade.

In the Fei-Ranis model the lack of development in export enclave economies is accounted for by colonialism which prevented the development of trees which would have linked already well developed village activity (such as in India). In contrast to the enclave economy, open peasant economies such as Thailand saw the development of trees by a weakening, or lack of growth, in

the stars.

To the tree-star concept must be added the underlying productive relations which developed in the post-trade economy, in particular those ensuing from the Chinese control over commercial capital and their monopoly of internal trade. Commercial capital was used to widen the area of control over the trading commodities and only invested in non-agricultural pursuits (such as agricultural processing activities) to the degree that it enhanced control over the disposition of the agricultural surplus.

The dynamic forces present in their model of the European experience were absent - goods and ideas flowed along the trading channels of transport and communication only insofar as it was necessary to facilitate the flow of agricultural exports; there was no apparent relationship between investment in commercial capital and labor productivity; alien insecurity, concern for profit remittances, and specialization of function in commerce and trading, reduced drastically the rate of conversion of commercial capital into industrial fixed capital. The new mode of production consequent upon trade thus tended to reinforce underdevelopment, and the transition from an economy in the phase of mercantile capitalism to that of industrial capitalism was barely begun.



V. The Post-War Period: Metropolis-Centered Development

It is not the purpose of this paper to give a complete description of the post-war period, so this section will present a summary of the most important changes and their relationship to the historical pattern which has been described. In the post-war period Thailand has experienced rapid growth in national income yet remains "an extreme case of underdevelopment."<sup>45</sup> This period may be described as underdevelopment in its metropolis-centered phase.

The structure which emerged at the end of the period 1855-1940 was one of limited and highly particularized development, and it implied the entrenchment of primary production. The mode of operation of the economy remained based on the agricultural surplus and predominantly mercantile capital in trading and related activities. Foreign factors had led to the creation of small mining enclaves but there was very little development of manufacturing.<sup>46</sup>

Agriculture consisted of a growing commercialized sector and a huge stagnant hinterland. Regional inequalities grew: as the more distant regions did not benefit from government infrastructural investment they became relatively more backward and an increasing source of political instability.<sup>47</sup> The mode of operation of the economy is reflected in the distribution of income. The gains in national income were not generally reflected in increases in rural incomes, nor in the generation of employment in the rapidly growing advanced sector centered around Bangkok. Wealth has remained concentrated in the hands of agricultural processors and exporters, an emerging bourgeoisie in the metropolis, and a ruling group who early on became involved in state enterprises and in

a wide variety of business interests. In contrast, levels of education, health and welfare in the rural sector have remained extremely inadequate, even by the government's own criteria.

The agricultural sector remains of primary importance,<sup>48</sup> employing over 80 per cent of the labor force, and is characterized by low levels of productivity.<sup>49</sup> This has persisted despite a noticeable extension of cultivation to non-rice crops, especially maize, cassava, sorghum and beans.<sup>50</sup>

In a general sense it is clear that the pattern of the post-trade economy has constantly favored the metropolis at the expense of the agricultural sector through the surplus-transference process. The precise mechanics of this process and how it has impoverished the agricultural sector are the subject of an on-going investigation.<sup>51</sup> Part of the answer appears to relate to the imperfections of the distribution system in which middlemen, through varying degrees of monopolistic and monoponistic powers, may both constrain technological change and reduce the impact of price incentives.<sup>52</sup> Reliance upon the market is unlikely to ensure adequate development in dealing with high distribution costs, hoarding and speculation by middlemen, the low levels of income and high level of indebtedness of the Thai farmer. Publically-owned cooperatives, credit, storage and marketing facilities which have been suggested to avoid the stranglehold of existing distribution system<sup>53</sup> might alleviate part of the problem, but its roots go back to historical determinants of the structure of the post-trade economy.

Other striking features of the problem of agricultural development are the rapid population growth (3.2 per cent annually) which threatens to eliminate

the rice surplus by 1975-80;<sup>54</sup> the export tax on rice which continues to deny the rice farmer of between 30-40 per cent of the real value of his output; and the growing divergence between non-agricultural and agricultural incomes.<sup>55</sup> There also appears to be some move away from peasant ownership towards tenant farming as agriculture becomes more capitalistic.<sup>56</sup>

The branch banking system, which has developed rapidly since 1930,<sup>57</sup> assists the surplus-transference process by siphoning off rural savings at the branch level and remits them to Bangkok, for use in the metropolis. Through the widespread comprador system, interest rates are pushed above official levels; only a very small part of bank business is related to loans or local development.

While the percentage of national income originating in non-agricultural production has increased substantially since 1945, much of the growth has been in social overhead, private construction and services, and has therefore benefited the metropolis rather than the much larger hinterland.

There has been an impressive growth in the absolute size of the manufacturing sector<sup>58</sup> but it still has failed to provide for even the most basic needs of the country in consumption goods. A large proportion of the manufacturing growth is satellite to the service and construction sectors, or is engaged in the assembly of wholly imported machinery or automotive parts, or is in primary processing of agricultural commodities. Only ten per cent of the manufacturing has had both high forward and backward linkages into the rest of the economy.<sup>59</sup>

Thus manufacturing has not been very development oriented nor has it had much effect on import substitution. Yet it has also created an additional problem in that the manufacturing sector has grown much faster than the rate of

job creation. Thus Bangkok had levels of 4.5-5.5% urban unemployment in 1965<sup>60</sup> and underemployment is widespread (peddlars, servants, vendors, etc).

Since 1965, growth in the metropolis had had the additional momentum of a military-induced boom. While military spending probably accounted for about half of the gains in gross domestic product from 1965-67,<sup>61</sup> it has also led to distortions in the pattern of resource allocation in the forms of additional features: inflation, land speculation, construction (especially of luxury hotels, western apartments, bars and massage parlours), conspicuous consumption, and growing inequalities of wealth. All these have been encouraged by the boom and have diverted resources further away from developmental uses.

The government's policy has been based on a firm endorsement of private enterprise-free market development and it has done all it can to encourage foreign investment through its pro-Western political stance, through the investment promotion policy, guarantees against expropriation, and lack of limitation on profit remittances. Through the promotion policy hotels, processing, and assembly plants have enjoyed equal privileges (tariff protection, special licenses, tax holidays, elimination of import duties on necessary inputs) with more development-oriented investments such as chemicals, petroleum and heavy industry.<sup>62</sup> The pattern of domestic investment has therefore not reflected any strong priorities in the need for a manufacturing sector with strong growth-promoting characteristics.

The dominance of mercantile capital and its lack of transfer to industrial uses was explained by the high transfer cost; the merchant class in Thailand, have not been primarily interested in production and found better opportunities

for profit in land ownership, money lending, exporting and speculation.<sup>63</sup>

The feasibility of domestic production of a wide range of consumer goods depends on an expansion of the domestic market and therefore on a rise in rural incomes. Yet historically the internal market has tended to be an appendage of the internal market of the advanced countries and imports have been dominated by consumer goods while intermediate goods have accounted for a small, although increasing, percentage of total imports.<sup>64</sup> In 1966, total imports of textiles and textile products were larger than the export value of all manufactured goods.<sup>65</sup>

The concentration of wealth into the hands of a small group of traders, industrialists and foreign factors in the metropolis does not provide a distribution of income which would permit increased demand or investment for the domestic market. There appears to be concentration of wealth in a Thai-Chinese beneficiary class which is in alliance with the ruling groups. One aspect of this is a pattern of Chinese-owned enterprises under the political patronage of members of the bureaucracy. The same group also has extensive business interests of its own. Members of the ruling political cliques appear to have long been extensively involved in the private sector and in the nationalized industries.<sup>66</sup>

What have been referred to as "deterrents"<sup>67</sup> against industrial investment - namely the lack of a capital market, lack of bank credit, high risks, lack of managerial capacity, high liquidity preference (on the part of the Chinese) are symptomatic of the operating characteristics of the political economy and are not, in themselves, amenable to direct policy solution.

In the post-war period Thailand has enjoyed an almost consistent balance of trade deficit. From 1952-64, the exports of goods and services increased 60 per cent while receipts from foreign exchange increased by 130 per cent. Only 85 per cent of the foreign exchange was actually paid for in exports, the difference being accounted for by international loans and foreign aid.<sup>68</sup>

Foreign reserves have not only been the basis of an apparently stable situation but also have brought the country increasingly into the complex interaction of the international banking system, private investment, military spending and foreign aid. These together reinforce the need to maintain traditional primary exports to pay for the loans and needed capital, and add a further element of rigidity to the development policy. In the place of British dominance, Thailand has become increasingly dependent upon the United States and Japan (its major trading partner). This reliance, both economic and political, is a major element in its future stability.

In summary, the current operation of the political economy appears inimical in many ways to a development policy which would be growth-generating and which would diffuse the gains from growth to alleviate poverty and backwardness. The underlying historical structure has changed very little in spite of the synthetic appearance of a metropolis-centered pattern of growth. Barriers to change, in this historical perspective, are more profound than simple adjustments in policy; they lie in the character of the political economy, the mode of surplus appropriation, and the structure of underdevelopment. While the problems and contradictions

of domestic development have increased, particularly in the last 15 years, at the same time the policy choices have diminished, and those currently available appear increasingly inadequate for dealing with the problems at hand.

## FOOTNOTES

1. Of the existing treatments of Thailand, James C. Ingram, Economic Change in Thailand Since 1850 (Stanford: Stanford University Press, 1955) is a carefully constructed descriptive account of change, providing invaluable data, but without any underlying theoretical model. Robert J. Muscat, Development Strategy in Thailand - A Study of Economic Growth (New York: Praeger, 1966) is basically concerned to demonstrate the efficiency of reliance upon the price mechanism and freedom from government control for Thailand's continued growth. Missing the essential dynamics of the economy, he fails to provide answers to the many dilemmas which this policy raises. T.H. Silcock, ed. Thailand: Social and Economic Studies in Development (Canberra: Australian National University, 1967) is a collection of largely descriptive essays relating to policy questions.
2. The literature has generally neglected the special characteristics of underdevelopment which arise from different initial patterns of development, types of exposure to the world economy e.g. the differential impact and forms of colonialism. Perhaps the main exception is Hla Myint, The Economics of the Developing Countries (New York: Praeger, 1964).
3. For recent application of identical assumptions to an historical approach, see John C.H. Fei and Gustav Ranis, "Economic Development in Historical Perspective," American Economic Review, Papers and Proceedings, Vol. LIX, No. 2 (May, 1969), pp. 386-400.
4. See Karl A. Wittfogel, Oriental Despotism. A Comparative Study of Total Power (New Haven and London: Yale University Press, 1957), pp. 255-6. See also the discussion in Section III below.
5. Ibid. Wittfogel's classic study illuminates a wide variety of different power systems whose common economic basis is hydraulic agriculture.
6. William J. Siffin, The Thai Bureaucracy: Institutional Change and Development (Honolulu: East-West Center Press, 1966), p. 16.
7. Ibid., p. 23.
8. Ibid., p. 17.
9. For a fuller description of the origins, various types and laws applicable to various forms of slavery, see Bruno Lasker, Human Bondage in Southeast Asia (Chapel Hill: University of North Carolina Press, 1950).



10. Canal construction was begun as early as 1534 and several thousand kilometers of waterways had been built by the late 19th century. These assisted the flow of resources to and from the capital. Impressive buildings also appeared in the capital to enhance the majesty of the king. Siffin, op. cit., p. 16.
11. For interesting points of similarity and difference in pre-trade economies see Stephen Hymer, "Economic Forms in Pre-Colonial Ghana," Center Discussion Paper No. 79, Economic Growth Center, Yale University, November 6, 1969.
12. E.J. Hobsbawm (ed.), Karl Marx: Pre-capitalist Economic Formations (New York: International Publishers, 1965). For an interesting discussion of the stationary character of the Asiatic Mode, see Shlomo Avineri, Karl Marx on Colonialism and Modernization (New York: Anchor Books, 1969), and Wittfogel, op. cit. esp. Chapter 9, pp. 369-410.
13. J.H. Van der Heide, "The Economical Development of Thailand During the Last Half Century," Journal of the Siam Society, Vol. III, Pt. II (1906), p. 5.
14. James C. Ingram, Economic Change in Thailand Since 1850 (Stanford: Stanford University Press, 1954), p. 20.
15. Ingram quotes Sir John Bowring's observation. Ibid., p. 19.
16. The value of rice exports was less, in 1852, than a number of other goods including: raw cotton, iron and ironware, tin and tin utensils, sugar, hides, skins, birds' nests, and woods. Van der Heide, op. cit., pp. 80-81. Total imports were put at 4,331,000 baht and total exports at 5,585,000 baht by Malloch. Ingram, op. cit., p. 26.
17. While pointing out that China had been forced to open her borders to trade by naval power only a few years before and the possible demonstration effect this may have had on King Mongkut, Ingram regards the signing of the treaties as more of a desired choice than the outcome of outside pressure as Siffin, for example, argues. See Ingram, op. cit., p. 33 and Siffin, op. cit., p. 47.
18. The continued vulnerability of the kingdom, in spite of these efforts, is suggested by the loss of nearly one-third of the existing kingdom, or 90,000 square miles, in the closing years of the 19th century.
19. For an interesting model of this process, see Steven A. Resnick, "The Decline of Rural Industry Under Export Expansion: A Comparison Among Burma, Philippines and Thailand," 1870-1938. Journal of Economic History (forthcoming).

20. The average value of rice exports rose from about 5 million baht in 1870-74 (the earliest available figure) to 169 million in 1925-29, and over 2,223 million in 1951. Ingram, op.cit., p. 38.
21. A comparison of the terms of trade between rice and imported textiles (white and grey cotton shirting) shows an increase in real incomes from 1865 to 1895, a sharp decline from 1895 to 1910, smaller fluctuations from 1910 to 1930, and the 1930 level was approximately that of 1910. James C. Ingram, "Thailand's Rice Trade and the Allocation of Resources," in C.D. Cowan, ed., The Economic Development of Southeast Asia (New York: Praeger, 1964), pp. 102-126.
22. "Z Goods" refer to various types of non-agricultural activity, including rural industries which decline as more effort goes into agricultural production.
23. See Stephen Hymer and Stephen Resnick, "A Model of an Agrarian Economy with Non-Agricultural Activities," American Economic Review, Vol. LIX, No. 4 (September, 1969), pp. 493-506.
24. The real wage rate (in terms of rice) for mill workers declined sharply from the 1830's to about 1910. See Ingram, "Thailand's Rice Trade.." op.cit.
25. Van der Heide, op.cit., pp. 86-88, 91-92.
26. In 1905 less than two per cent of total rice exports originated from the areas either north of Paknambo (Nakon Sawan) 100 miles north of Bangkok, or from the Korat plateau, 200 miles north-west of the capital. Ibid., p. 90.
27. See André Gunder Frank, Capitalism and Underdevelopment in Latin America (New York: Monthly Review Press, 1967).
28. There appears to be no single satisfying explanation for this important aspect of the post-trade economy.
29. Compared to the aggregate investment in railways and irrigation in the same period of only 250 million baht. Ingram, Economic Change in Thailand Since 1850, op.cit., p. 204.
30. Siffin, op.cit., p. 62.
31. Ibid., pp. 51-63.
32. Ingram, "Economic Change..." op.cit., p. 194.

33. The treaties which Thailand signed actually prevented new indirect taxes by forbidding any levy on imported articles except for a 3 per cent duty; fixing the export duties and inland-transit duties on nearly every important article of domestic production; and forbidding any other levies on these articles. Although technically the government could have raised direct taxes, income taxes were impossible and it felt that the existing capitation tax was already high enough. The direct taxes in the 1890's accounted for only 8-12 per cent of total revenue, while 40 per cent came from the opium monopoly and gambling farms. Ingram, op.cit., pp. 177-8.
34. Ibid., p. 173.
35. Ibid., p. 173.
36. See Hla Myint, "The Classical Theory of International Trade and the Underdeveloped Countries," Economic Journal, Vol. LXVII, No. 68 (June, 1958), pp. 315-37.
37. Jonathan V. Levin, The Export Economies: Their Pattern of Development in Historical Perspective (Cambridge: Harvard University Press, 1960).
38. Ibid., pp. 9-10.
39. Attention to the impact of the export industry on development, now a conventional part of the economist tool-kit, was pioneered by, amongst others, Robert E. Baldwin, "Export Technology and Development from a Subsistence Level," Economic Journal, Vol. LXXII, No. 1 (March 1963), pp. 80-92, Melville H. Watkins, "A Staple Theory of Economic Growth," Canadian Journal of Economics and Political Science, Vol. XXIX, No. 2 (May, 1963), pp. 141-158; and Hla Myint, The Economics of the Developing Countries, op. cit.
40. A useful discussion is given in Gerald Helleiner, Peasant Agriculture, Government and Economic Growth in Nigeria, (Homewood, Illinois: Irwin, 1966) pp. 135-152, and Myint, op.cit., especially, pp. 38-68.
41. The information which follows is from Eliezar B. Ayal, "A Staple Theory for the Economic Development of Surplus Capacity Underdeveloped Countries," Manuscript, Center for International Affairs, Harvard University, April, 1964. Details of the method of calculation are given in this paper.
42. Fei and Ranis, op.cit.
43. They argue, more precisely that the increase in agricultural productivity was proportional to the change in the commercial capital stock per capita. Fei and Ranis, op.cit. The validity of this assumption in view of the experience of agricultural movements in European history might be challenged, but it does not affect the more general statement made above.

44. Ibid.
45. Muscat, op.cit. p. 56.
46. In 1949, only 75 enterprises employed more than 50 workers and 47 of these were rice or saw mills. Ingram, op.cit., p. 144. In 1937 only 1.6 per cent of the total labor force was in manufacturing, a figure which rose to about 4 per cent in 1966. In 1960 four-fifths of the labor force produced less than two-fifths of the national product i.e. the productivity of the non-agricultural worker was six times that of the agricultural worker. Muscat, op.cit., p. 56.
47. On the Northeast, see Peter F. Bell, "Thailand's Northeast: Regional Underdevelopment 'Insurgency' and Official Response," Pacific Affairs, Vol. XLII, No. 1 (Spring, 1969), pp. 47-54.
48. In spite of the steady decline in the relative size of the agricultural sector (to 38 per cent of gross domestic product in 1961) it remains the overwhelming source of export revenues.
49. A comparison with 26 underdeveloped countries shows Thailand is among the lowest in fertilizer use, in value of output per land area, gross farm capital formation, value of output per worker, and one of the highest in terms of workers per land area. See Jere R. Behrman, Supply Response in Underdeveloped Agriculture. A Case Study of Four Major Annual Crops in Thailand, 1937-63 (Amsterdam: North-Holland, 1968), p. 64.
50. Maize, cassava, jute and kenaf accounted for 16 per cent of total export value in 1963 (less than 3 per cent in 1957).
51. Peter F. Bell, "The Underdevelopment of Agriculture in Thailand," Manuscript (in progress).
52. See Peter F. Bell and Janet Tai, "Markets, Middlemen and Technology: Agricultural Supply Response in the Dualistic Economies of Southeast Asia," Malayan Economic Review, Vol. XIV, No. 1 (April, 1969), pp. 29-47.
53. Popular and semi-official opinion in Thailand has tended to put more and more of the blame for stagnant agriculture on the distribution system. For example, (articles in) Bangkok Bank Monthly Review, February and September 1968.
54. Edward van Roy, "The Malthusian Squeeze," Asian Survey, Vol. VII, No. 7, (July, 1967), pp. 469-481.

55. One estimate puts the percentage of agricultural to agricultural income from 1958-66 as between 12-14 per cent and the cash income of farmers in the Central Plains at less than \$50 per annum (insufficient to cover household expenses). Somnuk Sripling, "Toward Farm Development in Thailand," Manuscript (1968?), Ministry of Agriculture, Bangkok.
56. Evidence for this is fragmentary. See Taro Yano, "Land Tenure in Thailand," Asian Survey, Vol. VIII, No. 10 (October, 1968), pp. 853-63.
57. Alek A. Rozental, "Commercial Banking in Thailand," Field Work Report, No. 13, National Planning Association, February, 1967; "Branch Banking in Thailand," Journal of Developing Areas, Vol. 3, No. 1, (October, 1968), pp. 37-50.
58. The growth rate was around 12 per cent during the Economic Development Plan, 1961-66, but the percentage of its contribution to gross domestic product has remained at around 11 per cent in the last 18 years.
59. Muscat, op.cit., p. 205.
60. National Economic Development Board, Performance Evaluation of Development in Thailand for 1965, Bangkok, 1966.
61. Hermann Hatzfeldt, "The Impact of U.S. Military Expenditures on the Thai Economy," Manuscript, Ford Foundation, Bangkok, December, 1968. In monetary terms, the total military expenditure amounted to between \$0.5-1.5 billion in this period.
62. Peter F. Bell, Entrepreneurship in Contemporary Thailand, Manuscript (with University of California Press).
63. This appears to be a general phenomenon and is emphasized also by Celso Furtado, Development and Underdevelopment (Berkeley and Los Angeles: University of California Press, 1967), p. 116 and Paul A. Baran, The Political Economy of Growth (New York: Monthly Review Press, 1957), p. 170-73.
64. Between 1900-1940 they average between 20-25 per cent of imports. Ingram, op.cit., pp. 82, 112. Compared to a figure of 25 per cent in 1966. The latter figure must be adjusted for the imports of military goods.
65. Textiles include raw cotton, clothing, yard and thread, fabrics, and made-up articles which amounted to \$83.5 million and exports of manufactures amounted to \$75.5 million. Economic Progress of Thailand-General Indicators, National Economic Development Board, Bangkok, 1969.

66. Fred W. Riggs, Thailand-The Modernization of a Bureaucratic Policy (Honolulu: East-West Center Press, 1966).
67. Muscat, op.cit., pp. 207-19.
68. Joseph E. Haring and Larry E. Westphal, "Financial Policy in Postwar Thailand: External Equilibrium and Domestic Development," Asian Survey, Vol. VIII, No. 5 (May, 1968).