

## The ‘New Developmentalism’ in Post-Crisis Asia: The Case of Thailand’s SME Sector<sup>1</sup>

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### Introduction

In the context of a gradual abatement of the Asian economic, attention is now turning to the longer term political and structural outcomes of that deep recession. And it is here that new debates over the nature and relevance of ‘Asian capitalism’ have pushed to center-stage some old questions of state-organized developmentalism that were long dormant under on-going programs of structural adjustment and market-augmenting economic reforms beginning in the 1980s. I suggest here the possibility that the process and politics of crisis management may eventuate in a new synthesis of neo-classical and developmentalist models of economic governance in Thailand and elsewhere in the region.<sup>2</sup> Of particular importance are three tentative policy outcomes of the crisis: 1) a reinsertion of a social agenda into restructuring policy at national and international levels, in part in response to emergent political pressures associated with the privations of the crisis and of IMF-supported austerity and restructuring policies adopted during late 1997-1998; 2) renewed policy efforts to reform governance of states, financial institutions, and corporations; and relatedly 3) a still tentative (re)-emergence of state-initiated developmentalism in response to economic difficulties and imbalances generated or exacerbated by market-oriented structural reforms. It is this last policy outcome, hereafter termed the ‘new developmentalism,’ which is of greatest interest here.

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<sup>2</sup> More generally, Johnson and Gourevitch have both noted the importance of crisis for fundamental policy reorientations of states. See Chalmers Johnson, **MITI and the Japanese Miracle** (Stanford: Stanford University Press, 1962) and Peter Gourevitch, **Politics in Hard Times: Comparative Responses to International Crises** (Ithaca: Cornell University Press, 1986).

Across the region, there have been indications of a rethinking of the benefits to be derived from accelerated trade liberalization. Chinese Premier Zhu Rongji's recent trade opening concessions under a new Sino-US trade agreement, a likely precursor to eventual Chinese WTO membership, has been seen by many high-ranking Chinese officials as offering too much for too little, and has seen a diminution in the political status of the Premier and his reformist grouping in favor of economic conservatives.<sup>3</sup> In Thailand, Malaysia, and Indonesia, there is increased talk of need to slow down AFTA and other trade liberalization initiatives to meet short-term pressures of the crisis.<sup>4</sup> More generally, there is public recognition of the relatively disadvantaged position of developing countries in realizing benefits of global trade liberalization,<sup>5</sup> a new sensitivity reflected most dramatically in the New Zealand-Thai competition to secure the WTO directorship.

Too, there has been growing support for increased or continued restriction of foreign direct investment in key economic sectors. The economic nationalism underlying this shift has been fueled by various coalitions of domestically oriented businesses, small local enterprises, SOE managers and workers, academics, and domestic NGOs. In addition, and led by Malaysia and Hong Kong, new regulative controls have been placed on trans-border flows of finance capital in an effort to avoid further financial instability.

In China, South Korea, and Thailand, SOE reforms and privatization have been slowed, thus preserving for a time these potentially important instruments of state economic policy, especially in public infrastructure development.<sup>6</sup> Similarly, labor market deregulation has been blocked and sometimes reversed by worker protest in all three countries.

Especially important in the present context is a re-emergence of targeted state industry policy. In South Korea and Indonesia, industry policy has accompanied state-led corporate restructuring efforts, encouraged ironically by the IMF itself as a means toward the ultimate goal of market liberalization. In Thailand and elsewhere, industry and agro-business policy has been directed only in part at protection, but more importantly at

<sup>3</sup> *Asiaweek* 10/8/99, 11/26/99, 12/24/99. (Here and subsequently, I follow the US dating sequence of month/day/year.)

<sup>4</sup> *Asiaweek* 10/30/98, 10/15/99.

<sup>5</sup> *Asiaweek* 12/11/98, 2/25/00.

<sup>6</sup> For Thailand, see F. Deyo, 'Reform, Globalisation and Crisis: Reconstructing Thai Labour.' Forthcoming in **Journal of Industrial Relations**.

upgrading (of technology, skill levels, etc.) so as to foster enhanced competitiveness in domestic and foreign markets. In China, there is talk of need for a continuance of government control and developmental promotion of key industries, including high technology sectors on the mainland and in Hong Kong. These latter initiatives define a strategy of what might best be termed ‘open developmentalism,’ an amalgam of external economic liberalization and domestic state developmentalism.

This paper explores the extent, dimensions, and causes of this regional trend toward open developmentalism through a case study of recent changes in state policy toward Thailand’s small and medium sized industrial enterprises (SMEs). I first ask how Thai SMEs have been affected by the crisis, how they have sought to influence state policy in coping with economic adversity, and whether SME sectoral policy pressures have discernibly influenced evolving policies of crisis management. It is argued that while SME assistance programs have comprised a core element of crisis management efforts, these programs have not been substantially influenced by domestic political pressures from SMEs. Rather, they derive from the combined influence of a) the competitive requirements of locally-established foreign firms, b) internal and external pressures to accelerate economic reforms, c) a policy commitment to foreign investment based, export-led economic recovery and d) political resolve to ensure that domestic Thai firms participate advantageously in that recovery. The evolving strategy of crisis management which has flowed from these various pressures and commitments, and which focuses especially on the critical role of SMEs, is informed by a dynamic tension between two competing modes of emergent economic governance: the first, an Anglo-American model rooted in impersonal markets, and the second, an ‘Asian’<sup>7</sup> developmentalist model centering on state-organized policy networks, business associations, vertically organized supplier chains, credit-based financial systems, and relational/network-based private-sector governance.<sup>8</sup> This paper explores the ways in which these pressures and models have shaped evolving SME policy over the course of the crisis.

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<sup>7</sup> In the present Thai context (see below), ‘Asian’ refers largely to the Japanese developmental model. (see Chalmers Johnson, “Political Institutions and Economic Performance: The Government-Business Relationship in Japan, South Korea, and Taiwan,” in Deyo, ed., **The Political Economy of the New Asian Industrialism**. Ithaca: Cornell University Press, 1987).

<sup>8</sup> As opposed to more exclusively market- governed inter-firm relations and transactional governance.

## Domestic Small-Medium Sized Enterprise

Domestic SMEs, officially defined in the Thai context as firms capitalized at under 50 million baht<sup>9</sup> and employing fewer than 200 workers, comprise a critical sector within which to examine the social and developmental impact of the crisis. The social (and thus political) importance of Thai SMEs follows in part from the large percentage of workers employed and self-employed in this sector, currently estimated at three million, or 60-70% of all industrial workers. It follows as well from the growing tendency of large firms to outsource production to local suppliers (thus further expanding SME employment), and a corresponding growth in the informal sector resulting from both outsourcing and crisis. Finally, SMEs comprise an important conduit for a broad distribution of the economic gains from industrial and commercial growth, including those to women, minorities, and indigenous peoples.

The *developmental* importance of SMEs derives from their numerical preponderance among industrial firms,<sup>10</sup> their significance in accounting for roughly half of GDP, their role in fostering domestic entrepreneurship, their importance in providing a supplier infrastructure for international firms, and their special role in tapping the economic synergies and resources latent in Thai social organization and culture.

The crisis has taken a devastating toll in the SME sector, especially among domestic-market oriented, simple-technology firms not linked as upper-tier suppliers to international firms. Particularly troublesome has been a liquidity crisis resulting from the reticence of banks to advance capital to a sector which accounts for roughly 90% of outstanding non-performing loans.<sup>11</sup> As important are high interest rates (a consequence in part of the high risk associated with SME loans), drastically reduced domestic demand, increased competition associated with accelerated trade and investment liberalization,<sup>12</sup> and, for the relatively few SMEs with foreign-denominated debt,<sup>13</sup> the initial devaluation and continuing relatively low value of the baht. Kakwani and Pothong, in their very careful

<sup>9</sup> The Ministry of Industry's Department of Industrial Promotion sets this at 100 million baht, while other agencies now involved in SME assistance programs have adopted the 50 million baht threshold.

<sup>10</sup> Comprising some 90% of all industrial firms.

<sup>11</sup> As a percent of all firms with NPLs. See "SME clients account for up to 90% of bad loans," Bangkok Post/Business 1/26/99.

<sup>12</sup> "Small business needs state help to survive," Bangkok Post/Business 11/23/98: 13:52.

<sup>13</sup> Larger firms, rather than SMEs, tend to carry large foreign debt.

NESDB study of the social impact of the crisis, emphasize the devastating employment consequences initially for very small firms of 6-10 workers, and subsequently for medium-sized firms under the pressure of increasingly tight credit availability.<sup>14</sup>

The probable long-term structural and institutional outcomes of the crisis for Thai SMEs relate to 1) a possible denationalization of key industrial sectors, 2) a reinforcement of largely short-term competitive strategies on the part of SMEs and their corporate customers, 3) an attenuation of network forms of economic governance (a defining characteristic of 'Asian' capitalism), and 4) a reactivation of state-focused business associations. It will be argued that changes across these various areas suggest a possible regeneration of an Asian developmentalist model in the face of contrary international pressures to pursue Anglo-American market-oriented reforms.

*The Threat of Denationalisation:*

The crisis has precipitated renewed ambivalence regarding the role of foreign capital in the Thai economy, and the degree to which domestic firms require and merit special protection and support in a globalizing economy. While Thailand was already one of the most open economies in Southeast Asia, the crisis has greatly augmented the role of foreign investment in several major industrial and agro-industrial sectors. A weakened baht along with high levels of SME debt and bankruptcy<sup>15</sup> have eventuated in acquisitions of domestic firms by foreign companies, increased foreign equity holdings in joint ventures, and debt-equity swaps with both domestic and foreign banks and financial institutions. Further competitive pressures are generated by newly established local SME supplier firms linked to same-nationality (especially Japanese) corporations with which they already are associated in their home country. In this context, government legislative changes to permit 100% foreign equity in sectors previously reserved for Thais, to allow foreign land ownership, and more generally to enable foreign firms to participate more fully in the

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<sup>14</sup> National Economic and Social Development Board of Thailand, 'Impact of the economic crisis on the standard of living in Thailand.' **Indicators of Well-Being and Policy Analysis.** Volume 2, Number 4 (October 1998).

<sup>15</sup> "Optimism could lead to new plants," Bangkok Post/Business 15/12/98.

domestic economy<sup>16</sup> have triggered sharp parliamentary and public debates among non-internationalized firms and popular sector groups.

Associated with the partial denationalization of some economic sectors is an increased *extroversion of state structures and policy networks*. This extroversion refers to an growing critical political mass of domestic financial groups, externally linked businesses, transnational corporations, outwardly oriented state agencies (especially the Ministries of Finance and Commerce), locally active multilateral agencies (e.g. the World Bank, Asia Development Bank, and IMF), and representatives of international business (e.g. Chambers of Commerce), collectively active in national, sectoral, and local policy networks.<sup>17</sup>

Particularly important has been the emergence of a powerful Japanese voice in Thai economic policy circles. The Japanese Chamber of Commerce in Bangkok now represents over 1,100 companies whose representations to government agencies are reflected in and backed by official Japanese financial and advisory support (see below). As this clustered ensemble of internationally-oriented economic interests becomes ever more dominant, in part as an outcome of the reform policies which it begets, the possibilities of reversion to a more inwardly-focused development strategy become ever more problematic.<sup>18</sup>

#### *Short-Term Competitive Strategies:*

Thai industrialization since the mid-1980s, especially following the Plaza Accord under which an appreciating Japanese Yen encouraged growing Japanese investment in Southeast Asia, has drawn increasing numbers of Thai SMEs into the supplier chains of local subsidiaries of large foreign companies. In this context, SME-MNC business linkages have become an ever more important determinant of the development opportunities for local companies. Thus, the competitive strategies of those large firms, especially relating to their supplier base, have taken on special importance for local SMEs.

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<sup>16</sup> According to Bruce Darrington, a well known financial consultant in Bangkok, foreign investment topped US\$10 billion during 1998 and the first quarter of 1999 (Asiaweek, 5/14/99: 70). Virtually all major auto assemblers and most large electronics firms are foreign.

<sup>17</sup> Such extroversion refers as well, though to a far lesser degree, to the influence of representatives of foreign and international labor organizations and NGOs in those policy networks focused specifically on labor and social policy.

<sup>18</sup> Foreign chambers of commerce, for instance, have been influential in pushing for further easing of rules on foreign business entry, an improved investment climate for foreign companies, and closer links between government and foreign investors. See ‘Chambers seek further improvement in terms.’ Bangkok Post 7/6/99.

An unfortunate consequence of the crisis has been to encourage and reinforce short-term-oriented, cost-focused competitive strategies on the part of dominant companies seeking to respond to severe cost-pressure and market contraction over the past three years. The short-term nature of these strategies, especially during the crisis, is encouraged by volatility in policy environments, markets, interest rates, and currency exchange rates as well as by the costliness, risk, and immediate competitive disadvantage associated with longer-term investments in R&D, training, and work re-organization. Such competitive strategies have in turn been associated with heightened cost pressures on suppliers in lieu of longer-term efforts to upgrade suppliers through technology transfer, training, and other developmental assistance. Cost-focused outsourcing and informalization have further increased the market vulnerability of SMEs, thus undercutting their bargaining position vis a vis larger firms.

It should be noted, however, that a predominance of short-term coping strategies does not preclude concomitant efforts to preserve skills and innovative capacities within core production processes among first tier suppliers. Indeed, a primary concern of many larger firms has been to protect these ‘islands of innovation’ from the ravages of the crisis. Such concern is especially heightened by Thailand’s very weak knowledge/skill infrastructure.<sup>19</sup>

Thus, a more accurate characterization of corporate responses is one of dualism: low-road strategies pursued across most sectors and activities alongside the protection of skill and technology-intensive enclaves.<sup>20</sup> Such dualism is explained not only as a residual effect of efforts to maintain innovative capacities in core activities, but also as an effort simultaneously to retain core skilled workers and key suppliers while at the same time cutting costs in other areas in order to compensate for the increasingly burdensome cost of maintaining innovative capabilities in the context of overcapacity and crisis.

#### *The Attenuation of Network Economic Governance*

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<sup>19</sup> Kakwani and Pothong (op. Cit.) note in this regard that almost two thirds of employed persons have only an elementary education.

<sup>20</sup> See Deyo and Doner, ‘Dynamic Flexibility and Sectoral Governance in the Thai Auto Industry: the Enclave Problem,’ forthcoming in Deyo and Doner, eds., *Economic Governance and Flexible Production in East Asia*. Also see Deyo, “Competition, Flexibility, and Industrial Ascent: The Thai Auto Industry,” in Deyo, ed., **Social Reconstructions of the World Automobile Industry**, Houndsills: Macmillan Press, 1996.

A further blow to local SMEs relates to the impact of the crisis on economic governance. If, as already noted, close, ‘developmental’ relations between large firms and their suppliers have emerged largely among upper tier suppliers, those relations have themselves become ever more exclusionary and restrictive by virtue of an attenuation of the network-like inter-firm relations which are often seen as characterizing Asian capitalism. As uncertainty and financial difficulties have beset supplier SMEs, larger firms have grown less and less willing to extend new lines of credit, to offer long-term training and technology assistance, and in general to nurture local (especially domestic) suppliers. More often, supplier linkages beyond core business and production processes have increasingly been governed by short-term market-like relations, associated in turn with exploitative, cost-focused, rather than developmental linkages.

In addition, insofar as network relations have defined a mode of access to finance from both banks and informal sector lenders, the crisis has further undercut networks by reducing the scope of relationship-based loans<sup>21</sup> while increasing lender requirements for full financial disclosure. In part, such new requirements stem from increased risk avoidance on the part of lenders, and in part from pressure from international banks and investors, and from the World Bank and IMF, for greater transparency in corporate accounts and decision-making.<sup>22</sup> In addition, a newly launched SME Board in the Stock Exchange of Thailand (SET), established to provide a new source of capital for small enterprises, imposes strict reporting requirements on member companies. Whatever the merits of such reforms from the standpoint of financial stabilization, one of their effects is to compromise the flows of privileged information that define network relations.

Finally, increased need to establish close relationships with foreign (especially Western) firms either as buyers or as joint-venture partners introduces cultural and relational barriers to a continuance and extension of trust-based network relations, and a corresponding shift toward more contractual, market-governed interfirrm relations.

#### *Reactivation and Politicization of Business Associations:*

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<sup>21</sup> A recent World Bank survey of 3,700 companies in five crisis-hit countries found that fewer than half needed to produce audited financial statements in applying for loans. Source: *Asiaweek* (May 14, 1999: 26).

<sup>22</sup> The World Bank has insisted on an upgrading of company accounts audits to international standards as a condition for financial assistance. See “Tighter reins on executives,” *Bangkok Post/Business*, 5/6/99.

Lacking the individual policy leverage of larger firms, SMEs have turned in part to reactivated business associations through which to seek government assistance in coping with the crisis. Auto parts suppliers, for example, have utilized their Federation of Thai Industries (FTI) representation along with non-FTI parts associations to push for debt restructuring, reduced interest rates, continued tariff protection, and various other forms of government assistance. And indeed, FTI lobbying likely played an important role in the recent moratorium on principal repayments to banks on the part of indebted firms<sup>23</sup> and of increased tariff protection for auto parts makers (see below). In addition, domestic SMEs have used their sectoral associations to push an agenda of economic nationalism in recurrent parliamentary debates relating to restrictions on foreign investment and to changes in bankruptcy laws which are widely expected to favor foreign creditors over local lenders and shareholders.<sup>24</sup> Noteworthy in this regard is the recent organization of the Club for the Protection of Bank Debtors' Rights, an association largely of SME debtor firms seeking collectively to press large banks for leniency in loan negotiations with member companies.<sup>25</sup>

### **Crisis-Management: SME Industry Policy**

SMEs have enjoyed substantial government assistance in coping with the crisis, including baht 55bn in program funding during 1999 alone.<sup>26</sup> While proposed changes to bankruptcy and foreclosure laws have been passed despite domestic SME opposition, a new SME board has been established in the Stock Exchange of Thailand to raise fresh capital for local firms.<sup>27</sup> Significantly, the government will empower the FTI to nominate companies for SET board listing.<sup>28</sup> A two-year grace period on principal repayment of bank loans has been enacted. The Board of Investments has revived a previously low-key

<sup>23</sup> "FTI chairman suggests debt grace period for SMEs," The Nation (Bangkok), 5/12/98.

<sup>24</sup> In fact, many of the most vocal 'nationalists' among recalcitrant members of the Senate are themselves creditors and stockholders of indebted companies.

<sup>25</sup> 'Debtors form alliance.' Bangkok Post 7/11/99.

<sup>26</sup> "B35bn SMEs plan presented." Bangkok Post/Business 12/21/98. "B35bn assistance fund approved for sector." Bangkok Post/Business, 12/23/98. Total 1999 government assistance commitments stand at approximately B55bn as reported in "Lifeline set up for small local enterprises," Bangkok Post/Business 2/2/99. The Bank of Thailand is to play a major role here through an augmented SME loan program.

<sup>27</sup> Most Thai SMEs obtain investment capital through accumulated savings and informal lending arrangements. See "Reforms needed to assist small firms: study," Bangkok Post 7/27/98. Also see "Listing conditions eased to help small companies," Bangkok Post/business, 12/10/98. Also "New SET board planned for small firms." Bangkok Post/Business 8/7/98.

<sup>28</sup> "SET to open capital link for ailing SMEs." The Nation, 2/2/99. Also see the Bangkok Post, 8/7/98: business section.

support program (BUILD) to encourage local supplier linkages to large firms.<sup>29</sup> Provincial industrial promotion offices are to be expanded, and a new Institute for SME Development, located at Thammasat University in Rangsit, has been established to assist in SME quality upgrading. This institute is one of 10 such bodies established to implement a new Industrial Restructuring Plan which establishes developmental goals and implementing programmes, especially focused on SMEs, in several targeted industries. And to compensate for the anticipated competitive pressures flowing from WTO-mandated elimination of domestic content requirements in the auto industry, tariff protection against imported CKD auto parts will be *increased* in year 2000 from the current 21% to 33%.<sup>30</sup>

Second, a significant portion of Thailand's share of the Japanese Miyazawa regional recovery fund, announced March 30, 1999, will be directed to domestic SMEs through an expanded Small Industries Finance Corporation (SIFC), to be further funded through SIFC bond purchases by the welfare and pension funds of several government Ministries,<sup>31</sup> as well as by increased Bank of Thailand SME loans. The SIFC, established in 1991, was in fact inspired by and modelled after its Japanese counterpart, but was never adequately funded to play its intended role.<sup>32</sup> SIFC loans in 1999 are expected to total baht 3 billion, a significant increase over the baht 3.6 billion lent during the previous seven years in operation.<sup>33</sup> This and other SME programs, such as a newly proposed venture capital fund to be established by the Ministries of Finance and Industry,<sup>34</sup> will be coordinated by an SME Supervisory Committee chaired by the Prime Minister.<sup>35</sup>

Third, the World Bank has agreed to cooperate with the FTI in establishing a corporate restructuring center aimed at strengthening the competitiveness of SMEs. And in part under World Bank urging, SME development assistance has been extended to include rural as well as urban business, in part through fuller access by rural businesses to loans from

<sup>29</sup> "Thai firms keen to build ties with Japanese," Bangkok Post/Business, 11/5/98: 11:28.

<sup>30</sup> U.S. automobile manufacturers, as more recent investors in Thailand, have pushed for continued downward revision in CBU tariffs. The 1998 decision to raise these tariffs, as well as the more recent increase in CKD tariffs, will likely benefit longer established Japanese companies with well developed local supplier chains and less need to rely on CKD imports. See "US executives urge government to cut import tariffs," Bangkok Post/Business 3/5/99.

<sup>31</sup> "Small industries will benefit from loan worth B5 billion." Bangkok Post/Business 5/26/98. Also see "Refinancing will help cut SIFC rates," Bangkok Post/Business, 5/8/99.

<sup>32</sup> 'Agency wants to beef up help for small business,' Bangkok Post/Business 11/24/98.

<sup>33</sup> 'SIFC plans loans of 3 billion baht for industry.' Bangkok Post 7/17/99.

<sup>34</sup> 'B3bn fund planned to help small, medium businesses.' Bangkok Post 7/25/99.

the Bank of Agriculture and Cooperatives, to date a major source primarily of farm credit.<sup>36</sup> And despite World Bank urging to maintain relatively high market-based interest rates reflective of the high risk of such loans,<sup>37</sup> both rural and urban SME loans will be offered at low concessionary rates.<sup>38</sup>

### **SMEs: Agents or Instruments of National Recovery Policy?**

Are these dramatic new SME policy initiatives a political outcome of pressure from domestic firms through reinvigorated political institutions and through local policy networks?<sup>39</sup> Or are they outcomes of the strategies of large corporations and government agencies within which their role is largely instrumental for the attainment of broader national and transnational goals? Available evidence suggests a combination of the two but with somewhat greater weight on the latter.

On the one hand it is clear that SME associational pressure, especially through the FDI, has been important in articulating and presenting SME interests and demands. These SME representations were clearly important at the initial stages of consideration of such measures as the BUILD supplier-customer linkage programme, continuance of tariff protection for local suppliers, and other upgrading efforts. But while SME pressure may have contributed to the *definition* of sectoral support programs, the policy centrality and *scale* of those programs, as well as their receptivity at high levels of government, are more easily understood from the standpoint of the interests of corporate and government elites.

The SME recovery program has been publicly defended as a critical component of a foreign investment-based, export-led recovery strategy. The lion's share of assistance, including loans, tax incentives, and ISO quality certification support have clearly been directed to export-related activities,<sup>40</sup> including most prominently the promotion of closer

<sup>35</sup> Bangkok Post, 5/26/98:14.

<sup>36</sup> At present, only 8% of BAAC loans go to non-farm businesses. See "Reforms needed to assist small firms: study," Bangkok Post, 7/27/98:business section.

<sup>37</sup> "Long-ignored SMEs suddenly find they are in the political spotlight," Bangkok Post/Business 11/12/98.

<sup>38</sup> "Refinancing will help cut SIFC rates," Bangkok Post/Business, 5/8/99.

<sup>39</sup> A possibility heightened by inter-party competition to capture political support from the SME sector (see "Long-ignored SMEs suddenly find they are in the political spotlight," Bangkok Post/Business, 12/11/98.)

<sup>40</sup> Thus, for example, substantial assistance is to be offered for firms to establish ISO certification, a requirement for exporting to Europe. Also, new tax exemptions for imported raw materials will apply only to export production. See "Tax waivers for more industries," Bangkok Post/Business, 5/13/99. Also see 'SME master plan due in October,' Bangkok Post 8/24/99.

linkage of local suppliers with large, predominantly foreign, export-oriented firms. Further, SME revival is seen by major foreign companies generally, and by locally established Japanese corporate affiliates more specifically, as crucial for the post-crisis period.<sup>41</sup> Indeed, foreign firms have pushed strongly for local SME assistance programs, even where such assistance has increased their own costs through continued or increased tariff protection. This paradox follows from the desire by large export firms to establish flexible, just-in-time supplier networks in order to increase responsiveness to market volatility and to ever shorter product cycles. It is important in this regard to recognize the major investments of these firms in the construction and development of local supplier chains in Thailand and their corresponding concern about the collapse of so many of these associated small local companies. Toyota, for instance, maintains supplier relations with over 100 upper-tier (and 2000 total) local suppliers.<sup>42</sup> Similar dependence by large electronics firms on local suppliers has led to a targeting of ceramics and glass suppliers for special assistance along with efforts to increase local content in this industry from the current 10-20%.<sup>43</sup> It should be noted as well that a large and growing number of the assisted local suppliers are themselves foreign, a flow-on effect of the predominance of relatively small operations among recent direct investments from Japan and elsewhere. It is thus understandable that Japan has played a significant role in recent SME development programs. Illustrative of this role is the baht 220 million contribution on the part of the Japan International Cooperation Agency (JICA) toward the establishment of a Tool and Mould Development Centre mandated to assist domestic SME plastics suppliers to electronic, electrical, and automobile companies.<sup>44</sup> Similarly, Japan has assisted in the Thai economic recovery through the Japan External Trade Organization (JETRO) mission to explore business links to Thai SMEs, thus complementing the Thai BUILD linkage program. Finally, it has been noted that a

<sup>41</sup> The chairman of Asian Honda Motor Co has noted that large car manufacturers outsource roughly 80% in parts and components from SME suppliers. “Ex-MITI expert helps boost status of SMEs.” The Nation/Business, 3/15/99.

<sup>42</sup> It may be noted in passing that the new CKD auto tariff increase will likely favor and shelter established Japanese auto assemblers, with their existing deep local supplier chains, vis a vis newer foreign assemblers (e.g. General Motors) which will initially have to depend more heavily on imported parts.

<sup>43</sup> “Industry Ministry drafting plan for electrical, electronics sector.” The Nation, 25/5/99. Thai Toshiba Electric Industrial Co, noting the loss of firms and employment in the electrical parts industry, has noted that the major risk in this industry relates less to big firms than to the parts suppliers. “Low interest rates alone cannot avert lay-offs.” The Nation/Business, 2/25/99.

substantial portion of Thailand's share of the Japanese Miyazawa regional recovery fund, managed by the Japanese Bank for International Cooperation, is committed to assisting local supplier companies serving major Japanese industrial subsidiaries in Thailand.

It is in this larger context that one quickly understands the privileged position of Thai SMEs in crisis management programs as flowing less from SME associational and political pressure than from the critical instrumentality of this sector for the agendas of dominant groups, corporate and governmental, domestic and foreign, which are more centrally placed in national policy networks. Even the role of the FTI in pushing the cause of SME protection and debt restructuring, must in the end be seen at least in part as reflecting the interests of large, internationalized companies.<sup>45</sup>

It is noteworthy that SMEs were very influential in pushing through substantial Japanese government assistance and protection during the economic and political crisis there during the mid-1970s and despite opposition, in that instance, from large companies in retail and other sectors.<sup>46</sup> The somewhat weaker influence of Thai SMEs than their Japanese counterparts under arguably similar circumstances may in part be explained by the crucial position of Japanese SMEs in the 1970s as a swing-vote essential to continued LPD rule,<sup>47</sup> as well as by the relative weakness of Thai domestic capital vis-a-vis foreign companies on the one hand, and within Thailand's internationally 'extroverted' industrial policy networks (see above) on the other. Too, it may follow from the declining institutional position of functional ministries relative to that of Finance under the reforms of the 1990s.<sup>48</sup> In this instance, small businesses and their associations, traditionally most strongly networked with officials in units of the Ministry of Industry, have experienced a gradual loss of policy leverage.<sup>49</sup>

### **Discussion: A Return to Asian Developmentalism?**

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<sup>44</sup> 'Fund established to boost local plastics industry.' Bangkok Post 7/6/99.

<sup>45</sup> The FTI includes and represents the interests of both foreign and domestic firms.

<sup>46</sup> See Kent Calder, **Crisis and Compensation: Public Policy and Political Stability in Japan**. Princeton: Princeton University Press, 1988, chapter 7.

<sup>47</sup> Ibid.

<sup>48</sup> A consequence in part of the channelling of vast international recovery funds through financial institutions such as the Bank of Thailand, the Bank of Agriculture and Cooperatives, the International Development Finance Corporations, a new Small Industries Finance Corporation. But note that more recent SME assistance programs have centered prominently on key Ministry of Industry units.

There has been much discussion and debate relating to the long-term institutional outcomes of the Asian crisis, particularly between those who foresee a continuance of ongoing structural reforms and market liberalization, and others who anticipate an adaptation (rather than displacement) of ‘Asian’ economic governance.<sup>50</sup> These arguments are paralleled by other debates regarding the institutional sources of East Asia’s (currently aborted) economic ‘miracle’,<sup>51</sup> the developmental efficacy of market-based (vs. hierarchical or network/relational) governance for economic development,<sup>52</sup> and the relative merits of ‘global’ vs. regional models<sup>53</sup> of world economic change.

The pressures toward Western market-governance are clear: IMF/World Bank/foreign investor insistence on monetary stabilization, corporate transparency, economic deregulation, elimination of economic rent-seeking in corporate-government relations, privatization of state enterprise, alignment of interest rates to economic realities (e.g. relating to SME and rural loan regimes), deregulation of international capital flows, a move away from relational lending, and new pressures toward short-term expediency in the private sector.

But as important, the crisis has spawned a number of counter-pressure which urge new forms of state developmentalism clearly outside the rigid prescriptive boundaries of state action under programs of structural adjustment and market reform. These include increasing appeals to economic nationalism among oppositional political parties and popular sector groups,<sup>54</sup> growing anti-Westernism in the wake of the crisis, and a possible

<sup>49</sup> An example of the negative consequence of this shift is the conservative stance of the Finance Ministry’s representative on the SIFC relating to SME loan policy. “Quality House expects debt plan approval soon.” *The Nation/Business*, 3/12/99.

<sup>50</sup> In the current Thai context, ‘Asian’ governance refers largely to a Japanese configuration of politically-insulated, state-organized policy networks, state industry-targetting and assistance, business associations, vertically organized supplier chains, debt-based financial systems, and relational/network-based private-sector governance.

<sup>51</sup> World Bank, **The East Asian Miracle**, Oxford, Oxford University Press, 1993. Also Wade and Veneroso, “The Asian crisis: the high debt model versus the Wall Street-Treasury-IMF Complex,” in **New Left Review**, 228: 3-23. Robert Wade, “From ‘miracle’ to ‘cronyism’: explaining the Great Asian Slump.” **Cambridge Journal of Economics**, 22, 1998: 693-706.

<sup>52</sup> Deyo, Doner and Hershberg, eds., **Economic Governance and Flexible Production in East Asia**. (Forthcoming).

<sup>53</sup> See Hirst and Thompson, “The problem of ‘globalization’: international economic relations, national economic management and the formation of trading blocs.” **Economy and Society** Vol.21, Number 4 (November 1992: 357-396). For a Neo-Marxist view, see Dic Lo, “The East Asian Phenomenon: The Consensus, the Dissent, and the Significance of the Present Crisis.” **Capital and Class**, #67, 1999: 1-23.

<sup>54</sup> See, for example, “Good Boy govt despicable,” Bangkok Post/Perspective, 5/9/99.

reinforcement of Thailand's debt-based financial system under various financial assistance programs.<sup>55</sup>

They include as well increasingly close government-business policy collaboration. Responding to a new activation and increased participation of SMEs and larger firms in business associations, the government has enhanced and redefined policy networks. During the 1980's, business-government relations were institutionalized through establishment of a Joint Public-Private Consultation Committee, within which three peak business associations, the Federation of Thai Industries (FTI), The Thai Board of Trade, and the Thai Banking Association, consulted with government officials regarding economic policy. The FTI, through its affiliate clubs and sectoral organizations, thus offered a venue for information and presentation of views on the part of SMEs. More recent government policy has shifted the locus of joint consultation from bodies like the FTI, wherein industry associations are afforded a modicum of institutional independence in representing member interests, to more controlled bodies, such as the Automobile Institute wherein auto sector firms participate in a deliberative forum under Ministry of Industry leadership and sponsorship.<sup>56</sup> Whether this somewhat more corporatist mode of interest representation is to be generalized across many sectors is not yet clear.

Further evidence of growing policy developmentalism is seen in new government determination to protect and support domestic enterprise, renewed efforts to encourage closer relations between suppliers and local firms, explicit industrial targeting, commitment to a 'developmental' (vs. market-based) interest-rate regime in business loan programs,<sup>57</sup> increased acceptance of the need for heightened regulation of cross-border currency flows,<sup>58</sup> and an emergence of more coherent, developmentally-focused economic policies relating especially to SMEs.<sup>59</sup>

<sup>55</sup> Cross national comparative research suggests a relationship between credit-based financial systems (vs. capital market-based systems) on the one hand, and network forms of economic governance on the other. See Zysman, John, **Governments, Markets, and Growth: Financial Systems and the Politics of Industrial Change**. Ithaca: Cornell, 1983. Pp. 64-65 and passim.

<sup>56</sup> Based on interview data provided by Manusavee Monsakul.

<sup>57</sup> A recent decision to reduce SIFC lending rates to 12% reverses a long-standing policy of lending at rates above those of commercial banks. "Agency's Bt3 bn loans back export push of SMEs. The Nation, 5/1/99.

<sup>58</sup> 'Pressures for controls on capital flows,' Bangkok Post 5/18/99.

<sup>59</sup> As evidenced by the establishment of an SME development Plan overseen by an SME committee chaired by the Prime Minister. Indicative of this new Japan-centered Asian regional focus is the

As significant, and indeed underlying many of these counter-pressure, is a growing Japanese influence in Thailand and elsewhere in the region. This influence, evidenced most clearly in an explicit modeling of Japanese business-government relations in policies of crisis management,<sup>60</sup> as well as in direct involvement by Japanese government officials in national development planning, is based on major financial assistance programs and on increased direct investment by Japanese companies in Thailand.<sup>61</sup> As noted by a former vice-minister of Japan's Ministry of International Trade and Industry, Japan seeks to establish the yen as a regional currency, and "encompasses a plan to make Japan's yen loans within the region 'tied' loans through which procurement of materials will be conducted in yen with Japanese companies."<sup>62</sup> Japan's Ambassador to Thailand, Hiroshi Ota, has more recently further stressed the importance of Thailand as a production and export base for Japanese companies, noting that Japan is now the largest source of foreign investment in Thailand.<sup>63</sup>

It must be emphasized that the various elements of emergent developmentalism suggested here have been identified by reference to proposals, new programs, and official policy pronouncements gleaned mainly from newspaper accounts. Whether the new paths these pronouncements define will in fact be followed, especially as the crisis and its political pressures abate, is entirely uncertain at the time of this writing. Indeed, there are recurrent complaints that SME and other assistance funds are not yet reaching their intended client firms.<sup>64</sup> What is clear, however, is that programs, policies, political commitments and expectations, and indeed the more general Thai development 'discourse' has been at least modestly nudged from its earlier reform trajectory.

## **Conclusion**

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planned July 1999 meeting of Asian and Japanese leaders in Tokyo to discuss the social impact of the crisis and to produce a joint set of recommendations to propose to APEC forum leaders in New Zealand in September 1999. See "Forum set to assess lessons from crisis," Bangkok Post/business, 5/11/99.

<sup>60</sup> "Agency wants to beef up help for small business," Bangkok Post/Business 11/24/98:9. On the role of the Japan External Trade Organization (Jetro) in Thai SMN policy, see "Help SMEs, Jetro chief urges gov't," The Nation/Business, 3/30/99. Note that a former director-general of Japan's MITI, Shiro Mizutani, has been invited to assist in the development of Thailand's SME development program. "Ex-MITI expert helps boost status of SMEs." The Nation/Business, 3/15/99.

<sup>61</sup> One consequence of growing Japanese control of auto and other key industrial sectors is the likely requirement that local suppliers will need to adopt Japanese practice. See also Asiaweek 1/28/00.

<sup>62</sup> 'Region's fundamentals better than in other developing areas.' Bangkok Post 6/10/99. Also see 'PTT to seek other funding.' Bangkok Post 6/11/99.

<sup>63</sup> 'From blight to blossom: interview with Ambassador Hiroshi Ota..' Bangkok Post 7/4/99.

<sup>64</sup> 'Withdrawals of budget below target,' Bangkok Post 6/10/99. Also 'Securities market gets little interest.' Bangkok Post 6/17/99.

The evolving story of crisis-management in Thailand suggests an initial period of acceleration of market reforms partly in response to pressures from the IMF, the World Bank, and international investors. Following this first-phase response (lasting perhaps until early 1998), domestic business pressures, parliamentary opposition, and a growing Japanese involvement in regional recovery efforts have encouraged a partial and externally tempered shift toward a somewhat chastened and extroverted model of ‘Asian’ developmentalism. It may also be noted that Thailand and other crisis-affected Asian economies are now poised for a gradual ‘real-’ sector recovery, thus suggesting some relaxation in pressures to adopt Western-style economic reforms. Indeed, a recent World Bank report bemoans the possibility that the incipient recovery may dampen prospects for continued reforms, thus jeopardizing longer-term growth.<sup>65</sup>

While it is yet unclear how these various competing pressures will influence Thai economic policy regimes in the post-crisis period, it may be suggested at a minimum that those regimes will likely depart to some degree from models urged by the World Bank and IMF. It may further be argued that Thailand’s traditional inwardly-focused ‘bureaucratic polity,’ never historically describable as a developmental state, may provide a foundation for the construction of a hybrid form of economic governance combining Western and Asian developmentalist elements.<sup>66</sup> What is already apparent at the time of this writing is the emergence of a developmental regime which seeks through industrial policy to achieve what might best be termed ‘open development,’ the state-sponsored positioning of domestic firms in mid-value niches of international commodity and corporate chains organized by Japanese and other transnational firms.

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<sup>65</sup> The World Bank, *Thailand: Economic Monitor*. March, 1999; p. 19.

<sup>66</sup> For discussion of this possibility, see Linda Lim, “The Challenges for Government Policy and Business Practice,” in **The Asian Economic Crisis**, New York: The Asia Society, 5/10/99.