STATE STRUCTURE AND ECONOMIC DEVELOPMENT: THE POLITICAL ECONOMY OF THAILAND AND THE PHILIPPINES

by

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Abstract

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This dissertation investigates the factors that account for different economic performance among late developing countries that are vulnerable to external shocks, crony capitalism, and political instability. The dissertation undertakes an historical, comparative analysis of industrializing Thailand and relatively low-performing Philippines, and argues that differences in economic performance are due to variations in the institutional configuration of state power, defined along two dimensions: the embeddedness of governing elites in state institutions, and the relationship between the political leadership and economic technocracy in the development policy process.

The dissertation adopts the concept of bureaucratic polity, used in Thailand studies, to refer to the series of coalitions between military rulers and senior technocrats that controlled state power for most of that country's modern history. Thai political rulers and technocrat economic managers were deeply embedded, respectively, in the military and civilian bureaucracies; economic technocrats had relative autonomy from the political rulers. For the Philippines, this study introduces the concept of proprietary

polity, a form of elite rule in which personalistic politicians gain power because of their personal wealth, connections, and political skills. Philippine political leaders belonged to weak political parties and recruited technocrats from the private sector. Hence, the development bureaucracy was strongly subordinate to political leaders.

These distinct institutional settings produced different economic growth patterns. Thailand's more stable bureaucratic polity proved conducive to long-term capital accumulation, necessary for the rise of a robust industrial sector. Because political contestation proved much more disruptive under the Philippines's proprietary polity, investment flowed more into the commercial sectors, where economic activities promised fast turnovers. Four causal mechanisms link the institutional setting to economic outcomes: (1) political contestation, 2) presence of policy continuity, 3) choice of policy design and tools, and, 4) the consolidation of different policy constituencies.

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CHAPTER 1

Introduction

The Board of Investment (BOI) in Thailand sits at the outskirts of Bangkok in a towering and pristine new building well-suited to its reputation as the powerful impresario of the country's industrial development. I had asked for an interview with the agency's head a week before, and had been quickly given an appointment by an efficient staff member. On the morning of the meeting, I was ushered into a modern, brightly lit conference room, obviously designed to receive CEOs and industry leaders. The secretary general came in promptly and, assisted by a senior staff member, spent an hour answering my questions.[1] He stressed Thailand's specific advantages as an investment site vis-à-vis its neighbors, discussing up-and-coming Vietnam with particular attention. He also took time to defend the BOI against critics in Thai policymaking circles who were at the time beginning to argue that the agency had outlived its usefulness. I left the interview with two glossy brochures and a CD promoting Thailand as a site for foreign investors and business activity. It was an altogether impressive showing: a demonstration of modernity and efficiency designed to dazzle…and it did.

My first encounter with the Philippine Board of Investment (BOI) came at a public consultation it sponsored to discuss the 2007 draft of its Annual Investment Priority Plan (IPP), listing specific industries that would be entitled to BOI incentives.

[1] Interview with Satit Chanjavanakul on November 7, 2006.

The meeting occurred in a poorly-lit conference room at the cramped BOI building in Makati, Manila's premier commercial district. The BOI building lies a short distance from its head agency, the Department of Trade and Industry (DTI) and is led by a department undersecretary. For the meeting, however, a panel consisting of only BOI bureau directors and division chiefs met an audience that included a leading Filipino-Chinese industrialist, the senior manager of a multinational steel corporation, some Department of Finance representatives, and a Federation of Philippine Industries officer—all seated on monoblock plastic chairs, flexing under the weight of so much economic potential.

The panel opened by explaining what industries were not included in the draft, and why: these were the "mandated inclusions" or economic activities that Congress had for years legislated as entitled to fiscal and non-fiscal investment incentives. Also not included were the economic activities that the departments (equivalent to ministries in Thailand) needed still to identify and submit to the BOI. The chair of the panel explained that since the BOI was constantly criticized for giving out incentives, the DTI Secretary decided to have cabinet members share the responsibility of explaining to the President and to the public why certain economic activities should be supported. Under the new procedure, the BOI would consolidate the lists the departments would submit through their cabinet secretaries.

This meeting, and subsequent visits to the Philippine BOI, revealed stark and significant contrasts with the powerful and modern Thai BOI (in comparison to which, the Philippine office seemed a poor cousin). As the public consultation suggested, the BOI in the Philippines merely administers the investment incentives program; Thai BOI officials actually make policy. While the Thai office had its critics, it responded by defending its mission and asserting its bureaucratic prerogatives; in the Philippines, officials sought instead to spread risk and potential blame, but also to diffuse power among different executive agencies. Moreover, in the Philippines, incentives were allocated *around* a wide variety of standing decisions, taken by Congress, to distribute support to a range of interests.[2] Nothing of the sort intruded on the power of the Thai BOI, which remains as the country's most important allocator of investment incentives. Hence, despite sharing the same name and some administrative functions, the two BOIs occupied a different place in their countries' development bureaucracies. This dissertation will argue that such distinct institutional arrangements derive from variations in the two countries' patterns of economic development policy making and different political dynamics.

My research seeks to explain differences in economic performances of Thailand and the Philippines, treating the two countries as divergent cases of late-late industrial development among Southeast Asia's market economies. Analyses of Southeast Asian economic development generally point to market liberalization and international free trade as engines of growth (Pritchard 2006, Thomsen 1999). Thailand and Malaysia

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[2] Mandatory inclusions to the investment priority plan cover the following laws: Presidential Decree No. 705 or the Industrial Tree Plantation Act; Republic Act No. 7103 on the iron and steel industry; RA 7942 on mining; RA 8047 on book publication or printing; RA 8479 on the petroleum industry; RA 9003 on waste management; RA 9275 or the Clean Water Act; R.A 7277 on rehabilitation of disabled persons; and, RAs 6957 and 7718 on the build, operate and transfer arrangements.

From 1972 to 1998, there had been at least 44 laws passed on tax incentives. Besides the industries and concerns cited above, Congress has also granted fiscal incentives to specific business enterprises and constituent services such as tax benefits for a local hospital or school (Llorito 2002).

registered growth rates of 8% and higher after their governments' retreat from the economy in the 1980s gave the private sector a greater role in industrial development. Indonesia's further liberalization since the collapse of the Suharto regime in May 1998 has also made it a key destination for foreign investors. These trends seem to uphold arguments attributing the region's growth economies to open markets (Bowie and Unger 1997). Conversely, analysts have typically explained poor economic performances—as in the case of the Philippines under the Marcos regime, and Thailand during the 1997 Asian financial crisis—in terms of graft and corruption (Campos 2001). Analyses of both economic success and failure in the region, therefore, demonstrate strong faith in free-market liberalism.

Yet there have always been problems with neoliberal explanations of Southeast Asian development mainly because public authority and private power in the countries have always been closely linked. My work seeks to explain the different economic trajectories in the region by focusing on patterns of state activity in the economy. In fact, the policymakers and governments in Southeast Asia's market economies have played decisive roles in building domestic capitalism. Ruth McVey (1992), for instance, argues that because colonial administrations attempted to co-opt indigenous political elites by recruiting them into the state bureaucracy while reserving the economy largely for colonial exploitation, Southeast Asian capitalists first rose from the ranks of the bureaucracy.

Since the start of the 20th century, emergent national political elites in the region also undertook development programs that were designed, on the one hand, to modernize an economy inherited from the colonial period and, on the other hand, to shore up their political standing as claimants to the post-colonial state. Thailand holds the distinction of never having been directly under colonial rule, yet the emergent bureaucratic elites that seized control of the state from the monarchy in 1932 were similarly propelled by the two-pronged objective of modernizing the economy and consolidating their rule. In this light, development strategies that called for state corporations, import substitution, or export promotion cannot be separated from political objectives.

From the standpoint of broad policy design, governing elites implemented generally similar development strategies. Nevertheless, facing different political conditions due to historical and colonial legacies, and drawing on different institutional resources, those efforts produced divergent economic results.

This dissertation explains the divergence in economic performance of late developing countries as a function of their different political economies. I argue that in late-late developing countries the institutional configuration of state power exercises a decisive influence on economic performance. I define the institutional configuration of state power along two dimensions. It is, first, the embeddedness of the political leadership and economic state managers in state institutions, and second, the pattern of interaction and contestation among these governing elites, particularly as expressed in the development policy process. In concentrating on this political and institutional story, this study situates state activity at the center of the countries' economic development.

To test this argument, I conduct an historical comparative analysis of Thailand and the Philippines. Among Southeast Asian countries, Thailand and the Philippines invite comparison for a variety of reasons. Although Thailand was never colonized, the early development of its market economy was largely influenced by the demands of the British Empire and other western countries. The Philippines, on the other hand, served as the extension of the US market in the Pacific. Since their full integration into the global economy in mid-19th century, the two countries have relied heavily on international trade to raise revenues for state-building and economic development. Both also received US economic and military aid during the Cold War. Thailand and the Philippines began the 1960s on almost equal economic footing, and from there, embarked on an industrial development strategy of investment promotions led by the BOI with sharply different results. Up until the mid-1990s, Thailand's sustained growth marked it as a leader among the region's emergent second-generation newly-industrializing countries while the Philippines has consistently occupied the last place among the region's market economies. In fact, Thailand began to distinguish itself as an industrializing country in the mid-1980s at about the same time that the Philippine economy, an aspiring industrial leader in the region in the 1950s, began seriously to falter. Given their similar starting points and shared development strategies, what accounts for discrepancies in their performance? The effort to explain this divergence will occupy the pages that follow.

The comparison between Thailand and the Philippines also allows me to control for some potential alternative explanations for their contrasting economic performances. Thailand and the Philippines both have had troubled polities: in both countries, transfer of power generally is accompanied by polarization of contending factions within the ruling circles. In Thailand, the traditional mode of resolving elite political conflicts had been through coups d'etat; in the Philippines, electoral contests were traditionally accompanied by violence and massive fraud. Thai and Philippine religious conflict also falls along similar lines, pitting a militant flank of a Muslim minority against a dominant religio-national group. Finally, indigenized Chinese capitalists dominate both economies, posing similar questions about the economic role that ethnicity played. Thailand and the Philippines, therefore, provide opportunities for a paired comparative analysis since they allow me to control for these social and cultural factors.

Despite these areas of similarity, the countries do diverge in the way institutions of state power were configured, and this difference provides the opportunity to trace out the processes by which those configurations influence economic outcomes. More broadly, an analysis of Thai and Philippine experiences can help clarify the development dilemmas of many Third World countries—where development efforts are similarly weighed down by colonial or historical legacies of unstable political regimes, dependent capitalism, and social conflict.

Review of the Literature

Established theories of economic development tend to explain growth in terms of two very different models: the free market model stresses the role of self-regulating markets while the statist model points to the necessity of a strong, centralizing state. Both arguments postulate a separate space for state and market forces: in the economic model, the state retreats from the economy, and the market ensures the efficient allocation of resources (World Bank 2002, Friedman 1999); in the political model, the state, relatively insulated from social forces, steers the economy by mobilizing and allocating resources to strategic sectors (Katzenstein 1985, Evans 1995).

That said, the dichotomy between these two schools of thought began to blur as the question of late development drew more and more on multi-disciplinary studies (Bates and Krueger 1993). An area where the two approaches seem most to converge is around the study of institutions, particularly the linkages and patterns of interaction between state and society actors (Portes 2006). In addition, some points of consensus have developed around the roles the state can play in the domestic economy as late developing countries face new opportunities and different risks given the changing rules of globalization. Below, I first examine the sharply differentiated versions of the statist and market-centered arguments before considering how newer institutionalist approaches have been used to guide the study of late-late developing Southeast Asian cases.

Market-Driven Growth

Since the mid-1980s, the robust economic performance of Malaysia, Thailand, Indonesia, and even the Philippines—generally referred to in the literature as the ASEAN-4 countries[3]—has highlighted the role played by open economies. The ASEAN-4's dramatic growth, occurring as it did during the democratization wave of the 1980s and 1990s, supported the argument linking economic performance and a liberalizing state (Huntington 1992, Diamond 1999). Multilateral agencies like the World Bank stress that Southeast Asia's market economies grew as domestic regimes were retreating in both political and economic ways. Some claimed that the governments came to see their

[3] Malaysia, Thailand, Indonesia, and the Philippines are founding members of the Association of Southeast Asian Nations.

economic role as primarily ensuring macroeconomic stability (Haggard 1989, Fukuyama 1999), and also noted the resulting surge in foreign investments (Pritchard 2006). Statistical correlations between foreign capital inflow and the dramatic expansion of export manufacturing in the ASEAN-4 countries reinforce a market-led explanation of growth.[4]

Basically, these analyses draw on neoclassical economic theory, which stresses the importance of self-regulating markets as the way to grow the economy. Left unfettered, the market, operating simply according to the law of supply and demand, determines the most efficient allocation of resources. Factors of production, notably capital and labor, flow to areas with higher productivity and (thus) the promise of increasing returns; commodities are produced and exchanged using the price mechanism. As Jeffry Frieden and Ronald Rogowski (1996) argue, prices are "the basic signal by which economic information is transmitted, and therefore the proximate (if not underlying) determinant of wages, rents, and other profits" (p. 29). In this world, market competition is the causal mechanism that propels efficiency and innovation. As such, neoclassical economists see the market as the lever for economic growth.

The problem with free market arguments, however, lies in their ahistorical and clinical view. Factor accumulation and the efficient allocation of resources do lead to growth, but whether these conditions derive from a free-wheeling market or from well-

[4] For instance, Thomsen (1999) notes how the growth of ASEAN-4 countries' exports from 30.5% in 1989 to 39.7% in 1992 roughly corresponded with the rapid growth of foreign direct investments (pp. 25-26). Citing how foreign direct investments had generated jobs, promoted technology transfer, and raised government revenues, he argues for governments to lift restrictive conditions such as local content requirements on foreign investments.

timed government intervention is another question. In the histories of northern countries, a centralizing state proved critical to industrialization (Chang 2002). Alexander Gerschenkron (1962) pointed out in his study of 19th-century Russia that the state had to provide resources for industrialization because European investment bankers did not find the country's "backward" economy appealing. The same situation prevails in late developing countries as argued by Marcus Kurtz (2001) in his study of Chile's high-performing economy. Studying the export performances of three industries (forestry, fishery and fruit-growing) in which Chile had a comparative advantage, he found that only forestry and fishery, which received government assistance, expanded dramatically; the fruit-growing industry, left mostly on its own, did not attract as much investment and thus experienced middling growth. For his part, Dani Rodrik (2000) stresses that, despite attempts to attribute China's and India's economic successes to liberalization, the two countries' economies first experienced high growth in the 1980s—more than a decade before they actually lowered their tariff walls. In all these cases, state activity proved critical in hastening economic growth. These cases suggest that neoclassical prescriptions may be time- and condition-bound. Domestic and global conditions may well influence whether neoclassical prescriptions, statist approaches, or some alternative will be most appropriate to a country's developmental objectives.

Upon deeper examination, neoclassical assumptions do little to explain Southeast Asian economic development. Close links between politicians and business in these countries (MacIntyre 1994, McVey 1992) constrain market competition—a defining feature of liberal economies. Moreover, in some ways, the impact of liberalizing policies runs directly counter to neoclassical expectations: the region's most rigidly neoliberal country, the Philippines, has also been the least economically successful (Bello 2000).

Statist conception of development

The literature on economic development increasingly regards the state as central to this process. Studies of late industrializing countries in particular give states a central role in facilitating capital accumulation and mobilization. Gerschenkron (1962) argued that because of the indivisibility and complementarities of activities involved in industrial development, central states needed to provide the "initial big push" and invest in industrial development in order to transform agrarian economies and enable these latecomers to compete in the international economy. Scholars from many different traditions also broadly agree on the role of the state in the economy. Regarding economic growth as a public good, rational-choice institutionalist perspectives see the state as stepping in to resolve collective action problems (Olson 1977, Doner 1991). The neomarxist tradition, in stressing the modern state's structural dependence on capitalists for public revenues and private investments (Block 1977, Przeworski and Wallerstein 1988, Swank 1992), asserts its critical role in maintaining and expanding capitalist production (Jessop 1979, Offe and Ronge 1982).

From this broad consensus on the state's key economic role, the question shifted to issues of what state forms could best generate growth. Taking off from the literature that sought to establish the state as an independent variable shaping societal, historical processes (Evans 1995; Evans, Rueschemeyer, and Skocpol 1985), studies of the East

Asian economic miracles centered on the Weberian concept of the modern state, characterized by a rational-legal authority, with a trained and tenured bureaucracy exercising impersonal power (Pierson 1996; Evans and Rauch 1999). The presence and active intervention of a competent state with an independent political will to restructure the economy was, in this view, the catalyst that propelled Asia's biggest economies. Chalmers Johnson (1982) studied Japan's high-speed growth, and developed the concept of the developmental state in which a meritocracy used subsidized credit and other policy tools to promote strategic, competitive industries. Studies of East Asian cases, notably South Korea and Taiwan, support the idea that an interventionist, modernizing state was key to economic success (Amsden 1985, Wade 1990).

In the main, the East Asian experience presented a path for late developing countries that relied heavily on foreign capital and trade as sources of state revenues, and adopted fairly similar development programs (World Bank 1993, Medhi 2000). That East Asia prospered while other similarly situated economies in the 1960s and 1970s failed to keep pace highlighted state agency in ensuring that resources go to industries with actual or potential competitive advantages. Nevertheless, partly because the developmental perspective stressed the state's coherent and insulated character, it invariably presented the state as a homogenous corporate entity—its parts subordinated to a central authority able to wield public and private resources and shape the market almost at will. Moreover, because the "state as organization" argument was first raised to debunk the view of the state as simply an arena of social contestation or as extensions of the ruling elites (Skocpol 1979), there was a tendency to underplay dynamics within the state itself.

Others, however, grasping the significance of these dynamics, sought to incorporate state-society relations in the developmental state paradigm. In constructing the concept of "embedded autonomy," Peter Evans (1995) asks how some states maintained their relative independence as an economic actor while being closely involved with producer groups. According to him, the developmental state is necessarily embedded in dense social networks, from which it draws critical information and expertise necessary for the formulation and efficient implementation of economically transformative joint ventures. At the same time, the state maintains its autonomy: civil servants continue to identify with corporate goals, ensuring the bureaucracy's cohesiveness and loyalty. Other prominent studies of the state's role in economic development include analyses of coalitional politics, notably between state actors and industry groups (Haggard 1990, Gereffi and Wyman 1990). Nevertheless, even while these approaches move in the direction of pulling the state apart a bit to see how it moves, most analysts continue to present the developmental state as a largely singular actor, dominant in its interaction with social forces.

That said, the developmental state paradigm has become an enduring tradition in political economic studies. It draws attention to the pivotal roles that states play in industrial development and the specific policy tools that state elites used to influence business decisions of both domestic and foreign investors. Because of their distinct regional history (Cumings 1987, Booth 1999), state formation in East Asian countries produced central authorities able to wield the state apparatus and mobilize social forces in order to play catch-up in the global market (Amsden 1989, Wade 1990, Evans 1995). Due to their developmental states, East Asia's governing elites were able to fast-track industrialization in an increasingly competitive world. In particular, these so-called tiger economies benefited from a package of complementary policies that included: nationalization of or substantial control over the financial system to shape savings and investments patterns; selective trade liberalization designed to protect fledgling domestic industries; restrictions on foreign direct investments; and an industrial policy that identified priority sectors for subsidized credit, foreign exchange, state investment funds as well as fiscal and non-fiscal incentives in exchange for "state controls on technology (e.g., production methods, product variety), entry, capacity expansion and reduction, and pricing" (Chang 2003: 116).

The model's replicability in countries with different state and social formations, or operating at different periods in world time, remains a matter of some uncertainty. The rapid growth of China and India invited comparisons with East Asia (Baek 2005, Rodrik 2000); importantly, these economic powerhouses have a relatively strong central authority and relatively insulated state bureaucracies. In other contexts, the specificity of the East Asian experience raises questions about the Weberian state paradigm itself. Some call for the need to distinguish between "developmentalism as a state form," that is, a fundamental character of the state and "developmentalism as a state project," referring to specific economic activities that the state undertakes (Boyd and Ngo 2007).

Since the breakout of East Asia's tiger economies, analysts have attempted to extend this line of argument to second-tier newly-industrializing countries in Southeast Asia. Rapid growth of Thailand, Malaysia, and Indonesia, however, occurred more than a decade after the development of the first-generation newly-industrializing countries (NICs) and without any real activist state to engineer economic restructuring. The trend in recent literature on these so-called cub economies lacking a centralized developmental bureaucracy has been to resort to the institutionalist approach to study specific government agencies (Doner 1992; Doner, Ritchie, and Slater 2004) or specific state activities (Leipziger 1997, Unger 1998, Kurtz 2001). The ASEAN-4 countries have long been a particular focus of many such studies, mainly because of their failure to keep pace with their northeastern neighbors' industrialization and social development (Yoshihara 1988). Studies up to the early 1990s, in fact, tended to attribute Southeast Asian countries' relatively slow development (when compared to East Asia) to the lack of "centrally coordinated and disciplined elite bureaucracies that are less prone to the problem of inefficiency, incompetence, and official corruption"—in other words, no developmental state (MacIntyre 1994: pp 4-5).

In contrast to East Asia's relatively homogenous societies, Southeast Asia has also been plagued by deep divisions of class and race—largely because of colonial or historical legacies. Unlike Japan, Korea, and Taiwan, the ASEAN-4 countries did not undertake sweeping land or asset reform before embarking on their industrialization programs, and so land-based privilege often persisted in their class structures (Jomo 1997). Southeast Asian societies are also ethnically heterogeneous partly due to how colonial powers drew territorial boundaries (Reid 1993). Colonial authorities imported and used migrant labor (notably, Chinese and Indian) to work in clearly defined segments of the economy. In some places, Indians were plantation workers or money lenders. Chinese merchants often dominated internal trade and many built their fortune by acting as middlemen between foreign trading companies and domestic producers. In Thailand as well, the monarchy promoted a dichotomy between the political arena, controlled by the indigenous elites, and the economy, dominated by the Chinese, foreign capital, and the aristocracy. In time, this historical legacy gave rise to "pariah capitalism" (Riggs 1960, McVey 1992, Gambe 2000)—a situation in which an economically-dominant yet socially discriminated-against ethnic minority sought protection and patronage from indigenous political authorities who, in turn, dispense favors as money-making opportunities to expand their personal wealth.[5] Class and ethnic cleavages were therefore much more pronounced in Southeast Asia than in East Asia, suggesting that more intense distributional conflicts would tug at policymaking processes (Booth 1999). For example, ethnicity became politically salient across Southeast Asia as indigenous political leaders mobilized expressions of economic nationalism into anti-Chinese campaigns to rally support to buttress their rule and develop domestic capitalism (Chang 1973; Skinner 1959). Partly because of these social cleavages, Southeast Asian state-building processes differed from the East Asian experience, as discussed below.

I locate my work in the growing scholarship that incorporates an understanding of these particular social and political influences on processes of state building and economic development policymaking. To understand how late-late developing Southeast Asian states work, I study the institutional configuration of state power, and how those configurations structure interactions among governing elites. In particular, I concentrate on interactions among members of the national political leadership and senior technocrats who served as economic managers and thus occupy the upper rungs of the civilian

[5]Investigating the symbiotic relationship between Chinese business elite and indigenous political rulers, Fred Riggs (1960) was among the first to adapt the Weberian concept of "pariah capitalism" in the context of Southeast Asia.

bureaucracy. Political leaders and technocrats bring different institutional traditions and resources to bear on the policy process. While the character of the bureaucracy helps ensure capitalist development (Weber 1968, Evans 1995, MacIntyre 1994), it best explains regime maintenance and continuity (Lindblom 1959, Miliband 1969). On the other hand, political leaders, similarly interested in maintaining their hold on power and control over rents, respond differently to demands for political democracy or economic liberalization, depending on their institutional settings (Geddes 1995, 1998). This dissertation follows this differentiated approach to governing elites. Finally, the political leadership also drives policy change (Kingdon 1984) and so I set out to examine how such leaders draw resources to effect this change. In fact, organizational attributes attached to the Weberian bureaucracy can just as well be used to analyze key institutions of the political leadership, like political parties and the military; in both, issues of corporate identity, cohesiveness, and level of insulation from outside forces (attributes that Weber linked to bureaucratic rationality) matter intensely. In contrast to personalistic rulers, a national leadership that rose from the ranks of established political organizations, for instance, may behave in ways that more closely resemble a Weberian bureaucracy: they will more likely take the national agenda seriously and allocate resources to produce desired results specified in national programs. Such considerations can work to lessen, but not eliminate rent-seeking.

Interaction between State and Society

Many state-society based explanations of economic performance focus on institutions, defined as formal organizations and informal rules, procedures, norms and value systems structuring interests, behavior, and interactions (Peters, Pierre, and King 2005, Hall and Taylor 1996). Institutions influence policy processes by constraining and influencing politicians, bureaucrats, and economic actors like producer groups. Historical institutional analyses attempt to describe how specific confluences of social and political conditions give rise to new institutional arrangements, and how these institutions in turn shape activity going forward. But these institutions, carrying as they do the legacies of past politics, always interact with larger social and political forces at any moment. Thelen and Steimo (1992), for instance, describe historical institutionalism as focusing on how intermediate-level institutions such as trade unions and political parties interact with macro-level socio-economic structures such as class to explain political or economic outcomes.

Atul Kohli's study (2004) of South Korea, India, Brazil, and Nigeria illustrates how important the question of state-society relations has become to the question of economic development. He works out a typology of capitalist states depending on how they link up with class interests to pursue economic growth; his equivalent of the developmental state is the "cohesive capitalist" state, that is, a state with "centralized and purposive authority structures," stable links with major economic groups, and tight control over labor (p. 10). Different state-society dynamics that find expression in specific patterns of authority are historically contingent, Kohli says, drawing attention to the long shadow cast by colonial rule. Nevertheless, what stands out from his work is that a country can shift from one category of capitalist state to another, depending on the balance of power between state and society forces. Thus, Korea and Brazil shifted from having cohesive-capitalist states (during General Park Chung Hee's rule and Vargas's Novo Estado period, respectively) to having "fragmented-multiclass states" at other times. This suggests that the developmental state concept is time- and condition-bound rather than a fundamental state attribute.

On the more finely grained institutional end of this approach, Paul Hutchcroft (1998) discusses state failure in the Philippines. Using an historical institutionalist perspective, Hutchcroft focuses on the history and changing economic roles of the Philippine Central Bank, highlighting its use of exchange control during the import-substitution phase in his thesis on regulatory capture—that is, how social forces captured the regulatory capacities of the state, and diverted them to their own ends. An important contribution of his work is his typology of capitalist development based on how institutional arrangements between state and society determine the flow of rents. According to this scheme, in "patrimonial administrative states" (e.g., Thailand and Indonesia), "bureaucratic elites are able to extract privilege" from business, thereby giving rise to "bureaucratic capitalism," while in "neopatrimonial oligarchic states" (e.g., the Philippines), "a powerful business class extracts privilege from a largely incoherent bureaucracy," resulting in "booty capitalism" where rents flow outside the state (pp. 18-21).

Using Hutchcroft's work on rents as a reference point, David Kang (2002) compares South Korean and Philippine economic performances, partly attributing the difference to historically contingent patterns of rent-seeking. Using rational choice institutionalism, he argues that the organization of and balance of power between political and economic elites determine transaction costs associated with doing business in any country, and so represent an important influence over economic performance. In South Korea where political and economic elites comprise a small group and are more or less equal in power, Kang describes the situation as one of "mutual hostages," in which power symmetry between the two restrains predation. In the Philippines, he argues that power alternates between society (during democratic regimes) and the state (under President Marcos), and the situation is governed by a bandwagon dynamic, with little restraint on corruption in either case.

The question of rents, in fact, looms especially large in discussions of industrial development and international trade. The economic literature on interest group politics broadly defines rents as market privileges in the form of government regulation and subsidies, and rent-seeking as the political activities interest groups undertake to obtain monopoly rights from government (Munger and Mitchell 1991). Because rents have political rather than economic bases, they distort markets and therefore undermine economic development: restrictions on entry and competition, for instance, breed inefficient industries and have welfare costs (Krueger 1974, Frieden and Rogowski 1996). The critique on rents thus runs directly against the infant industry argument, first articulated in the context of American trade protectionism against Britain in the 19th century[6] and later, after World War II, in support of import-substitution industrialization

[6] Ha-Joon Chang (2002) points out that the infant industry argument was first articulated in 1791 by Alexander Hamilton in his *Reports of the Secretary of the Treasury of the Secretary on the Subject of Manufactures*, where he argued that "competition from

in late developing countries. Where the interest group literature sees state intervention as an occasion for distortion and rents, the infant-industry argument sees it as essential to building and expanding an indigenous manufacturing sector.

In fact, a narrow interpretation of rents does little to explain rapid growth in East Asia where governments intervened in the economy down to the shop-floor level to ensure performance from government-assisted private firms. It fails to distinguish different forms of state intervention, and instead presents these as always occasioning wasteful or illegal rents. More importantly, the approach does not allow for situations in which rents were used to develop an entrepreneurial class in late industrializing economies. Mushtaq Khan (2000) states that "in developing countries, the state is involved not only in redistributing incomes (as in advanced countries), but also in creating new property rights" (p. 25). Elaborating on rents as a form of "politically-organized income transfers," he says that legal mechanisms like subsidies and taxes as well as illegal means of asset accumulation and redistribution played roles in the emergence of domestic capitalists and the middle class (p. 35-36).

Khan's comparison of these rents to Marx's concept of primitive accumulation is particularly relevant where governing elites' attempted to build the economy alongside state-building programs. In the context of transitioning agrarian societies, the impetus for emergent political elites to promote an incipient entrepreneurial class may have to do with the *political* need to expand a potentially strategic social base, distinct from that

abroad and 'forces of habit' would mean that new industries that could soon become internationally competitive (infant industries') would not be started in the USA, unless their initial losses were guaranteed by government aid" (p. 25).

which supported the *ancien regime*. Thus, the Thai military and civilian leaders who brought down absolute monarchical rule in 1932 also set up manufacturing state enterprises ostensibly to indigenize Thai industries, previously in the hands of foreign capital and the nobility (Muscat 1994, Hewison 1989, Ingram 1971). On the other hand, studies of the Philippine government's adoption of ISI in the 1960s demonstrate that the policy resulted from pressure from an agrarian elite branching out into business (Wurfel 1991, Rivera 1994), a manufacturing sector that was then one of the region's most vibrant, and a US government working to give American transnational corporations first-entry advantage in the domestic market (Maxfield and Nolt 1990). While there is little question that ISI occasioned politically organized transfers in Thailand and the Philippines, one must go beyond identifying a singular economic interest and instead explain political elites' calculations that guided the transfers.

Globalization and Late-late Development

There is a general agreement in the literature on the growing role of international capital in developing countries' economic performance. Still, the argument linking open economies and the increased mobility of capital as the key engines of domestic growth (World Bank 2002, Friedman 1999, Pritchard 2006) ignores the differential impact of globalization on developing economies. Douglass North (1990) argues that differences in economic performance remain, despite globalization's expected homogenizing effects, because of varying national institutions, particularly concerning property rights and political culture. Globalization arguments that use international trade and foreign investments to explain domestic growth often overlook the fact that the relationship is not unidirectional: domestic factors like political stability, total factor productivity, or human capital may influence foreign investors' calculations (Garrett 1998). Even the more recent literature on economic geography (e.g., natural endowments and proximity of late developing countries to fast industrializing economies) puts a premium on the quality of both political and market institutions (Rodrik 2003).

On their own, foreign investments will not produce economic spin-offs in host countries because most profits are repatriated, as dependency analysis stresses. Globalization and open economies make it easier for foreign firms to avoid paying taxes to host countries (Strange 1996); technological advances make capital flight harder to monitor and control (Simmons 1999); and disaggregated production reinforces dual economies with little positive externalities to the local market. In developing countries, states continue to mediate between the interests of international capital and the needs of the domestic economy. Even while arguing that national states have increasingly adopted the neoliberal agenda since the 1970s, Leo Panitch (1996) suggests that whose interests the state eventually privileges is an empirical question, decided by struggles between agencies with direct links to global capital (e.g., finance, office of the prime minister) and those more closely linked to domestic social forces (e.g., labor, producer groups).

As noted above, the developmental state literature shows how previously dependent economies established competitive industries under the leadership of relatively autonomous, central development authorities. Evans's (1995) pioneering work showed how states in late industrializing and peripheral countries repositioned themselves in a changing international division of labor (privileging knowledge-based and niche industries). Richard Doner's (1991) four-country study of the automobile industry in

Southeast Asia argues that states that directly and indirectly supported domestic manufacturers in negotiations with transnational corporations had the most successful operations. Notably, Doner's study identified Thailand and the Philippines as the most and least successful cases of this, respectively. In growth economies, therefore, states tap foreign capital for industrialization, but do so in ways that produce positive externalities for domestic industries (e.g., technology transfer, development of backward and forward linkages). Kurtz (2001) argues that economic development happened in Chile without a developmentalist state because government provided specific sectors with targeted assistance, including credit and other inputs, market information, and distribution markets.

State activity is particularly important in the context of the ASEAN-4 and other countries developing more than a decade after the tiger economies of East Asia, partly because they confront a different global environment than did their East Asian counterparts. No Southeast Asian government had anything close to the US military and economic aid that Japan, Korea, and Taiwan received during the early Cold War years, when borders where being redrawn among newly-independent countries surrounding communist China (Cumings 1987). Both the Korean War and Vietnam War also triggered a commodity boom and helped stimulate export production in the region (while Thailand benefited from consumer spending linked to Vietnam-era US bases, its industrial structure was not yet positioned to take advantage of that boom). Timing proved particularly auspicious for an industrializing Japan, Taiwan, and South Korea, all of which were looking for markets for manufactured exports (Stubbs 1999).

Regional geopolitics benefited the frontline states of South Korea and Taiwan in other ways, too. The external threat helped rally and unite their political leaders and populations behind a nationalist industrial agenda and redistributive programs that, under less contentious geopolitical conditions, might have polarized society (Stubbs 1999: 339-343). For instance, the threat of the spread of communism from across their borders played a critical role in South Korean and Taiwanese governing elites' implementation of agrarian reform. This initial condition is particular to first generation NICs and its absence in the Southeast Asian market economies presented their governing elites with different development challenges. Anne Booth (1999) also cites other historical factors working for East Asia: the Japanese colonial period's extensive educational system, their populations' high degree of ethnic homogeneity, and the inflow of entrepreneurs and resources from northern Korea and China after the communist victory in the 1950s—a development that shifted the power balance away from agrarian elites and facilitated land redistribution (pp. 302-305). These factors contributed to social cohesion and human capital development, thereby setting the stage for the countries' rapid economic growth.

Southeast Asian countries during this early period were still largely agrarian societies, exporting prime and low-grade, semi-processed commodities. The ASEAN-4 countries, in particular, undertook industrialization amidst the 1973 and 1979 global oil crises and the debt crisis that broke in 1982-1983—crises that sent the global economy into recession and most export-dependent economies reeling. Late industrializing economies that missed out on the recovery of the world economy in the decade after World War II had also to contend with changing capital flows. First-tier NICs benefited from increased international trade due to pent-up global demand for their commodities and the rush of post-war rehabilitation and reconstruction aid after the war as well as US spending in line with heightened Cold War tensions; second-tier NICs largely had to resort to private sources for investment capital (Winters 2000). This difference in the composition of capital flows is critical in determining how much control states had over external development financing.

Finally, since the 1970s, fundamental changes in the economic paradigm and development financing have provided fewer policy options to latecomers. The shift in economic ideology from Keynesianism to monetarism in the 1970s (Krugman 1994), the growing importance of foreign investments over official development aid as external sources of development financing since the mid-1980s,[7] and competitive pressures (Garrett 2000) deeply influence domestic economies. For instance, greater capital mobility and rising investor demands for stable currency compromised late-late developing countries' monetary autonomy (Quinn and Inclan 1997). Moreover, the World Trade Organization, established in 1994 to replace the General Agreement on Tariffs and Trade (GATT), has begun requiring developing countries to reform or drop trade and industrial incentive policies that give preference to domestic businesses over foreign investors (e.g., the local content requirement)—mechanisms that were integrally important to the East Asian development model.

As this section argues, the ASEAN-4 countries seeking to catch up with their East Asian neighbors' economies were comparatively constrained in terms of state capacity and financial resources. On the one hand, as described above, they lacked the relatively

[7] Jeffrey Winters (2000) pinpoints 1984 as the year when private capital flows overtook foreign government loans as the dominant external source of financing to developing countries (p. 36).

autonomous meritocracies of East Asia that could generate and centralize development resources and distribute these effectively to strategic industries. On the other hand, they also confronted a much more hostile environment—of global recessions and an increasingly globalizing world that discourages the use of certain policy tools, particularly trade and financial controls that proved critical to East Asia's high-speed growth. Given these constraints, Southeast Asia's second-generation NICs relied less on government credit and direct subsidies to pursue industrial development and more on fiscal and non-fiscal incentives designed to influence private sector investments. Rather, ASEAN-4 countries adopted a package of what I call soft resources, revolving around investment promotion, export marketing, and mediation between foreign investors and domestic firms. This conception of soft resources aligns with another observation that, in the Southeast Asian context, governments performed intermediate roles that transcended the minimal state model of providing infrastructure and ensuring rule of law but fell short of developmentalist state activism (Doner, Ritchie, and Slater 2004). Depending on the institutional configuration of state power, governing elites deployed these resources differently, thereby contributing to the divergence in economic performance.

This dissertation investigates the factors explaining economic performance in late-late developing countries where states and markets do not follow either the developmental state or the self-regulating market models of economic growth. I argue that differences in economic performance are due to the institutional settings of governing elites, notably, the political leaders who wield national political power and senior technocrats who manage the economy. I conduct an historical comparative study of relatively high-performing Thailand and consistently low-performing Philippines, studying both countries' political economies and the specific implementation of import-substitution and export-oriented industrialization. To identify causal mechanisms that link state configuration and economic performance, I undertake a paired comparison of the two cases.

Argument: Configuration of State Power and Economic Performance

My dissertation starts by asking what factors account for the differences in economic performance among late-late developing countries, particularly those that are small, have open economies, and experience highly contested political transitions. To find out, I studied Thailand and the Philippines, two countries similar in each of these respects. They also pursued broadly similar development policies and strategies—relying largely on investment promotion as the main strategy to pursue import-substitution and, later, export-oriented industrialization.

The two cases differ, however, in the institutional settings of governing elites, and I examine the impact of these distinct institutional settings on the policy process, and on economic outcomes—outcomes like stronger and more steady growth in Thailand than in the Philippines. But more analytically significant differences also exist, differences that suggest key points of divergence in the policy process. The two countries exhibit different patterns of sectoral development. In Thailand, the industrial sector grew steadily, contributing 47% to GDP in 2005. In the same year, the Philippine service sector's contribution to GDP registered an unprecedented 53% while declines in its industrial sector signaled a trend toward deindustrialization.[8] What explains these different economic outcomes?

This study argues that variations in the countries' institutional configuration of state power account for differences in their economic performance. In this study, I defined institutional configuration of state power along two dimensions: the embeddedness of governing elites (that is, the political leadership and the economic technocracy) in state institutions, and the way technocrats and political leaders relate to each other in the development policy apparatus and processes. In my cases, I do not approach states as monolithic entities, with a highly centralized authority; rather, I make a distinction between the political leadership and economic technocrats in the state apparatus because the balance between them, between political power and technocratic expertise, is crucial to my analysis. I differentiate the governing elites between these two state actors in order to trace their distinct and interacting interests, and examine how state institutions structure the interactions between them.

The institutional configuration of state power and the policy process

This study begins with some general considerations. The political leadership survives and thrives largely on the strength of its domestic social networks, even if it also seeks international support. Moreover, political leaderships engage in significant elite power struggles, are vulnerable to social pressures, and therefore interested in

[8] For instance, one study using World Bank data notes that the share of manufacturing in gross domestic product in the Philippines went down from 26% in 1980 to 22% in 1998 (Weiss 2002: 18).

constituency-building. The degree and ways in which leaders are embedded in state institutions structure political contests and their outcomes.

In a broad and preliminary way, I examine patterns of institutional embeddedness for both political and technocratic actors, and then examine the relationship between the two. I distinguish two key types of Southeast Asian political leaderships: the civilian (personalistic and party) and the military rulers. On the technocratic side, I examine the relationship between top economic managers and the state bureaucracy, identifying more strongly embedded actors as insider or career officers, and those that are more weakly embedded as outsiders or political appointees. To illustrate the logic of the analysis, I consider these issues for the full array of ASEAN-4 countries. In fact, the ASEAN-4 countries demonstrate robust variations in these different types of political leaderships.

Political Actors: In Thailand and Indonesia, the military rose as the decisive policy actor while in Malaysia and the Philippines, civilian rulers prevailed even during periods of authoritarian rule. The differences in the organization of the political leadership owe much to the construction of the political system. The Armed Forces of the Republic of Indonesia (Angkatan Bersenjata Republik Indonesia or ABRI) grew out of the national liberation struggle against the Dutch (Crouch 1988) while the Royal Thai Army as a regular force could trace its roots to the mid-19th century when the Chakri monarchy began to modernize the state (Lhikit 1992). On the other hand, since it gained independence from the British, Malaysia's prime ministers and key political leaders rose from the ranks of the United Malays National Organization (UMNO)—the dominant force in the ruling coalition, Barisan Nasional (Kheng 2002, Jomo 1990). Their Filipino counterparts, in contrast, operate within national political parties that generally come to life only during national elections when prominent politicians who harbor presidential ambitions put in personal resources into the party for electoral campaigns (Lande 1996, Wurfel 1991).

Technocrats: Technocrats have been defined as people who seek to apply rational policy tools to solving problems in development and who possess technical expertise and management skills partly due to their academic training, usually in economics, business, public administration, engineering, and political science (Hooley 1976, Dubsky 1993: 17). Structurally, technocrats stand in one of two distinct relationships to the larger civilian bureaucracy: they can either be insiders (meaning, they rose from the ranks and were already career officials before their appointment as heads of economic agencies) or outsiders (i.e., they were recruited from the private sector and appointed by incumbents as economic managers). The designation that best describes any group of technocrats, therefore, depends on the typical trajectories of career development and training in the civil service: in the ASEAN-Four cases, technocrats become members of the civilian bureaucracy either as career officers rising up from the ranks of the bureaucracy and eventually pursuing higher studies (often on scholarship abroad) as in the Thai case, or as political appointees, drawn from academia or the corporate sector to work as consultants or heads of department agencies or technical units (Philippines and Indonesia). Malaysia's technocrats differ in that, in UMNO, the most powerful politicians usually got their start as technocrats, heading successful public enterprises (Milne 1982, Paauw 1963). The relationship of technocrats to the specific bureaucracies in which they work influences the leverage that they have with the political leadership.

These different actors—political leaders and technocrats--bring distinct influences and concerns to policymaking: Political leaderships, often more interested in expanding and consolidating their power and social bases, tend to be most concerned with sectoral development (industry, agriculture, and the service sector). This preference partly reflects the rents that sectoral activities commonly generate: such economic activities allow political leaders to directly create or restructure property rights (Khan 2002), and these rights are key in creating social bases of support. On the other hand, due to their training and the prospect of career advancement, technocrats tend to occupy themselves with macroeconomic policy and technical questions.

In this light, embeddedness looks into whether governing elites emerge from and operate within a definite institutional setting: for political leaders, this means membership in robust national political organizations like strong parties or the military; for technocrats, this refers to a status as career officials in the government bureaucracy. Embeddedness further means that both the political leadership and technocrats have risen through and been socialized by their respective organizations, and are thus subject to the norms and practices of these organizations. These governing elites' policy orientation or the consistency of their policy approach will also reflect how they are integrated to national political or state institutions, and how robust these institutions are. Political leaders who rose from national political organizations and were socialized by those organizations draw on shared corporate identities, and undertake programs that future leaders will understand and pursue. These leaders also can be expected to identify with corporate interests and pursue broader goals since their political survival partly rests with their organization. The same is true for technocrats who are organic to the civilian bureaucracy: they can better assert bureaucratic autonomy and corporate interests as well as follow through with programs regardless of changes in the political leadership. In this sense, differently composed governing elites will be more or less equipped or disposed to ensure policy continuity—a feature of policymaking that helps ensure predictability and space for long-gestating industrial investments. I will trace these different arrangements, and their underlying logic, to the specific organizations of the development policy apparatus in Thailand and the Philippines. Embeddedness, as defined, can be measured by looking at governing elites' career trajectories, and examining their organizational context.

Embeddedness will influence economic performance in at least two ways. First, the organization of governing elites structures political contestation and their outcomes. When political elites are embedded in strong organizations, competition among them is largely contained within or between these organizations and has a limited impact on other arenas (here, I emphasize the economy). Second, embeddedness promotes policymaking that advances organizational interest and corporate identity—determining the degree of correspondence between parochial concerns (personal gain) and national goals (organizational performance) of the countries' governing elites. These causal mechanisms (containment or diffusion of contestation, and the extent of institutional structuring of interest) affect the type of policies often made (such as their timeframe, consistency, and reflection of technocratic design) and thus provide incentives for specific types of investments (for instance, speculative or commercial vs. strategic or industrial).

The second variable is the relationship between the political and technocratic leaders, indicating the extent to which technocrats serving as economic managers have relative independence or autonomy from the political leadership. Indicators of levels of independence or autonomy include the degree of institutional differentiation between political and technocratic offices as well as delineation of authority. Significant variations in chains of command, such as whether the Board of Investment is autonomous from or is subordinate to the legislature, suggest different levels of autonomy. Another indicator is the manner of appointment of technocrats to top management in economic agencies. Appointments that start from the pool of senior government technocrats mean that economic managers will have bureaucratic resources and institutional memory that they can use to assert long-standing government programs with incoming political leaders. In contrast, when incoming leaders appoint most economic managers from their pool of advisers, those economic managers will serve at the pleasure of political leaders and are subordinate to them. Relative autonomy will thus ensure the presence of policy actors who could shepherd policies and programs across different administrations. By the same token, autonomy encourages long-term planning and promotes consistency in policy implementation.

Policy stability or instability affects policy outcomes. For instance, public spending on social and economic services like education and infrastructure development, and efforts to encourage or direct private investments (especially in the real economy) take time to produce results. Industrial development in agrarian societies entails massive public investment and long-term planning. It also requires social processes or explicit plans to promote the development of an entrepreneurial class capable of accumulating capital and investing in the manufacturing sector. Investors require stability in both the macroeconomic environment and the climate for industrial development, among other things. In this sense, the institutional setting of policymaking matters because it encourages and enables governing elites to think strategically and adopt comprehensive goals—a necessary condition for industrial development to take place. In contrast, rulers relying on weak political organizations or state institutions tend to embrace policies that promise immediate returns, and under such conditions structural change will take longer or not at all, because the regime's policy choices will tend to favor the status quo.

Embeddedness of and the relationship between political and technocratic leaders are particularly important in countries vulnerable to political instability and the vagaries of the global market. These two attributes influence the extent to which development policy is used as a means to ensure regime survival. In combination, they produce a specific institutional setting that shapes governing elites' time horizons, political calculations and policy agenda that, in turn, influence investors' behavior. This broader imagining of the potential relationships between political leadership and economic technocracy sets up a more focused discussion of the institutional configuration of state power in Thailand and the Philippines, a discussion that will occupy the rest of this dissertation.

Thailand's Bureaucratic Polity and the Philippines's Proprietary Polity

These two institutional attributes combine to produce two distinct institutional settings that I identify in this dissertation. One is the "bureaucratic polity" that Fred Riggs (1966) introduced and that has since been widely used in subsequent Thai studies (Girling 1981, Medhi 2000, Ockey 2004) to refer to the series of ruling coalitions that ascendant military factions forged with top-ranking civilian bureaucrats to run the country. I adopt this heuristic device as well because it corresponds to the two variables I use to investigate the configuration of state power.[9] Under Thailand's bureaucratic polity, the political leadership and technocrats who served as economic managers were embedded in the military and civilian bureaucracy, respectively. Emerging from and ensconced in distinct hierarchies, the embeddedness of political leaders combined with the second attribute: economic technocrats had relative autonomy or independence from the political leadership.

As Chapter 3 elaborates, Thailand's history has been rife with coups and counter-coups, with different factions of the military competing against each other for political power and the spoils of office. Nevertheless, under a bureaucratic polity, where the governing elites are embedded in political or state institutions and economic managers have relative autonomy from the political leadership, political conflict will largely be contained within the ruling political organization so that even extra-constitutional regime transitions will disrupt government operations and the economy to only a limited extent.

[9] To be sure, there have been some theoretical and empirical debates regarding the bureaucratic polity model. Using a Marxist perspective, Kevin Hewison (1989) criticized the concept's simplistic approach to Thailand's social formation. Other scholars, focusing on Rigg's (1966) underlying assumption that a bureaucratic polity existed due to the absence of countervailing social forces, question the utility of the concept since the late 1980s when the parliamentary road to state power began to take root. Anek Laothamatas (1992), for instance, argues that the model lost much of its explanatory power with the emergence of business and social movements as important policy actors since the 1970s. Nevertheless, the debate remains unresolved and the concept continues to be a reference point for Thai studies (see Medhi 2000 and Ockey 2004). While recognizing these questions, this dissertation starts with the "bureaucratic polity" model because of the focus on the attributes of the institutional embeddedness of governing elites and the relative autonomy of technocrats from political leaders. Equally important, this study covers mostly the period before the 1980s when the foundation of domestic capitalism was still being established.

Moreover, since political power resides in state institutions, governing elites are less threatened by and thus better able to work closely with established business elites. Development plans and investment strategies can unfold over the long term and build on the steady gains of domestic capitalists. This institutional setting, therefore, encourages and supports industrial development, which usually requires long-gestating investments.

Another combination of attributes produces what I will call the "proprietary polity." This analytical model corresponds to the Philippine case where state power-holders are loosely organized in state institutions. Here, the political leadership is composed of personalistic politicians whose rise to political power is based on their personal wealth and social status rather than long-term membership in established political parties or state institutions (Lande 1968, Wurfel 1988)—a situation that merges political and economic power (Boudreau 2004: 76, Simbulan 2005). Economic managers are recruited from outside, based on their personal relationship with political leaders as much as on their expertise. Given these relationships, the bureaucracy enjoys little autonomy from political leaders and is often subordinated to them and to their political objectives (Carino 1992, Dubsky 1993). This combination provides weak institutional links between and among politicians and technocrats, in comparison to the Thai case.

In the proprietary polity, the lack of embeddedness means contestation among political elites easily spreads to other arenas, including the bureaucracy and the economy. Incumbents will tend to use economic policymaking to create a political constituency. In times of political contestation and transition, these constituents, and the economic projects and policies associated with their interests, therefore, often come under attack. The turnover of political power—often through elections—also occasions a change in economic managers. Such an unstable policy environment will provide incentives for governing elites to prioritize economic activity with quick returns and mobilize more readily-accessible foreign capital to finance development.

Ultimately, my study seeks to explain the difference between Thai and Philippine development patterns as a function of distinct institutional settings. Both countries undertook industrial development programs to grow the domestic economy. No less than Thailand, Philippine development programs set out to construct factories and stimulate industry. Unlike Thailand, however, the Philippines could not sustain industrialization. I argue this divergent outcome is due to the difference in the way politics intruded into economic policymaking. The Philippines's proprietary polity prevents policymaking from achieving any substantial continuity and creates incentives for investors to take up commercial activities that promise fast turnover. In contrast, Thai bureaucratic polity provided policy continuity that, in turn, worked to steer capital into strategic economic sectors, particularly banking and agro-industry. Over time, the expansion of commercial and industrial elites in the Philippines and Thailand, respectively, made them important policy constituencies that constrained the options open to future policymaking, and reinforced existing investment thrusts. The succeeding chapters will trace these different arrangements, and their underlying logic, to the specific organizations of the development policy apparatus in Thailand and the Philippines.

My study raises questions on the applicability of the developmental state and liberal economic models on small, late-late developing countries. While states, in my view, play pivotal roles in development, my cases do not exhibit the kind of Weberian state that the developmental state literature identifies as central to rapid industrial growth

(Kohli 2004, Evans 1995, Amsden 1989). Rather, I begin with late-late developing states with weaker authorities and in which the requisites of political survival may shoulder aside the basic economic policy agenda. Among such cases, the institutional configuration of state power—located in arrangements between the political leadership and economic technocracy—explains different economic policymaking and development outcomes.

My study also critically engages the neoliberal argument that holds that state retreat from the economy frees market dynamics to generate growth (Williamson 1994). Both Thailand and the Philippines have rightly been characterized as market economies, yet the case studies show that politics has almost always intruded on their economic policymaking. The nature of political contestation and the effort government elites make to use economic development policy to build social bases for themselves are two mechanisms by which the organization of state power influences economic performance.

Finally, this dissertation draws attention to agency of the state in the interaction between the domestic economy and the global market. Small countries are subjected to structural constraints as price-takers in the global economy (Katzenstein 1985). Equally important, my cases as well as other countries in Southeast Asia passed from the 19th-century as virtual extensions of industrializing western nations, with international trade playing a central role in their state activities. Emergent indigenous political leaders in these countries thus inherited states that were further bound by international agreements forged with imperial or colonial powers. Duty-free or preferential trade relations limited the use of tariffs as a tool for domestic industrialization while foreign loan agreements usually contained provisions on public spending, which can affect government budget for economic and social services. How state actors mediate between global and domestic economic interests will depend as well on the nature of political contestation among domestic elites and from which economic sector governing elites draw support from.

Organization of the Dissertation

In explaining differences in development patterns, this dissertation uses an historical, configurative approach to my case studies, and argues a path-dependent, and recursive argument. Briefly, I argue that the institutional configuration of state power, as expressed in the development policy apparatus, shapes policy outputs and outcomes and this, in turn, influence economic performance. The chapters that follow build on these points. Chapter 2 sets the stage for the succeeding chapters: it examines the state-vs.-market debate as it has been applied to the Thai and Philippine cases. First, the chapter examines growth patterns from 1950 to 2005, and draws attention to the dramatic growth of the industrial sector and the service sector in Thailand and the Philippines, respectively—a divergence in outcome that suggests different growth coalitions between governments and specific economic groups. The chapter then uses this to question the dominant narratives that attribute Thailand's economic success to market efficiency and the Philippines's middling performance to a captured Philippine state. The chapter argues that these narratives seldom match economic realities, but they persist because they help frame political contestation between incumbents and their rivals. I test this by examining closely how the governing elites in the two countries responded to specific episodes of debilitating economic crises. In the Philippine economic crisis of 1983 to 1985 and the Thai financial crisis in 1997-1998, the problems of financial mismanagement and "crony capitalism" combined and yet the Philippines focused on the issue of cronyism while Thailand stressed the issue of financial mismanagement. In the end, what influenced government response was the nature of political competition at that time.

Chapter 3 provides a detailed account of the two countries' history of state-building, focusing especially on the emergence and dynamics of Thailand's bureaucratic polity and the Philippines's proprietary polity. I pay attention to the historical interaction between state-building and economic policymaking processes in each country, focusing on two key conjunctures in the countries' histories: the 1930s when a new breed of political leaders took control of the central state and set new rules of political contestation that would persist through the last decades of the 20th century, and the 1960s and the 1970s when attempts to strengthen technocratic rule led to comprehensive government reorganization, directed by western educated technocrats working with international development agencies. The history of state-building and economic development in Thailand saw the country's bureaucratic elites turn to industrialization as a way to expand state revenues, rents, and grow capitalism as the social base of their rule. Industrialization in the Philippines began more tentatively, and mainly due to governing elites who also pursued commercial and agricultural interests. The chapter argues that the distinct way in which state power is organized in the two countries explains the differences in economic policy process.

Chapters 4 and 5 pursue the discussion on how institutional configuration of state power, as expressed in the embeddedness of governing elites in state institutions and the institutional arrangements between the political leadership and economic managers, shape policy outputs and outcomes. The chapters tackle the question of how the two countries set about implementing import-substitution industrialization (ISI) in the 1950s and 1960s and export-promotion industrialization (EOI), starting in the 1970s. While adopting broadly similar industrial development strategies, governments used different policy tools and produced different policy constituencies—the choices of which were historically and politically contingent. Because both Thailand and the Philippines were integrated into the global economy at the end of the 19th century and have since then been highly dependent on trade for state revenues, Chapter 4 starts with a brief discussion on the initial engagement between domestic elites and imperial powers as background condition to the subsequent implementation of ISI. The discussion then goes into how governing elites in each country pursued ISI, using distinct policy tools and strengthening particular economic sectors. In Thailand, protectionism was used to promote fledgling domestic agro-industries; in the Philippines, import controls also worked to empower Filipino traders. Chapter 5, on the other hand, ends with an explanation to the two countries' different patterns of sectoral growth—thus bringing the discussion back to the changes in their economic structures, first mentioned in Chapter 2. In 2005, Thailand had a relatively robust industrial sector that was anchored in the domestic economy while the Philippines had begun to experience deindustrialization. In the Philippines, a trend in sectoral development since the 1980s had been a division of labor where Filipino capital dominated commerce and foreign capital dominated manufacturing.

The conclusion, Chapter 6, summarizes the key argument: the two countries' divergent economic performance was a product Thailand's bureaucratic polity and the Philippines's proprietary polity. I outline four ways in which a country's institutional configuration of state power influences economic performance. As discussed in Chapters

3 to 5, these are (1) nature of political contestation, (2) presence of policy continuity, (3) use of specific policy tools, and (4) emergence of distinct policy constituency.

CHAPTER 2

Patterns of Economic Growth: Narratives and Realities

Thailand and the Philippines invite comparison for their diverging development trajectories. In spite of their shared attributes (ostensibly, their open economies but troubled polities), Thailand has successfully joined the elite group of newly industrializing countries (NICs) while the Philippine economy has yet to catch up in a region marked by rapid growth. Even while the Philippine economy has improved considerably in recent years (growing an average of 2.7% a year in real per capita GDP from 2001 to 2006—up from the previous decade's 0.9%), its performance pales in comparison to that of Thailand. In fact, according to the Asian Development Bank (2007), if the Philippines were to grow at this rate, two decades would still not be enough for it to reach Thailand's per capita GDP in 2006.[10]

These observations of growth in the two countries have contributed to the development of a dominant story line about the two economies and their economic performances. In general, the dominant narratives tend to privilege free market arguments: the Philippine account shows the direst consequence of state capture and the Thai case highlights free-market economic success. Many accounts of the Philippines

[10] The Asian Development Bank notes that it had taken the Philippines two and a half decades to attain a per capita GDP similar to that in 1983. As such, it calculates that, given this rate, it would take 26 years for the Philippines to double its per capita GDP, currently at US$1,175. Doubling this figure would still fall short of the per capita GDP of US$2,549 that Thailand registered in 2006 (Asian Development Bank, 2007, p.6).

stress how a promising economy has been derailed by corruption, captured and plundered by powerful social groups. As far back as the 1950s, the argument runs, Philippine governing elites managed to squander away the country's burgeoning manufacturing sector because of trade and industrial policies that favored inefficient crony firms. President Ferdinand Marcos's authoritarian rule removed all institutional constraints on predation and created state and crony monopolies that drained the country's resources, eventually leading to economic collapse.

In contrast, many studies of Thailand's growth economy stress the role played by the private sector. These studies credit the country's growth economy to Chinese entrepreneurs and domestic private banks, which financed industrialization in the post-war period. Thailand's economic take-off in the late 1980s has been attributed also to the growing role of foreign investors, especially Japanese businesses that came in droves to take advantage of the country's low-cost labor during this period. Such accounts present the Philippines and Thailand as paradigmatic cases—of the high risks that come with government intervention and the economic success that can be had with free markets, respectively. They give credence to the prevailing view among orthodox economists that Southeast Asia's economic miracles occurred due to the workings of the market's "invisible hand," and failures stem from an overreaching state.

A critical comparative analysis of the two countries' political economies, however, reveals gaps between the narrative and a much more complex reality. The argument that governments should stay out of industrial development, an area rife for rents, only makes sense if one looks at Thailand and the Philippines in isolation from one another. The standard account on the Philippines, linking declining industrial performance to bad governance and rent-seeking, in particular, does not reflect the fact that, from 1965 to 1973, manufacturing was growing at an average of 7 to 8% a year (Bautista 1981) and that by 1980, the sector's contribution to gross domestic product peaked at 26% (Weiss 2002). Only in the 1990s when the government had more thoroughly disengaged from industrial development and more embraced liberalization did its manufacturing sector experience contraction. On the other hand, Thailand's manufacturing grew, although some call attention to its dependence on government support and its capital intensiveness (Phisit 1988); these two factors also characterized Philippine industrialization at least up until the 1980s, and some argue that they explain the Philippines's slow growth (Baldwin 1975, Dohner and Intal 1989). A historical, comparative approach reveals that there are real differences between the two countries, but not along the lines indicated by the countries' dominant narratives. Rather, as I argue in this dissertation, the difference lies in the countries' political economies and the specific economic policies that these give rise to.

In this chapter, I trace the broad outlines of the standard accounts given by official and academic sources to explain the Philippine economy's long-standing snail-paced growth, and Thailand's relatively rapid economic growth. The next section discusses the dominant narratives, assessing briefly how they fare against two sets of figures: average annual economic growth rates per decade and changes in sectoral growth. In comparing the two countries' patterns of economic development, I consider not only levels of growth but also their changing economic structure.

More than mere descriptive accuracy hangs in the balance. Standard narratives of economic performance contribute to the sorts of policy programs recommended for, and implemented by governments. Hence, in the last section before concluding the chapter, I give some attention to a specific period in each country when an economic crisis was so severe that it brought upon a deep recession. Such moments of crisis provoked intense policy debates and political polarization, and so put the policy prescriptions of these standard narratives most sharply to the test. The defining moment for the Philippines was the economic crisis in 1983 to 1986—a time when national political turmoil combined with a severe economic crisis to facilitate the shift from authoritarian to democratic rule. For Thailand, a similar moment dawned with the 1997 currency and financial crises, which took place at a time when the country was grappling with competitive electoral politics, financial liberalization, and the domestic economic surge.[11] This chapter demonstrates that while different explanations of economic performance exist, they are all framed by a guiding view of the appropriate role states play in markets.

Deconstructing Dominant Narratives

The dominant accounts of the Thai and Philippine economic performance rest on two general assertions: as the Philippine experience illustrates, countries suffer during periods when government plays a more pronounced role in economic development, and,

[11] To be sure, these crises were not specific to each country—that is, the debt crisis in the early 1980s and the 1997 financial crisis had international or regional dimensions and, as such, Thailand and the Philippines were adversely affected by both. Both crises impacted the Thai and the Philippine economies, albeit in varying degrees. There were also other periods of economic turmoil in each country's history. My decision on which crisis to focus in each country is based on the gravity of its impact on the economy. In these specific cases, the Philippine and Thai economies registered negative growth rates of more than eight percent.

as with the Thai case, the economy grows robustly when market forces are given freer play. The Philippine story of poor development has economic and political arguments. The "economic reform school" attributes the country's underdevelopment to low productivity that came from a long history of protectionism and the lack of government's political will to complete trade liberalization (Montes and Lim 2001). This school argues that the protectionist regime, consisting of foreign exchange and import controls, nurtured industries that were inefficient and, therefore, unable to compete in the global economy (Bautista et.al. 1979, Baldwin 1975).

The political argument investigates patterns of state-society relationship and rent-seeking. According to this view, Philippine governing elites, with ties to oligarchic families, used the Philippine state to facilitate the extension of colonial patterns of trade with the US and the adoption of import-substitution industrialization (ISI) in the 1950s that benefited domestic agrarian and manufacturing elites, respectively (Simbulan 2005, Rivera 1994, Wurfel 1988, McCoy 1993). The Marcos government continued this trend: by centralizing rent-seeking, previously dispersed among competing factions of the landed oligarchs, the government eliminated market competition altogether and directed state resources to vital industries Marcos and his cronies controlled (Boyce 1992, Doner 1992, Hawes 1994). In fact, the issue of state capture has been used to explain failed government efforts to build the domestic manufacturing sector both during the period of import-substitution industrialization in the 1950s and the period of export-oriented industrialization under Marcos (Hutchcroft 1998, Kang 2002) yet such assessments do not line up with global comparisons showing that from the 1950s to the early 1980s, the Philippines was among those identified as industrializing.

Thailand's story of economic development is one hitched to the neoclassical orthodoxy of free markets, which stresses market dynamism as a driver of growth. Two themes stand out in this approach. The Thai state is portrayed as weak (sharing the same attributes as the Philippine state in fact): it has a fragmented bureaucracy that lacks a clear vision (Lauridsen 2000), and governing elites who curry favors to business allies in exchange for board membership or a share of the dividends in their corporations (Muscat 1994, Rock 2000). Given such a "weak state," economic development and, in particular, industrialization have been attributed to the private sector—an argument said to be borne out by Thailand's economic history. International trade has always been critical to Thailand's economy. As far back as the 19th century, the country escaped colonization because of the monarchy's decision to give westerners equal access to the country's resources and markets (Riggs 1966, Pasuk and Baker 2002). As such, an entrepreneurial class grew largely independent from government because it was able to tap into Chinese networks and foreign capital for financing (Suehiro 1989, Anek 1992). Those who see the Thai state as relatively weak either attribute growth to the existence of a relatively robust business sector, notably the banking community (Christensen, Ammar, and Pakorn 1993, Kraiyudht 1995) or point to the government limiting its role to simply providing a stable macroeconomic environment so markets flourish (Warr and Bhanupong 1996).

Thailand's dramatic growth after 1985 is, therefore, presented as continuing this tradition of market-led growth. While the country, like the Philippines, was hit by the debt crisis in the early 1980s, it immediately undertook major reforms. It allowed the devaluation of the baht (twice in 1981 and 1984) and restructured industrial policy, thereby allowing it to benefit from the Plaza Accord in 1985. The Accord led to the appreciation of the yen, which then prompted Japanese businesses to shift operations to countries, notably Thailand, with lower labor costs. In the early 1990s, Thai policymakers also relaxed government controls over foreign exchange, commercial bank operations, and the stock market to mobilize domestic savings and attract more foreign capital for industrialization and infrastructure development (See Naris 1995: 170-174; Pakorn 1995). Financial liberalization worked to attract foreign investments, particularly in manufacturing, financial services, trade, and real estate. Japanese investments tripled and, for the first time, Japan overtook the US as the top investor in the country. Between 1987 and 1991, Thailand's GDP shot up to an average of 10.5 per year, led by the industrial sector, which grew at an average of 13.7% annually (NESDP 1992: 41). By the late 1980s, Thailand's economy seemed on track to becoming Asia's next tier economy.

Table I. Annual Average Growth Rate of Real Per Capita GDP, 1950-2006 (%)

Period	Indonesia	Malaysia	Philippines	Thailand
1951-1960	4.0	3.6	3.3	5.7
1961-1970	2.0	3.4	1.8	4.8
1971-1980	5.3	5.3	3.1	4.3
1981-1990	4.3	3.2	-0.6	6.3
1991-2000	2.9	4.6	0.9	2.4
2001-2006	3.3	2.7	2.7	4.0

Source: Asian Development Bank, 2007

A look at average growth rates for the period from 1951 to 2006 (Table 1) shows that Thailand has been one of the stronger ASEAN-4 performers, and has always outpaced the Philippines (which has consistently performed poorly) by a healthy margin. As such, comparative growth rates in the region seem to conform to the standard account that suggests a link between open markets and economic performance. Thailand, generally presented in the literature as having one of the earliest open economies in the region, has been an economic leader in Southeast Asia while the Philippines, long identified with a relatively closed economy and portrayed as a patronage and corruption-besotted laggard, had always trailed behind its neighbors.

That said, the growth trajectory of these countries over time suggests limits to the general narratives that seek to explain growth as a function of economic liberalization. Table I disaggregates the two countries' 50-year growth into 10-year periods and, in *those* intervals there is no good match between periods of growth and periods of liberalization. In Thailand, the fifties was a time of economic nationalism, when government aggressively promoted state corporations while the sixties saw government retreating from the economy and adopting investment promotions as a key industrial development strategy. Yet, the annual average growth rates of real per capita GDP in the 1950s, at 5.7%, was higher than that in the 1960s. In the Philippines, the post-war period when ISI peaked and the seventies when, under authoritarian rule, the country came closest to a state-led industrialization path, had relatively high growth rates compared to any other time in the country's history. As such, explanations of economic performance that rely simply on the state or market do not adequately account for changes in growth rates.

I will tackle the Thai and the Philippine economic history more fully in the succeeding chapters. For the purpose of the present discussion, suffice it to say that arguments linking open markets to robust growth and state intervention to slow growth do not seem convincing ways of explaining economic performance, unless one can explain away the spurious relationship between liberalization and growth. One might, for instance, theorize the existence of a significant lag effect in that relationship—but to date, there has been no theoretical account explaining why one would expect such a lag to exist, or what its causes might be. More likely, the economic impact of state involvement or open markets may not be evident in the short run. This discovery calls into question the causal argument itself, and underpins my explanation for the deeper roots of economic growth or stagnation.

Structure of the economy

Many analysts connect rapid economic growth in East Asia and Southeast Asia to factor accumulation (notably, increased investments) and allocation efficiency or the shift of resources from low productivity to high productivity economic activities (Jones and Lall 1998, Collins et.al.1996; Lim 1994).[12] If this is the case, then it makes sense to examine the changes in the country's economic structure as a way to help explain variations in economic performance. Disaggregated data—e.g., by sector and year—

[12] This does not mean that total factor productivity had not been important, especially to the first generation newly industrializing economies. Total factor productivity (TFP) differed across countries, and is perhaps more critical in hastening and sustaining economic growth than in the initial phase of take-off, strictly defined as the stage when the industrial sector overtakes the agricultural sector as the engine of growth. For the importance of TFP to sustain growth, see Sanjaya Lall, 2000, "The Technological Structure and Performance of Developing Country Manufactured Exports, 1985-98," *Oxford Development Studies* (28) 2: 337-369.

would give us a better appreciation of the shifts in the structure of growth. Shifts in factor accumulation and allocation translate into changes in the contribution of agriculture, industry, and services to GDP across time. For instance, growth might be explained by change in the flow of resources from low-productivity agriculture to high-productivity manufacturing. As such, an increase or decrease in the share of agriculture, industry (especially manufacturing), and services to GDP would roughly approximate the growth and allocation of factors (i.e., labor, land, and capital) among the different sectors.

FIGURE I. THAILAND SECTORAL DEVELOPMENT

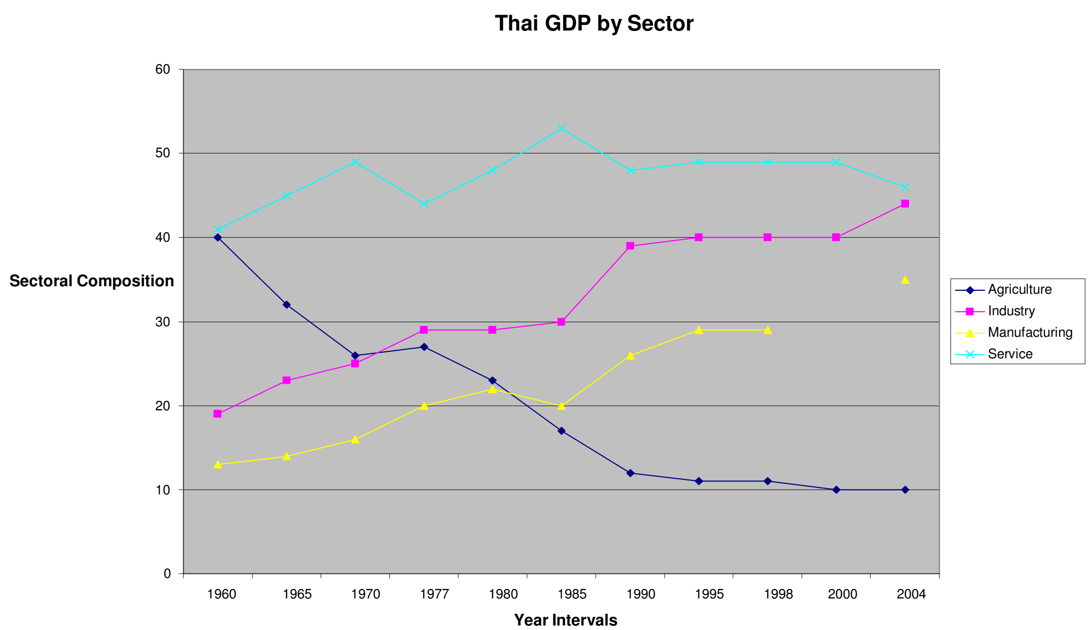
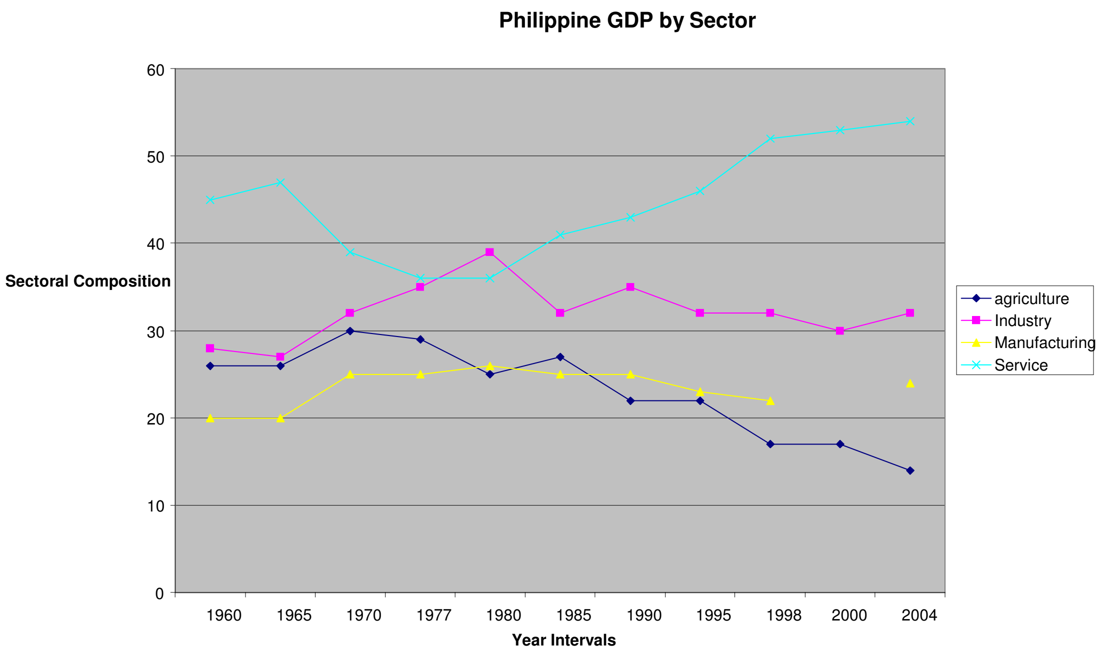


FIGURE 2. PHILIPPINE SECTORAL DEVELOPMENT



An examination of sectoral growth as a percentage of GDP in Thailand (Figure I) and the Philippines (Figure II) between the period of 1960 and 2005[13] shows three general trends: 1) the gradual decline of agriculture's contribution to GDP in both cases; 2) industrial sector and manufacturing growth rates for Thailand and the Philippines differed markedly, with Thailand recording strong and consistent gains and Philippine industry and manufacturing generally declining; and, 3) in both cases, the service sector also expanded, but that expansion was far stronger and more sustained in the Philippines than in Thailand. The difference between the two countries lies in the patterns of sectoral

[13] In the discussion on sectoral growth, I use mostly figures from World Development Reports of various years. I will indicate other sources along the way. In the main, I rely on WDR for consistency. The x-axis represents five-year intervals from 1960-2005, with the first interval (1) representing 1960.

growth—in the proportion of each sector's contribution to GDP and in the timing of the growth per sector: as agriculture diminished as a proportion of GDP in both countries, productive energy generally shifted to industry in Thailand, and to the service sector in the Philippines.

These figures suggest that clear difference exists in the relationship between Thai and Philippine economic sectors, and particularly in the distribution of growth across those sectors. While industry grew at the expense of agriculture in Thailand,[14] both sectors declined as a share of total GDP in the Philippines. The Philippine industrial sector grew rapidly between 1960 and 1980, during which time agriculture also increased slightly. By 1980, both agricultural and industrial sectors' contribution to GDP began to decline; agriculture's share has dropped considerably since 1995. Rather than absorbing lost economic activity, as the Thai industrial sector seems to have absorbed activity lost to agriculture, Philippine manufacturing and industrial activity gradually went down alongside declines in agriculture.[15] Manufacturing's contribution to the economy had changed very little since the 1970s and declined slightly in 1995—almost a decade after the post-Marcos democracy adopted free trade policies more aggressively. Not only does this trend pose sharp contrasts with Thailand; it also calls into question the impact of liberalization, which purportedly was undertaken to make domestic industries more

[14] This was particularly true for the rice industry that was heavily taxed after World War II to raise state revenues, partly to finance the government's industrial projects.

[15]In the Philippines, industry grew more rapidly until 1980; since 1970, manufacturing levels changed only incrementally, meaning that construction and mining, rather than manufacturing, contributed to the 1970s' spike in industrial growth. (In fact, this kind of industrial expansion is precisely what one would expect Marcos's extensive martial law infrastructure development program to produce.)

competitive.[16] In fact, one study on the Philippine economy noted that, during two decades of liberalization that began in the early 1980s, only the service sector prospered while manufacturing declined and the country's export structure became less diversified (Montes and Lim 2001).[17]

In Thailand and the Philippines, the service sector has been a major driver of economic growth. In both countries the service industries, including wholesale and retail trade, tourism, real estate, utilities, and banking and finance, have contributed a large, if not the largest share to GDP. Nevertheless, the Philippine service sector expanded far more than the Thai service sector. Figure II also suggests that the sector accounted for a great deal of the economic activity lost to agriculture. More, the timing of service sector expansion also differed between the two cases. In Thailand, the service sector played the

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[16] Philippine economists, citing regression studies, suggest that trade restructuring done under the governments of Corazon Aquino (1986-1992) and Fidel Ramos (1992-1998) had led to "an increase in the overall level of competitiveness of the manufacturing sector." Nevertheless, some also note that such findings do not conform to a reality of a stagnant manufacturing sector. See, for instance, Medalla (2002).

[17] Lim and Montes (2001) trace the problem of the Philippines's low-performing economy to the country's perennial balance of payment crises that different administrations had sought to remedy by entering the IMF-World Bank structural adjustment programs (SAPs). The authors argue that the adoption of SAP's tight credit and trade liberalization policies hurt domestic manufacturing—as evidenced in the decline of its contribution to GDP. On the other hand, the service sector's resiliency is due to it being less dependent on imported inputs and financial credit.

This study helps explain the Philippine pattern of sectoral growth, and is particularly effective in showing how liberalization can lead to deindustrialization. Nevertheless, when the Philippine case is compared to the Thai experience, explaining low economic performance as a function of macroeconomic instability or trade liberalization also proves insufficient. Thailand started the 1980s by undertaking structural adjustment and liberalization in response to a balance of payment crisis and yet ended the decade with a stronger industrial sector. I attribute this discrepancy in economic outcomes to variations in the institutional settings that shape governing elites' incentives in developing the economy. I address issues tied to liberalization more fully in Chapter 5.

lead role until recently: in 2005, the industrial sector's contribution to GDP rose to 47% while the service sector went down from 49% in 2000 to 44% in 2005. In the Philippines, the service sector was overtaken by the industrial sector sometime between 1977 and 1983. Since 1980, services have grown rapidly, once more surpassed industry, and peaked at 53% in 2005—a benchmark indicating that the Philippines has become a service economy. While contemporary Thai development has partly reduced the role of services and expanded manufacturing, in the Philippines, the service sector has grown more important all the time. This relationship between productive and service sectors in the Philippine economy is telling. The trend—defined as "premature deindustrialization" or the fall in the share of manufacturing jobs in a country with relatively low per capita income levels (Dasgupta and Singh 2006)—has currently generated some debate in policy and business circles.[18]

Changes in the country's economic structure help identify which economic interests are flourishing and give us another way to check the veracity of the standard narratives. Particularly for the Philippines, the standard narrative that attributes rent-seeking between the state and domestic industrialists as the obstacle to growth flies in the face of a reality: manufacturing has always come in third in the Philippine economy, and does not expand appreciably during periods of liberalization (periods when the dismantling of controls can be expected to diminish rents and their inhibiting effect on industrial growth to wane). More significantly, Figure I demonstrates an expansion of the service sector under periods of liberalization—suggesting that, if anything, nonproductive

[18]Briefly, there is some concern within the Philippine academic and business circles over government policies that promote the service sector (e.g., outsourcing and tourism) and neglect the manufacturing sector. One question is the sustainability of such a growth pattern. See, for instance, Yap and del Prado (2007).

economic activity has been most hampered by rent-seeking practices. This dissertation seeks to explain these divergent trends in sectoral growth. In particular, divergent sectoral performance in the two cases reflects the way that government intervened in the economy, and the interests that intervention supported most strongly.

Finally, before moving on to the next chapter, I examine the Thai and Philippine governing elites' responses to deep economic crises as yet another way to see how the dominant narratives hold up during periods when governments are struggling to gain or regain political legitimacy and economic viability. In the latter quarter of the 20th century, both Thailand and the Philippines experienced economic collapse. The critical juncture for the Philippines was the economic crisis in 1983 to 1985—a time when intense political and economic crises facilitated the shift from authoritarian to democratic rule. For Thailand, the moment was the 1997 currency and financial crisis, which took place at a time when the country was grappling with a contentious parliamentary democracy, financial liberalization, and high-speed economic growth. These crises were moments of intense policy debates and political polarization—a situation that carries with them the potential of a realignment of economic forces.

Two Tales of Economic Collapse and Survival

Comparing how the Philippines and Thailand handled the 1983-1985 economic debacle and the 1997-1998 financial crisis, respectively, is instructive since the crises share key features. Both crises contributed to regime change: in the Philippines, it hastened the downfall of the Marcos regime and the restoration of political democracy under Corazon Aquino; in Thailand, the parliamentary processes saw a turnover of power from Prime Ministers General Chavalit Yongchaiyudh (1996-1997) to Chuan Leekpai (1997-2001). Both crises were caused by a combination of economic and political, domestic and international factors. During these periods, criticisms of economic mismanagement (especially in addressing the global market's instability and debt issue) and crony capitalism competed for policymakers' immediate attention. In the Philippines and Thailand, the World Bank-IMF played a critical role in post-crisis stabilization, bringing in funds to push for the twin-program of belt-tightening and liberalization.[19] These dire economic situations bring into sharp focus how governing elites in each country interpreted and acted in response to potentially path-breaking crisis, and in whose interest they did so. In search of solutions to turn the economy around, governing elites faced two complementary, if not alternative explanations for the crises: one stressed financial mismanagement and another, crony capitalism. The discussion below suggests that certain narratives prevail over other contending narratives due to the role they play in the political contests that follow such critical conjunctures.

[19] It can be argued that Thailand's 1997-1998 crisis was more of an international phenomenon, and the Philippine 1983-1985 crisis had stronger domestic roots. Nevertheless, since this section examines how policymakers responded to these crises, rather than the different crisis origins, the two events still provide suitable comparative opportunities.

The Philippines and the 1983-1985 debt crisis

For the Philippines, the fall of the Marcos government could not come soon enough. When the Filipino people finally succeeded in ousting him in late February 1986, Ferdinand Marcos had been president for 28 years, about 14 of these under martial law. The first and only experience of the country with authoritarian rule also was the closest that the Philippines came to adopting a state-led developmental model. Martial law's early years saw the rise of technocrats, aligned with the IMF-World Bank, as the preeminent developmental actors. Nevertheless, as the decade of the seventies ended, Marcos cronies came to control key export industries (e.g., coconut, sugar, automobile) in the country. The Marcos regime embarked on an ambitious industrialization program in the latter half of the 1970s, involving relatives and political allies. In the end, corruption became the defining feature of the Marcos years, with the erstwhile First Family reportedly getting away with some \$5 to \$10 billion (Aquino 1987)—a staggering amount especially when one also take into account the country's foreign debt at that time was \$28.3 billion (Broad 1990, Boyce 1992).

My analysis of the Philippine economic collapse begins with an unprecedented balance-of-payments crisis and intensifying political instability that hit the country at the start of the eighties. The BOP problem was an issue that struck at the core of the Marcos's government's development strategy that relied heavily on foreign loans for financing. When Ferdinand Marcos (1965-1986) imposed martial law on September 21, 1972, the regime put into high gear an industrialization strategy that was to be funded by foreign loans and investments. After a little over a decade under martial law, the country's external debt grew from \$5.1 billion in 1976 to \$14.8 billion in 1981 (Ofreneo 1985: 162).

The long-term debts incurred by the Marcos regime since its first term in office when it began accessing petrodollars in the international banking community to finance an ambitious infrastructure development program came due at a time when the world was reeling from two oil price hikes, high interest rates, and a global recession—external factors that largely explained a decline in economic output and export earnings. In January 1981, caught in the sudden increase of international interest rates, a Marcos crony, textile magnate Dewey Dee, fled the Philippines leaving \$80 million in unpaid debts. The incident triggered a run on several investment houses, more general capital flight, and the eventual collapse of the money market (Dohner and Intal 1989: 496). The financial crisis, however, was a mere harbinger of the crash still to come, since many of the country's financial institutions and business enterprises had begun in the early 1980s to rely heavily on short-term loans, sourced from the money market to tide them over the economic crunch. In 1983-1985, the Philippines experienced its worst fiscal crisis, and government devalued the peso three times between 1984-1985 to discourage imports and capital flight and imposed tariffs and export taxes to increase revenues (thereby, effectively reversing the IMF-prescribed trade liberalization program that government began in 1980) (Lamberte et.al. 1992: 319).

Such government efforts did little to abate an economic crisis, exacerbated by growing political instability that came in the aftermath of the assassination on August 21, 1983 of opposition leader, former Senator Benigno Aquino Jr., which raised the numbers of the upper and middle-class participants in urban street protests and stoked further a decade-old armed communist insurgency in the countryside. At the same time, news reports of Marcos's failing health due to a degenerative kidney disease put into sharp focus the question of succession. Many point to the Dewey Dee scandal and the Aquino assassination as the beginning of the deterioration of the country's balance-of-payments, forcing the government in 1983 to call for a debt moratorium. The drying up of external credit and capital flight during this period prompted the government to seek an IMF bail-out, stabilization loan; in exchange the government undertook a wide-reaching program of austerity and liberalization (Bello et.al. 1982, Broad 1990). One study estimates that investments during this turbulent period declined by as much as 65% (Lamberte et.al. 1992: 320).

When President Corazon Aquino assumed power in February 1986, she confronted the Herculean twin task of restoring democratic rule and putting a battered economy in order. Immediately, she set out to dismantle vestiges of authoritarian rule: on the political front: this meant ushering the adoption of a new constitution and the reestablishment of the pre-martial law presidential system of government. But it also meant taking efforts to hem in and protect the new government from the vestiges of Marcos rule, to keep old Marcos allies from undercutting her regime, and in some ways, making sure that blame for the problems society faced were laid squarely on Marcos's doorstep. On the economic front, this meant having to deal with two distinct, albeit reinforcing problems of crony capitalism and the balance-of-payments crisis.

The new government's response to the two sources of the economic crisis is a study in contrasts. In general, the Aquino government was quite forthcoming with the issue of crony capitalism. Immediately after taking office as the eleventh president of the

Philippines, Aquino established the Presidential Commission on Good Government (PCGG) and tasked it specifically to go after the properties amassed by the Marcoses and his cronies (Executive Order Nos. 1 and 2). But this bold and unequivocal response to crony capitalism under Marcos, which included the outright expropriation of crony enterprises, contrasted with the more circumspect and careful response to the balance-of-payments crisis. The new government did not address the debt crisis as a global problem, even when it could have found common cause against foreign creditors with many other developing countries, especially in Latin America. Despite a debate within her government, President Aquino chose early on to honor all foreign debts at a time when countries like Brazil and Argentina were renegotiating with their international debtors for more favorable terms (Lamberte, et.al. 1992: 328). Yet particularly when one examines the comparative impact of debt servicing and crony capitalism on the economy, these decisions are puzzling and left lasting legacies. The 1980s has been deemed a lost decade for the country, partly because of debt service. In 1986-1988, for instance, payments on principal and interest amounted to $3.3 billion a year (Bello 2000: 241).

That the Aquino government prioritized anti-corruption measures, rather than undertaking a much more comprehensive critique of the Marcos government’s overall development strategy, might be partly due to the dominant explanation at the time on the Marcos years’ economic failures. Corruption became the defining characterization of the relationship between politics and economics during the Marcos years, and studies sought to highlight it as a cause for the political and economic crises in the mid-1980s. Some accounts focused on the rise and fall of a consummate politician who, with US backing, was able to manipulate the system for his own ends (Seagrave 1988, Hamilton-Paterson

1998); others examined the system of plunder (Aquino 1990, Manapat 1991) and its impact on the economy (Hawes 1987, Boyce 1992). These works also suggest that the magnitude of corruption was so big that it more or less single-handedly put the economy in the red.[20] Besides draining government resources, another consequence of crony capitalism was that it discouraged domestic and foreign investors from exploring new businesses or raising business profitability for fear of crony competition or government expropriation, respectively (Dohner and Intal 1998).

By the early 1980s, the analysis of developmental policy proceeded on the assumption that everything the Marcos government did was bereft of any development vision and, therefore, fair game for political attacks. Government projects such as the construction of a mass transit rail system and other high-impact infrastructure were interpreted as if they were no more than white elephant projects, established for the sole purpose of generating rents or personal commissions; the promotion of export industrialization was also seen as a wellspring of corrupt side payments to the regime and its cronies. Toward the end of the Marcos years, the politicization of policymaking frustrated plans by the government, for instance, to push Manila as a regional hub for medical and business tourism by setting up a number of highly specialized hospitals and convention centers. This plan, interestingly, was not unlike what Thailand is pushing

[20] Briefly, specific forms of corruption during the martial law period (1972-1986) included: taking over large companies, many of which had large public debts and were associated with the traditional elites; establishing monopolies in vital industries that were then managed by relatives and business cronies; granting government loans and contracts to individuals or firms close to the Marcoses; withdrawing money from government financial institutions; and, getting commissions from foreign firms doing business in the country.

today. At the time, however, few observers seemed to consider the logic of the development strategy. A turning point in the whole program came with the bombing of the Philippine International Convention Center on November 3, 1980 during the opening of the American Society of Travel Agents. A clandestine group calling itself the April 6 Liberation Movement, identified with the elite opposition, claimed responsibility for the bombing. Prime Minister and Finance Secretary Cesar Virata, the foremost technocrat during the Marcos years, cited the incident as an example of how long-term development goals were sacrificed for immediate political ends.[21] My point here is not that these development plans would have worked out as they have in Thailand. Rather, I wish to highlight that in the politicized atmosphere at that the time, and the politics of analysis that has followed, few have seriously been inclined to view these programs on their developmental and economic merits.

The standard account of Philippine failed industrial development under President Marcos, that is to say, has an important political dimension. By isolating the economic crisis to crony capitalism, the new government was also able to insulate itself from problems it linked to the politics of the Marcos government. The analysis did more than give Aquino breathing room: it also played to the interests of the people who rose to power in the transition. The year 1986 saw a realignment of the people who would comprise the country's governing and economic elites. The new government vowed to remove all vestiges of authoritarianism, narrowly interpreted as the removal of top-level bureaucrats (Carino 1989, Endriga 2001) and marginalization of economic elites, identified with the Marcoses. The transition also occasioned a realignment in the

[21] Interview with author on May 10, 2007.

domestic business community. Some of the traditional economic elites, who were sidelined but survived the Marcos years, were able to get back their properties when the Aquino government privatized expropriated assets (Lamberte 1992: 323).

The new government was peopled by members of the pre-martial law economic elite families, many of whom saw their fortunes wane during the dictatorship, and by technocrats who lived through the folly of an overreaching state. Both groups shared an interest in clipping the powers of government, especially in industrial development—regarded as a fount of rents. Two key executive orders (EO) reflected this government preference. On July 26, 1987, President Aquino issued EO 133, providing for the reorganization of the Department of Trade and Industry, which included the abolition of the Bureau of Industrial Development—the unit responsible for developing industrial policy. In July 1991, EO 470 expanded the scope of trade liberalization by reducing the number of commodities with high tariffs and increased the number of commodities with a low tariff over a five-year period.[22]

The threat of comprehensive trade liberalization was resisted by domestic industrialists who organized the Federation of Philippine Industrialists (FPI) in an attempt to influence policymaking. EO 470, in fact, represented a compromise from the original intent of government for more drastic tariff reforms. Nevertheless, because industrial

[22] This was, in fact, the second round already of trade liberalization under the Aquino government. When it took over in 1986, the new government resumed the 1980 tariff reforms that the Marcos government was supposed to have undertaken but reversed due to its need for revenues. In this first round, Aquino reduced the number of regulated items from 1,802 in 1985 to 609 in 1988 and abolished export taxes on all products except logs (Clarete 2005).

development policy had been identified with the Marcos regime, domestic manufacturers were put on a defensive position. According to Meneleo Carlos, former FPI president and chair of one of the country's oldest chemical manufacturing firms, the sector had been made to bear responsibility for the losing competitiveness of Philippine industries when, in fact, government neglect of agriculture, leading to increasing cost of food, and practice of giving franchises or monopolies to energy, telecommunication, and other basic service operators had been critical factors, raising production costs above those in neighboring countries.[23] Equally important, Filipino manufacturers during the transition had yet to recover from the devastation brought about by the debt crisis. The Marcos government had previously established an initial $635-million industrial assistance fund, which covered mostly but not exclusively crony firms (Haggard and Kaufman 1992: 236). Yet, despite such assistance, many firms did not survive the transition, partly because of the political backlash against the previous government and an industrial policy that became synonymous with crony capitalism.

Thailand and the 1997-1998 financial crisis

The severe 1997-1998 economic crisis and recession proved a rude awakening to Thailand. After registering a growth rate of almost 9 percent from 1985 to 1995, Thailand's economy came to a screeching halt on July 2, 1997 when the government floated the baht after losing some $30 billion of its original $32 billion international reserves defending its currency against speculative attacks. The baht's precipitous fall

[23] Interview on April 23, 2007.

(from 25 to more than 56 baht to a dollar in January 1998) sent the business community reeling. The stock market plunged 75%; more than half of all bank assets were revealed as being non-performing loans (Menkhoff and Chodechai 2007, Overholt 1999). The economy contracted by about 10% in 1998.

The beginnings of the crisis followed the same pattern that had occurred a decade earlier in the Philippines, combining both economic and political dimensions. Briefly, financial mismanagement combined with crony capitalism to make Thailand's high-growth economy highly vulnerable to the vagaries of the global economy. Like in the Philippines, problems with Thailand's development trajectory were apparent long before the 1997-1998 crash.[24] Thai authorities' fuller embrace of financial liberalization, without instituting more prudential regulations, led to the financial bubble of 1993-1996. Despite the dramatic increase in financial flows since the 1985 Plaza Accord, Thai authorities had been slow to adopt measures modernizing the financial system. The Bank of Thailand did little to improve its auditing capacities and to ensure that commercial banks upgrade their accounting, loan evaluation, and risk management systems. Traditional and dubious corporate practices remained: for instance, commercial loans continued to be given out based on arbitrarily-valued collateral, personal and business connections as well as specific booming sectors (thereby, promoting bubbles) while most non-bank companies, which were family-owned, preferred taking out loans rather than seeking out new investors (Pakorn 1999). Government was also slow to reform the stock

[24] Unless cited otherwise, this section on financial mismanagement is based on Ammar (2001).

exchange that since its establishment in the early sixties had served as the dumping ground of Thai business conglomerates' more poorly-performing projects.

Equally harmful to the Thai economy was an overvalued baht. The value of the baht had remained unchanged despite a 10-year economic boom and the appreciation of the US dollar beginning in April 1995. Thailand's fixed exchange rate not only made exports more expensive than those of other countries, it also created incentives for domestic commercial banks to access what had become relatively cheap foreign loans. In 1996, therefore, the country's outstanding external debt rose to a staggering $90.5 billion, up from $52.1 billion only three years earlier (Ammar, Yos, and Pakorn 1999: 3). Since they could more easily borrow from abroad, domestic commercial banks were no longer limited by the amounts raised in domestic deposits (Medhi 1999) and the domestic corporate sector, awash with cheap foreign credit and faced with stiffer competition, began to engage more and more in risky business activities. "Maturity mismatch," for instance, arose because domestic banks accessed foreign loans with short-term maturity while delivering domestic credit with long-term maturity (Ammar 2001: 13).

In 1993, the Bangkok International Banking Facility (BIBF) was also established to liberalize the currency market and position Thailand as the region's premier financial center. Through the BIBF, domestic and foreign commercial banks in Thailand could accept deposits and loans in foreign currencies from abroad, and lend them to borrowers based in the country and overseas. The emergence of offshore banking facilities through the BIBF contributed to the crisis in at least two ways. First, the BIBF lowered the transaction costs of foreign borrowing and the subsequent credit boom in the country, in turn, facilitated investments in real estate and other non-productive activities that did not earn foreign exchange for the country, and, second, the creation of a poorly regulated offshore baht market facilitated the speculative attacks of 1996-1997 (Ammar 2001: 11).

These weaknesses in the financial system, papered over by the decade-long economic boom, became apparent in 1996 as soon as export earnings began to decline. With the decline in economic performance, doubts emerged on Thailand's ability to service its large current account deficit (Medhi 1999: 405). Equally critical, the drastic devaluation of the baht and subsequent collapse of heavily indebted firms in 1997 also revealed weak corporate governance—sending jitters among foreign investors who came to realize that the country's traditional accounting practices "tolerated a high level of opacity in financial reporting," and that discovery made it difficult to know the real state of domestic businesses (Overholt 1999: 1017). Foreign creditors, moreover, found out that they could not simply seize the assets put up as collateral by defaulting debtors on account of bankruptcy laws that were first written for an agrarian society, which made it hard for landlords to foreclose debtor peasants' lands. Financial mismanagement (leading to the combined problem of an overvalued baht and lack of prudential regulations) triggered massive capital flight.

That said, economic factors were only one half of the picture. Political factors also played a critical role in transforming the currency crisis into a full-blown economic crisis. Like in the Philippines, the close relationship between government officials and the business sector led to ill-advised policies and corrupt practices that undermined investors' confidence and created inefficiencies (Medley and Carroll 2002). Two scandals rocked the Bank of Thailand (BOT) in the months leading up to the crisis: in 1996, the BOT bailed out the bankrupt Bangkok Bank of Commerce, found to have given loans secured by overvalued land deeds to several politicians identified with then Prime Minister Banharm Silapa-archa (1995-1996); in another, the BOT governor reportedly got stocks from a financing firm at the time the said firm was applying for public listing.[25]

In truth, the charges of corruption are not new in Thailand's political economy. Many historians note that corruption has always been built into the fabric of Thai governance since the days of the monarchy, when government officials were allowed to receive gifts from clients as part of their income (Van Roy 1970, Hicken 2001). Beginning with the abolition of the absolute monarchy in 1932, the country's military rulers and their close allies established new avenues for personal enrichment: from establishing state enterprises to becoming board members of Chinese or Sino-Thai companies in need of government protection and state rents. Nevertheless, the economic boom, the advent of competitive electoral politics in the 1980s, and liberalization combined to put the issue of corruption more emphatically and publicly on the national agenda. In 1991, military officials first used allegations of government corruption to legitimize a coup against a democratically elected government and the subsequent transfer of power (Pasuk and Sungsidh 1994). At that time, the Chatichai Choonhavan government (1988-1991) was then condemned for the irregularities surrounding government contracts it gave out as it privatized the process of infrastructure development (Doner and Ramsay 1997: 172). As electoral democracy gained ground in the 1990s the so-called "money politics" (notably, vote-buying and influence-peddling) began to wreak havoc on the policy process (Girling 1996, Hewison 1997). Weak

[25] Thitinan Pongsudhirak, "Thailand's Incompetent Government Cries Out for Reform," *International Herald Tribune*, August 12, 1997.

electoral and political institutions increased special interests' ability to delay Thai authorities' response to early warning signals and resolve to undertake needed structural reforms, thereby, increasing investors' insecurity and prompting massive capital flight (Haggard and MacIntyre 2000).[26]

The international community raised the ante by framing the 1997 crisis as a question of "good governance" (Lim 2004). The IMF and the World Bank, in particular, used the Asian crisis to draw attention to what they perceived as growing inefficiency among Thai firms, attributed in their analysis to the central role that political connections played in Thai business practices. Based on these allegations, analysts at the two multilateral institutions recommended several solutions, including reforming foreign investment laws to allow greater foreign participation in domestic industries and strengthening the stock exchange to encourage the public listing of domestic corporations. In November 1997, a few months after the crisis hit and driven in large part by the good governance analysis of the financial mess, the government leadership changed from General Chavalit to Chuan Leekpai. The Chuan government accessed an IMF loan and set about improving the regulatory environment and the Bank of Thailand's capabilities. In the transition, key reforms included: the adoption of a new constitution, highlighting good governance as a guiding principle and setting up the National

[26] Haggard and MacIntyre (2000) argue: "Thailand's particular combination of parliamentary structure and multiple weak political parties produced a consistent pattern of very shaky and short-live coalition government. This produced a heavy bias away from public-goods oriented policies and towards pork-barrel style particularistic policies. Not only did this contribute directly to the accumulation of economic distortions that underlay the outbreak of the crisis in Thailand, it greatly compounded the difficulty of dealing with the crisis once it began….The government's vulnerability to defection and coalition collapse meant that a relatively small group within the government was able to veto plans to move against failing financial institutions (p. 59)."

Commission on Corruption; the passage of new bankruptcy and foreclosure laws and setting up of a bankruptcy court; and, the establishment of the Corporate Debt Restructuring Advisory Committee in which government would help mediate between creditors (banks) and debtors. In accordance with the IMF recommendations, the period 1997 and 1998 saw a rapid increase in acquisitions and mergers of many domestic businesses (Dixon 2004).

A year into the Chuan government, however, the implementation of structural reforms began to slow. The government was less quick to implement more drastic recommendations, such as further opening the economy to foreign capital participation as a way to solve domestic firms' financial difficulties and inefficiencies. One study cites the powerful lobby of the Association of Finance Companies through its association with the Chart Pattana Party for the loss of government momentum to restructure the financial sector (Haggard and MacIntyre 2000). Moreover, while foreigners were allowed majority ownership in domestic firms under the Foreign Business Act passed in 2000, their participation continued to be limited in about 57 specific economic activities on grounds of national security, cultural considerations, and environmental issues (Dixon 2004: 47). By 2002, foreign capital flows began to taper off.

While recognizing the role played by political interference and bad governance in the crisis, Thailand's economic managers stressed financial mismanagement as decisive in the economy's undoing. The Nukul Commission, established by the Chuan government in 1998 to investigate the causes of the financial crisis stressed the following factors: "lack of coordination among the [Bank of Thailand] governor and his deputy governors; an insistence on the part of policy makers at the bank to protect and maintain a virtually fixed exchange rate system; the lack of guidance from top government leaders, especially the Finance Minister and Prime Minister himself; the adoption of the swap system in the foreign market that masked the serious nature of the currency attack; and, the careless ways in which foreign exchange reserves were squandered within a short period of time" (Medhi 1999: 407-408). As Thai policymakers saw it, the stable exchange rate masked excesses that emerged over the course of the 10-year economic boom, a rising dollar raised the baht above other Asian currencies, and financial deregulation increased volatility.[27] Together, these factors created the 1997 economic meltdown.

In contrast to their Philippine counterparts, Thai industrialists were in a better position to lobby government during the transition, mainly because as a group their numbers and political clout had increased over the past decades. This observation is supported by the pattern of sectoral growth as represented earlier in this chapter in Figure I, showing the steady growth of the Thai industrial and manufacturing sectors. By the 1970s, Thai businesses, represented by peak associations,[28] came into their own as a political force, and many from this community entered policymaking through the parliamentary route (Anek 1992). Thus, it could rightfully be argued that vested interests intervened in the resolution of the crisis. That the Thai economy managed to rebound after a few years leads us to wonder, however, what would have happened if they had not.

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[27] Separate interviews in Bangkok with Chatu on November 22, 2006, and Dr. Twatchai Yongkittikul, secretary general of the Thai Bankers' Association, on October 17, 2006.

[28] These peak associations are the Thai Bankers Association, Federation of Thai Industries, and the Thai Chamber of Commerce.

The distinct history of political contestations in Thailand and the Philippines helps explain the different fates of their industrial sectors after the deluge. In both countries, crony capitalism was a factor in the economic crises, but the issue was less identified with industrialization as a national agenda in Thailand than in the Philippines. Government participation in industrial development quickly lost legitimacy in the Philippines. On the other hand, although many Thai businesses went bankrupt in 1997-1998, as a sector, domestic manufacturing firms did not suffer the same political backlash as the Marcos crony firms. In fact, despite close government-business personalistic relations persisting in Thailand's industrial development, frequent political transitions, often via military coups, were less disruptive to businesses in the Thai economy than in the Philippines, indicating that even when they lost the support of specific backers in government, Thai business itself had little to fear from new regimes. This discussion leads us to an examination of the different institutional configuration of state power in the two countries—a discussion I turn to in the next chapter.

In the aftermath of the 1997 crisis, the domestic corporate sector's resistance was not only limited to the IMF prescriptions. It also balked at being portrayed as crony capitalists by the international community. As Pasuk and Baker (2004) state:

> Most local businessmen interpreted the crisis quite differently…. Most businessmen, big or small, did not see themselves as proponents of any 'Asian' model or as 'crony capitalists'. Rather, they felt they made two mistakes which brought about their downfall. They had followed market forces by seeking credit from the lowest-cost supplier (foreign loans), and they had believed their government when it promised the baht would remain pegged to the dollar. Many businessmen perceived the IMF-inspired policies towards the crisis as an

> abdication of the government's usual relationship to domestic capital (pp. 75-76).

Indeed, it was against this backdrop that the first prime minister coming from the business sector emerged. In February 2001, Thaksin Shinawatra led the *Thai Rak Thai* (roughly Thai Loves Thai) Party to electoral victory, using economic nationalist rhetoric to carry the day.

To summarize this section, the crises in the Philippines and Thailand shared some key features: both had their roots in the mutually reinforcing problems of financial mismanagement and crony capitalism. Nevertheless, the specific nature of the crises and the corresponding government responses fundamentally differed. For one, as discussed above, the crisis in Thailand was less politicized and less a product of intra-elite political struggles. Indeed, while the post-Marcos governing elites in the Philippines saw the 1983-1985 crisis as a problem of too much government, their Thai counterparts saw the 1997-1998 crisis as reflecting weak government regulations at a time of intense volatility. As far as Thai policymakers were concerned, the issue was too little government.[29] Given their different interpretations of the problem, Thailand generated a far more technocratic solution to the crisis, in contrast to the political response that seemed more natural to Filipino policymakers.

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[29] As leading Thai economists of a public-private think tank argued: "Overall, the central authority was to bear the blame for three accounts; (a) liberalizing the country's capital account without freeing up the baht exchange rate, (b) prematurely liberalizing practices of domestic financial institutions, and, (c) failing to prudently examine plus supervise those local financial institutions" (Ammar et.al. 1999: 24).

That said, however, the different orientation of the two countries' governing elites was also a factor in their crisis response. Their contrasting approaches to foreign creditors and domestic business interests were particularly instructive. Despite being itself close to bankruptcy, the Thai government undertook its own version of government bailout of distressed financial institutions—a plan requiring at least 1.5 trillion baht in August 1998. This rescue plan was, moreover, framed to provide security to individual depositors and so aimed at averting more bank runs.[30] In contrast, in the Philippines, the Aquino government chose to honor all foreign debts and, therefore, use up a substantial amount of the national budget in debt servicing, rather than to aid domestic firms. The stark contrast in the two countries' response to the crises suggests that governing elites were also catering to different policy constituencies and provides a clue to distinct policy outcomes—a discussion that I will develop in the succeeding chapters. For now, suffice it to say that Thailand's relatively quick recovery from the 1997-1998 currency and financial crises partly reflects governing elites' historical link to the country's financial and industrial sectors, which gives their economic perspectives a longer time horizon. This connection, and its absence in the Philippines also help explain why it took the Philippines almost two decades to grow to the size it attained in the early 1980s, and why the Thai economy, in contrast, took only about a few years to rebound.

[30] As then Bank of Thailand Governor, M.R. Chatu Mongol Sonakul said in a workshop held in Germany in 2001, restoring business confidence involved government providing a blanket guarantee to cover depositors' losses of financial companies that the government ordered closed (Sonakul 2001: 5). Other interpretations of the bailout were, however, less generous. For instance, a newspaper commentator, said that the government's rescue plan for ailing domestic banks to the tune of at least 1.5 trillion baht in August 1998 was a victory for "vested interests" (Hewison: 208).

Conclusion

This chapter questioned the dominant narratives that have commonly been used to explain Thailand's strong growth and the comparatively weak Philippine economic performance. As I have demonstrated, these narratives use free market arguments to explain Thailand's relatively robust economic growth and the Philippines's consistently low economic performance in terms of a predatory state. A cursory review of the two countries' growth patterns shows that periods of state-led development and periods of market liberalism did not correspond to faster or slower growth rates as the dominant narratives would predict. This chapter demonstrated that patterns of growth do not easily correlate to periods of economic openness. On the other hand, an examination of sectoral development patterns revealed that the structure of the economy in the two countries began strongly to diverge in the 1980s, when their governments began to more fully liberalize their economies. In Thailand, the economic structure gradually developed in ways that expanded the role of the industrial sector, while in the Philippines, productive sectors were overtaken by the service sector. Why does liberalization lead to divergent sectoral growth in the two counties, and what role does government play in that dynamic? Having dismissed the common argument that attributes growth simply to liberal economic policies, and stagnation to corruption and rents, this chapter has discovered two alternative puzzles. First, and most obviously, if liberal policies and state corruption do not explain economic divergence, what does? I explore the answer to this in an examination of different configurations of state power in the chapters that follow. Second, why do these dominant narratives persist? I argue that this question also attracts attention to the logic of political contestation in the two countries. The politics of economic development promotes Thai explanations that lean on questions of bureaucratic policymaking, while Philippine politics promotes ideas about venal politicians and out of control rents overtaking economic objectives. The chapter thus explored the reasons for this, elaborating in the process the politics of economic analyses.

The second part of this chapter examined how governing elites responded to comparable points of economic collapse—because those responses would seem to highlight deeper patterns of government activity and illuminate policy priorities. In the aftermath of Philippines's acute economic crisis in the early 1980s, its government adopted greater liberalization; in response to the economic crash in 1997-1998, Thai governing elites turned to greater regulation—exactly the reverse of what the dominant narratives would anticipate. Moreover, the contrasting patterns of government response reveal a far more politicized Philippine process, in which new governments attacked the social and economic bases of their predecessors, and an embrace of liberal policies worked to reverse course on many economic practices. The Thai move toward more regulation took place in a way that did not uproot existing economic programs and did not strongly politicize the process of economic correction. Moreover, the difference in their crisis responses suggests the different political calculations and policy constituencies of the two countries' governing elites.

This comparison is suggestive, rather than conclusive, but it sets the stage for the rest of this work. Why does the government approach to crisis differ so fundamentally in the two cases? What allowed Thai officials to approach the economic crisis with a measured and technocratic regime of regulation, and encouraged the deeper policy, program, and political reverses in the Philippines. I argue that answers lie in the deeper institutional configurations of state power, and how those configurations motivated state activity.

CHAPTER 3

State Configurations and the Politics of Economic Development

Thailand and the Philippines present distinct patterns of economic development, as discussed in the previous chapter. A comparative examination of the changes in their economic structures during the period between 1950 and 2005 reveals divergent trends in the growth of agricultural, industrial, and service sectors: while the industrial sector grew the fastest in Thailand, it was the service sector that gained the most in the Philippines. What accounts for this difference in growth pattern?

This chapter seeks to explain this divergence, and to continue the main argument of this dissertation. Differences in economic outcomes reflect the influence of differently configured institutions of state power in Thailand and the Philippines. As I use the term here, the institutional configurations of state power have two key attributes: the extent to which governing elites (notably, the political leadership and senior technocrats at the helm of economic agencies) are embedded in state institutions, and the pattern of interaction between these political leaders and technocrats in the development policy processes. This concern with configurations of state power helps identify key differences in the two cases.

The Thai configuration is described here (as elsewhere in the literature) as a "bureaucratic polity." The "bureaucratic polity" model was first used by Riggs (1966) as a heuristic tool to understand the operations of the Thai state and had since been widely used in Thai studies to refer to the political system that had prevailed in the country for more than six decades since the 1932 revolution ended absolute monarchic rule and installed the first of a series of ruling coalitions led by military rulers and senior civilian technocrats. As mentioned in Chapter 1, this dissertation adopts the model because of its focus on two variables of state structure that I investigate: the embeddedness in state institutions of governing elites and the relationship between the political leaders and technocrats who served as the country's top economic managers. The Thai bureaucratic polity model highlights the institutional roots of the Thai political leadership and technocrats in the military and civilian bureaucracies, respectively, and the relative autonomy of the economic technocracy from the political leadership.

On the other hand, for lack of an adequate comparable concept describing the institutional configuration of state power in the Philippines, I introduce the term "proprietary polity." The term captures a form of elite rule in which the political leadership is composed of personalistic politicians, whose rise to power was based on their personal wealth and social status rather than long-term membership in established political parties, the bureaucracy, or any other political institution. In contrast to their Thai counterparts who are organic to the bureaucracy, the Filipino senior technocrats who serve as economic managers are recruited from the private sector by political incumbents and serve at the pleasure of these patrons. As in the Thai case, the Philippine institutional configuration of state power is a product of the interaction between state-building and economic development processes.

This chapter has three sections. The following section extends Chapter 1's comparison of East Asia and the ASEAN-4 countries' political economies, and briefly discusses distinct approaches to development planning and industrial development policy as a way of understanding how different state configurations impact the policy process. In distinct ways, however, the story of development policy making is also a story of state building—and the contours of the Thai bureaucratic polity and the Philippine proprietary polity emerged during the policy making process. With East Asia's developmental state, industrial development stood at the center of development planning while, in the ASEAN 4 countries, development planning and industrial development policy ran parallel tracks. The next section then undertakes an historical comparative analysis of Thailand and the Philippine political economies. To show how politics and policy unfolded in Thailand's bureaucratic polity and the Philippines's proprietary polity, I continue the discussion on development planning and industrial development policy. Finally, I conclude by comparing Thailand and the Philippines in terms of historical legacies, the character of their governing elites, patterns of rent-seeking, and state responses to globalization.

Policymaking in Different Development Settings

National development planning has been used as a key policy instrument enabling late industrializing countries to restructure the economy in order to meet global challenges. In the 1950s and 1960s, with the international community moving into post-war reconstruction work and the decolonization process, medium-term national planning became the state-of-the-art development technology. As broadly conceived at the time, the development plan was a "technocratic conception of a feasible programme for the fulfillment of policy-makers' goals" (Wellisz 1971: 122). Among developing countries, international aid organizations and northern governments worked with post-colonial states to produce multiannual national development plans on which to tack specific projects for official development assistance (Waterston 1965, Milne 1982, Medhi 2000). A decade after, the emergence of Japan and, much later, South Korea and Taiwan as economic powerhouses set off the trend among late developing countries to expand the use of medium-term plans for state-initiated economic restructuring.

Johnson's (1982) pioneering work on Japan's developmental state first drew attention to the role development planning played in the country's race toward industrialization. In his study of Japan's economic miracle, Johnson stressed "plan rationality" as one of the key differences that the late developer had with advanced capitalist countries. Governments in advanced capitalist countries, which he called "market-rational states," were mostly concerned with setting up the rules (i.e., procedures and forms) of the market, rather than the substance of development. Since then, developmental states of the newly-industrializing countries (NICs) came to be identified with Johnson's "plan-oriented market economy" that put industrialization at the core of their development programs. This was true, for instance, for South Korea, where industrialization took place during the first two plans under General Park Chung Hee. In the 1970s, the military government controlled about two-thirds of total investment funds (Datta-Chaudhuri 1990: pp. 31-32), helping it follow through with its allocative planning.[31] In Japan and the other East Asian NICs, rapid industrialization took place under the aegis of a state that combined economic policymaking and budget planning.

[31] See also Kai H. Chung's (1974) discussion on state resource mobilization, pp. 441 and 443.

This relationship between allocative planning and industrialization policy has been identified with state-led capitalist development, where the government exercised substantial control over the financial system and allocated resources—notably, international aid inflow—as subsidized credit to select firms in priority industries. As with South Korea's "guided capitalism," planning authorities had substantial control over budgetary allocation and, partly in consequence, strongly influenced operational issues down to the firm level. A prerequisite to this integrated, comprehensive approach to development and industrialization, therefore, was "the centralization of the bureaucracy, headed by a technocratic leadership" (Doner , Richie, and Slater 2005: 344). Countries with a meritocratic tradition gave rise to centralizing governing elites that directed investments into strategic economic sectors. Partly toward implementing medium-term development plans, their national leaderships also sought to modernize and build highly competent and cohesive bureaucracies, capable of mobilizing resources and judiciously distributing these to targeted industries as well as of monitoring and effectively extracting performance across sectors (Amsden 1989, Wade 1990).

Since much of the development planning technology was shared international knowledge, Southeast Asian countries fashioned plans that covered a lot of the same ground. In keeping with the dominant modernization thesis then current, industrialization became the banner cry of newly-independent, "economically backward" countries, seeking equal status in the world community. The problem, of course, was that the herculean task of industrialization required empowered national states (Gerschenkron 1962, Kohli 2004) and a great deal of the difference between what happened in successful East Asian developmental states and subsequent efforts to develop in

Southeast Asia reflects, not variations in the central plans, but variations in the bureaucracies that eventually set out to implement them.

In fact, except for a Thailand that was never under direct foreign rule, planning in Southeast Asia's market economies became part and parcel of the decolonization process. In the first instance, planning provided former colonies and northern countries a common language in aid negotiations (Mehmet 1979). Malaysia and the Philippines began national planning under colonial tutelage, while Indonesia did so with assistance from multilateral agencies. Still under US rule, the Philippines experimented with planning in the mid-1930s with the creation of the National Economic Council; nevertheless, its first comprehensive and budgeted economic development plan was prepared by then Finance Secretary Manuel Cuaderno in 1948 while he was in Washington D.C., negotiating a loan with the International Bank for Reconstruction and Development or IBRD (Storer and de Guzman 1960: 12-13). Similarly, Malaysia's central planning was initiated (albeit belatedly) in accordance with Britain's Colonial Development and Welfare Act of 1940, which tied development assistance to "centrally administered schemes" (Rudner 1983: 419) while Indonesia set up its National Planning Bureau, with assistance from the United Nations, soon after the country won its independence from the Dutch in 1945. On the other hand, there were attempts in Thailand as early as the 1930s to undertake national economic planning in order to facilitate state-led agricultural and industrial development. This initiative, pushed by Pridi Banomyong, one of the key leaders of the ruling People's Party, was however resisted by conservative party members. (See, for instance, Pasuk and Baker 2002: 120-12.) The next time Thailand attempted to undertake national planning it was under the auspices of the World Bank; planning largely followed the recommendation of an IBRD-World Bank mission report in 1959 (Medhi 2000). All these early plans served largely as public expenditure programs, and the stewards of the national planning process were a generation of technocrats, many of whom were educated in western universities.

Eventually, governments expanded the scope of planning to cover economic and social programs. Instead of the allocative approach, however, Southeast Asia's market economies mainly adopted indicative planning—an approach that relies mostly on "the power of persuasion to affect the decision of firms, organizations, and households" (Alexander 1991: 101). In the main, indicative planning corresponds to the predictions and recommendations of development economics, which sees the government as playing a direct role in industrial development, but mostly in investment planning. Briefly, this school of thought argues that industrialization is the key to modernity and can be achieved in developing countries through massive capital infusion and accumulation—a task met by planning agencies formulating investment plans to influence the behavior of private actors (Datta-Chaudhuri 1990: 26-27).

With indicative planning, governments are envisioned to play a supporting role to the private sector in developing industry. Planning authorities in the ASEAN-4 countries, for instance, did not perform the role of a central lead agency that would orchestrate economic and industrial development. Rather, as Richard Doner et.al. (2005) note, in these countries, incentive-granting agencies served as focal points for industrial development. Whether it is the Philippines's or Thailand's Board of Investment, the Indonesia Investment Coordinating Board, or the Malaysian Industrial Development Authority, these agencies did not directly dispense resources, but rather administered the grant of tax relief and similar incentives, usually by other government bodies. Thus, in contrast to the East Asian model in which a centralized planning authority oversaw industrial development, in the experience of the ASEAN-4 countries, different agencies pursued development planning and industrial development. The location of incentives-granting agencies in the overall bureaucracy has implications for patterns of industrial development.

Perhaps more fundamental to our discussion of the apparent dichotomy between industrialization policies and the macroeconomic development plans, however, are the different interests at play among the governing elites and the path-dependent institutional arrangements between the political leadership and technocrats in the different governments. Southeast Asian countries are a diverse group, with different historical and colonial legacies and particular configurations of state and class formation (Anderson 1998: 3-6). Nevertheless, the ASEAN-4 social formations shared key attributes that set them apart from the earlier NICs. Because of historical legacies, both ethnic and class cleavages were much more salient in Southeast Asia than in East Asia. Colonial authorities brought in Chinese and Indian migrant labor to work on state projects and promoted the dichotomy between politics as the domain of indigenous elites and the economy as the preserve of foreign nationals, including the Chinese. Largely because of this beginning, the issue of ethnicity overlapped with class, and attempts to expand domestic capitalism first targeted minority ethnic groups, notably the Chinese.

In fact, many of the earliest indigenous capitalists emerged from the ranks of political elites who took over the post-colonial state or, in Thailand's case, wrested political power from the monarchy. In Thailand, Malaysia, and Indonesia: partly because the traditional economy was dominated by foreigners, many indigenous entrepreneurs got their start by using political connections to gain economic concessions. According to Ruth McVey (1992), because of this history, many of the first indigenous capitalists came from families of political elites; the class reproduced itself through these officials' heirs, many of whom eventually chose to disengage from politics to concentrate on business ventures. Thus, whether it was Sukarno's "Guided Democracy," Malaysia's New Economic Policy, or Marcos's "New Society," episodes of state intervention in the economy tended to work to redistribute assets and opportunity usually from the entrenched economic elites to an emergent business class, sometimes through state expropriation, rents or income transfers through taxes and subsidies, or affirmative action activities. In these instances, Southeast Asian emergent political and economic elites, mired in contentious relations, attempted to use planned resource allocation to serve sectarian interests. Indeed, as noted by Mushtaq Khan and Jomo K.S. (2000), this trend has been used to help explain the prevalent practice of rent-seeking in Southeast Asia. Nevertheless, the absence of any meaningful asset reforms like the transformative land reform in South Korea and Taiwan meant that state elites' efforts to create an indigenous entrepreneurial class—notably, the *bumiputras* in Malaysia and *pribumis* in Indonesia—helped widen the gap between the rich and poor within majority ethnic groups (Siddique and Suryadinata 1981, Robison 2000). In this light, Southeast Asian countries were also much more vulnerable to inter-elite and class-based social conflicts than those in East Asia.

Given these divisions in Southeast Asian societies, the history of state-building in the ASEAN-4 countries gave rise to different arrangements of political power. As

Chapter 1 noted, in Thailand, Indonesia, and Malaysia, the political leaderships belonged to national organizations that were instrumental in their countries' transition to modernity. The military was a critical force in the 1932 coup d'etat, leading to the collapse of the absolute monarchy in Thailand, and in the war of independence against Dutch rule in Indonesia from 1945 to 1949. Similarly, Malaysia's United Malays National Organization (UMNO) was established in 1946 by members of the indigenous elites to push for Malay sovereignty and interests during the British colonial period. Regardless of these variations, political leaders in all three countries continue to share one key feature: they are embedded in institutions with strong corporate interests, if not encompassing ideologies. The Philippines is the outlier in this group: the national political institutions that have real consequence on policy and can trace their roots to the founding moment of the Republic are the representative institutions (e.g., Congress) and, yet, the country lacks strong political parties.[32]

The technocracy in Southeast Asia largely came to the national stage against this backdrop. Since the 1950s, the spread of planning among developing countries had brought to the fore still another set of development actors: the technocrats and economists who sought to apply the stock of "impersonal" and transnational knowledge on—as against what was widely perceived as politicians' personalistic approach to—development issues (Hooley 1976: 1156, 1160). Technocrats were recruited or their role

[32] Philippine political parties tend to revolve around prominent politicians who harbor presidential ambitions and thus are willing to put in personal resources into the party for electoral campaigns, which include establishing a patchwork of alliances with local political clans (Lande 1968, Wurfel 1988). Even the Nacionalista Party, the only existing political organization whose history began in the American colonial period, is a mere shadow of its former self and, like other parties, come to life only during elections.

stressed by succeeding regimes that sought to differentiate themselves from the status quo *ante* and perhaps to provide them greater latitude in restructuring vested interests. When Indonesian General Suharto and Field Marshal Sarit seized power from economic nationalists President Sukarno and Field Marshal Phibun Songkram, respectively, they put technocrats in charge of reorganizing the bureaucracy, then staffed by allies of their predecessors. When the Philippine and Malaysian civilian governments turned to authoritarian rule and greater state management of the economy, they also made full use of technocrats to showcase their independence from traditional economic interests.

Nevertheless, despite the strengthening of technocratic rule, development planning and industrial development policy lacked a central anchor in the national bureaucracy. Studies of the ASEAN-4 political economies observed a dichotomy in policymaking where political leaders took charge of sectoral development (agriculture, industry, and commerce), and technocrats handled macroeconomic policies, including planning and development financing. This dichotomy in policymaking has been called bifurcation in Thailand (Doner and Ramsay 1997, Thitinan 2004) and “dualism” in Indonesia (Rudner 1983). In fact, even during periods of centralizing governments, economic policymaking in Thailand, Malaysia, and Indonesia was based in different agencies and this arrangement dispersed developmental resources (Jomo et.al. 1997). As such, institutional analyses of the policy processes in these countries have increasingly focused on the relationship between the national planning authority and investment promotion agencies (Lauridsen 2000, Doner et.al. 2005).

This chapter builds on this analysis and seeks more closely to examine the interplay of politics and policy in Thailand and the Philippines. I argue that the institutional character of and patterned interaction among the governing elites shape development policy. Nevertheless, over the long emergence of the modern Thai and Philippine polities, processes of development policy and state building were tightly bound together. In the pages that follow, therefore, two linked stories emerge. The first describes the efforts of governing elites in the two cases to construct the institutions through which they would govern, and particularly those that would shape economic policy. The second begins the longer discussion of this dissertation: how those configurations of state power (still emerging structures in this chapter's account) in turn shape the direction of development policy, and the impact of that policy on the economy. To tease out these twin processes, I focus on the historical evolution of the relationship between political and technocratic power in the cases, especially as it relates to policy formulation and implementation.

Building the Modern State and Economy

In broad strokes, the Thai and Philippine strategies for economic development have mirrored each other. The two countries have pursued economic growth mainly through programs of investment promotions. In this effort, each country established a Board of Investment as the lead agency to facilitate private sector participation in economic activities that government prioritized and wanted to support. The key policy tool under this scheme is a package of fiscal and non-fiscal incentives that the BOI administers. Nevertheless, since their founding in the 1960s, the fates of the Thai and Philippine BOIs have diverged. Today, the Thai BOI maintains its privileged position as the premier agency mediating between government and the private sector to promote new areas of business activities. The Philippine BOI, on the other hand, has lost much of the policymaking functions it enjoyed in the 1970s when, under authoritarian rule, the country came closest to having a planned economy. Since the late 1980s, the Philippine BOI seems to have suffered a demotion in stature, with many of its activities closely circumscribed by Congress.

To understand the puzzle behind the changing fortunes of the two countries' BOIs, one needs to situate them in the broader institutional contexts under which they operate. As discussed earlier, in Thai studies, the country's state configuration has long been associated with the "bureaucratic polity" model (Riggs 1966, Medhi 1999, Ockey 2004). Focusing on the configuration of state power, defined as institutional embeddedness and interaction of governing elites in the policy process, this study borrows this term as well, using it as an analytical model to understand the interaction between politics and policy in Thailand for the period between 1932 when a coalition of military and civilian bureaucrats staged a coup and ended absolute monarchical rule to the late 1980s—a time that marks the resumption and expansion of Thailand's democratization process after a short-lived democratic period in the mid-970s.[33] During this period, the political leadership mostly rested in the military while senior technocrats

[33] In 1988, General Prem Tinsulanond, who had been prime minister since 1980, turned power over to retired General Chatichai Choonhaven whose Chart Thai Party won that year's parliamentary elections. Chart Thai represented a military-business faction that also successfully mobilized provincial elites in national electoral politics, and, partly due to its significant extra-bureaucratic constituency, worked to strengthen the parliament (Pasuk and Baker 1997: 30-31). The military leadership and vested bureaucratic interests pushed back by launching a coup against Chatichai in 1991 and setting up a military-backed civilian government. The government, however, lasted only until 1992 when massive street protests in Bangkok called for a return to democratic rule. For a fuller discussion of the democratization transition in the 1990s, see Hewison 1997.

who rose from the ranks served as economic state managers. Due to historical legacies, the Thai political leadership and state managers were, therefore, embedded in state institutions. Both were also institutionally differentiated, thereby allowing some autonomy in policymaking. For the Philippines, this study introduces the term "proprietary polity" as a heuristic model to analyze the country's configuration of state power. In the country's proprietary polity, personalistic national politicians rise to power by virtue of their personal wealth and social status, rather than through membership in strong political parties, while technocrats who are appointed to head economic agencies are recruited from the outside by incumbents. As such, both political leadership and technocrats have shallow roots in state institutions; since senior technocrats owe their position as agency heads solely to the incumbents, the bureaucracy is also largely subordinate to the political leadership.

An historical analysis of the individual cases begins the process tracing task of examining in richer detail the relationship between political actors and policymakers—and the policy activities that they shape. The two countries demonstrate how relatively similar development strategies are influenced by the configuration of state power. Based on this study's focus on the organization and interaction of the political leadership and senior technocrats in relation to economic policymaking, I organize the discussion around two historical turning points that led to a fundamental reconstitution of state power: the 1930s and a second period (the 1960s for Thailand and the 1970s in the Philippines). In the early 1930s, a coup in Thailand ended the absolute monarchy and Philippine self-rule was institutionalized with the establishment of the Commonwealth. From these historic conjunctures rose Thailand's bureaucratic polity and the Philippines's proprietary polity.

Thailand in the 1960s and the Philippines in the 1970s experienced a sea change in state configuration as a new generation of western-educated technocrats, partly acting as conduits of post-war international development thinking, began to rise in the domestic policy arena, triggering a reorganization of domestic policy institutions. Below, I discuss the emergence and evolution of the Thai bureaucratic polity and the Philippine proprietary polity and how these configurations of state power influenced economic policymaking. At the same time, due to both countries' early integration into the world economy, the chapter also pays close attention to the interaction between domestic policy actors and imperial powers, since these interactions provide the background for governing elites' economic development strategies.

Thailand

Institutional analyses of Thailand's economic performance draw attention to the institutional separation of political leaders and technocrats in the policymaking process. Such studies (Christensen et.al. 1993; Thitinan 2004) stress the tradition of a political leadership seeking to control the sectoral ministries, from which it reaps massive rents, and of technocrats being left largely responsible for macroeconomic policies.[34] My work

[34] Thitinan (2004) writes: "Economic policymaking in Thailand had been 'bifurcated' between clientelistic microeconomic management located in line ministries and autonomous and insulated macroeconomic management anchored primarily around the Ministry of Finance (MOF) and the BOT. This bifurcation was underpinned by an 'implicit bargain' between the military and the technocracy. The technocracy was granted substantial latitude in steering macro-policy institutions and macroeconomic policies, whereas the military controlled the clientelistic line ministries and sectoral policies. The technocrats were vested with the autonomy and authority necessary to spur and maintain

adopts this approach to understand the interaction among Thai governing elites under the bureaucratic polity period even while recognizing that there was no hard divide between the political and policy arenas (Stifel 1976). The point to remember is that, especially when compared to the Philippines, the political leadership and senior technocrats in Thailand came from the ranks of people entrenched in distinct hierarchies with specific institutional interests. In the late 1950s and early 1960s under Sarit, the technocrats were pulled into sectoral development but, as the discussion below demonstrates, this trend reflected the growing influence of the technocracy rather than the blurring of policy domains.

The end of the absolute monarchy in 1932 saw the emergent non-aristocratic political elites pushing for control over industrial development, partly because the development of this sector—still untapped territory under the *ancien regime*—would allow them to expand their political base and personal fortunes. The civilian bureaucracy that had controlled macroeconomic policies under the absolute monarchy was left largely intact (Ammar 1996). The 1960s presented another turning point in the institutional makeup of the policy process: the rise of a political leadership that was more integrated into international geopolitical and business interests saw sweeping government reorganization. The sixties saw the establishment of the National Economic Development Board and the Board of Investment to undertake development planning and investment promotion, respectively. Central to this effort was the redeployment of returning western-

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macroeconomic growth and stability. The generals extracted sectoral rent from the maintenance and stability of macroeconomic growth"(pp. 40-41).

educated technocrats to key economic positions.[35] As may be seen from the brief review of Thailand's economic history below,[36] the realignment of political and social forces found concrete expression in the reconfiguration of policy institutions.

Reconfiguration of Modern State Power

The seed of the coup that put an end to absolute monarchical rule on June 24, 1932 germinated in a society wracked by contradictions that accompanied late modernization. Nineteenth-century Thailand is a study of paradoxes. The country entered the 20th century with all the markings of a modern sovereign state, yet its economy also was almost completely pulled into the international economy, producing rice and other commodity exports for the British Empire and other imperial powers (Ingram 1971, Girling 1981, Muscat 1994). Starting with the Bowring Treaty of 1855 and followed by

[35] Stifel (1976) highlighted two distinct generations of Thai bureaucrats: those belonging to the first generation who were educated in Europe, were fiscally conservative, and were still closely associated with the king; and, those in the second (post-war) generation, who were educated in the US, saw the value in expansionary spending due to the influence of development economics, and tended to be identified with the military rulers (pp. 1188-1192).

[36] For a more comprehensive discussion of Thailand's history, please see: Pasuk Phongpaichit and Chris Baker, *Thailand, Economy and Politics*, 2nd edition (Selangor Darul Ehsan, Malaysia ; New York : Oxford University Press) 2002; Robert J. Muscat, *The Fifth Tiger: A Study of Thai Development Policy* (Helsinki: United Nations University Press) 1994; Kevin Hewison, *Bankers and Bureaucrats: Capital and the Role of the State in Thailand* (New Haven: Yale University Southeast Asia Studies, Yale Center for International and Area Studies) 1989; Likhit Dhiravegin, *Demi democracy: The Evolution of the Thai Political System* (Singapore: Times Academic Press) 1992; James C. Ingram, *Economic Change in Thailand, 1850-1970* (Stanford, CA: Stanford University Press) 1971; and, Seksan Prasertkul, *The Transformation of the Thai State and Economic Change (1855-1945*)," Ph.D. dissertation, Cornell University (1989).

other treaties, Thailand's rulers were compelled to grant western countries extraterritoriality and ownership rights over the country's natural resources in order to preserve its political rule (Darling 1970: 203-204).

The country's integration into the world economy had a profound impact on Thai society. The dismantling of the royal trade monopolies and the opening up of trade with the west, as contained in the international treaties, led to internal structural change: the expansion of the money economy, shift from subsistence to commercial rice production for export, and increase in the demand of land (Mournier, Kaewthep, and Charoenloet 1994: 67-68). The early 1900s also saw increased earnings in export agriculture, providing capital for the establishment of domestic banks and a fledgling manufacturing sector that produced goods (e.g., cement, leather, ice, toothpaste, metals, textiles, food) for the domestic market (Hewison 1989, Muscat 1994). The growing economy led to the expansion of a middle class, from which emerged the 1932 coup promoters, composed of non-aristocratic bureaucrats who built their fortunes independently from royal patronage. As such, the coup eliminated the traditional system that granted the nobility the highest positions in the land as a matter of birthright (Somphoch 1982).

The ensuing struggle between royalists, constitutional conservatives, and republicans led to the establishment of a constitutional monarchy. Nevertheless, underlying this system of government was a more profound change in the pattern of rule, generally called "bureaucratic polity." The term was first used by Riggs (1966) to refer to the coalition between military and top-ranking civilian bureaucrats who assumed control over the state traditionally through a power grab and ruled almost at will because of the weakness of other social forces. It was under Field Marsal Phibun Songkram, who occupied the premiership from 1938 to 1944 and again from 1948 to 1957, that the general contours of bureaucratic polity took root. In 1955, Phibun also established the National Defense College, through whose gates civilian bureaucrats wishing to establish connections with the military and rise in the hierarchy needed to pass. The NDC was a key institution in the socialization of military and civilian bureaucrats—Thailand's emergent power elite.

The institutional embeddedness of Thailand's governing elites and the close relationship between the military and civilian bureaucracies derive from historical legacies of state-building. In particular, Thai monarchs in the 19th century undertook to simultaneously modernize the military and civilian bureaucracies, thereby ensuring that both institutions developed almost parallel to each other.[37] Among the initiatives taken during this period was the adoption of an administrative law code, following the French example, that strengthened the role of the bureaucracy in policymaking and improved the tenure of civil servants (Siffin 1966, Christensen et.al. 1992: 3-5, Medhi 1999: 89-91). Given these measures, when the newly formed People's Party assumed power in 1932, it inherited a relatively entrenched administrative apparatus that was autonomous from the

[37] Tonkin (1990) argues that the close development of the Thai military and the civilian bureaucracy may be traced all the way to the period of King Trailok (1448-1488) who established more than half a century ago two state departments: the *Mahadthai* or Internal Affairs, which was responsible for the Treasury, and the *Kalahom* or Defense, which took charge of external affairs (p. 286).

The modernization of the Thai state by succeeding monarchs further developed the corporate interests of these two state institutions so much so that, in his pioneering work on the Thai state, David Wilson (1962) described the 1932 coup as follows: "[T]he Thai bureaucracy—much strengthened by the reorganization and development of the previous 40 years and by the new techniques of communication and control imported from the West—was cut free of the restraints of absolutism. This operation was carried out by the bureaucracy itself" (p. 277).

rest of society—then divided into a small ruling elite, composed of the nobility and Bangkok-based bureaucratic elites, and the agrarian-based masses (Wilson 1962: 274-275). The subsequent shift to constitutional monarchy mainly sought to curtail the power of the aristocracy but maintained much of the administrative apparatus it inherited from the old regime (Udyanin and Suwanagul 1965: 108, 113). This relationship between the military and civilian bureaucracies may explain as well the institutional differentiation between the political leadership and economic managers, leading up to what others have observed as some degree of bifurcation in the policy process. Indeed, as the next section shows, even with the shift in the system of government in 1932, the operations of the state's administrative apparatus continued with minimum disruption.

Because the ruling People's Party was mainly concerned with changing the rules of the political game when it took over the reins of power from King Prajadhipok (1925-1934) and because of the institutional differentiation between the military and civilian bureaucracies, the emergent political leadership left the latter largely intact to carry on regular government functions. This arrangement helped insulate fiscal and monetary policies from partisan politics, thereby enabling the country to practice fiscal conservatism and attain a large measure of currency stability (Ammar 1996, Warr and Bhanupong 1996).[38] In fact, career officials' influence grew as incoming political leaders

[38] The country's economic managers have been traditionally fiscal conservatives. One factor had been the pivotal role of British financial advisers who helped set up the Ministry of Finance during King Chulalongkorn's reign. Another factor was a self-interested bureaucracy, seeking to secure employees' paychecks (Ammar 1996)—that they were able to assert this policy preference is a testament to the clout they had with the country's leaders.

came to rely on them not only for their technical expertise but also the bureaucratic resources they had accumulated through their years in government.[39]

The 1932 coup, however, was more than a mere changing of the guards. It also signaled a gradual shift in the social basis of political rule.[40] For instance, the ruling People's Party passed a law stopping the practice of confiscating the lands of peasants who failed to pay capitation tax—a move that weakened the *sakdina* system that prevailed under absolute monarchical rule. In simple terms, the *sakdina* system, established in the 15th century, represented a highly hierarchical social system in which every peasant or commoner (*phrai*) was assigned to a member of the nobility (*nai*). The *nai*, in turn, served as a patron and offered security in exchange for labor rendered for six months of every year (Likhit 1992: 26-27, Mead 2004: 12).[41] The dismantling of absolute

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[39] Based on separate interviews with author: MR Chatu Mongol Sonakul on November 22, 2006 and Phisit Pakkasem on June 28, 2007. It is instructive that Chatu (who has royal lineage) and Phisit (who does not) both come from families of bureaucrats. Phisit says: "My great-great grandparents and down the line were civil servants, but my children are in the private sector."

[40] This analysis benefited from inputs from Thanet Aphornsuvan.

[41]Political economic studies are divided on the definition of the *sakdina* system. While there is agreement that the *sakdina* represented a highly stratified social system that institutionalized patron-client relationships between the aristocracy and the rest of the population, there is disagreement on the centrality of land ownership to the system. For instance, Hewison (1989) argues that the *sakdina* was similar to the Asiatic mode of production in which all land was owned by the king although some areas, mostly in the Central Plains, were divided into large estates among the nobility (p. 35). On the other hand, Muscat (1994) argues that, because Thailand was underpopulated during this period, control over labor "was the ultimate power base on which all the assigned perquisites and political and economic positions rested" (pp. 20-21). Perhaps the debate partly stems from the evolution of the concept itself. According to Likhit (2004), *sakdina* , literally meaning "power over land," began as a method of land distribution based on rank and status but in the later period was used to merely classify people on the social status scale (p. 27).

monarchical rule made room at the top of the Thai social hierarchy for rising bureaucrats—a new power elite that would seek out and develop initial support from a different social base: the incipient domestic capitalist class. More than a half a century after the opening of the economy to western trade in 1855, a new entrepreneurial class rose to challenge arbitrary rule and the economic dominance of the small landed aristocracy and a thriving Chinese-dominated merchant sector, whose members started out as conduits between western economic interests and domestic producers before building their own business empires.

The political leadership and the emergent Thai and Sino-Thai entrepreneurial class found common cause in the regime's call for economic nationalism. Since 1932, the ruling People's Party had sought to expand their own economic base in the following ways: one, the government established and operated state enterprises involved in rice and food production, banking, trading, shipping, and the insurance business; two, the ruling party formed private companies involved in manufacturing and trading; and, three, individual party leaders became the chair or directors of Chinese businesses (Sungsidh 1983: 76-113). Except for the Thai Rice Ltd, which was fully owned by the government, these enterprises were joint ventures, most of which had party members and supporters as minor shareholders. During the Phibun era, the political leadership established numerous state enterprises to jump-start Thai industrialization in the face of a still relatively weak indigenous private sector. The Ministry of Defense itself was engaged in manufacturing, running different enterprises producing for the domestic market.[42]

[42] The Thai military's interest in manufacturing could also be gleaned from the leading role generals played in the founding of the non-governmental Association of Thai Industries (ATI) in 1967. The ATI would later on be renamed Federation of Thai

In fact, because of increased state presence in the economy, this stage in Thai economic history has been referred to as a period of state capitalism.[43] More precisely perhaps, this was a period of primitive capital accumulation, during which time monopoly rights or rents were created in banking and agro-industries—a substantial part of the surplus being reinvested into the economy. By the end of the 1950s, the economy experienced an expansion, fueled by both public and private investments. For the decade, the annual average growth rate of GDP at constant prices was around 5% and manufacturing grew at an average of about 6.5% (Wisarn 1989: 50).

The transfer of state power to a new set of political elites inspired a distinct pattern of rent-seeking between government officials and the business sector. Widely documented in studies of Thailand's government-business relationships, generals and top-ranking civilian bureaucrats formed mutually beneficial partnerships with the wealthiest Chinese and Thai-Chinese corporations, whereby the government officials provided government contracts, protection from harassment, and favorable policies and the latter offered board memberships, dividends in company earnings, and commissions (Skinner 1958, Riggs 1966, Yamklinfung 1994: 150). One example of such partnership was that between leading officials in the Phibun regime and one of the country's biggest private corporations, the Bangkok Bank: after the 1947 coup, bank president Chin

Industries, reflecting the expansion of the manufacturing sector itself. ATI's industry-specific committees, with a few member-firms, would grow into full-blown industry-specific associations.

[43] "State capitalism," in this context, has been used rather broadly, generally referring to the state's direct participation in capital accumulation (Mournier 1994). An alternative characterization has been "bureaucratic capitalism," which draws attention to the flow of rents—to personal accounts of bureaucrats, rather than to the state coffers (Sungsidh 1983; Hutchcroft 1998).

Sophonpanich invited Army Chief Phin Choonhaven and his son-in-law Police-Director-General Phao Siriyanon to become directors and major shareholders in exchange for "large injection of state capital, near monopolies of gold and foreign exchange trading and handling of overseas remittances by ethnic Chinese workers, protection from competition and unrivalled client base" (Studwell 2007: 95). When Sarit took over in 1959, the Bank promptly changed political patrons cum business partners.[44] From such controversial beginnings, the Bangkok Bank and Chin, in particular, grew to become a leading force in the country's industrialization drive (Ammar 1996, Lauridsen 2000).

This pattern of rent-seeking between indigenous political elites and the domestic ethnic Chinese business community has been called "pariah capitalism" or "pariah entrepreneurship" (Riggs 1966, McVey 1992). Specifically for Thailand, the origins of this arrangement can be traced to the pre-1932 period, when the monarchy sought to stave off internal challenges to its rule by limiting land and wealth accumulation by indigenous elite families[45] while allowing Chinese entrepreneurs, who were politically non-threatening, to engage in business. This policy created a divergence between the Thais for whom the military and civil service provided avenues for mobility, and the Chinese who, together with westerners, dominated the economy prior to the coup—a trend that institutionalized as well the differentiation between the political and economic

[44] Studwell (2007) relates further: when Sarit staged a coup, Chin was forced to flee to Hong Kong but not before making Sarit an adviser and his interior minister, General Prapass Charusathiara, board chair. During this period, Boonchu Rojanasathien, who would enter politics in the 1970s, ran the bank.

[45] For instance, to clip the wings of the aristocracy, the monarchy passed a land law that gave peasants access to new, unoccupied lands, thereby minimizing the power of the landed aristocracy, concentrated in and around Bangkok (Ingram 1971, Pasuk and Baker 2002).

spheres. Over time, “pariah capitalism” served the military rulers well as Chinese business leaders sought out political patrons for protection during periods of economic nationalism, and to secure rents in exchange for directorships in and a share of profits of big-ticket corporations (Pasuk and Sungsidh 1994, Van Roy 1970).

Since the 1930s, therefore, the military and civilian bureaucrats had sought to translate their institutional base into a platform from which to gain political power and personal wealth. In this respect, the “radical break with the past,” to use Moore’s (1967) terminology, occurred as a new political leadership emerged from outside the traditional landed oligarchy and with a clear interest in expanding its social base. It built this social base, not by mobilizing the masses, but by expanding domestic capitalism. Industrialization, therefore, was a way both to raise government revenues (no longer tied to the royal purse strings), and to promote the bureaucratic elite’s political and personal ends.

That said, the bureaucratic polity had a fundamental fault line: it created incentives for power grabs. Not only did membership in the military or civilian bureaucracies provide opportunity for social mobility, one’s membership in the ruling coalition increased one’s access to rents and board directorships.[46] In fact, the source of political instability came from within the state structure itself, mainly from a fractious military officer corps competing for the spoils of political office (Wilson 1962, Riggs

[46]Noting that 61 out of the 237 cabinet ministers during the period between 1932 and 1962 became board members of industrial and other business corporations**,** Riggs (1966) states: “[The main arena of political rivalry in Thailand…[had]… come to be the cabinet as a ruling committee of the effective heads of the ministries with their respective departments, including the armed forces, which form the apex of bureaucratic authority” (pp. 255, 380).

1966). Clark Neher (1992), noting that Thailand from 1932 to 1973 had experienced 19 attempted putsches (13 of which were successful), writes:

> These government changes do not appear to correspond to patterns of economic downturn or improvement, nor to foreign or internal threats to Thai security. Instead, political succession in Thailand, unguided by consistent norms, is best viewed as an unpatterned, ad hoc event dependent on changing allegiances and power advantages held by various elite groups, such as politicians, bureaucrats, capitalist business leaders, and military officers (pp. 585-585).

Since most coup plotters were members of the military faction in power, they could easily find allies in the private sector seeking patronage or protection from arbitrary government decisions. On the other hand, because vested interests became more entrenched during long periods of political stability (when one faction was able to prevail despite challenges from peers), corruption became more prevalent, as during the second term of Phibun administration (1948-1957) and the Sarit-Thanom-Praphat faction's rule from 1957 to 1973.

Despite the post-1932 political order's constitutionalism, Thailand's experiments with parliamentary democracy had been few and far between up until the late 1980s. From 1932 to 1973, Thailand was under military rule for 36 out of 41 years (Neher 1992: 587). Parliamentary institutions during this period mostly served to legitimize the faction in power: constitutions were usually written and general elections were normally called by the new leaders of successful coup d'etat to placate the public and international community. In the 25 years since the establishment of constitutional monarchy, the country had gone through six constitutions, six electoral laws, eight general elections and four successful coups d' etat (Wilson and Phillips 1958: 113). Constantly changing rules of the political game worked against the building of strong national political parties. Given precarious careers and faced with a relatively impenetrable bureaucracy, most politicians aspired for short-term personal, rather than strategic policy gains. Generally, politicians sought cabinet appointments since, by becoming a minister, they could "influence how state agencies use their discretion" (Christensen et.al. 1993: 5).

The Modernization of the Technocracy

At the start of the 1950s, the Phibun government was forced to form a triumvirate with then First Army Commander Sarit Thanarat and Police Department Director-General Phao Sriyon. During this period, however, there was growing discontent over the regime's economic policies and corruption scandals—the latest before Phibun's downfall was that involving the National Economic Development Corporation Ltd. or NEDCOL.[47] The World Bank had, by then, come into the picture because of the need for loans to make up for growing budget deficits, partly due to the losses incurred by the numerous state enterprises (IBRD 1959). To stave off coup threats, Phibun called for parliamentary elections in 1955 but his party's victory was seen as largely linked to massive electoral fraud. The ensuing crisis of legitimacy, and a substantial amount of US support, provided Sarit the opportunity to seize power.

[47] The Phibun regime and, in particular, the Rajakru military faction, established the National Economic Development Corporation Ltd. or NEDCOL in 1954 as a holding company with five manufacturing firms, two sugar mills, one jute mill, a marble factory, and one paper mill. Due to bad investments and bad management, NEDCOL became bankrupt within three years and, because its loans were guaranteed by the Ministry of Finance, government was forced to bail it out. (See Muscat 1994 pp. 61-62.)

Sarit staged the coup in 1957 but only assumed direct power two years later. He was of a different mold than previous prime ministers. His predecessors were educated or trained in France and had direct experience with the 1932 coup that ended the absolute monarchy—two experiences that both exposed them to republican ideas and compelled them to champion either democratic ideals (as in the case of Pridi Banomyong) or adopt a semblance of constitutionalism (as in the case of Phibun) in order to legitimize their rule. Sarit did not share this background; rather, trained by the US military, he was an out-and-out Cold Warrior who felt no compunction in imposing naked dictatorial rule and had no hesitation to revive the monarchy's sublime role under a "nation-religion-monarchy" ideology that would serve to underpin his rule (Thak 1979). Sarit introduced the model of "Thai Democracy," that did away with any form of liberal democratic institutions, which he castigated as alien to Thai traditions. [48]

Thailand's modern bureaucracy traces its roots to the sixties, when Sari's military dictatorship reorganized the economic ministries in response to World Bank recommendations. Prior to the 1950s, there had been very little change in the bureaucracy—which prides itself as having a technocratic tradition that dates back to the 19th century.[49] The ruling People's Party leadership's apparent disinterest in the

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[48] In personal communication with the author, Thanet Aphornsuvan notes that this "Thai Democracy" model was founded on the Sukhothai ideology of the paternal king.

[49] King Mongkut (1851-1868) began the modernization of the Thai state, but it was during the reign of his son, King Chulalongkorn (1868-1910) when the process peaked. Thailand's rapid state-building program, known as the Chakri Reformation, included the following: implementation of tax reforms to facilitate revenue extraction; the setting up of a standing army and centralized police force; establishment of a centralized justice system and a modern bureaucracy, similar to France; founding of the Ministry of Interior for political control of provincial administration; and cultural integration efforts such as

bureaucracy also meant that its institutional development came slowly, largely through generational change and the filtering of external influences on development thinking through the promotion of western-educated Thai and Sino-Thai technocrats.[50] Education, therefore, became the key mechanism in the modernization of the bureaucracy, especially after the war. The transfer of development technology proved slow, and was limited to those who not only went abroad to study development economics, but who also got to communicate well in the lingua franca of the development world, especially English. Former Bank of Thailand Governor M.R. Chatu Mongol Sonakul recalls the perceptible change in bureaucratic ways of doing things during the post-WWII transition:

> People before the war were one group. The people who ran the country after the war were either in England or America during the war, taking up their Ph.D.s or helping in the war effort. These people came back new and fresh; they never had to read up on the 1930s. These people were very instrumental, basically because they can read and write in English. At that time, there was no email and internet; there was only the telegram. The newspaper, *Financial Times*, wasn't delivered in Thailand, so Japanese banks telegrammed to us information and news from *Financial Times*. New York and London contacts would also mail this to us. Very

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educational standardization, adoption of the Bangkok dialect as the national language, and control and spread of Buddhist teachings (Lauridsen 2000 , 4-5)

[50]As part of King Chulalongkorn's modernization program, he expanded the practice of hiring foreign advisers from different western countries, assigned to newly-organized ministries or for specific functional concerns. The monarchy, thus, hired different nationals, based on their expertise: the Danes helped modernize the armed forces; the Germans, the postal service and railroad system; the British, finance and education; the Americans gave advice on legal matters (Darling 1970: 205). This practice was complemented with the setting up of a government scholarship program to send members of the royal family and other Thais for foreign study in preparation for government postings (Stifel 1976: 1184). Later, in 1902, the King established the Royal Pages' School. This training school for public administrators was transformed into the Civil Service College in 1911 and into the Chulalongkorn University in 1917 (Udyanin and Suwanagul 1965: 111-112).

> few people had information about the things happening abroad. These people were also better educated because the education here [in Thailand] was still very limited. We are talking about a very few people—maybe four or five people.[51]

By all accounts, the most prominent and influential technocrat in the post-war period was Dr. Puey Ungpakorn, an economist who earned his Ph.D. in the London School of Economics and was Bank of Thailand governor from 1959 to 1979. A brief review of Puey's early government career provides a preview to his role in modernizing the technocracy.[52] Among the few trained abroad in economics at that time, Puey became involved in loan negotiations with the International Bank for Reconstruction and Development/World Bank soon after he joined the Ministry of Finance's Department of the Comptroller General in 1949. Subsequently, he was sent to the US for training under the World Bank and, upon his return in 1952, was promoted as technical assistant to the Permanent Undersecretary of Finance and later became Bank of Thailand deputy-governor. Serving only a year in this capacity, he opposed moves by military members of the Phibun cabinet to take over a commercial bank. He resigned from his post, and was

[51]Author's interview with Chatu Mongol Sonakul on November 22, 2006 in Bangkok. In fact, those who had facility in English had always occupied critical positions in government due to the importance of English as the language of international finance. Chatu, who had studied abroad since childhood and took up higher studies in economics and engineering in Columbia and Harvard Universities, says: "I come from a family that, since 1903, have always been educated abroad, and can read English books…. I joined the Ministry of Finance because I wanted to do development work. For years, I think I wrote all the letters [in English] in the Ministry, even did some French, amazingly enough, because no other person in the Ministry could read and write French. "

[52] Information on Puey's life, taken from the biography, done on the occasion of him receiving the Ramon Magsaysay Award for Government Service in 1965. At *http://www.rmaf.org.ph/Awardees/Biography/BiographyUngphakornPue.htm,* viewed on 15 December 2006. See also Suehiro 2005.

reassigned as Economic and Financial Counselor at the Royal Thai Embassy in Britain. With the ouster of Phibun, Puey returned to Thailand and assumed a much more pivotal role in managing the economy.

The blueprint for the reorganization of the bureaucracy and reorientation of development was an International Bank for Reconstruction and Development/World Bank document, *A Public Development Program for Thailand* (1959). The document, a product of an IBRD-World Bank mission in 1957-1958, called attention to what it identified as the Thai government's shortcomings: haphazard planning, which created uneven development and diffused the impact of government development efforts; uncertain, year-to-year financing; and, organizational limitations, particularly the government's lack of qualified managers and administrators. To address these problems, the report made various recommendations: the reorientation of government's role in development, from directly engaging in the economy through state enterprises to strengthening the private sector through the provision of fiscal and non-fiscal incentives as well as the delivery of infrastructure and credit. Equally important, it called for the institution of rational planning—that is, coordinated, centralized planning combined with sound budgeting—through the creation of the central planning agency and a budget office, both under the Office of the Prime Minister. This report provided a guide for the restructuring of policy institutions.

Puey was among those who engaged the IBRD mission and became the prime mover in the development of a core of technocrats that would initiate and follow through technocratic reforms. Having worked in the previous administration, Dr. Puey seemed well aware of what he was up against and used the World Bank to strengthen a reform agenda. Dr. Snoh Unakul, who joined Puey after returning with a Ph.D. from Columbia University and stayed on to preside over the Thailand's economic take-off in the 1980s, says of this period:

> He invited the World Bank in order to impose [fiscal] discipline….This was difficult because there was always this tug of war between technocrats and politicians….This led to the creation of a new organization, the National Economic Development Board, and the recruitment from different ministries of people, mostly economists trained abroad. There were about 10 in the group, but later on, the number will grow. This group became the main group of technocrats in Thailand. (Interview on October 26, 2006 in Bangkok.)

Equally important, many technocrats who took over the economic ministries rose from within the ranks of bureaucratic institutions *before* they were sent abroad to pursue higher studies. This career path helped develop a core of bureaucrats who could integrate their long domestic experience in governing with western economic theories.[53]

Sarit was not only receptive to the World Bank recommendations, but also provided the Thai technocrats the space to manage the economy with minimal interference (Suehiro 2005). In fact, partly as an attempt to distinguish his rule from his predecessor and partly as a result of the influence of the international donor community, Sarit promised economic growth based on private-sector initiative and stressed the role of

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[53] Snoh, for instance, discusses the influence of development economics on his policy agenda: "In Columbia, I studied under Professor Ragnar Nurske. His first book, *Problems of Capital Formation in Underdeveloped Countries*, had a great impact on me since I was looking for a theory in development planning. Another professor I worked with at Columbia was A.O. Hirschman. At Harvard, I also worked with Edward Mason who was then the leader of the Harvard Advisory Group on Pakistan and Burma and later became director of US AID. Mason supported a more regulatory approach to planning. Anyway, I had to find my own. (Interview by author on October 26, 2006 in Bangkok.)

the technocracy in macroeconomic policymaking and the withdrawal of the government in sectoral development. This two-pronged approach to development was expressed in the institution of national planning, with the creation of the National Economic Development Board (NEDB) directly under the Office of the Prime Minister, and the shift from using state enterprises to using fiscal and non-fiscal incentives to be administered by a newly created Board of Investment (BOI) to develop industries.

In contrast to the East Asian experience where central planning was used to implement an interventionist industrial policy, planning in Thailand signaled the start of the state's more conscious withdrawal from the economy.[54] Planning began in 1961 also as a way for the government to more efficiently and effectively provide public goods and manage foreign debt. Snoh explains the evolution of development planning in Thailand from its start to until the 1980s:

> In macro planning, we started with infrastructure. We tried to disengage from state enterprises, and accumulate capital and channel this mostly into public infrastructure projects. These were the main development expenditures. I call this the holy trinity of roads, water, and power because wherever we went, we had to first build a road. Then, the beginning of Sukhumwit and Ploenchit roads was the end of Bangkok. We first had to build an economy that was connected. We had to accept the high cost of debt. This was the reason why we adopted multi-year expenditure plan. We needed to go into a long-term repayment period for the construction of roads, dams, power. We had to have a long-time horizon. We had to commit the budget for that number of years. We needed discipline to do that

[54] Phisit, in the interview on June 28, 2007, stated that since the 1960s planning in Thailand has always been indicative, rather than allocative.

> because the other interest [among politicians] was to disperse the money for other purposes. We needed to focus the budget on a few things. [55]

The succeeding plans evolved and expanded to cover social services—a trend reflected in the change of the planning agency's name to National Economic and Social Development Board (NESDB) in 1972—and, later, industrial development. While the First Plan (1961-1966) represented infrastructure-led development, the Second Plan (1967-1971) was characterized as service sector-led, stressing the need for social services, particularly education and public health (Samart 1989: 3). It is noteworthy that only in the succeeding plans did the NESDB tackle industrial development at any length. The Third Plan (1972-1976) and the Fourth Plan (1977-1982) included the promotion of basic industries, regionalization of industrial development, and public-private joint venture arrangements (Yoshida 1989: 47-48).

Its incremental approach to development reflects the fact that the NESDB was only one of the policymaking offices established during this period.[56] The planning

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[55] Snoh further states: "The whole idea [initially] was to 'evolutionize' from the annual budgeting process. The First Plan was really an extension of the annual budget into a multi-year budget. In fact, the first plan was little more than a public expenditure plan—in the beginning everything was about the public sector and mostly on infrastructure development. The idea was to extend the horizon of the budget into a five-year budget, and instead of one whole budget, you divide this into two: one is the regular budget, which was administrative and operational, and another, was the so-called development budget. It was also the beginning of development finance, of the government devoting funds for capital expenditures and going into development aid." (Interview with author on October 26, 2006.)

[56] For instance, Chatu, who worked in the Ministry of Finance's then newly-created Fiscal Policy Office and who stayed on at the FPO for 10 years, says: "The FPO was an innovation of Governor Puey and [Finance] Minister Sunthorn because they wanted an office that would conduct rigorous studies…. They turned this into a technocratic office, very much like a development unit in charge of foreign loans. We wrote every agreement of every loan with the World Bank. The FPO had to come in and establish terms and

agency never became the hub of government activities that its counterparts in developmental states were (Christensen et.al. 1993, Lauridsen 2000). In fact, it has been said that the NESDB's influence only peaked in the 1980s under the premiership of General Prem Tinsulanond (1980-1988). Snoh, then secretary general, became deputy prime minister in 1991-1992—the first and only NESDB secretary general to be elevated to such a position—yet even he recognized the limits of his office:

> The NESDB is not powerful in itself because it has no powers. The ups and downs of the NESDB depend on the leadership, whether the leadership has confidence in technocrats. During the first part, we were lucky to have Dr. Puey. In the second part, we were lucky that Prem was a very disciplined man, and he listened to technocrats. (Interview on October 26, 2006)

In fact, in Thailand, the agency most credited for performing significant developmental functions is the Board of Investment (Atchaka 1986; Warr and Bhanupong 1996).[57] The creation of the BOI in 1966, like the NESDB, signaled the withdrawal of government from the economy. Nevertheless, with the BOI, it was not so much government abandoning its role in industrial development as it was adopting a different set of policy tools: from the establishment of state enterprises directly involved in manufacturing to the provision of a package of fiscal and non-fiscal incentives in order to encourage the private sector to invest in specific economic activities—something the

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conditions for all those loans, which also meant running the whole country. To make sure you could implement most of the conditions, you had to have control over policy. That was how the office became powerful in the early 1970s. Because of the 1973 oil price hike, we had to borrow and there was no private sector borrowing at that time." (Interview on November 22, 2006.)

[57] Lauridsen (2000), for instance, suggests that the BOI could be considered the de-facto pilot agency of Thai "quasi-developmental state" (p. 12).

next chapter more fully discusses. As such, government continued its commitment to industrial development, although it mainly used soft resources, notably tax policy.

The reorientation of government's role in industrial development saw a trend toward the centralization of investment promotions in the political leadership and the adoption of technocratic day-to-day management of industrial development. The creation of the BOI under the Office of the Prime Minister was merely the end of this process that began under the previous government. Under Phibun, industrial development was the main responsibility of the Ministry of Industry (MOI), formally established in 1942. Government support for industrial development was elaborated with the passage of the Investment Promotion Act of 1954, which created an interagency Commission for the Promotion of Industry, led by the MOI. Under the Act, investment promotion underwent a multi-step process. The MOI recommended which industries to support and with what benefits to the Commission that, in turn, submitted its recommendations to the Council of Ministers, responsible for the issuance of a royal decree on this. After, the MOI negotiated with the firm applying for government promotion in a process designed to produce a memorandum of agreement stipulating specific benefits and sanctions. The Sarit government simplified the process, and, with the BOI reporting directly to the Office of the Prime Minister, it gained greater discretion and power in the implementation of investment promotions (Atchaka 1986).[58] As a corollary, the MOI lost much of its policymaking responsibilities to the BOI during this period (Lauridsen 2000).

[58] The investment promotion agency went through other organization forms before eventually becoming the Board of Investment. Sarit's Revolutionary Party replaced the Commission for the Promotion of Industry in 1958 with a transitory Economic Advisory Committee and, in 1960, set up the Industrial Investment Promotion Board. As per Revolutionary Party Act No. 33 and the 1960 Promotion of Investment Act, the

Another critical development along similar lines was the involvement of the Bank of Thailand in promoting industrial development, albeit indirectly. In the 1960s, the BOT began its rediscounting facilities for commercial banks extending credit to manufacturing firms. Prior to this move by the Bank, domestic commercial loans mostly went to finance trade and real estate activities (IBRD 1959). Unlike East Asia where government controlled credit flow in order to influence investment decisions, Thailand's governing elites chose to work with domestic commercial banks, in the process, strengthening and allowing them to determine to which industrial firms to extend credit.[59]

Investment promotions and the opening of the rediscounting facility represent a shift to a state-initiated yet more market-driven development strategy, in which government uses soft resources to influence private sector behavior. I discuss government's turn to investment promotion policies more fully in the next chapter. For now, it is important to consider the changing institutional arrangements among rising policy actors that governed the formulation and implementation of development strategies. One contention in this historical overview is that government's resort to more market-driven approaches to develop industries in the 1960s was made possible by the

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promotions agency reported to the Party leader and the President of the Council of Ministers, respectively. The 1962 Promotion of Industrial Investment Act that gave the promotion board more independence in deciding industries and firms to promote and put it more under the Office of the Prime Minister. The BOI was established in its present form in July 21, 1966 (Board of Investment 2006: 5).

[59] In this light, the general perception that commercial banks, rather than government, were the patrons of industrialization needs to be qualified. Even as Bangkok Bank and other commercial banks provided the needed financing for industrialization, the role of government in getting the banking sector to assume this role cannot be overstated. On the other hand, this indirect approach to credit allocation had weaknesses: for one, commercial banks generally gave credit to their established clients, the biggest firms, and to less risky economic activities (Lauridsen 2000).

expansion of the domestic capitalist class. Yet, this class development also needs to be situated in the economic policies of the Phibun regime. The estimated 8% annual average growth rate of GDP in the 1960s built on the rise of domestic entrepreneurship in the previous decade, when annual GDP grew at an average of 5%. In the 1960s, average growth of manufacturing shot up to 10.9% (Wisarn 1989: 50).

To sum up the changes in policy institutions from the 1960s to the 1970s, the period saw the rise of the technocracy as a policy actor, supported by the donor community and a political leadership that sought to depoliticize economic policymaking. This period saw the creation of specific technocratic offices that helped in some ways to insulate resource allocation from special interests. On the other hand, the changes in institutional arrangements that governed economic development during this period did not mean that the political leadership adopted a hands-off approach to industrial development. Rather, the period introduced some technocratic discipline into industrial development, previously under the discretion of competing political elites, as represented in the more diverse Council of Ministers.

That said, the changes did not do away with the pattern of rent-seeking and the political instability endemic to Thailand's bureaucratic polity. Even as the Sarit-Thanom period de-emphasized the use of state enterprises, they continued to forge close partnerships with domestic business, as expressed in the number of directorship that those in the ruling cliques had in big private corporations.[60] Nevertheless, the 1960s were years of economic growth, partly due to government reforms, but also partly due to the flow of

[60] At the time of his death in 1963, Sarit reportedly had interests in 45 companies and had some 2.8 billion baht in the bank (Pasuk and Sungsidh 1994: 23).

US military and economic aid. As such, even the exposure of Sarit's hidden wealth upon his death did not diminish his place in Thai history and the legitimacy of economic policies that began under his rule (Ammar 1996).

The Philippines

Policymaking in the Philippines is shaped by two interrelated factors, which distinguish it from the Thai case: the general contours of state power, and the institutional arrangements of policymaking. From Thai studies came the concept of bureaucratic polity, in which the configuration of state power consisted of a political leadership and senior technocrats that were embedded in state institutions, notably the military and civilian bureaucracies, and that dominated distinct policy domains, even as the importance technocratic expertise grew in importance beginning in the 1960s. In the Philippines, there is no comparative term that would describe the country's configuration of state power along the two dimensions: embeddedness of governing elites (political leadership and senior technocrats) in state institutions and their pattern of interaction as expressed in the policy process. That no comparative term has gained currency in the Philippine context should come as no surprise however: neither the political leadership nor the senior technocrats who serve as the country's economic managers are firmly rooted in any state institutions, and partly because of this there is very little institutional separation between them.

Concepts that had come out Philippine studies, in fact, stress social forces rather than the state. Hutchcroft (1998) uses the Weberian approach to distinguish between the

Philippine state and its “patrimonial oligarchic administration” and the Thai state with its “patrimonial bureaucratic administration.” Benedict Anderson (1998), for his part, coined “cacique democracy” in reference to the coming to power in 1986 of Corazon Aquino, the widow of martyred opposition leader Benigno Aquino Jr. and the descendant of a Filipino-Chinese landed political family. Aquino’s presidency not only restored electoral politics; it also signaled the return of laissez-faire oligarchic rule. Cacique democracy stresses the political dominance of landed elites just as it underscores the centrality of elections in elite contests for state control. While these concepts have merit, they focus much more on state-society relations than on the dynamics within the state.

For the purpose of this dissertation, I developed the term “proprietary polity” to better contrast the Philippines to the Thai bureaucratic polity. Proprietary polity here designates a configuration of state power where governing elites initially come from outside state institutions and arrived at their position by virtue of personal qualifications, notably personal wealth, social networks, and political or technical skills. The political leadership belongs loosely to a national party that comes to life during electoral contests with the infusion of funds from the war chests of electoral candidates. Because one’s family wealth and social connections greatly determined one’s rise to the pinnacle of political power, political rule is much more personalistic, and public office is treated much more as an entitlement to be passed down through the family line—a practice that has led to the proliferation of political dynasties at the different level of governance throughout the country (Sidel 1997, Franco 2001). In defining the post-martial law political landscape, one study notes the reemergence of the political clan, which it defined as “a family and its extended relations or network whose members have controlled the formal elective posts in a locality or political subdivision through generations" (Gutierrez 1994: 8).

On the other hand, most senior technocrats who served as the country's economic managers in a proprietary polity come from the private sector (either the corporate or academic sector) or are themselves politicians who assume key posts in the bureaucracy. In this sense, most technocrats who are appointed as the country's top economic managers, for instance, share a key characteristic of the political leadership: they too were not members of any state institution before assuming office—or, it was not because of any institutional membership that they were attractive candidates for such office. Instead, they owe their appointment to their personal relationship with the incumbent; they serve at the pleasure of the appointing authority. Accordingly, the Philippine civilian bureaucracy is in a far more subordinate position to the political leadership than its Thai counterpart. This arrangement makes it difficult for a technocracy to take root in the Philippine state. As such, perhaps the only time technocrats rose to become a distinct political bloc in the policy arena was during the early years of martial law, when an explicit Marcos-regime agenda was the displacement of established electoral forces and their supporters in the bureaucracy.

Partly because neither the political leadership nor the senior technocrats belong to well-defined hierarchies and because of a subordinated bureaucracy, there is lack of a hard separation of policy domains among Philippine state actors. To illustrate, since the establishment of the Commonwealth in 1935, the legislative branch has had the authority to grant franchises to specific firms, seeking to enter specific industries in the commercial sector[61] or to operate concessions in the primary sector. Congress has also used its taxing powers to legislate tax holidays to individual corporations and specific industries. Another, more recent example was the setting up in 1992 of the One-Stop Tax Credit and Duty-back Shop at the Department of Finance, which assesses firms' eligibility for tax exemption. These examples show oversight agencies directly undertaking policy and program implementation—usually left to line agencies. As such, the interaction of politics and policy in the Philippine setting differed from that in Thailand. In Thailand's bureaucratic polity, when political and technocratic interests encountered one another, technocratic interests typically won out. Thus, the supervision of the Thai BOI moved from the more politically-diverse Council of Ministers to the Office of the Prime Minister; in its new location, despite the fact that the Prime Minister had almost exclusive control over the agency, technocrats were pulled in to manage its day-to-day operations. In the Philippines, the direction of influence is reversed: politics entered macroeconomic agencies through the establishment of units that conducted negotiations with specific businesses and even political actors. Under a proprietary polity, therefore, the lack of differentiation means that even technocratic offices serve political functions. [62]

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[61]The legislature's power to grant franchises for the operation of a public utility and to decide on fiscal incentives could be found in the 1935 and succeeding Philippine Constitutions. Since the 1930s, for instance, private corporations have had to apply for legislative franchises in order to operate radio or any other telecommunication facilities, whether for internal and mass audiences. See, for instance, Senate deliberations on the request of the Philippine Long Distance Telephone Company (Philippine Senate, *Congressional Record*, vol. 1, no. 23, July 31, 1970, pp. 1951-2077).

[62] Vicente Paterno, former government technocrat, summed up the tension between Congress and the technocracy as follows: "Congress thinks that technocrats should not do anything that has not been legislated, and technocrats think that they should be able to show initiative and do things as long as these are within the law." Paterno, trained as an engineer with an M.B.A. from Harvard University, worked briefly with the National

A review of the country's history of policymaking reveals how deeply rooted the relationship between class rule and political power has been, to the extent that it can adapt to the shift in forms of political rule (democratic or authoritarian). This pattern of rule has also made it difficult to undertake administrative reforms toward improving economic performance. First, however, there is a need to review the historical emergence of a proprietary polity in the Philippines.

Proprietary Polity as a Colonial Legacy

Like Thailand, the 1930s were a turning point in the Philippines's state-building process.[63] Up to this time, the central state was largely a colonial creation, first under the Spanish (1565-1898) and later, the Americans (1898-1946). The establishment of the Commonwealth in 1935 marked the period when the American colonizers ceded to Filipinos substantial control over a relatively rudimentary state apparatus. That year also

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Economic Council before teaching at the University of the Philippines, from where he was recruited to join Marcos's economic team as BOI Chair in 1970. Paterno resigned in 1978 due to increasing pressures from special interests but rejoined government briefly when Corazon Aquino took over in 1986. He has since joined the private sector, and remained critical of what he saw as the politicization of the bureaucracy across the different administrations. Interview with Paterno on May 12, 2007.

[63] For a more comprehensive and detailed account of Philippine history, see: P. N. Abinales and Donna J. Amoroso, *State and Society in the Philippines* (New York and Oxford: Rowman and Littlefield Publishers) 2005; Daniel B. Schirmer and Stephen Rosskamm Shalom, *The Philippines Reader: A History of Colonialism, Neocolonialism, Dictatorship, and Resistance* (Cambridge, MA: South End Press) 1987: Onofre D. Corpuz, *The Roots of the Filipino Nation*, vols. 1 and 2 (Quezon City: Aklahi Foundation) 1989; and, Teodoro A. Agoncillo, Oscar M. Alfonso, *History of the Filipino People* (Quezon City: Malaya Books) 1969.

marked the adoption of the Philippine Constitution and the first presidential election, signaling the establishment of the region's first electoral democracy. With the establishment of an all-Filipino national government (still, however, under American suzerainty) proprietary polity, merging class power and political rule, moved onto more stable and autonomous foundations.

Key differences distinguish the Philippine approach to state-building from the Thai dynamics. First, in contrast to Thailand where the monarchy undertook rapid state-building from the top, the Philippines process began from the ground-up, first with Spaniards recruiting indigenous village chieftains as local functionaries of the colonial state. These indigenous Filipinos and Filipino *mestizos* of part Chinese or Spanish descent used their local positions to acquire wealth, mainly through landownership and the colonial trade. These elites soon began to demand direct representation in the Spanish court and, failing that, joined forces with the masses to fight for independence. The Americans took over from Spain after defeating the Philippine nationalist armed uprising, and directly co-opted the emergent Filipino bourgeoisie by redistributing friar lands[64] and conducting elections at the municipal and then provincial levels. By the time, therefore, that the Americans opened the electoral arena to national political office, the Filipino elites had already consolidated their economic and political power at the provincial levels.

In fact, the Philippines's proprietary polity produced a specific pattern of rent-seeking, woven into the fabric of dynastic control over politics. The American period

[64] The American colonial government bought the friar lands, but rather than parceling these out to the actual tillers, resold them at market value so that only moneyed individuals benefited from this land transfer program (Gleeck 1998, Constantino 1975).

gave provincial elites a preview of the economic benefits that control over the central state would produce (Anderson 1998). Since colonial times, rents that can be had from the national government have come in various forms: quota allocation for Philippine exporters to the US market during the free-trade period; import licenses and foreign exchange cover for importers and manufacturers during the ISI period; and, the grant of legislative franchises for select industries in the commercial and primary sectors. Membership in the National Assembly (later transformed into Congress by a constitutional amendment) assured members of the sugar bloc that family plantations would have access to resources from the government-owned Philippine National Bank and influence over the quota allocation system in the US market. This arrangement contrasts sharply with conditions in Thailand, where rent-seeking involved a partnership between bureaucratic elites and the captains of industries. Rent-seeking in the Philippines, in contrast, became a family affair, in which some tended the family business and others entered the rough-and-tumble world of politics (McCoy 1993, Simbulan 2005). Simply put, in the Philippines, rent-seeking is family-based, and its basic unit is the political clan.

Moreover, because setting up the rules of the political game took precedence to building the state's administrative apparatus, no bureaucratic elite emerged to challenge the dominance of politicians in policymaking. America's colonial strategy of direct rule in practice meant that Americans themselves controlled the levers of the national administrative apparatus; they co-opted the Philippine elite through elections rather than through bureaucratic recruitment. Thus, the subsequent Filipinization of the colonial state occurred through a process in which the politicians filled up the bureaucracy by bringing in their own staff and followers. In fact, this practice was institutionalized in the 1935 Constitution, with a provision allowing incumbents to appoint personal staff to positions, "which are policy-determining, primarily confidential or highly technical."[65] One study in 1957 estimated that nearly one-half of all civil service positions were filled up by such temporary appointees (Parsons 1957: 176). Congress's influence, even its informal influence on personnel decisions or over national agency budgets, contributed to the creation of what Carino (1989) called a "dominated bureaucracy."[66]

To better understand the impact of the American brand of colonialism on the configuration of state power, one needs only to look at Malaysia under British colonial control. In contrast to America's colonial strategy, British indirect rule required colonists to recruit Malays to administer the colonial state—a trend that created a bureaucratic elite, almost as divorced from economic power as their Thai counterparts. Thus, by the time the British relinquished control of the Malaysian state, indigenous bureaucratic elites could build a national party with substantial ease, using the mobilizing issue of Malay economic empowerment and the central state's national machinery. In contrast, in the Philippines, the absence of strong national parties comparable to Malaysia's UMNO can be explained by the lack of national bureaucratic elites and the entrenchment of local political clans. Even the Nacionalista Party that won the presidency and dominated Commonwealth politics was little more than an alliance of provincial political families (Lande 1979, Franco 2001). Despite elected office being the main locus of state power,

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[65]Article XXII, Section 1. This provision enabled politicians to bypass civil service hiring requirements.

[66]For instance, when Congress passed the 1959 Appropriation Act that created 1,800 positions, the majority party divided these up between executive officials and its 83 house representatives under the so-called 50-50 plan (Carino 1992: 51).

the Philippines therefore failed ever to build a strong party system. Rather, policymaking was largely the pursuit of personalistic politicians seeking to perpetuate their families' hold on power.

This approach to state-building, distinguishing the Philippines from Thailand also had implications for economic policymaking. In Thailand, the emergent bureaucratic elites who assumed state power had few links to an economy dominated by aristocrats and foreigners. These new elites, thus, had an interest in nurturing the emergent entrepreneurial class. In contrast, those who inherited the Philippine colonial state were beneficiaries of colonial rule and thus had fewer incentives to break with the economic status quo. These beneficiaries included members of the landed oligarchy (notably, the sugar barons), land or currency speculators, and traders who gained from importing American consumer goods and exporting raw materials to the American market. That these economic elites had family and political allies in Congress meant that the relationship between economic nationalism and industrial development was less straightforward as it was among Thailand's emergent political leaders who came to power through their membership in state institutions.

To start with, the 1935 Constitution that ushered in the Commonwealth and served as the fundamental law in the land until 1972 when it was replaced by the Marcos regime was drafted during the American colonial period. The Constitution contained a landmark provision, Article XVII, prohibiting non-citizens and corporations with less than 60% Filipino equity from owning and exploiting the country's natural resources. Yet, another provision (Article XVII) stipulated the retention of Americans' property rights even after independence. In effect, therefore, the patently nationalist provision worked to preserve American business' privilege in the economy at the expense of other nationalities.

The potency of Article XVII to provide a legal basis for future nationalist policies was further put into question with the passage of the Philippine Trade Act of 1946. This act, passed after the Philippines became a sovereign country, extended American parity rights and free trade between the two countries, and also stipulated that any change in the value of the Philippine currency relative to the American dollar required the US President's approval. This trade act, which by itself cemented the Philippine status as a neo-colony, created incentives for commodity export production and international trading, while making it difficult for domestic manufacturing to thrive in the face of cheaper imports.[67]

This said, the Philippine governing elites too saw a period of economic nationalism that sought to develop domestic entrepreneurship. Like Thailand, the emergent political elites in the 1930s also established state enterprises, many of which went into manufacturing (Hartendorp 1958). Moreover, domestic economic elites founded the National Economic Protectionist Association (NEPA) in 1934 to campaign

[67] To be sure, World War II left the economy of America's only colony in shambles; soon after the bombing of Pearl Harbor, Japanese planes swooped down on Manila, making the country one of the worst-hit in the Pacific war. The passage of the Philippine Rehabilitation Act in the US was contingent on the Philippine political leadership's acquiescence to the Philippine Trade Act provisions. Nevertheless, neocolonialism did not come without the Filipino elites' complicity. To ratify the trade treaty and the push the amendment on parity rights through Philippine Congress, President Manuel Roxas—former finance secretary under Quezon and first president of the post-colonial government—maneuvered to unseat from the Philippine Congress newly elected opposition legislators, including six members of the newly-established Democratic Alliance, identified with the anti-Japanese guerrilla movement that included the emergent Philippine communist party (Shalom 1980, Franco 2001: 75-76).

for legislation expanding Filipino capital's role in the development of the economy. To the Commonwealth policymakers, Filipinization of the economy was a necessary step to prepare the country for the eventual grant of independence and the anticipated end of duty-free trade. Unlike in Thailand where military rulers equated economic nationalism with industrialization, however, in the Philippines, national politicians were guided by a diversity of economic interests in the post-colonial period. At the forefront of the campaign for economic nationalism were diversifying agricultural and commercial elites. NEPA itself was an offshoot of the Philippine Chamber of Commerce and had as a major campaign the Filipinization of the retail trade (Porter 1938, Rivera 1994). Such diverse economic interests would affect the implementation of import-substitution industrialization policy, as Chapter 4 will show.

Much analysis argues that the reluctance of the country's national leaders (many from the landed elite) to undertake comprehensive land reform doomed the country's industrialization efforts (Rivera 1994, Angeles 1992). This line of argument in the literature generally makes the point that the failure to undertake land redistribution such as what occurred in South Korea and Taiwan kept both rural productivity and rural incomes low. A stagnant rural sector, on which more than 70% of the population depended, made it difficult for the country to generate investments for industrial development and expand the internal market for Philippine produced markets.[68] The

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[68] For the Philippine agrarian reform experience, see Leslie E. Bauzon, *Philippine agrarian reform, 1880-1965: the revolution that never was* (Singapore: Institute of Southeast Asian Studies) 1975; Saturnino M. Borras, *Pro-poor land reform: a critique* (Ottawa: University of Ottawa Press) 2007; Jeremias U. Montemayor, *The Philippine agrarian reform program* (Manila: Rex Book Store) 1976; James Putzel, *A captive land : the politics of agrarian reform in the Philippines* (London and New York: Catholic Institute for International Relations: Monthly Review Press) 1992; and, Jeffrey M.

argument rightfully stresses the link between agricultural and industrial development—a link that proved crucial in Thailand's case. Here, however, I stress the dominant role played by commercial interests in circumscribing the growth of domestic manufacturing. For one, as the Chapter 2 discussion on sectoral development showed, the agricultural sector has been in steady decline since the 1950s—which calls into question the sector's pull on resource allocation. On the other hand, at around the same time, the influence of landlordism in Philippine politics had begun to wane partly due to urbanization and the ascent of the so-called professional politicians (Coronel et.al. 2004, Doronila 1992). I argue that the rise of these new breed of politicians was accompanied by the growing clout of commercial interests.

After World War II, the economic boom broadened the class bases of elite democracy—previously reserved mostly for traditional politicians, based largely among the agrarian elites. The middle class, expanding as it was due to the flow of rehabilitation funds, US military expenditures, and spreading public education, provided a foundation for the emergence of a new professional class of politicians (Doronila 1992, Hawes 1992). After World War II, politicians who rose to the presidency came with different interests and different formative experiences than the *caciques* who formerly dominated Congress and gained control of the state. Elpidio Quirino (1948-1953) began as a village teacher and a lowly government clerk before studying law and entering politics. Ramon Magsaysay (1953-1957) was trained as an engineer but first caught the public eye as a guerrilla fighter in the Pacific war and entered politics by running for Congress as an

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Riedinger, *Agrarian reform in the Philippines: democratic transitions and redistributive reform* (Stanford, CA.: Stanford University Press) 1995.

independent. Diosdado Macapagal was a lawyer and an economist. Marcos was a lawyer who built a war chest by brokering deals between government and importers during the early period of import controls (Hutchcroft 1998, Hamilton-Paterson 1998).

With their middle class origins and the new economic opportunities in post-war reconstruction period, these professional politicians were able to imagine reworking the bases of political power in the country. Studies on electoral politics, for instance, note that starting in the late 1960s, the traditional patron-client relations that cemented electoral alliances had begun to be replaced by the more instrumentalist ward politics (Scott 1969, Wolters 1984). This break in the pattern of electoral mobilization meant that the state apparatus became an even more important source of capital for particularistic politics (Quimpo 2008). I argue that, at this point, the class basis of the Philippine proprietary politics began to shift away from the agrarian relations that underwrote *cacique* democracy. Starting in the 1960, with the rise of professional politicians, control over political office by itself became a family enterprise, institutionalizing “clan politics” in what was supposed to be the Philippine modern state.[69]

The late fifties and the 1960s proved to be a transition in yet another respect. The emergence of professional politicians occurred alongside an almost simultaneous rise of a new breed of policy actors: the professional technocrats, many of whom came from the academe. The term of President Macapagal (1961-1965) signaled this shift in the bureaucracy: toward professionalizing the bureaucracy, he established the Program Implementation Agency under the Office of the President to manage socioeconomic

[69] It was from this tradition that the Philippines gave rise to nouveau-riche political families, such as the Magsaysays, Macapagals, and the Marcoses—families of presidents who did not come from the traditional elite families but managed to accumulate wealth to ensure their families’ continued hold on political office.

projects with relative autonomy from Congress. But Macapagal's actions, if setting a direction that future presidents would follow, provided but a weak foreshadowing of what was to come. President Ferdinand Marcos, who became president in 1965, raised the partnership between the political leadership and technocrats to a higher level when he declared martial law and undertook a sweeping reorganization of government.

The Rise of the Technocracy

On September 21, 1972, President Ferdinand Marcos put the country under martial law. Proclamation 1081 cited the Maoist-led communist insurgency as the reason for the move, but in the months leading to the imposition of strongman rule, Marcos also began to frame his fight with political rivals, many of whom belonged to the traditional agrarian elites, as a class war. His book, published in 1971, censured the oligarchy, citing its "selfish interests" as a bane on the Filipino majority. Marcos's *Today's Revolution: Democracy* (1971) includes the following illustrative passage:

> Ours tends to be an oligarchic society. This simply means that the economic gap between the rich and the poor provides the wealthy few the opportunity of exercising undue influence on the political authority….I will not…be a willing captive of the oligarchy (pp. 96, 131).

Marcos fashioned authoritarian rule as a revolution from the center, waging war on two fronts: against the extreme left that, besides the communists, included a rising Muslim secessionist rebellion in the South, and the extreme right, represented by the old propertied class, which was entrenched in Congress, owned the biggest media outlets, and channeled government resources to businesses of families and allies. Marcos argued that to defeat these forces he needed to do no less than to overhaul Philippine state and society.

While critics rightly saw Marcos's maneuver as an attempt to get around constitutional term limits and extend his rule, his fighting words still found fertile ground among young US-trained technocrats—many of whom were educated in American liberalism at US universities, notably Harvard and the Massachusetts Institute of Technology (Dubsky 1993). These technocrats had themselves already begun to call for the separation of policymaking and politics. Like their Thai counterparts a few years earlier, Philippine technocrats began to call for administrative reforms and for the adoption of development planning as a way to develop the economy in a rational and judicious fashion. As one of the pioneering technocrats in the sixties said: "The crisis in development is a crisis of public administration, of government management."[70]

The demand for rationality in the management of the country's economy, however, required more than administrative reforms. As discussed in the earlier section, the Philippine bureaucracy emerged through the liberal application of patronage, and served as the social base for politicians in power. Hence, the reorganization of the bureaucracy was both difficult and insufficient to change patterns of governance. In the country's post-colonial history, there were two attempts at comprehensive government reorganization, both times corresponding to periods of intense political upheaval: with the 1972 imposition of martial law under Marcos, and after the restoration of electoral democracy through a peaceful people's uprising led by President Corazon Aquino (1986-

[70] Sixto Roxas in Dubsky 1993 (p. 66).

1992).[71] In both cases, the change in form of political rule (e.g., from electoral democracy to authoritarianism and back) provided the political space for bureaucratic restructuring. Importantly, in both cases, administrative reforms were not limited to mere reorganization. Rather the political rupture directly triggered purges in the politicized bureaucracy (Carino 1992, Endriga 1997).[72] This pattern differed from the organization of the policy process in Thailand, where institutional separation between the military political leadership and the civilian bureaucracy insulated the latter from frequent military power grabs.

In the Philippines's proprietary polity where most senior technocrats serving as the countries' economic managers were recruited from the private sector and thus served at the pleasure of the incumbent, politics dominated almost all policy domains, leading to

[71] To be sure, other governments tried to introduce administrative reforms but did not bear much fruit due to executive-legislative stalemate (Carino 1992). A comprehensive government reorganization policy was attempted in 1954. Republic Act No. 997 authorized the creation of the Government Survey and Reorganization Commission that would undertake studies and propose specific reorganization measures. The following year, despite the fact that Commission included both Senate and House Majority leaders, only one of about 50 specific reorganization plans got Congressional approval. In 1956, Congress accepted 33 plans and rejected 20 (Parsons 1957: 177).

[72] J.N. Endriga (1997) writes of the government reorganization that took place immediately after the imposition of martial law in 1972 and the restoration of democratic processes in 1986: "Mr. Marcos…made the civil service more subservient than at any other time in its history. Two dramatic pures undertaken in 1973 and 1975 through which thousands of government employees, including cabinet members were fired, delivered the message that the regime was not going to tolerate bad behavior…." The reorganization under Aquino was undertaken toward "the promotion of private initiative, decentralization, accountability, the efficiency of front-line services and cost-effectiveness of operations….In practice, what happened was a paradox, given the democratic nature of the new government. Taking advantage of its revolutionary character, the Aquino government resorted to a purge of thousands of civil servants through the expedient (sic) of reorganization…..Those who were reorganized out of their positions were replaced by new appointees who did not enter the service via the traditional route and many of them came from the private sector" (n.p.).

the blurring of boundaries between macroeconomic and sectoral policies. One notable set of examples were the import controls in the 1950s, which began as measures to regulate the outflow of badly needed foreign exchange but were easily transformed into a full-blown industrialization strategy. The passage of import control legislation in the 1950s set up a tug of war between Congress, which established an Imports Control Board, and the Central Bank, which controlled foreign exchange policy. In the end, the Central Bank gained sole jurisdiction over decisions on which firms, importing raw materials and capital goods, would receive foreign exchange—an arrangement that made the monetary institution an implementing agency of industrial development policy. In Thailand, even as import controls were also associated with currency and industrialization policies, a relatively clear and functional lead implementing agency existed—the Ministry of Industry in the 1950s and, starting in the 1960s, the Board of Investment under the Office of the Prime Minister. That regulatory bodies have a direct hand in implementing sectoral programs not only raises the question of competency but also opens up these bodies directly to issues of conflict of interest and rent-seeking.[73]

Interestingly, the problem of overlapping jurisdictions recurs numerous times in the history of Philippine planning. Attempts to put together a comprehensive development plan began in the Commonwealth period when President Manuel Quezon

[73]Since 1992, the Philippine Department of Finance assumed the lead in determining which firms would receive capital tax incentives—previously a BOI responsibility. The move has proved controversial. In the late 1990s, multi-billion peso tax credit fraud scandals, implicating former officials of the DOF's One-Stop Shop Inter-Agency Tax Credit and Duty Drawback Center and involving cases of giant oil companies purchasing tax discount instruments originally given to garment factories. (See *Philippine Inquirer*, April 15, 2009, and *Manila Standard Today*, August 29, 2007 and March 14, 2008 issues).

established the National Economic Council in 1935 by virtue of Commonwealth Act No. 2. The NEC, an advisory body composed of 15 Congress-approved presidential appointees and headed by the President, was set up to recommend policies on industrial development, crop diversification and production, tariff, and taxation.[74] The NEC, following a template apparently borrowed from US examples in the Roosevelt era, never became functional, however. In 1938, instead of a development plan, Quezon submitted a Four-Year Public Works Program to the National Assembly for approval. The plan would cost a record high 90-million peso, and laid out a four-year public works program that included a small road projects program of 9.8 million pesos, allotting 100 thousand pesos to each Assembly member (Porter 1938: 79). Two lessons might be drawn from this inauspicious beginning for Philippine developmental planning. First, the NEC could be sidelined with such ease because, although backed by legislation, it was merely an advisory body that convened upon the President's order. Second, the Commonwealth Act defined planning so broadly that it overlapped with policy concerns of the newly-established National Assembly at a time when Quezon was still consolidating his position as *primus inter pares* partly by distributing patronage. Because Quezon took over the colonial administration, he was confronted with the formidable task of asserting executive power over legislators, many of whom were his former colleagues in the Philippine Assembly, the upper house of the colonial legislature founded in 1907. The assertion of executive power, therefore, planted the seed of a patronage-laden framework of governance. As a consequence, national development planning did not prosper during the Commonwealth period.

[74] Commonwealth Act No. 2, approved by the National Assembly on December 23, 1935.

After World War II, there were more attempts at development planning. A Joint Philippine-US Finance Commission under the leadership of then Finance Secretary Miguel Cuaderno was created to facilitate rehabilitation and reconstruction work. The Commission produced two economic reports, one authored by Thomas Hibben of the U.S. Department of Commerce and another by the H.E. Beyster Corporation, a U.S. engineering consulting firm. Strikingly, the two reports stressed the need to build a domestic manufacturing sector. The Hibben report proposed a US$1.9 billion five-year program that included establishing chemical, steel, and iron plants, while the Beyster Plan proposed a US$1.6 billion, 15-year program to establish the same and other manufacturing facilities such as metal, machinery, textile plants (Pomeroy 1992). Save for the setting up of the Central Bank and the start of import controls (both proposed in the Hibben Memorandum) none of the other recommendations offered by the two reports were officially adopted by government.

That these development plans were not implemented cannot be attributed to a lack of funding: as in other developing countries, planning anticipated the inflow of post-war rehabilitation and reconstruction funds. The problem of Philippine plan adoption and implementation laid elsewhere: in the peculiar but significant decision to distribute aid directly to individuals with little design or plan for its use. The 1950 US economic survey mission report (known as the Bell Report after its head, former US Commerce Undersecretary Daniel W. Bell) found that US$ 1.4 billion in US aid and expenditures from 1945 to 1949 was distributed without linking these to any development objectives. According to the report, besides the US$141 million allotted for public works and public services, most war payments were distributed to private individuals, both Americans and

Filipinos, while other dollar receipts went to the finance routine government operations. The report reads:

> The great bulk of other funds disbursed by the United States Government through payments to individuals in the Philippines have had only a limited effect in encouraging the development of the country….No doubt the payments in dollars made possible a large flow of imports, and in that sense they have been generally beneficial to the country. They have been much less effective, however, than if an equal sum had been made available directly for investment in agricultural and industrial undertakings….
>
> The surplus property given by the United States to the Philippines was disposed of without reference to its specific use for industries in the Philippines. Large blocks were purchased by private buyers at bargain prices and exported from the Philippines to other countries at an enormous profit….The $80 million received by the Philippine Government from the sale of surplus property went into the General Fund as miscellaneous receipts and was used to meet the ordinary expenditures of the government. (p. 102)

The manner in which rehabilitation funds were distributed and used in the Philippines under President Manuel Roxas (1946-1948)—the first president in the newly independent republic—clearly contrasts with how developmental states built their post-war economies. South Korea and Taiwan each used similar aid to establish a central agency to undertake allocative planning. In the Philippines, the channeling of resources into individual pockets suggests that the mechanism for distribution was political.[75]

[75] Roxas had then just set up the Liberal Party as his campaign machinery against the incumbent president Sergio Osmena of the Nacionalista Party. Like President Quezon whom he served as finance secretary a decade earlier, Roxas apparently took the conventional route of a politician looking to consolidate power. For instance, a few

In fact, after arguing that development resources were squandered due to lack of oversight, the Bell mission stressed the importance of planning and introduced the practice of tied aid, arguing that the release of monies should be made contingent on compliance by the Philippine government to its recommendations.[76] Similar to the IBRD report on Thailand, the Bell Report has been cited as providing the framework for a more authoritative and comprehensive planning in the Philippines (Jenkins 1968). In November 1950, the Quirino-Foster Agreement was signed in which President Elpidio Quirino (1948-1953) committed to "seriously consider" the Bell Report recommendations in exchange for a loan of $200 million. Accordingly, Quirino

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months after taking office, Roxas organized the Surplus Property Commission, consisting mostly of Liberal Party officials, and in a little over a year, at least $100,000 had reportedly disappeared from the sale of US surplus property. One scandal that broke during this period involved former Senate President Jose Avelino (1946-1949), previously a Nacionalista who helped Roxas organize the Liberal Party after the war. In 1949, Avelino was ousted from his position and suspended in the wake of a Senate investigation on charges that he earned from government sales of surplus property (Dalton 1952: 119).

This pattern of resource distribution as patronage also can be seen in Japanese reparations payments that began with the passage of the reparations law in 1957 (Republic Act No. 1789) during the term of President Carlos P. Garcia (1957-1961). In 1971, about half of the $347 million worth of reparations in the form of Japanese goods and services were given to 227 firms and individuals; of this number, only a little more than half were still operating, representing a loss of about $62 million worth of capital goods (de Guia-Abad 1972). The practice of awarding the reparations goods to firms that were "newly established, without either adequate finance or technical competence" explains much of this dismal outcome (Vellut 1963: 504).

[76] The Bell Report (1950) reads: "The financial aid from the United States…will be most helpful if it is reserved for development projects in agriculture and industry which (sic) are related to the specific needs of the Philippine economy. The aid from the United States will be more effective if the United States retains control of the funds and their use for development purposes in the Philippines….The continued participation of the United States would in fact be determined from year to year and quarter to quarter on the basis of the effective use of the American aid in developing the Philippine economy….The test would have to be not only the use of funds made available by the United States, but the whole range of economic policies of the Philippines" (pp.105-106).

established the Office of Economic Coordination in the same year to supervise public corporations and imposed the foreign exchange tax in 1951. Beyond these high-profile but largely symbolic measures, however, not much else happened to signal a serious government commitment to consider planning as a way to expand the economy. The Philippine government's choice to not use external financing to invest in new industries, in fact, suggests that up until the 1950s, many policymakers felt little need for strategic planning that would entail any concerted government effort to fulfill.

Against this backdrop, the National Economic Council (NEC) fared only slightly better than the Joint Philippine-US Finance Commission in getting support for its development plans. The NEC had to compete with different policy actors to get presidential approval for its development plans. In the 1950s, it produced five development plans, but only one—the Five-Year Economic Development Plan for Fiscal Years 1955 to 1959, also known as the Rodriguez Plan after acting NEC Chair Filemon Rodriguez—was adopted by President Ramon Magsaysay (1953-1957). Other development plans included the Cabinet Committee Plan produced by Agriculture and Natural Resources Secretary Salvador Araneta in 1955, and the "Roy Plan" prepared in 1956 by the House of Representatives Committee on Economic Planning, headed by Congressman Jose Roy. Overlapping efforts from both the executive and legislative branches led to an attempt in 1955 to reconstitute the NEC in ways that would transform it from a mere advisory body under the executive to a coordinating and policymaking executive-legislative agency, with a full-time staff and a Cabinet-level chair.[77] Despite these efforts to centralize planning in the NEC, President Magsaysay issued Executive

[77] Philippine Government, National Economic Council, Reorganization No. 10. 1955.

Order No. 236 of February 13, 1957, authorizing the Budget Commission to prepare the "Five-Year Fiscal Plan for Fiscal Years 1957-1961, and creating an ad hoc Fiscal Policy Council, directly under him, to undertake development planning. The NEC was merely a member of this body (Aytona 1960: 87).[78]

The fate of the NEC was symptomatic of the highly-politicized environment against which economic and development policymaking operated. Its operations were affected by the tug-and-pull between the executive branch and legislature. As discussed above, the attempt in 1955 to streamline planning by transforming the NEC into a regular executive-legislative body had an opposite effect: rather than to submit to Congress, President Magsaysay established another planning mechanism over which he had greater control. Equally significant were the many development plans coming from different offices, suggesting that the country's technocrats were no different from politicians who competed among themselves for the president's attention and for public recognition.[79] Besides politics, however, different economic interests also made it difficult for economic managers to arrive at a consensus on where to take the country. During this period, the NEC often found itself in disagreement with the Central Bank on trade, fiscal, and monetary policies and reflected the agency heads' respective economic interests. One particularly telling confrontation came in the mid-1950s, which ended with NEC Chair Alfredo Montelibano resigning. The issue of import and exchange controls triggered the crisis: the Central Bank, which administered import and exchange controls, wanted to

[78] The FPC, chaired by the President, was composed of the following: the Secretary of Finance, Budget Commissioner, National Economic Council Chair, and the Central Bank Governor.

[79] It is also instructive that a plan was commonly known by the author's name, which was strikingly different from Thai technocrats who more often operated behind the scenes.

maintain the prewar peso-dollar exchange rate of two pesos to a dollar, while the NEC pushed for devaluation and decontrol. At the core of this debate was the fate of export agriculture and domestic manufacturing: the overvalued peso made Philippine export more expensive than those from other Southeast Asian countries that promptly devaluated their currencies after World War II to reflect the state of their economies. An overvalued peso also encouraged imports and currency trading. Frank Golay (1956) stresses that the opposing interests of producer groups, represented by the NEC, and commercial interests, identified with the Central Bank, drove this debate.[80]

Examining the backgrounds of the leading protagonists reveals just how closely public office and private interests intertwined—and this demonstrates another particularity of the Philippine case: technocrats working in these powerful government agencies were *also* key members of the private sector. Hence, Montelibano, who headed the Office of Economic Coordination before becoming NEC chair, was a sugar baron and industrialist as well as a politician, and started his political career by running for public office in the sugar-producing province of Negros Occidental. In 1945 to 1946, he became defense and interior secretary, representing the conservative wing of the political coalition of President Sergio Osmena, also from a sugar industry family. Montelibano, a University of the Philippines alumnus who earned an honorary degree in economics, was

[80]As Golay (1956) relates: "Import and exchange controls…severely limited import quantities, created monopoly windfall profits" for actual importers, "dummies" who obtained import licenses that they sell to importers, and corrupt officials and politicians who facilitated the transactions. On the other hand, export producers and exporters were put at a disadvantage because "the exchange rate realized from their export proceeds (which must be surrendered to the Central Bank at the 'official' rate) was quite different from the effective rate of exchange realized by importers who were able to buy currencies from the Central Bank at the 'official' rate, importers were in a position to realize a more favorable 'effective' rate through the relatively high prices at which the restricted quantities of imports could be sold" (pp. 254-255). See alsoTakagi (2008).

the director or top executive of various corporations in manufacturing, real estate, utilities, and even insurance and banking before entering government service.

Cuaderno was the most formidable technocrat at that time, having served government for a total of 14 years as secretary of finance (1946-1949) and Central Bank governor (1949-1960). Trained both as a lawyer and economist at the Philippine Law School and London School of Economics, respectively, Cuaderno briefly ran a brokerage firm and with other prominent Filipino families, organized the first wholly Filipino-owned private commercial bank, the Philippine Bank of Commerce, dealing in real estate and trade, before entering public office.[81] Cuaderno's long career in the bureaucracy, spanning three administrations, was exceptional. Yet, besides expertise and a strong social network, his staying power also reflected his links to international supporters, particularly in international financial institutions: he chaired the Joint Philippine-US Commission that handled reconstruction aid and negotiated the first loans from the International Monetary Fund and World Bank.

Compared to Thailand, therefore, the character of the Filipino economic development policymakers blurred meaningful or tenable distinctions between politicians, businesspeople, and technocrats. Rather, key policymakers, even those known for their technical education and capacity, moved back and forth among these three worlds, and never left their economic or political interests behind when they pursued planning or economic development policy. This background of technocrats doomed early

[81] According to one account (Subang 2005): "When the Philippine stock market itself crashed in 1938, many brokerage firms went bankrupt, among them the Finance and Mining Brokerage headed by Miguel Cuaderno, Sr. Cuaderno subsequently organized the Philippine Bank of Commerce, the first wholly Filipino-owned private commercial bank, with himself as president. With him in the venture were the prominent Cojuangco, Jacinto and Rufino families."

attempts at development planning in the Philippines. Whereas Thailand's bureaucratic polity and the institutional differentiation between the political and technocratic decision-making this promoted allowed policymakers in the National Economic Development Board to initiate planning as a simple public investment program focused on infrastructure development in the 1960s, in the Philippines's proprietary polity, development planning was a highly contested process where different political and economic interests competed. As with the NEC experience under Quezon, subsequent development plans took a backseat to other administration concerns, not the least of which was the effort to solidify presidential control over Congress and the business community through patronage.

Nor can one ignore the role of US imperial policy in the process by which the Philippine bureaucracy became subordinate to political interests. Modern state-building in the Philippines differed fundamentally from the Thai experience in that, because it was undertaken under the auspices of American colonial rule, it limited the role that a technocracy could play in building the modern state. Even as the US government was handing over political control to Filipinos, it retained its control over the economy. The Commonwealth government could not undertake changes on tariff, fiscal, and monetary policies without the approval of the US President. A push in 1939 to set up a central bank that would make the country's currency system more autonomous from the US was vetoed by President Roosevelt due to resistance from American businesses (Castillo 1948: 360). Direct colonial rule, therefore, did little to train Filipino technocrats in the science of managing the economy. Because most economic policies emanated from American administrators and required the US president's approval, economic agencies performed a passive role for much of their formative years. This, for instance, led a Filipino bureaucrat to comment that because the country's currency system was so tightly bound to that of the US during the Commonwealth period, the Treasurer was "only a glorified teller and bookkeeper."[82]

Even after independence, the Philippine bureaucracy was not given control over essential policy realms, and so could not use its power in those realms to strengthen itself. Many aspects of macroeconomic and trade policies remained closely circumscribed by Philippine-US agreements[83] so that, apart from their subordination to politicians, bureaucrats never had enough power in policy realms to allow them to push back against political interference. International missions, and particularly American missions, had been, therefore, fraught with contradictions. On the one hand, they consistently argued for the need to develop a more professional and autonomous bureaucracy. On the other hand, the powers reserved to the United States in the early post-war years deprived the bureaucracy of a key weapon in the effort to accumulate power against politicians.[84] In

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[82] According to Andres V. Castillo, because the Treasury's main role was mainly to maintain the parity of the peso with the dollar in order to ensure foreign exchange stability, as required by the US government, the "Treasurer could not take the initiative in reducing or expanding the circulation" of money in response to the economic situation and country's developmental needs. (Castillo 1948: 365).

[83] The Philippine Trade Act, for instance, stipulated that any change in the exchange rate needed the American president's approval.

[84] One might add to this the role of language, in particular, the adoption of English as the medium of instruction in the Philippines. In contrast to Thailand, where technocrats' foreign training and, therefore, proficiency in this international language was among those that set them apart from other elites, in the Philippines, no such distinction existed. In fact, it could be argued that language ensured the Thai state's place as a broker between international capital and domestic capitalist class. In the Philippines, Filipino and international business as well as Philippine consumers spoke English, thereby making it easier for market forces to bypass the state.

this setting, bureaucrats mostly took their cues from the Americans and Filipino politicians.

By the 1960s, however, change began to blow through the bureaucracy. Many saw the election of opposition leader Diosdado Macapagal to the presidency as ushering a movement toward professionalization (Dubsky 1993, Milne 1982). Macapagal adopted measures that included the appointment of technocrats to head economic agencies and replacement of import controls with the tariff system to minimize arbitrary trade policies. In the end, however, the administration's "New Era" reform agenda failed to deliver on its promise of economic prosperity, largely on account of a weak party system. From day one, Macapagal, who ran under the Liberal Party, had to contend with a Congress, dominated by the Nacionalista Party that accused him of "dictatorial tendencies." Yet, he spent the first half of his four-year term getting Nacionalista party leaders to switch to his party in order to pass needed legislation; after the mid-term national elections in 1963, leaders of his own party began to defect to the Nacionalista Party in preparation for the 1965 presidential elections. In the 1965 elections, Macapagal was replaced by Ferdinand Marcos, whom Macapagal earlier positioned as Senate President in exchange for him switching party allegiance.

Marcos went on to win an unprecedented second term in 1969, amidst charges of massive vote-buying from the opposition. When Marcos called for a constitutional convention near the end of his second term, anti-Marcos and nationalist lawmakers and social movements mobilized. Set up to change the rules of the political game, the convention brought to the fore two issues. First, many saw the administration's push to shift from presidential to a parliamentary form of government as merely Marcos's attempt to circumvent term limits and establish one-party rule. Second, nationalists in and out of Congress saw the rewriting of the constitution as an attempt to do away with the 1935 Constitution's nationalist provision, reserving the exploitation of the country's natural resources to Filipino nationals. That the parity rights enjoyed by Americans were set to lapse in 1974 made the confrontation between protectionists and free-traders imminent. Anti-Marcos and nationalist lawmakers thus found common cause with a growing Manila-based protest movement, propelled by a fast-radicalizing student movement, calling for the withdrawal of the US bases, an end to corrupt politics, and the institution of land reform, among other issues.

A great many analyses on the imposition of martial law have examined the social bases of the rising opposition in the late 1960s as paramount—looking at divisions in the ruling elite, and the rise of new social classes that increased the militant tone on college campuses (Wurfel 1988, Constantino 1975, Franco 2001). All this is doubtlessly true. But reviewing the history of the emergent Philippine technocratic corps reveals another fault line inside the state: between new and more technocratic and professionalized policymakers, such as those that Macapagal and later Marcos tried to promote, and those older actors, representing a fusion of political and policymaking interests. The failure of the Macapagal "New Era" agenda, in fact, reflected a tension between a style of policy making that reflected the vested interests of the political classes, and something that strove toward more professional and rationalized solutions.

If domestic political turbulence presented an immediate rationale for the imposition of martial law, the Philippines's regional neighbors provided models for authoritarian rule. As early as his first term, Marcos commissioned studies on the experiences of other regimes (Overholt 1987), indicating that his move toward dictatorship was calculated rather than an emergency response to political anarchy. Marcos's attempt at political and social reengineering followed in the footsteps of Sarit's "Thai Democracy" more than a decade earlier and Suharto's "New Order" in 1965. In both movements, modern government and policymaking were seen as more a matter of technical expertise than political mobilization, and the separation of policymaking from political interest offered Marcos a convenient way to combat his landed adversaries. As such, authoritarian rule, for the first time in Philippine history, saw the rise of the technocracy, almost in similar fashion to other Southeast Asian countries. Unlike past policymakers in the National Economic Council (NEC) and other economic agencies whose technical expertise were secondary to their political alliances and personal wealth, many of the senior technocrats of Marcos's "New Society" came from the academic community.

In fact, it could be argued that the confluence of a strongman and a new crop of American-educated technocrats was just a matter of time. As early as the 1960s, Philippine technocrats had begun to explore the idea of doing away with representative institutions to infuse rationality in policymaking, and so to fast-track modernization. Onofre Corpuz (1964), who was education minister in Marcos's "New Society," criticized the "enduring motive of pragmatism and compromise in the Filipino approach to the historical problems of the nation" when he wrote:

> The real and long-term solution would have to come about with a further advance in industrialization, and efficiency in governmental administration, all of which would expand further the scope of rationality, efficiency, and impersonality in

> social relations, as well as diminish the sphere of play of kinship considerations. Alternatively, a short-term solution could come about if a crisis were to break forth, giving rise to a leader who could declare a state of emergency and impose a sense of discipline into his party colleagues, the governmental bureaucracy, and the public at large (in Dubsky 1993, pp. 44-45).

The political rupture created by the declaration of martial law also gave Marcos the opportunity to unilaterally effect bureaucratic reorganization and construct a technocracy that stayed apart from the political process. Three days after imposing martial law and abolishing Congress, Marcos issued Presidential Decree No. 1, adopting the Integrated Reorganization Plan, which had been pending deliberation in Congress and included streamlining government agencies and centralizing these to the Office of the President (OP).

Like Sarit, Marcos sought to strengthen development planning and to centralize all developmental functions. He established the National Economic and Development Authority (NEDA) as the central planning body[85] and set up the Development Budget Coordinating Committee, composed of the economic agencies involved in formulating and allocating the national budget. These two measures put planning and budgeting almost entirely under the authority of the executive branch, and were only possible because of the dissolution of the legislature that had previously exercised substantial control over these processes. Under Marcos, NEDA became more than a planning

[85] The establishment of NEDA was provided for in the 1973 Philippine Constitution but as an agency that worked with the National Assembly—the legislature under the parliamentary system. NEDA absorbed both the executive-legislative body, the National Executive Council, and the Presidential Economic Staff, the unit that Marcos established in 1966 to replace Macapagal's PIA.

institute. The 1973 Constitution put it in charge of identifying "traditional areas of investments" that would be reserved for Filipinos (Sec. 3, Art. XIV).[86] Presidential Decree (PD) No. 92 also gave NEDA the authority to grant tax incentives to economic activities in line with development objectives, and to take over the role of the now defunct NEC to review the Board of Investment's annual investment priorities plan (IPP) before its submission for the president's approval. All in all, NEDA was originally envisioned as the lead agency for economic development, akin to that which one finds at the core of economic development activities in each of East Asia's developmental states.

The Board of Investment was also strengthened during this period. Government reorganization and the abolition of Congress gave the BOI relative autonomy in identifying specific industrial and economic activities that would qualify for fiscal and non-fiscal incentives. Under the Investment Incentives Act of 1967, Congress would have influence over the BOI and could check presidential prerogatives over investment plan formulation and implementation through the NEC. PD 92, therefore, represented the culmination of a process leading to the recentralization and specialization of policymaking concerning industrial development. Indeed, in the Philippines, the granting of tax exemption to facilitate industrial development began immediately after independence as a simple affair to be decided by the executive branch.[87] In the 1960s,

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[86] These investment areas reserved for Filipinos were contained in a "negative list"—a practice in Thailand as well. It is noteworthy that this provision implies that areas not in the list would be open to foreign investments, thereby presenting a sharp departure from the nationalist provisions of the 1935 Constitution.

[87] Under Republic Act No. 35 or the New and Necessary Industries Act of 1946, the President, upon the recommendation of the Secretary of Finance, determined which industries would be exempted from paying internal tax revenues. In 1953, the process was revised so that the Secretary of Finance, in consultation with the department of

however, responsibility for investment promotions was almost evenly split between the executive and legislative branches: Congress enacted two basic industries acts (R.A. 3127 in 1961 and R.A. 4095 in 1964) that established an inter-agency, multi-sectoral Board of Industries under the Office of the President, but stipulated the inclusion of congressional representatives. More significant, unlike the previous laws, the basic industries acts contained statements about the specific industries that would enjoy tax exemptions, thereby removing this area of decision-making from the executive.[88] I return to these laws in the next chapter where I discuss investment policies.

To push the reorganization of government, Marcos established a technocratic corps during his second term in office. The most senior technocrat in charge of managing the economy during this period was Cesar E.A. Virata, who was a business professor at the University of the Philippines before joining the government to head the BOI. Virata recruited former colleagues such as Vicente Paterno, who succeeded him as BOI chair, and Gerardo Sicat, who was originally NEC chair before becoming NEDA head and minister of economic planning.[89] In 1970, Virata became finance secretary and (after the shift to a parliamentary system of government under the 1973 Constitution) finance minister. Under martial law, Virata became one pole in the technocracy, in charge of

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commerce and industry, the Central Bank, and the Office of the Economic Coordination (R.A. 901), led in identifying "new and necessary" industries for government promotion.

[88] In fact, one focus of Senate deliberations on the bill was the role of Congress vis-à-vis the President in drawing up the investment priorities plan. Because the proposed law put the BOI under the Office of the President, some raised concerns that the Congress would be relinquishing its legislative power to decide on economic development to the president. See *Congressional Record*, vol. II no. 7, June 9, 1967, pp. 224-225.

[89] Separate interviews with Sicat and Paterno on March 7, 2007, and May 12, 2007, respectively.

economic ministries. Like their other counterparts in the region who also rose under authoritarian rulers in the sixties and seventies, these professional technocrats possessed two major resources that increased their appeal to autocrats: their ability to provide technical solutions to social problems, and their facility with the language and method of the development community, notably the World Bank. Equally important, the technocrats, recruited from the academe, did not present a political threat to Marcos.

In the Philippine context, institutional restructuring, particularly the dissolution of Congress, was not enough to weaken political rivals, many of whom came from the old moneyed class. As such, economic policy under Marcos served two political functions: it was a way to weaken political enemies; and, it cleared the way for him to build a new political base for his rule. Immediately after the imposition of martial law, Marcos nationalized public utilities and also private enterprises that had outstanding loans in government banks—many of which were owned by the same political elites and their allies.[90] Marcos then assigned cronies to head these nationalized companies while extending sovereign guarantees to foreign loans that went to friends' and relatives' businesses (Aquino 1987: 39-52, Dohner and Intal Jr. 1989, Mendoza et.al. 1991). More consequential to economic development was the regime's move to establish public monopolies, controlled by Marcos's allies, to direct the growth of export agriculture, notably in sugar and coconut industries (Hawes 1987, Broad 1990, Boyce 1993).

[90] The 1973 Philippine Constitution, in fact, gave the martial law regime a carte blanche on how it disposes of private property. Article II section 6 reads: "The State shall promote social justice to ensure the dignity, welfare, and security of all the people. Towards this end, the State shall regulate the acquisition, ownership, use, enjoyment, and disposition of private property, and equitably diffuse property ownership and profits."

The task of building institutional supports for Marcos's "New Society" proved problematic, however, mainly because of the configuration of power in the Philippines. Unlike Thailand, where power emanated from relatively strong military and civilian bureaucracies, power in the Philippines lay outside formal institutional arrangements (Machado 1978: 204); rather, it was dispersed among political families at the provincial level. Hence, when Marcos launched a national political party in 1978 to buttress his legitimacy, he had to negotiate with provincial and local politicians individually—a process that recreated the "old society" syndrome of patronage politics, although without any national political mechanism to assist in interest aggregation and conflict mediation. In this process, political maneuvering again derailed national development, something strikingly illustrated in the directive that Marcos issued as early as two months after imposing martial law, establishing the first export processing zone in a Central Luzon province, mostly as a concession to the local political kingpin.[91] More broadly, Marcos's party, the *Kilusang Bagong Lipunan* (New Society Movement), provided a forum for many of the same provincial politicians to return to the national stage.

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[91] Interview with Cesar Virata on May 10, 2007. Presidential Decree No. 66, passed on November 20, 1972, called for the establishment of export processing zones and, in particular, for such a facility to be set up in Mariviles town in the Central Luzon province of Bataan. The decree was merely a follow-up of a 1969 law, Republic Act No. 5490, whose principal author was Congressman Pablo Roman Sr. A later study (Warr 1987), however, questioned the choice of Mariviles, stating that the location necessitated high infrastructure spending.

While political bargaining was a factor to the Philippine government's choice of its first export zone site, geography was the key consideration when the Thai government decided to set up its first government industrial estate in Rayong Province's Map Ta Phut in 1973. The industrial estate has a port and forms part of the comprehensive Eastern Seaboard Development Plan, a three-province mega-industrial complex that was drawn up after the discovery of a natural gas reserve in the area. Interview with Snoh Unakul on October 26, 2006.

All told, the seventies saw the Philippines moving closest to an interventionist state. Nevertheless, administrative reforms did not insulate policymaking from politics for long. Because proprietary politics merged political rule and class power, one cannot change the rules of the political game and sustain this change without addressing as well the class structure—a process that Marcos (himself a product of pre-martial law cacique democracy) was unwilling to undertake. Government intervention, therefore, produced "new oligarchs" in a relatively short time. What differentiates this nouveau riche from the old propertied class was that many had little entrepreneurial success before being thrust into the position of captains of industry, opportunities they received mainly because of their personal links to the Marcoses (Aquino 1990; Manapat 1991). In effect, the "New Society" consolidated a trend that began in the 1960s when, with the rise of professional politicians, political power and political connections became the primary driver of wealth generation.

Synthesis and Conclusion

A comparative historical analysis of Thailand and the Philippines shows how the institutional contexts in which governing elites are embedded exert an influence over economic policymaking. In this section, I flesh out the differences in the two countries' political economies by focusing on the historical legacies that shaped their respective configurations of state power: differences in the character of Philippine and Thai governing elites, especially among the political leadership and the technocracy, pattern of rent-seeking and, state responses to colonialism and globalization.

Historical Legacies

The Thai and Philippine state building processes were distinct from one another in some remarkable ways. At the start of the 20th century, Thailand had an absolute monarchy that undertook massive state reforms and centralized the administrative and security apparatus to consolidate control over territorial leaders. With this move, the monarchy maintained political sovereignty in the face of imperial incursions into the Thai economy. The Philippine state, on the other hand, was the creation of direct colonial rule. The process by which Filipinos acquired power under this colonial regime was gradual, and started at the local level during Spanish rule. Thereafter, Filipinos expanded their power to increasingly elevated levels of government, using the electoral arena to do so under American colonialism. Differences in the top-down Thai state-building and bottom-up Philippine processes produced a singular difference in their states, with broad implications: while the Thai monarchy strengthened national state institutions such as the military and the civilian bureaucracy, Philippine processes initially and decisively strengthened the hand of individual political players and the provincial political clans from which they operated, and from this initial perch, and with interests centered in family and province, they subsequently reached toward state control.

On the other hand, because different actors led state-building processes in the two cases, and did so from a standpoint of distinct interests, the two countries also produced different political economies. In Thailand, the monarchy strove to limit the economic power of other indigenous political elites as a way to hamstring their resources and their ability to mobilize these into a political challenge. In the process, the king offered them substitute opportunities for social advancement through public service. Those who (in contrast) were allowed to amass significant economic power were members of the aristocracy, Chinese entrepreneurs, and westerners—categories that would pose limited political threats to the Thai monarchy. In colonial Philippines, no such dichotomy divided political and economic power. Under Spanish rule, petty village officers were able to use their office to acquire landholdings and to engage in colonial trade. When the American took over in 1896, they held municipal elections in 1901 and national elections for the newly established Philippine Assembly in 1907 but set property and English language requirements for the electorate—a move that deepened the link between economic and political power. The different ways in which political and economic power interacted in these two countries produced different levels of institutional differentiation between the state and market. In consequence, from the rise of the modern state in both places, the line between public authority and private power has been much more pronounced and definitive in Thailand than in the Philippines.

The different institutional settings of governing elites in the two countries, in turn, shaped the policy process. Thailand gave rise to a form of elite rule, defined as a bureaucratic polity—the rule by a coalition of top military and civilian officers who came to power mostly through coups—while the Philippines generated a different form of elite rule, described here as the proprietary polity—or the rule of landed and commercial oligarchy who gained political power by competing in regular elections. That the political elites in Thailand were embedded in state bureaucracies influenced their approach to policymaking, pushing it toward hierarchical, centralized, and specialized approaches—a pattern that also underpinned the bifurcation of macroeconomic and sectoral policymaking. In the Philippines, the merging of class and political power rendered policymaking a much more contested process, characterized by overlapping jurisdictions and competing economic and political interests.

Character of Governing Elites

Distinct paths to power for elites also existed in 20th-century Thailand and the Philippines. In Thailand, non-aristocratic political elites rose from the ranks of state bureaucrats while most of the rising political elites who took over the post-colonial Philippine state came from the indigenous propertied class. This partly explains the different extent and modalities through which the power of ruling elites was institutionalized: while most Thai elites were career officials in the military and civilian bureaucracy, Filipino governing elites came from outside the state: politicians and scions of propertied elites who were usually surrounded with their own networks of technocrats, recruited from the private sector and universities. In the character of the governing elites, therefore, there is a parallel to the systematic differences in the state structures: political power for individual careers also had a predominantly institutional character in Thailand, and was based more on class in the Philippines.

These different paths to power meant that the political elites who laid the foundations for the modern state in the 1930s had different economic motivations in the two countries. In Thailand, those who wrested power from the monarchy came from the middle class and first touched power in government service. This emergent political leadership had relatively few ties to the landed aristocracy and the other elites, mostly foreigners, who dominated the 19th-century Thai economy. In fact, the social base of Thailand's bureaucratic polity more decisively laid in the entrepreneurial classes it nurtured. Industrialization in the Philippines was more problematic because post-colonial elites came from the landed and commercial classes, people who benefited from the export of primary commodities to the US, as well as from the import of semi-processed and manufactured US goods. Unlike their Thai counterparts, Filipino political elites had less incentive to strike out on a different economic path. Distinct social bases guided governing elites' interests in policymaking: Thailand's leaders were less constrained than their Filipino counterparts from pursuing industrialization and deepening domestic capitalism.

The institutional character of the political leaderships in these two countries also extended to the civilian bureaucracies. As bureaucratic elites, the Thai military and civilian functionaries maintained a division of labor that allowed the civilian bureaucracy to operate with minimal disruption despite frequent political turnovers. In fact, the bureaucracy's historic link to the monarchy, its technical expertise, and government tenure gave career officials leverage over the political leadership. Proprietary polity's combination of political and class rule, and the decentralized power structure, introduced a different pattern of interaction between the political leadership and the civilian bureaucracy. The Philippines has had difficulty setting up strong political parties that could provide national mechanisms for interest aggregation and conflict mediation. Absent a strong party system despite the dominance of electoral politics, the political leadership became highly personalistic. Politicians, unfettered by any strong standing organizational interests, make particularistic claims on the civilian bureaucracy and produce policies that are opportunistic and target short-time horizons. As noted above, this dynamic came into play in the distribution of Philippine war reparations to individual recipients or for regular government operations, rather than to industries that would also produce long-term—instead of only immediate personal and political—dividends. These different institutional contexts explain, in part, the rise of a technocracy within the Thai state and its outsider status in the Philippines.

Patterns of Rent-Seeking

The economic histories of Thailand and the Philippines illustrate how political elites in both countries used their control of the state to create rents for personal and political gain. Nevertheless, the impact of rents on the economy is contingent on larger patterns of rent-seeking. In Thailand's bureaucratic polity, rent-seeking occurred as bureaucratic elites provided favorable policies and protection to domestic companies, usually in exchange for board directorships, commissions, and a share in the profits. Under proprietary polity, family-based rent-seeking assumed two main forms. The traditional version had agricultural elites sending family members to run for high office to win rents for their family businesses, notably in export agriculture. After the war, with the inflow of reconstruction aid and other resources, a second pattern emerged. From this period forward, it became possible for middle-class politicians to gain control of the state and broker deals with ascendant commercial and industrial elites. From their control of over public office, these politicians amassed wealth for their families, and reinvested part of that wealth in electoral contests to ensure dynastic control over political office. That these professional politicians themselves did not emerge from producer groups also suggested that emerging monopoly rights began to shift, more and more, to commercial activities, which usually promised quicker returns. Giving out fiscal and non-fiscal incentives or franchises in the service sector grew more important than giving subsidies to agricultural or manufacturing firms.

This later trend is worth noting because it contrasts sharply with both the Thai example and the traditional Philippine pattern. Both the Thai and later-day Philippine version used control of the state to generate personal wealth, but they differed in that Thai leaders usually partnered with relatively established Sino-Thai businesses, while the Philippine leadership, notably Marcos, generally aligned with relatively new economic elites. The difference can be traced to the state configurations in the two countries. In the Philippines, because political rule and class power were so tightly intertwined, there was an incentive for a new leader to use the state to create new economic elites on whose support it could count. In effect, the imposition of martial law in 1972 and the restoration of elite democracy in 1986, also led to a fundamental realignment among the economic elites—something that influenced economic performance in ways noted in Chapter 2. On the other hand, when compared to the Philippines, there had always been greater institutional differentiation between political and economic forces in Thailand and so Thai political leaders could choose which businesses to promote, based not only on the goal of political loyalty but also on performance. In the Philippines, even if the traditional and post-war patterns of rent-seeking rested on family foundations, they differed in the link between political office and productive activity. The traditional version had politicians channeling rents to family plantations or industrial firms. The growing dominance of professional politicians inadvertently paved the way for politics itself to become a family business, divorced from the real economy.

State Response to Global Influences

Imperialism has had a profound but differentiated impact on the political economies of Thailand and the Philippines. While their economies came to be dominated by foreign capital, 19^{th}-century Thailand and the Philippines established different patterns of engaging western power, based largely on underlying differences in their state formations. Even as the Thai monarchy opened the economy to British and other colonial powers, it also moved quickly to strengthen and modernize the central state and to assert its legitimacy as a nation-state. The Chakri monarchy hired foreign advisers from different western nations to provide Thai officials specific expertise and it sent members of the aristocracy on scholarships abroad. It also established centralized control over its territories to more effectively negotiate and enforce treaty agreements. In the main, by setting up a technocracy that spoke in the idioms of international business and diplomacy, the monarchy raised the profile of the state and served as a more effective gatekeeper, mediating between foreign and domestic interests.

In contrast, the Philippine state was a colonial creation. Unlike Thailand, the country had no pre-colonial central state. Both the Spaniards and Americans imposed direct rule, and under that rule and beginning on the fringes, indigenous political elites emerged and gradually accumulated power. The American colonial strategy of direct rule also shaped the emergent political leaders in another way: instead of passing on administrative skills, US officials trained Filipinos in electoral politics. In fact, even during the Commonwealth and early post-colonial periods, the US maintained control over trade, fiscal, and monetary policies, making it difficult for a technocracy to grow from within and enjoy some autonomy from the political leadership. In this sense, post-colonial Philippines had a subordinated bureaucracy that took most of its cues from Filipino politicians and US aid agencies.

Because of such historical legacies, governing elites in Thailand's bureaucratic polity and the Philippines's proprietary polity played different roles as their economies became more fully integrated into the international market. It is noteworthy that at the same time (during the late 1950s and early 1960s) the Sarit regime was adopting World Bank prescriptions, it also launched the "nation-religion-monarchy" campaign—repeating a pattern in the country's early history when the opening up of the country to greater foreign influence also meant holding fast to Thailand's traditional social institutions. In contrast, periods of political alignments in Philippine politics brought the Philippine leadership even closer to American interests: the year before the grant of independence in 1946 saw the rise of the two-party system with the birth of the Liberal Party that would spearhead the passage of the Philippine Trade Act, and the imposition of martial law in 1972, two years before the lapse of American parity rights, eased the dislocation of American economic interests in the country. These responses of latter-day regimes to international economic penetration show a continuity of the state's historic positions in relation to international pressures and domestic interests, as the next two chapters will show.

The historical analyses of Thai and the Philippine development demonstrate a different pattern of late industrialization, distinct from the East Asian developmental state model. Thailand and the Philippines share with other Southeast Asian countries historical legacies that produced a much more conflictual political process—making the adoption of state-led capitalism a more contentious path to development. Starting in the 1950s, the international community, notably the US and international aid agencies, promoted in the two countries a more technocratic approach to development that sought to depoliticize economic policymaking and give foreign and domestic investors more expansive roles in economic restructuring. Instead of the strong central authority that enabled South Korea and Taiwan to pursue allocative planning in order to fast-track industrialization, Thailand and the Philippines set up different government agencies—notably, a planning authority and a Board of Investment—with different policy constituencies. The political leadership played an active role in sectoral or industrial development, while technocrats, handling aid monies, assumed the main responsibility for macroeconomic policies. To be sure, these roles were not mutually exclusive but it was in the distinct ways the political and technocratic decision-making overlapped that differentiated the two countries' policy processes. While technocratic offices were created in government agencies dealing with sectoral development in Thailand, in the Philippines, macroeconomic agencies were themselves involved in sectoral program implementation.

Economic modernization in Thailand and the Philippines took shape against fundamentally different institutional contexts. The political leadership and senior technocrats who served as economic managers rose from the ranks of state institutions in Thailand but were only loosely connected with any state institutions before they assumed office in the Philippines. The discussion in this chapter aimed to show that the construction of state power is historically contingent. In Thailand's bureaucratic polity, emergent political elites in the 1930s rose from relatively centralized state institutions: in the Philippine proprietary polity, the emergent national political leadership that inherited the colonial state had shallow roots in political parties and rose to power by dint of their family wealth and lineage, social networks, and political skills. While most economic managers in Thailand were technocrats who came from the ranks of the civilian bureaucracy, those in the Philippines were technocrats recruited from the private sector by incumbents to serve as their personal staff.

These different state configurations explain the different ways politics intruded in policymaking. As historical comparisons reveal, planning and industrial policymaking were much more contested processes in the Philippines than in Thailand. In Thailand, because state institutions were relatively insulated from social forces except for the nobility, the emergent political leadership immediately launched into industrial development as a way to build a social base that was distinct from the aristocracy. In the Philippines, because political elites benefited from the colonial economy, they had little incentive to drastically shift investment and trade policies. Rather, industrial development was added atop agricultural and commercial interests. The difference in focus between the two countries manifested itself in their planning processes. In summary, different institutional arrangements bear heavily on the outputs and outcomes of ostensibly similar development policies, as the succeeding chapters on import-substitution and export-oriented industrialization will show.

CHAPTER 4

Comparative Policy Dynamics of Investment Promotion and Trade

To the casual observer, development strategies in Thailand and the Philippines might at first seem to have followed a similar course: the two countries experimented with state enterprises before shifting to a more market-led approach to jumpstart industrial development. In both countries, investment promotion programs contained both fiscal and non-fiscal incentives as the main tool to undertake import-substitution industrialization (ISI) in the 1950s and export-oriented industrialization (EOI), starting in the 1970s. In the two countries, the international development community was instrumental in the adoption of these strategies: international forces pushed ISI as a way for foreign capital to gain first-entry advantage in developing markets and then advocated an EOI program when domestic markets reached their limit. National policymakers in both cases adopted these strategies, linking industrialization and trade, as a way to solve perennial balance of payment deficits while developing their countries' productive forces. Despite these generally-similar strategies, however, industrialization in the two countries has had different outcomes: as discussed in Chapter 2, Thailand joined the ranks of newly-industrializing countries over the past two decades, while the Philippines has begun to show signs of de-industrialization during that same period.

To explain the two countries' contrasting economic trajectories, I focused on the specific institutional characteristics and interaction of governing elites. The previous chapter discussed the construction of state power in each country as a product of the interaction between state-building and economic development. Thailand's bureaucratic polity and the Philippines's proprietary polity produced distinct governing elites whose approach to policymaking was shaped by the institutional contexts in which they operated. In this chapter and the next, I focus on the other side of the equation: the policy outputs and policy outcomes. I examine critical pieces of legislation, noting specific provisions and the sequencing of policies. I argue that policy design and implementation were key elements in the divergent logic of the two countries' pursuit of industrialization, but that the interests and practices that governing elites brought to economic development policy were also critically shaped by their organization. In particular, the ways in which politics influenced economic development policy depended on the larger structures of state institutions and the political interests they motivated.

This chapter begins with a brief discussion of the two countries' political economies during the era of colonialism as they became more fully integrated into the global market. The story goes back to the late 19th century and helps provide the context for Chapter 3's discussion on state formation. This early period was a time in the two countries' economic history when governing elites began to engage colonial powers in order to build the domestic economy. Because its rice export industry allowed for broad-based, self-reliant growth, Thai bureaucratic elites were less encumbered in expanding the country's domestic industries than the Philippine landlord-based political leaders who were weaned on the colonial trade of commodity exports and cheap American manufactured imports. This early experience, linking home production and external markets, influenced the configuration of early domestic capitalism.

Having presented colonial trade and production patterns as historical starting points, the next section focuses on state activity that determined the specific contour of industrial development. Domestic political elites, shaped by different state structures, negotiated with imperial powers to broaden the policy tools at their disposal, and promoted specific economic sectors as their social bases. Since the 1920s in Thailand, the monarchy and, later, the emergent bureaucratic elites had asserted control over macroeconomic and trade policies, one consequence of which was that Thailand had a longer period of protectionism than the Philippines. In contrast, emergent political elites who took over the colonial state in the Philippines had little incentive to break away from colonial trade patterns and thus implemented policies that strengthened domestic entrepreneurs aligned with foreign capital. While ISI in both countries expanded the industrial elite, it also strengthened different segments of the commercial sector. The historical review of ISI implementation in each country suggests that in promoting domestic capitalism, Thai government policies strengthened the domestic banking community that would eventually finance industrial growth while Philippine policies helped expand the merchant capitalists, particularly importers of cheap manufactured goods, whose long-term interests constrained the growth of domestic industrialists. The trend, in turn, set the initial parameters of EOI implementation.

In sum, to explain the divergence in policy outputs and outcomes, I make a path-dependent, recursive argument. I argue that variations in policy outputs and outcomes have roots in the two countries' different configuration of state power. Thailand's bureaucratic elites, with minimal economic interests vested in the old order, almost immediately adopted industrialization as a source of rents, revenues, and national pride. In the Philippines's proprietary polity, policy makers carried different economic interests, reflecting their social bases. At the same time, the institutional embeddedness of governing elites in Thailand and lack of it in the Philippines also had an impact on policymaking as discussed below.

Thailand and the Philippines: Background Conditions

The opening up of Thailand and the Philippines to western trade facilitated fundamental changes in the two countries. The two countries forged relationships with colonial powers that contrasted fundamentally with one another, and this initial difference structured the way they connected to the 19^{th}-century international market. The Thai monarchy undertook rapid state-building designed to improve its administrative capacity domestically and its diplomatic relations internationally. Around the same time, the Philippine colonial state, under American tutelage, embarked on electoral democracy as a central feature of its modernization process and the system in short order gave provincial agrarian elites access to national state power. These political and institutional changes were reinforced by the restructuring of elite power: briefly, the Thai monarchy sought to neutralize potential rivals by limiting the indigenous elite's economic power. The king promoted a small landowner-cultivator system to prevent the spread of landlordism (Muscat 1997, Pasuk and Baker 2002) while offering public office to ethnic Thais as the avenue to social mobility. Because of this process, Thai elites dominated politics while foreigners, including the Chinese, held sway over the economy. In the Philippines, an emergent landlord class came to inherit the colonial state, and in this political rise, blurred the line between private power and public authority.

By the end of the 19th century, Thailand and the Philippines had been fully integrated into the world economy. The Thai monarchy signed the Bowring Treaty with Britain in 1855 and, thereafter, 14 more international treaties with other countries (Ingram 1971). The treaties allowed foreign capital to establish business in the country and engage in domestic and international trade. They also provided international economic concerns with the legal cover of extraterritoriality. Throughout this period, however, the Thai monarchy asserted its role as gatekeeper of domestic economy. Colonial Philippines, on the other hand, passed through three trade regimes. For the most part of Spanish rule, the country had mostly been a transshipment port for the galleon trade between China and Mexico. When the galleon trade ended in the 1800s, Spain was compelled to open up the colony's trade to other countries to raise state revenues, ushering in a period of decentralized commercial trade directly between European and American trading companies and Philippine provincial agrarian elites (Abinales and Amoroso 2005). When the US took over the Philippines, the colonial administration set up a free trade regime where commodities flowed freely and almost exclusively between the US metropole and its newly acquired territory.

It is important to note at the beginning of this comparison that the two countries produced fundamentally different types of primary commodities for foreign markets. Thailand became a rice exporter, supplying the staple to the British colonies of Malaya and India, as well as to China; the Philippines specialized in cash crops (sugar, Manila hemp or abaca, tobacco, and coconut) sent mostly to the US mainland. Until the middle of the 20th century, primary products dominated Thai and Philippine exports, and manufactured goods made up the bulk of their imports. Yet, the two countries' engagement with the global economy differed based on the countries' distinct political economies during this period.

That rice, a staple then grown by 90% of the indigenous population, became Thailand's top export meant that trade had a broad-based impact on the domestic economy. Trade facilitated the monetization of the economy, provided additional incomes to farming communities, and prompted once self-sufficient households to begin producing a surplus on tradable goods (Mournier et.al. 1994). James Ingram (1971) notes that Thailand's trade structure made the country a net exporter from 1850-1950: the country's export economy was based largely on small owner-cultivator food production while Thailand's imports could be classified as "luxury goods," at least in the sense that they were consumer goods that most Thais could do without (pp. 37, 137). Ironically, it was only when Thailand pursued import-substitution industrialization in the 1950s that the country began to accumulate serious trade deficits, under the influence of the expanding importation of intermediate and capital goods for manufacturing.

Compared to the Philippine cash crop agriculture, export production in Thailand was from the very outset tightly bound to the needs of the domestic market. Rice as both a staple food and an export commodity cemented the link between the domestic economy and international trade. Because the domestic supply and demand of rice also affected the prices of other goods, the Thai state—whether under the monarchy before the 1932 coup and the succeeding military-civilian governments—always asserted its right to regulate its trade, and limited rice exports during periods of shortages. The monarchy also sought to expand rice production by undertaking various measures to encourage the cultivation of frontier lands and facilitate labor mobility. Such measures included: the maintenance of the traditional land code that allowed farmers to claim any lands they had cultivated for three years; the abolition of *corvee* labor in 1899 and slavery from 1868 to 1913, and the adoption of the Torrens system of land titling in 1901 to secure property rights for owner-cultivators (Feeny 1979: 123-124).

In contrast, domestic household production in the Philippines had a more tenuous relationship with the export trade. From its transshipment role during the Spanish galleon trade through an independence awash with US surplus goods and cheap imports, a key source of Philippine wealth was commercial trade. Indeed, the commercial impetus behind colonial rule gave Spanish and American authorities little incentive to improve production for the domestic market and nowhere was this more evident than when the US colonial regime began to import rice. From the mid-1920s to the mid-1930s, for instance, the Philippines's annual net import of rice had varied from 200,000 cavans to almost two million cavans (Porter 1938: 54). Importation of rice and other food products (grains and canned goods) has become a state policy since the American period, as a way to control domestic prices. Indeed, as suggested by an American tax and finance expert, the imperatives of comparative advantage informed American colonial policy.[92]

The transition to self-rule, however, did little to change this policy orientation since Filipino leaders came from agrarian elites, weaned on export agriculture, and with many of the same interests that guided American policymaking. In fact, the political

[92] As Carl C. Plehn (1902) wrote: "The commerce of the Philippines now rests entirely upon the insular products….It rests upon four great staples, hemp, tobacco, sugar, and copra…..The imports of the islands are extremely varied, but cotton cloth…and rice are the most important articles….[S]ince the opening of the Suez canal the market for great staples has been so much more available that the land could be put to better use than raising so unremunerative a crop as rice. Hence there is an ever increasing importation of rice….The natives have much skill in spinning and weaving by hand, but it is hopeless for them to compete with the output of the English and German mills" (pp. 508-509).

dominance of the landlord class, notably the sugar bloc, at the turn of the century partly explains the scant interest the post-colonial government gave to institutional changes that could improve food production (attention easily observable in the policy work of the Thai monarchy). Preoccupied with producing commercial crops for export, the government turned to importing food to meet domestic demand. In 1936, the all-Filipino Commonwealth government established the National Rice and Corn Corporation to pursue two objectives: to assist rice and corn farming and distribution in the country while also overseeing rice importation as part of the government's price control policy. This practice reveals a contradictory policy orientation among governing elites that aims, on the one hand, to improve domestic production and, on the other hand, to facilitate the entry of cheap imports—competing interests that would carry over to policy debates during import substitution and export promotion stages of industrialization when free market arguments set the parameters on the practice of economic nationalism.

In fact, early production and trade patterns in the two countries were significant in still another way: they mobilized different sources of investment capital. Studies on Thai business, for instance, attribute its relative autonomy from the state to the mobilization of Chinese capital. Pasuk and Baker (2002) note that most Thai rice barons who emerged in the 1920s raised capital to build business networks by tapping into the Chinese immigrant community rather than by seeking government patronage. The relative autonomy of incipient Thai capitalism from the state differed from conditions in the Philippines, where agrarian elites depended on the national state for investment capital (Wurfel 1988, Doronila 1992). These factors, highlighting rent-seeking and the availability of ethnicity-based social networks, do help explain the differences in the relationship between state and business groups in each country. Nevertheless, these explanations prove insufficient when comparing the two countries' experiences where both factors operate: Chinese entrepreneurs were likewise important sources of financing in the Philippines (Appleton 1960, Subianto 2001, Rivera 2003); as discussed elsewhere in this study, Thai businesses relied heavily as well on government patronage.

I argue that differences in the sources of capital were also partly due to specific capital requirements related to modes of production. Commercial agriculture based on smallowner-cultivatorship reduced capital requirements for production and commerce—amounts that small and medium-scale Chinese and Sino-Thai entrepreneurs could provide. This pattern was also evident in early crop production in the Philippines. In the early 19th century, sugar production was undertaken in smallholder farms financed by Chinese and Filipino small entrepreneurs and landowners (Fast and Richardson 1979). Nevertheless, commercial production for western markets entailed a larger capital requirement that only Anglo-American commercial houses could provide. Sugar production for a discerning American market required technology only feasible with economies of scale.[93] Together, these two requirements encouraged the rise of plantations and sugar centrals, and financing that lay beyond the capacities of local entrepreneurs.

This suggests that merchant capitalists in Thailand had a bigger stake in the domestic economy than did those in the Philippines. In fact, the monarchy founded the first Thai private bank, the Siam Commercial Bank (SCB), in 1904 against the advice of British financial advisers seeking to preserve the dominance of European banks in the

[93] As noted by Friend (1963): The Philippines used the *muscavado* process during the Spanish period. However, to produce the higher-quality sugar sold in US markets, huge capital and large supply of sugar cane were needed to build and operate optimally sugar mills using the centrifugal process (p. 182).

country (Doner and Unger 1993: 96, Ingram 1971). The SCB and four Chinese banks were founded to finance non-European trade and businesses, notably tied to the rice industry. In due time, Chinese and Sino-Thai capitalists would found commercial banks and insurance companies that financed domestic industrialization (Suehiro 1989: 42, Christensen et.al. 1992). In contrast, the functions of western merchant capitalists in the Philippines were assumed by the Philippine state, the only entity in the country that could match American and British investments. Government banks, notably the Philippine National Bank, were established to finance relatively capital-intensive cash crop production (Willis 1917, Odell 1939, Friend 1963, Billig 2003).

The power dynamic between the domestic elites and foreign powers, initially set in the 19th century, persisted until the 1950s. As the two economies integrated into the world capitalist system, domestic political elites reacted differently to external demands. The Thai monarchy and (after the end of its absolute rule in 1932) the emergent political bureaucratic elites asserted their relative autonomy in key policy domains like fiscal and monetary policies. Starting in 1926, the Thai monarchy successfully renegotiated the terms of international treaties to eliminate the extraterritoriality clause and, equally important, to adjust tariff rates (Muscat 1997). In the Second World War, the Phibun government aligned itself with Japan and was compelled to tie the Thai baht to the yen and its trade with that country. Despite conceding much control, however, Thai authorities resisted a Japanese directive to establish a monetary body under Japanese guidance and, instead, hurriedly organized the Bank of Thailand to ensure monetary autonomy (Warr and Bhanupong 1996).

Presented with similar policy choices in its relations with the US, Philippine officialdom moved in the opposite direction. After independence in 1946, a theoretically sovereign Philippine government agreed to prolong duty-free trade relations, American parity rights, and US monetary supervision. Of these conditions, the loss of monetary autonomy has been cited as especially harmful to the Philippine economy (Hooley 2005, Yoshihara 1994). Despite a war-ravaged economy, the Philippines was compelled to resume its pre-war exchange rate of two pesos for every US dollar—at a time when all other countries in the region, including Japan and Thailand, devalued their currencies. The decision effectively raised the prices of Philippine exports and lowered import prices in the domestic market, exacerbating the country's balance of trade deficits.

This section has outlined key differences in Thailand's and the Philippines's integration into the world capitalist system, for economic policymaking began from importantly different positions. As the discussion suggests, while both countries' economies produced for the external market, differences in state formation and modes of production shaped the interests of their emerging political and economic elites. Colonialism engendered a Filipino elite that from the very beginning was more aligned with international capital. On the other hand, the Thai state was never colonized; even when it opened the economy to westerners, the national state asserted effective control over certain policy domains that would allow it to gain from international trade. This relative state autonomy and the emergence of an export industry based on smallholder food production combined to produce domestic elites whose economic interests were much more clearly aligned with domestic entrepreneurs than those of foreign capital.

Politics of Import-Substitution Industrialization

Thailand's and the Philippines's early integration into the international economy pushed the national state at the forefront in the development of domestic capitalism. Since attempts to build a manufacturing sector ran counter to the roles the countries played as sources of raw materials and markets of manufactured goods in the traditional international division of labor, domestic manufacturing only prospered under the cover of state policies that mediated between international capital and domestic elites. Adopting the import-substitution strategy current in 1950s development circles, Filipino and Thai policymakers used import controls to protect fledgling manufacturing sectors from foreign competition and to guard against balance of payment deficits. Nevertheless, ISI took different forms in the two countries, based on negotiations between state authorities and international capital, and on the patterned interaction among domestic political and economic elites.

In Thailand and the Philippines, in fact, import controls did not begin as programmatic efforts to build domestic industries. Rather, their initial objective was to improve state resources. Thus, the Thai monarchy sought to adjust import duties in the 1920s in order to finance its modernizing central state. Import controls in the Philippines began much later, only after the global war and Philippine independence. Significantly, recommendations from a US economic mission prompted the adoption of import controls in order to safeguard scarce foreign exchange reserves—a substantial amount of which went to buy US imports, including luxury consumer goods. The early adoption and longer duration of de facto Thai protectionism, as compared to the Philippine variant, produced differences in the development of commerce and industry in the two countries.

Moreover, partly because of their different relationships to international actors and power structures, the two countries had access to different policy tools. Even as foreigners came to dominate its economy, Thai authorities retained enough autonomy over fiscal and monetary policymaking to allow them to use the tariff system to further industrialization objectives. The Philippine colonial state, tightly bound to US political and economic interests, developed a pattern of domestic policymaking that upheld those interests. For instance, the Philippine authorities resorted to foreign exchange allocation mainly because of limitations imposed by a 1946 Philippine-US preferential trade agreement on the newly-independent state's capacity to use tariffs.

Regardless of the initial objectives, import controls facilitated the growth of domestic industries in both cases, but did so in ways that reflected political calculations of governing elites. Differences in protectionist measures and policy tools were, in the first instance, a function of domestic state and international actors negotiating terms of trade and investments. Nevertheless, these differences also produced different policy constituencies—indigenous capitalists with varying ties to the domestic and global markets-- and these constituencies eventually helped drive policymaking in very different directions.

Thailand

As discussed in chapter 3, changes in the configuration of state power starting with the collapse of absolute monarchical rule in the 1930s also produced shifts in economic development strategy. Nowhere was this more evident than in the emergent political elites' pursuit of industrialization. Prior to the 1930s, local industry was primarily composed of rice mills and a few saw mills; Chinese and western capitalists dominated the manufacturing sector (Atchaka 1986). By the 1930s, 70% of the country's trade was with Britain, and foreigners (notably, the British and Chinese) owned 95% of the modern economic sector (Somboon 1994). In its 1932 military-civilian coup the People's Party strove to distinguish its rule from that of the *ancien regime*. Criticizing the monarchy as giving away the country's patrimony to foreigners, the People's Party moved forward under a program of economic nationalism. In 1934, government started to assert control over the economy by requiring businesses to register and to use Siamese language in their signboards and accounts (Coughlin 1952: 380).

In 1938, Field Marshal Phibun Songkram, a coup promoter influenced by the German and Japanese modernization model, took over the reins of power and aggressively launched a Thai-ification campaign. In swift succession after his takeover, the Phibun regime changed the country's name from Siam to Thailand and urged the population to abide by Thai traditions and to patronize Thai products. Apparently intending to circumscribe the Chinese presence in the economy, the regime also issued regulations preserving certain trades and professions for Thai nationals.[94] Finally, the Thai-ification movement saw the government heavily investing in manufacturing. By the end of the 1940s, the newly created Ministry of Industry had taken over the textile and paper factories, previously run by the military, while other agencies began to operate sugar mills, tobacco factories and distilleries. By the mid-1950s, government had launched 100 manufacturing firms, producing glass, chemicals, cement, iron and steel, and other products (Ingram 1971; Hewison 1990).

In fact, until the 1950s, the power balance among the economic elites shifted away from commerce and toward finance. According to Hewison (1990), commercial elites—the most affluent of whom were Chinese—became an easy target for nationalist and populist policies because of their alliance with the nobility and foreign capital before the 1932 coup. In 1939, the government set up the Thai Niyom Phanit, which took over the distribution of imported and locally made goods (Pasuk and Baker 2002). More importantly, the Thai state also assumed control of the country's most successful export businesses.[95] In 1941, the government took over (with compensation) the domestic operations of the British Tobacco Corporation and set up the semi-autonomous Tobacco Monopoly. The Monopoly was run by the Ministry of Finance's Excise Department and had exclusive domestic rights to produce and trade in Virginia-type tobacco and cigarette products. In 1946, the government also set up the rice monopoly, which became the biggest source of state revenues. The government's takeover of the rice trade began under

[94] Skinner (1957), however, argues that the Chinese were generally incorporated into Thai society. The Thai Nationality Act of 1913, for instance, identified as Thai every person who was born in Thailand. The Phibun years, therefore, were exceptions to this rule.

[95] Data used on the tobacco and rice monopolies largely from Ingram(1971).

the auspices of the global community: having sided with Japan during the global war, Thailand was compelled to provide rice to Allied countries as indemnity, enabling government to centralize trading and enjoy huge earnings from rice export receipts. When this agreement lapsed after a few years, Thai authorities continued to forge government-to-government contracts, controlling at one time as much as 30% of the country's international rice trade. Besides setting up these two monopolies, the Phibun regime also acquired a substantial portion of the foreign exchange earnings of two other top export industries: 40% for tin and 20% for rubber (Thompson and Adloff 1952: 126).

In contrast to the plight of commercial elites, domestic banks grew during this period of nationalist agitation.[96] During the war, five Thai banks were established to replace European banks closed down by the Japanese. These banks, set up with some assistance from the Bank of Thailand (previously, the National Banking Bureau), flourished due to the increase in trade with Japan and occupied Japanese territories. Nationals and foreigners set up other banks after the war. In 1955, however, the Thai cabinet passed a resolution limiting the number of Thai and foreign banks in the country. This protection "provided an opportunity for commercial banks incorporated in Thailand to grow without serious competition, and to become involved in activities beyond remittance and financing of foreign trade" (Naris 1993: 230). Bank of Thailand rediscounting facilities that opened in the early 1960s in order to facilitate commercial

[96] Data of the growth of banks during this period from Naris (1993) and Sithi-Amnuai (1964).

bank lending to industrial activities further consolidated the position of Thai bankers as drivers of industrial growth.[97]

Industrialization was not far behind on the military leadership's development agenda. In fact, the Thai government's involvement in the postwar rice industry proved critical to industrialization in three ways. First, the export tax on rice (called the rice premium) that the government imposed in 1955 went to subsidize industrialization. The rice premium began as a way to help cover revenues that the government lost when it closed the rice monopoly. Collections from the rice premium helped finance government industrialization projects. Two, the rice premium also helped lower domestic rice prices and so the general cost of living in urban, industrializing areas.[98] Besides these two direct contributions to industrialization, it can also be argued that the Thai experience with the rice monopoly and rice premium indirectly influenced government's latter-day approach to export promotion. As practiced, a substantial amount of rice sold abroad was worked out through bilateral negotiations and covered by government contracts (Chaiyawat 1975, Ingram 1971). This early history of government aggressively seeking out new markets on behalf of exporters continues today in some form in the work of the Ministry of Commerce's Department of Export Promotion.

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[97] The strength of the Thai commercial banks can be seen from their rapid expansion. In 1973, there were 16 Thai banks , with a total of 744 branches in Thailand and 15 branches overseas, and only 13 foreign banks with 19 branches. The Thai banks accounted for 94% of deposits and 91.1% of total assets of all commercial banks (see Paiboon 1975, p. 52).

[98]That said, criticisms of the rice premium also abound, centering on the burden it placed on rice farmers. One issue was the fact that the premium worked to depress domestic price of paddy so that Thai rice producers actually earned less than their counterparts in other countries (Barker et.al. 1985).

The Phibun government also took tentative steps toward import-substitution industrialization when it enacted the Investment Incentives Act in 1954. This early version of investment promotion offered tax incentives such as exemption from or reduction in revenue taxes, import duties for machineries, or export duties for industrial, agricultural, or tourist business activities that were identified for special consideration by the Council of Ministries. More, a provision regulated or banned imports that would compete with these industries. [99] Nevertheless, the act proved ineffective in mobilizing private investors partly because the law also gave government, notably the Council of Ministers and the Ministry of Industry, discretion over the choice of firms for promotion (Wilde 1961). Perhaps more discouraging to greater private sector participation in industrial development was the overwhelming government involvement in the economy.[100]

By the end of the 1950s, Thailand's industrialization strategy began to change for several reasons. The country was then reeling from an economic crisis partly caused by external factors: the conclusion of the Korean War ended the commodity boom and triggered a period of stagnation in Thailand. Despite declining global demand for and prices of Thai exports, importation of capital and consumer goods continued, thereby increasing the trade deficit. Problems with state-led development were also beginning to

[99]Section 12 (9) of the Industrial Promotion Act of Thailand, B.E. 2497 (October 4, 1954) provides that government would give a promoted industry protection by barring the importation of similar products or suspending of the licensing of like industries.

[100] Robison and Higgott (1985), for instance, report on a confrontation between US oil companies and the Thai Ministry of Defense in 1957-58—an incident that the authors say led US investors to agitate for the withdrawal of government participation in the economy (p.277).

show: unprecedented government spending for state projects led to inflation and compelled the Bank of Thailand to sell some of its foreign exchange reserves. Mainly due to corruption and inefficient management, all state enterprises except for the Tobacco Monopoly and public utility corporations were incurring ever-increasing losses and the budget deficit continued to expand. Finally, this period also saw growing resistance to the state's role in economic activity from two social forces that had been incubated in the state’s industrialization drive: domestic capitalists, concerned with the economic crisis and government’s inability to open new opportunities for greater capital accumulation, and workers unions, demanding higher wages and more rights (Hewison 1990: 92-93).

Politics—particularly, infighting within the military—also played a role in redefining the state’s role in the economy. After grabbing power from Phibun in 1957 and imposing dictatorial rule, Sarit was casting around for a new development model that would distinguish his government from its predecessor. Toward this end, the newly installed Revolutionary Party guaranteed the private sector freedom from government competition and expropriation.[101] It also prohibited government guarantees for private sector loans, obviously to correct for the scandal that broke in 1957 involving the National Economic Development Corporation Ltd. (NEDCOL), a private company set up in 1954 by people connected with the War Veterans Organization using capital raised from government-guaranteed foreign loans (Ayal 1961: 159).

The change in approach to industrialization signaled a shift in the country’s growth coalition. A member of the ruling triumvirate before he assumed the premiership, Sarit began his rule with an extensive network in the private sector and with strong US

[101] Announcement of the Revolutionary Party No. 33, December 5, 1958.

recognition (crucial at a time when the United States had begun playing a major role in Thailand's internal affairs) (Muscat 1997; Thak 2007). Private-sector led industrial development allowed Sarit to undercut his predecessor's network, located in the top echelons of the state bureaucracy and government corporations and composed of senior members of the bureaucracy, many of whom were associated with the 1932 coup (Suehiro 1989; Thak 1979). The market-friendly approach to industrial development also strengthened Sarit's own base in the business community, and presented a favorable image to the US and an international community then promoting private sector-led import-substitution industrialization. The adoption of ISI was, in fact, part of the recommendations submitted by the IBRD economic mission in 1959.

The period of Sarit's rule and that of his deputy, Thanom Kittikachorn (1963-1973), is identified as the crucial benchmark of the import-substitution industrialization strategy, despite the fact that elements of the strategy, and in particular, relatively high tariffs, had been imposed in the past. But the Sarit-Thanom period differed from those past efforts because they more fully integrated import or trade policy into industrial development policy. Past adjustments in import duties since monarchical rule, as noted earlier, had been used primarily to collect higher state revenues (Ingram 1971); under the new regime, increased tariffs and investment incentives were designed to increase private sector investments in particular industrial activities (Urata and Yokota 1994). The Promotion of Investment Act of 1960 and Promotion of Industrial Investment Act of 1962, on the one hand, provided fiscal incentives including income tax holidays, exemption or reduction of import duties on raw materials, machinery and equipment to be used for manufacturing activities as well as exemption or reduction of export duties, and, on the other hand, imposed import bans and surcharges on competing imports (Atchaka 1986: 12).[102]

The Board of Investment (BOI) was established in 1960 and an updated investment promotions act, passed in 1962, provided for the regular publication of ministerial regulations, containing the list of industrial activities eligible for promotion. These reforms in the administration of the investment promotion programs sought to minimize arbitrary decision-making and reduce investors' uncertainty (Wilde 1961: 101).[103] The passage of the Customs Tariff Decree B.E. 2054 (1960) further complemented investment incentives policy by imposing import duties on more than 3,000 items (Chitti et.al.1974: 16). Higher tariff rates were levied on consumer goods, and lower rates imposed on intermediate and capital goods.

The new set of industrial development policies reflected the new regime's more open attitude toward foreign investments. Even during the Phibun period, investment promotion went hand in hand with other policies designed to attract foreign investments. The first investment act in 1954 came out simultaneously with the new Land Code giving foreign individuals and corporations the right to own land, but strictly for business activities.[104] To further attract foreign investors, the Sarit regime enacted policies such as guarantees against nationalization, the repeal of the 1956 Labour Act and imposition of a

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[102] The investment promotion act would be amended several times aimed at increasing benefits or adjusting qualifications of promoted firms. Investment acts were passed in 1972 and 1977, and amendments made in between these years (Lauridsen 2000: 25).
[103]Ministerial Regulation No. 1, published on November 1, 1960, enumerated 123 industrial enterprises for promotion and detailed specific activities, size of operations, and other qualifying conditions. For instance, to qualify, a lead ore refining firm must use the flotation method and produce at least 1,000 metric tons of 70%-concentrated lead ore.

[104] Thailand, "Act Promulgating the Land Code B.E. 2497," Chapter 8, 1954.

ban on strikes and union organizing, and the revision of the investment promotion program.[105] The 1962 Act provided exemption from the nationality requirements for land ownership, free remittance of foreign exchange abroad, and the grant of immigration permits for foreign experts (Atchaka 1986: 13). Initially, with an eye toward bringing in foreign investments, BOI incentives focused on consumer-goods, import-substituting industries and activities involving large-scale production with capital intensive techniques and assembly-type activities in key industries (e.g., automobile and motorcycle, electrical appliance, textile, and chemicals). During the Second Development Plan period (1967-1971), the BOI began to stress activities that generated employment and made use of local raw materials. In the decade after the passage of the 1962 Act, the BOI granted promotion certificates to 590 enterprises, representing 10 billion baht, and about 90% of the approved economic activities were to be undertaken by joint ventures (Chitti 1974: 115). Japan was the largest source of foreign investments.

The economy in the 1960s grew quite rapidly. According to Ingram (1971), the share of value-added in manufacturing rose from 10% in 1951 to 15% in 1968, with the largest increase coming from food processing and rice milling, Agriculture, still the biggest industry at that time, added new exports such as maize and cassava, while consumer goods industries were led by beverages, tobacco, textiles and apparel (p. 284). More, the structure of imports also began to shift away from consumer durables (e.g., food, beverages, and tobacco), and toward intermediate and capital manufacturing inputs. Calculating the impact of ISI based on the product's degree of dependence on imported

[105] In fact, the 1962 Act was a result of a review done by a US investment team in 1959 (Somboon 1994). See also George B. Beitzel, "Expanding Private Investment for Thailand's Economic Growth," U.S. Investment Survey Team in Thailand, 1959.

inputs, Narongchai (1975) found that import substitution took place in almost all durable and nondurable consumer goods industries, especially in footwear, leather products, textile goods, and wearing apparel manufacturing (p. 261).

In the early 1970s, the Thai state had transformed itself into a full-blown capitalist state (Hewison 1990). During Sarit's rule, the state and market institutions grew more differentiated from one another: the ascendancy of technocratic management of the economy combined with the expansion of the domestic capitalist class that protectionism nurtured. But as protectionism and investment expanded the domestic capitalist class, that class also diversified into three general branches: the commercial and banking elites; industrialists, partnered with foreign capital; and agro-industrial elites, many of whom began in the rice industry and then ventured into cash crop production and food processing (Suehiro 1989, Pasuk and Baker 2002).

Against this backdrop the shift in economic policy emphasis, from import-substitution to export promotion, took place. Studies (Atchaka 1986, Samart 1989, Mournier et.al. 1994) point to the early 1970s as the start of export-oriented industrialization (EOI). Nevertheless, as with import substitution, export expansion began long before the Thai government made export promotion its formal developmental objective. From 1960 to 1972, manufactured exports increased five times, with processed food, beverages, sugar, textile goods, cement, basic industrial chemicals among the growth industries (Narongchai 1975: 264). What demarcated this earlier period from 1972 and beyond was the shift in the direction of BOI promotional activities toward export manufacturing activities and the development of more liberal incentives for domestic and foreign investors. [106]

Thailand's export-oriented industrialization did not gain the full support of Thai policy and business circles until the 1980s, however. This long and uneven adoption process, I argue, bears the imprint of the ISI that came before. Certainly the new policy orientation required a different outlook, and innovative policy tools. More importantly, the growth of an ISI policy constituency worked to influence the implementation of EOI, as Chapter 5 will show. Still, the particularity of the Thai transition from ISI to EOI policies can perhaps best be appreciated in the context of a contrasting Philippine sequence.

The Philippines

The Philippines's colonial past shaped industrialization in the post-war period. Colonialism tied Philippine production and its market to the American economy so that between 1936 and 1940, trade with the US accounted for 78% of its exports and 67% of its imports (Jenkins 1945: 123). At the time, American business, estimated at about $258,564,000, also held commanding positions in the sugar, gold, hemp, coconut, and tobacco industries (Castillo 1948: 166). In both the Philippines and the US, powerful

[106] Besides the regular fiscal incentives given by the BOI, exporters would also be entitled to rebate of import duties and business taxes on imported production inputs as well as to low-interest loans that the Bank of Thailand arranged with commercial banks through rediscount facilities. Before the 1970s, the Sarit government enacted the Export Promotion Act B.E. 2503 (1960), which mainly sought to regulate exports. No incentives were given to exporters.

economic interests moved to prolong this trade pattern. Filipino and American agricultural exporters, international traders in the Philippines, and US-based American manufacturers brought mutually enforcing interests to the job of shaping the economic relations expressed in the Philippine Trade Act of 1946 and the accompanying Philippine-US Executive Agreement (Schirmer and Shalom 1987, Wurfel 1988; Constantino 1975).

The trade agreement profoundly influenced the future of Philippine development. It gave Americans parity rights in the development and exploitation of Philippine natural resources, and established free trade between the two countries until 1954, after which tariff rates for most traded items would increase by 5% every year until it reached 100% in 1974. Absolute quotas covered Philippine sugar, cordage, coconut oil, cigars and scrap tobacco, and pearl buttons; additional exports above these quotas would be charged with the full US tariff rates. No such quotas constrained US products from entering the Philippines. Finally, the agreement pegged the Philippine-US currency exchange rate to the pre-war level of two pesos to a dollar—a rate that could be adjusted only with the consent of the US President. These measures provided little incentive for anyone in the Philippines to strike out into new economic or industrial territory. Preferential trade created incentive for the Philippines to continue with its traditional exports to the US, secure in getting better terms of trade than its competitors among Latin American countries. It also discouraged Filipino exporters from seeking other markets, since the peso's artificially high value raised their product prices in the global market. More critically than any of these factors, however, was the extreme competitive advantage that American manufactured imports, made cheaper by low tariffs and an overvalued peso, held over any potential Philippine products. Nevertheless, the pact was upheld largely with the support of the landlord-dominated Congress and the Philippine branch of the American Chamber of Commerce whose members were in the import-export business.[107]

Philippine industrial development was constrained by parameters set by these post-war policies. First, because the country's largest trade partner enjoyed preferential treatment, the government could not use trade and, specifically, tariffs as a policy tool for industrial development. In fact, as Golay (1961) notes, up until the late 1950s the Philippine tariff system remained based on the legislation passed by the US Congress in 1909, the start of free trade in the Philippines. Hence, government relied initially on the provision of fiscal incentives to attract industrial investments. The Philippines's first industrial development policy (Republic Act No. 35), issued on September 30, 1946, allowed for the grant of four-year income tax holidays to "new and necessary" industries, as determined by the president and the finance secretary. The Act, however, proved ineffective because American goods flooded the domestic market. The next industrial development legislation (R.A. 3127 or "An Act Authorizing the Exemption of Basic Industries from the Payment of Certain Taxes and for Other Purposes"), passed on June 17, 1951, identified 19 industries qualified for fiscal incentives that would include reduction of import tax and tariff duties related to importation of machinery, spare parts,

[107] The 1946 trade agreement set the parameters of succeeding legislation that sought to expand Filipino participation in the domestic economy. For instance, section 14 of the first import control law enacted in 1950 (RA 426) states: "Nothing contained in this section shall in any way impair or abridge the rights granted to citizens and juridical entities of the United States of America" under the Philippine-US executive agreement of 1946. This provision would be included in other pieces of legislation that aimed to strengthen Filipino businesses.

and equipment designated for production purposes.[108] Nowhere did these two investment incentive laws provide Philippine manufacturers with any protection from competing imports, in contrast to the Thai laws. In fact, because of free trade and competition from US imported goods, there was no incentive for investors to enter into new ventures. In response, Filipinos with money to invest typically preferred to put their capital into commerce, real estate, and the rehabilitation of pre-war industries (Cuaderno 1952: 324). The conditions under which domestic manufacturers labored seemed so insurmountable that American corporations wanting to open shop in the Philippines joined those lobbying for an import-substitution industrialization strategy (Maxfield and Nolt 1990).

Alongside this movement toward protectionism, Philippine and American policymakers grew increasingly concerned over the country's balance-of-payments deficits. A war-ravaged economy and pent-up demand for commodities as well as an overvalued peso worked to dramatically increase the country's imports. To secure the country's foreign exchange reserves, policy makers instituted a program of import controls. The first import control law, Republic Act 330, enacted on July 1948, authorized the President to allocate a quota for non-essential or luxury imports. The law, however, proved ineffective in slowing down the outflow of foreign currency, and a more comprehensive import control law was enacted two year later. R.A. 426 (or "An Act to Regulate Imports and for Other Purposes") expanded the coverage of controls to include "essential" and "prime" commodities. Passed on May 19, 1950, the law also stipulated

[108] Another law, Republic Act No. 901, was enacted on June 20, 1953, specifically to revise RA 35. The new law elaborated on the process of application (this time applicants needed to get recommendations also from the Department of Commerce and Industry, Central Bank, and the Office of Economic Coordination under the Office of the President). The 1953 law defined "new" industries as one that did not exist or was not operating on a commercial scale prior to January 1, 1945.

the policy tools to be used for import controls: besides an import license, importers also had to show foreign exchange cover to bring goods into the country. A year later, Congress passed R.A. 650, which stressed foreign exchange allocation as the main policy tool for import control.

It is noteworthy that Philippine import controls were enacted to meet a range of objectives—the promotion of domestic industries being only one. RA 426 addressed itself more directly to the outflow of foreign currency and so mentions "dollar-saving and dollar-producing" industries as exempted from import quotas (though it does not discuss which industries these might be). Republic Act No. 650 makes a clearer attempt to link controls and domestic industrial development. Section 4 states: "In budgeting the dollars available for essential imports, dollars shall be allocated for the importation of machinery, equipment, and raw materials for essential industries which (sic) should be encouraged and protected." Other provisions in the law, however, suggest that its authors had also other objectives in mind. Manufacturers, for instance, came only second to government agencies (as represented by Cabinet secretaries) as a priority for dollar allocation—exposing the import trade as a source of rents for government officials. A list of imported commodities attached to the law also specified items that could enter the country without limitations, as per previous Executive Orders. This list specifies rice, canned fish and beef, and used clothing as decontrolled items, thereby perpetuating a colonial legacy of basic commodity imports as the main mechanism for price stabilization. Importation of food and basic consumer items, however, undermined any possibility that import controls would work to develop domestic capacity to produce these same goods for the local population.

That industrial development policies and import controls began separately and continued to run on separate tracks in the Philippines for almost a decade is noteworthy, especially when the country's ISI policies are compared to those in Thailand. Both the 1954 and 1960 Thai Investment Promotion Acts specified import protection as one of the benefits given to qualifying industrial firms. The seeming dichotomy between Philippine import control legislation and industrial development planning reflects strikingly diverse interests animating ISI implementation. At the policy level, while the National Economic Council drew up the country's national development plan and identified industrial programs and projects in line with this plan, it had no control over dollar allocation. The responsibility for import controls, for most of the ISI period, rested with the Finance Department and the Central Bank. Within industry, this separation meant that traders who brought in goods and domestic firms producing for the home market competed for dollar allocation.

In fact, the record supports an argument that early import control policymaking in the Philippines largely addressed the interests of Philippine importers, who may or may not be industrial end-users of imported commodities. The favored position of this policy constituency explains the initial dichotomy between import controls and industrial development policy—a dichotomy reinforced by the use of foreign exchange allocation, rather than tariffs as the principal policy tool for ISI. In making this argument, I build on Golay's (1961) observation that Philippine economic nationalism strove to Filipinize both industry and the import trade. Hence, import control policies reserved a portion of import quotas for new importers, prioritizing trading businesses that were wholly or 60% Filipino owned. Largely due to such policies, Filipino-owned concerns accounted for

54% of the import trade in 1958 (up from only 23% in 1948) (Golay 1961: 318).[109] This policy thrust demonstrates a government priority for expanding domestic importers even when those importers competed with new manufacturers seeking protection. Simply put, ISI in the Philippines not only promoted domestic manufacturing, it also strengthened Filipino commercial concerns even at the expense of manufacturing.

That said, import control and industrial development policymaking began to converge as two essential components of a full-blown ISI program in the early fifties. In 1953, Congress enacted R.A. 901 to revise the 1946 "New and Necessary Industries" Act that stressed the use of domestic raw materials as a condition for an enterprise to qualify for tax exemption. The replacement of the 1946 trade pact by the Laurel-Langley Agreement also profoundly affected Philippine industrial development policies even as the new agreement retained parity rights for US citizens and firms in the Philippines. The Agreement, which took effect in 1956, ended duty-free trade and thus put the issue of tariff reform on the table. Congress responded by passing the "Revised Tariff and Customs Act" of 1957 that raised import duties on a whole range of goods.[110] For the first time in Philippine history, tariffs assumed importance as a policy tool for protectionism.

In fact, the Philippine Central Bank governor himself argued for the superiority of the tariff system over foreign exchange and import controls for which he was responsible. Citing Alexander Hamilton, Friedrich List and Henry Carey, Governor Miguel Cuaderno

[109] There was also a parallel push for Filipinos to control domestic trade, culminating in the passage of the Retail Trade Nationalization Act of 1954.

[110] The new tariff act raised average import duties levied on the following: manufactured imports (45.2%). consumer goods (64.1%) as well as capital goods and intermediate goods (16.2% and 24.6%, respectively) (Kajiwara 1994: 493).

(1952) said that tariffs were necessary for the country's industrial development, and exchange and import controls were only second-best options. He wrote:

> [T]rade controls are inherently difficult to administer, and do not raise much revenue for the government; they cause price rises in certain items as a result of quantitative restrictions, windfall gains accrue to merchants without necessarily benefiting either the national treasury or the country as a whole. *It is contrary to all tenets of progressive public finance to redistribute income in favor of middlemen*, and no such step will be taken in the Philippines if it can be prevented (p. 331, Itals added).

Equally important, the Laurel-Langley Act eliminated the provision requiring US presidential approval for changes in Philippine monetary policies. The impact of these two changes found expression in the decontrol policy in the 1960s, when policymakers abandoned foreign exchange allocation and devalued the peso from its pre-war rate.

During the ISI period, the domestic manufacturing sector expanded. Fiscal incentives combined with import controls to make manufacturing for the home market appealing to Filipino and foreign businesses. As industrial development policies and import controls began to converge, the number of firms applying for incentives increased from a mere 12 in 1949 to 122 in 1953 (Carroll 1965: 35). At around this same period, the number of enterprises registered with the Philippine Securities and Exchange Commission shot up from 26 corporations and 20 partnerships with about $1,327 million and $386 million paid-in capital, respectively, in 1949 to 102 corporations and 128 partnerships with about $3,547 million and $2,670 million, respectively, of paid-in capital in 1951 (Cuaderno 1952: 325).

The impact of these policies can also be seen in some dramatic sectoral changes: from 1949 to 1960, even as the commercial sector's share of GDP remained substantial, agriculture's share of GDP fell from 31.4% to 20.9% and the manufacturing sector's share tripled from 7.1% to 24.9% (Antonio 2001: 74).[111] Within manufacturing, industries whose share of gross valued added in 1960 rose markedly included food, beverage and tobacco (41.2%); chemicals and chemical products (10%); basic metal and metal products (8%), textile (4.6%), machinery (4.2%); and, wood and cork products (4%) (Alburo 1985).

These structural changes accompanied an expansion and diversification of the Filipino economic elite. A former NEC chair noted that the conducive policy environment between 1949 and 1961 encouraged Filipinos to invest 1.4 billion pesos in new ventures, while the Chinese and Americans plowed in 435 million pesos and 35 million pesos, respectively (Rodriguez 1967: 311). Two groundbreaking studies of Filipino capitalists who emerged during this period argue that many came from the ranks of diversifying agrarian elites; some were professionals with experience in foreign corporations and still others began as traders who turned to manufacturing products they formerly bought and sold (Carroll 1965; Rivera 1994). These observations do not fully describe these emerging capitalists, but they do make the essential point for our purposes: by the late 1950s, a policy constituency for national industrial development existed.[112]

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[111] See also graphs on sectoral growth in Chapter 2.

[112] In fact, as early as 1950, Filipino manufacturers had begun to flex their muscles when they founded the Philippine Chamber of Industries that year, thereby suggesting policy differences with the Philippine Chamber of Commerce (Doronila 1992). The PCC had been around since the 1903.

The policy process reflected this changing social structure as diversifying agrarian elites found a voice in policymaking circles. The National Economic Council, composed of career technocrats and politicians from the landed oligarchy, perhaps best represented concerns among this group over the inevitable loss of the country's privileged access to US markets. Right from the beginning of national planning, development programs laid out various industrial projects for government or the private sector to undertake. Import controls began to carry developmental objectives. The 1957-1961 Five Year National Economic and Social Development Plan, for instance, demonstrated government support for import substituting and basic industries, including vehicle assembly, flour milling, textile weaving, milk canning, and soft drink bottling (Antonio 2001: 76). On August 21, 1958, despite strong resistance from domestic and foreign commercial interests, President Carlos Garcia (1957-1961) launched the "Filipino First Policy" (NEC Resolution no. 204).[113] The policy committed government assistance to wholly or majority-owned Filipino commercial or industrial firms that established businesses in foreign-dominated fields: these firms would get first priority in the allocation of dollars. It also called for joint ventures designed to strengthen firms with 60% Filipino equity. The policy is considered a landmark in that it was "the first presidential confirmation of economic nationalism"(Dubsky 1993: 32). [114]

[113] Nevertheless, the policy was met with stiff resistance from the US and International Chambers of Commerce and their allies in the Filipino business and political circles. The American editor of the Chamber's journal characterized the policy as "the cry of the dispossessors who through government financial and other economic controls, pant after usurping the place and seizing the hard-earned wealth of others with no show of right other than that they are 'Filipinos'" (quoted in Pomeroy 1992, p. 218).

The "Basic Industries" Act (Republic Act No. 3127) on June 17, 1961 represented another key move in this general trend. Significantly, the law went into a level of detail approaching that of import control legislation almost a decade earlier. For the first time, the law contained a list of 19 industries that would qualify for a range of benefits that included exemptions from special import tax and duties attached to the importation of machinery, spare parts and equipment. It also gave explicit priority to enterprises with greater Filipino participation and ownership—another first in the country's industrial policymaking. A Board of Industries, led by the NEC, was also established to oversee the program. The trend represented a growing concern for national industrialization among the country's political and economic elites.

The presidency of Diosdado Macapagal (1961-1965) is generally seen as the time when the ISI momentum slowed and ultimately stalled. Anomalies associated with the use of exchange and import controls captured the attention of opposition politicians, who used this during presidential campaigns. Bogus transactions singled out in this way included instances when so-called importers sold dollar allocations on the black market (Carroll 1965, Hutchcroft 1998). Moreover, exchange and import controls had proved ineffective in easing balance of payment problems. Instead, they increased import receipts due to greater demand for intermediate and capital goods while encouraging what was commonly referred to as "beauty parlor" assembly plants (Antonio et.al. 2001: 75). Not surprisingly, critics of ISI included the US government and the World Bank who had by then begun to view controls as detrimental to the interests of foreign capital (Bello

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[114] In contrast, economic nationalism rhetoric have been a staple in the official pronouncements of Thailand's political leaders, beginning with the ruling People's Party in the 1930s.

1982, Broad 1988). All this made it increasingly hard for Filipino policymakers to stay the course.

Almost immediately after his election, Macapagal embarked on a program of decontrol. His administration ended exchange and import controls while allowing the value of the peso to approximate the prevailing black market rate of P3.90 to the dollar. In an apparent rebuke to his predecessor's "Filipino First" policy, Macapagal extended a welcoming arm to foreign capital, especially in the realm of export manufacturing. In an address before Filipino business on February 21, 1963, he stressed the need to attract foreigners to invest in the country's basic industries by guaranteeing them the right to remit their profits and repatriate their capital. He also pledged to protect them from what he called "unjust expropriation and unwarranted requisition" (Macapagal 1964: 134). Taking stock of these measures, decontrol has been referred to as the country's first episode of liberalization (Alburo 1993: 4).

Indeed, decontrol ushered in a new era by undoing institutional arrangements that had governed Philippine industrial development since after World War II. Nevertheless, decontrol did not mean the end of ISI, as many have argued (Doronila 1992, Broad 1990). Rather, it can more accurately be viewed as signaling a change in policy tools (Baldwin 1975)—a shift to tariffs rather than foreign exchange control as the main form of protectionism. Still in its first year in office, the Macapagal administration started revising tariff schedules "to accord more protection to domestic producers of essential commodities, particularly textiles"; by 1963, these revisions covered more than 200 domestic industries (Macapagal 1964: 33). Compared to 1957 levels, tariff rates in 1965 were higher: manufactured goods and consumer goods by 50.8% and 70.1%, respectively, while that of capital and intermediate goods by 16.2% and 27.4% (Kajiwara 1994: 493).

On the other hand, the administration also actively lobbied for a new Investment Incentives Bill, aimed at providing incentives to domestic and foreign businesses to develop the country's basic industries, including steel and allied metal industries, mining, basic chemicals, heavy electrical products, industrial machinery, pulp making, synthetic fibers, ship-building, and fertilizers. Near the end of his term, however, Macapagal was only able to push Congress to enact RA 4095, amending the Basic Industries Act of 1961. Passed on June 19, 1964, the new act removed agriculture and logging from the list of promoted industries, outlined an exit plan for industries receiving tax incentives, and placed the Board of Industries under the Office of the President. [115] That is to say, the interests that under ISI emerged to protect fledgling industries effectively adapted to the proposed decontrol policy.

All told, Macapagal seemed simultaneously to be pursuing export promotion and deeper import substitution. Nevertheless, growth in the manufacturing sector was by then in decline. From 1961 to 1965 value added of manufacturing averaged a low 4.8% annually (Bautista et.al.1979). The easy phase of ISI had reached its limits and

[115] The deletion of agriculture raises questions on the general assessment that agricultural exporters were the dominant policy actors during this period. While it is true that devaluation had long been an advocacy of agricultural exporters, the issue itself had merits in view of the country having had an exchange rate that was fixed during colonial times.

Macapagal's term drew to a close without seeing his more ambitious industrial plans take off.[116] Instead, like his predecessors, he left office under a cloud of public scandal.[117]

When Ferdinand Marcos won the presidency in 1964, therefore, the push to industrialize had gathered momentum. Two years into Marcos's first term, the Investment Incentives Act (R.A. 5186) was enacted in 1967. The law, described as one of the most important pieces of postwar legislation on economic incentives for individual investments (Bautista et.al. 1979), offered the most comprehensive package of tax incentives to that point aimed at jumpstarting Philippine industrialization. The new law created a Board of Investment (BOI) to administer the program,[118] much as Thai policymakers had done, and targeted two types of activities for government support (preferred and pioneer).[119] It

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[116]In his speeches in 1963, Macapagal laid out his administration's four objectives of industrial development:

1. To implement a systematic program of infrastructure development;
2. To pursue "preferential provision of financing for private projects" that would include tapping into government's financial institutions and drawing up regulations in order for commercial banks to provide guarantee to private sector loans;
3. To provide protection, "chiefly through the instruments of tariffs and taxes to young and growing Filipino industries to shield them away from undue foreign competition in their infant stages"; and,
4. To encourage foreign equity participation, "preferably by means of joint ventures with Filipino capital and management" (Macapagal 1964: 137)

[117] Macapagal's record was tainted by allegations of compromises he or members of his inner circle made, including "arrangements with certain senators not to disrupt their smuggling operations in exchange for votes, and the 'sweetheart deals' with American agricultural interests to rent public lands at bargain prices for banana and pineapple production" (Abinales and Amoroso 2005: 186).

[118] The Board of Investment replaced the more ad-hoc Board of Industries, established in 1961.

[119] A "preferred area of investment" was one identified by the Board of Investment as economic activities in which there were not enough Filipino entrepreneurs producing for the domestic market. As such, the law provided incentives for Filipinos to invest in these

also promoted wholly or majority owned Filipino firms. Significantly, however, a key difference distinguished the Thai and the Philippine agencies: while the Thai BOI had promoted import substitution production since its inception in 1960, the Philippine BOI worked with firms that produced for both the domestic market and export markets. Partly because it provided special export incentives (e.g., tax deductions for marketing and shipping expenses), the Philippine Investment Incentives Act is widely seen as one of three laws that set the policy framework for Philippine export-oriented industrialization (Dohner and Intal 1989). The two other laws were the Foreign Business Regulations Act of 1969 (R.A. 5455) and the Export Incentives Act of 1970 (R.A. 6135).

The Investment Incentives Act of 1967 framed the transition from import-substitution to export-oriented industrialization. Yet this transition was only possible because of the specific ways in which Marcos implemented the law. As written, the document was conceived as also fostering economic nationalism (section 2), and indeed garnered substantial support from some of the era's most committed nationalist legislators. By the early 1960s, there was a growing consensus that the easy phase of import substitution had been exhausted, and these legislators set out to undertake the next phase of industrial policy within the general parameters of their nationalist commitments. Because deepening import substitution entailed going into basic and intermediate industries, it opened the door to foreign investors to set up capital-intensive pioneer

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areas (enumerated in the annual BOI Investment Priorities Plan). A "pioneer enterprise" was one engaged in manufacturing and processing of products (not merely in the assembly or packaging of finished products). The law sought to attract foreign investments in these areas.

enterprises.[120] Yet, there were provisions that aimed to make Filipino entrepreneurs the main beneficiary of the Act—by ensuring technology transfer, extending low interest credit and special incentives to Filipino investors (sections 6 and 8), pushing for local content requirement (section 18), and eventual Filipino majority ownership of BOI-promoted foreign firms. Section 20 stipulates that, all things being equal, the BOI would prioritize Philippine firms. Finally, import substitution and export production were given equal stress (section 18).

In recognition of constraints on foreign capital participation in export production, the Marcos government worked for the passage of two other laws: Republic Act No. 5490 of 1969, declaring the Mariveles port town in the Central Luzon province of Bataan a "foreign trade zone" and R.A. No. 6135 or the Export Incentives Act of 1970 (Sicat 1972: 237). Mariveles was envisioned as the prototype of export processing zones that would later be earmarked under the auspices of Presidential Decree No. 66, issued two

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[120] Senator Jose Diokno, who belonged to the nationalist bloc in Congress and was then chair of the Senate committee on economic affairs, said when he sponsored the bill:

> The economy of this country has doubled. Its structure has changed. Its control has come into Filipino hands. But still at the end of the fifties and for the first half of the decade of the sixties, the rate of the growth of our economy has slackened….In 1966, according to the latest estimate of the National Economic Council, the rate of growth of the gross national product at constant 1955 prices was 4.2%.
>
> We need more investments if we are going to spur development once again…if we are to solve the problem of unemployment.
>
> In 1974, we face the possibility of losing our preferential entry into the American markets for export products. We need more investments if we are to diversify our exports (*Congressional Records*, June 9, 1967).

In my interview with him on May 5, 2007, former Prime Minister Cesar Virata recalled working with Diokno to push for the passage of the bill. Virata was then Marcos's Finance Minister. The partnership, however, proved momentary. A civil libertarian, Diokno was among those first arrested when Marcos declared martial law.

months after the declaration of martial law. The Export Incentives Act, on the other hand, differed from the Investment Incentives Act in at least one important aspect: it gave incentives to both export manufacturers and to export traders and service exporters. The inclusion of traders as program beneficiaries is noteworthy since it suggests a resurgence of commercial interests. Moreover, while the designation "service exporters" originally pertained to businesses engaged in tourism and the movie industry, it was in due time expanded to include overseas employment agencies.[121] At the start of the 1970s, the Marcos regime was laying down the foundation for an aggressive bid for industrialization and a dramatic reorganization of Philippine society. Nevertheless, as the next chapter will show, the success of such an ambitious project would require eliminating the country's proprietary polity—a system that Marcos never confronted, and in fact came to exemplify.

Conclusion

In this chapter, I discussed the march of trade and industrial policymaking, situating divergent outcomes in distinct patterns of interaction between developing states and imperial powers, on the one hand, and the emergence of a specific configuration of state power, on the other hand. I have demonstrated that the only way to understand differences in how the two countries pursued ISI is to undertake a close examination of the specific policies and policy tools used in the two cases and the particular economic sectors benefited by import controls and investment incentives. Initially, choices of

[121] Over time, overseas labor would become the country's largest source of foreign currency revenue.

policy tools and sectoral beneficiaries were influenced by historically different starting points, themselves rooted in different relationships between domestic elites and imperial forces. As the case narratives move forward in time, imperial legacies give way to domestic power struggles that emerged in the course of building the modern state and economy as the key factors influencing economic policymaking. I begin this synthesis by recalling those international relationships, and then move forward to discuss how different local power struggles set the stage for divergent policymaking in the two cases.

For almost a century since they opened their economies to the west, Thailand and the Philippines occupied a similar place in the traditional international division of labor: at least until the 1950s, both countries provided primary commodities to, and markets of manufactured goods from developed nations. Since then, the history of industrial development in the two cases diverged, with the Philippines leading Thailand and much of the region in the 1960s, and Thailand overtaking the Philippines in the 1980s. The dominant explanations for this reversal of fortunes—relying on descriptions of the Philippines's highly protective market and Thailand's open economy—does not, however, capture what we have come to see as complex processes in each country's industrialization process that drove them ever further apart. In both countries, governing elites made trade decisions guided more by a combination of the nation's current accounts and their political and personal gain than by strategic planning. Neither country produced a sharp break between protectionism and liberalization. Rather, interests supporting both import substitution and export promotion co-existed at almost every stage of their push toward modernity, with the balance between them shaped by the structural constraints imposed by the global economy, on the one hand, and the political leaders' twin-goal of consolidating power and growing the domestic economy, on the other hand.

Philippine history reveals how deeply constrained these negotiations were in former colonies. In such settings, policy outcomes reflected both consideration of domestic interests and policy debates among contending forces and ideologies in the US capital, many involving economic questions about the US mainland and Latin America. The mechanisms of duty-free trade in the 19th century maintained the Philippines's position in the traditional global division of labor, but did so at the expense of the country's fiscal and monetary autonomy. In contrast, Thailand's status as a non-colony allowed it more easily to institutionalize tariffs as a major source of state revenues—an option that moderated both protectionist impulses and liberalization pressures. In this sense, Thailand has had a longer period of protectionism, allowing domestic capitalism to evolve and take root more naturally than it did in the Philippines.

Negotiations between political leaders in Thailand and the Philippines and industrial countries not only covered the terms of trade but also the policy tools that would be used to implement trade agreements. The choice of key policy tools—Thailand's reliance on tariffs or the Philippines's resort to foreign exchange controls—mattered deeply to the policies that followed, and influenced forms of capital accumulation and patterns of rent-seeking. Orthodox economists have long shown that generalized tariffs are much more efficient than import licenses or other forms of trade protection that are far more susceptible to discretionary protection (Krueger 1974). In the Philippine case, choices of policy tools in import substitution affected economic elites differently. Foreign exchange allocations strengthened commercial elites—Cuaderno's "middlemen"—and helped build industrial capital almost as an afterthought.

In fact, a key dynamic of the entire Philippine policymaking process derives from a reality that, whatever the stated intentions of common interpretations of Philippine import protection, its main beneficiaries were commercial elites rather than industrial entrepreneurs. Not only does this indicate a postponement in the policy's impact on industrialization. It sets up a mix of beneficiary constituencies with strikingly different business orientations. While traders thrive on quick-turnovers, manufacturers live on long-gestating projects. At the heart of those Filipino economic actors whose emergence can be directly traced to specific development policies, that is, there is an almost inherent tendency to work at cross purposes.

The Thai case demonstrates an important contrast on this very point. Thailand implemented import substitution in ways that unambiguously strengthened domestic banking and industrial elites—two constituencies whose businesses drove them to a shared appreciation of planning processes that take in a long-time horizon. While the mix between long and short term objectives were always more or less at issue in the Philippines, Thailand could work from a broader and more stable consensus on a long term planning approach.

Importantly, differences between the Thai and Philippine policy making processes, as influenced by struggles among their different elites, derive its central logic directly from early stages of industrial development planning. Different import-substitution implementing strategies in the two countries worked to empower different economic elites. Differences in these policy constituencies partly explain the faster

Philippine transition toward export-oriented industrialization. The rapid shift in economic strategy was dislocating for industrial elites—but was easier for commercial elites to take in stride, since they could more easily adjust their buying and selling strategy to a new set of priorities. Hence, a radical and rapid shift in economic policy became a real option for Marcos who, in using anti-oligarchy rhetoric to justify his usurpation of power, needed then to search out a new constituency for his regime. In Thailand, the transition to export-oriented industrialization was never really complete, and partly because of a relatively strong industrial sector that could mobilize economic nationalism.

More, the policy tools used in ISI set up enduring patterns of rent-seeking. In the Philippines, the practice of exchange controls expanded government latitude to decide a policy's individual winners and losers, thereby helping to establish the office-holder as entrepreneur. The cliché, "the business of politics is business," finds concrete expression in the rise of political clans that embraced electoral politics as the main family business (whatever else they might get themselves into). In contrast, tariffs--whether applied in a generalized fashion or in a way that was more industry-specific—were less vulnerable to rent-seeking. In Thailand, governing elites had to look elsewhere to aggrandize themselves. Put crudely, therefore, we can say that Thailand's politicians do business in the marketplace as more than mere influence-peddlers; they were frequently the board members of large corporations. In this light, as Hewison (1990) suggests, corruption did not become a hindrance because there was a convergence of "national interest" (i.e., the development of capitalism) and the Thai leaders' parochial pursuits.

All this calls attention to something that I have had occasion to mention in passing in this chapter, but which deserves more explicit note in these synthesizing remarks. For the entire period under consideration, Thai policymaking processes integrated measures to protect its economic interests and measures to develop its industrial base. Because protectionism unrolled under political regimes deeply interested in developing their nation's economic capacities, the resources from protectionist measures, and the leeway gained for infant industries via protection, was put to direct use in building Thai manufacturing. Philippine protection and economic development, for most of the period under review, were un-integrated and out of step with one another. At the same time, more focused efforts at developing industrial capacities, as we have seen, were late and weak—and had to fight vested interests created in early policy cycles. This key difference helps organize the other contrasts I have noted between the two cases, and helps us understand the different impact of industrial development policy.

CHAPTER 5

The Road to NIChood

At the start of the 1990s, Thailand and the Philippines both aspired to join the elite company of newly-industrializing countries (NICs). For about a decade after 1987, Thailand's GDP grew at an average of 9.4% yearly while real exports' growth rate was 14.5% (Jansen 2001: 125)—a trend that made the country the likely "fifth tiger," following South Korea, Taiwan, Singapore, and Hong Kong. To signal its embrace of this objective, the Thai National Economic and Social Development Board issued a "Thailand 2000" program in the early 1990s. At around the same time, the Philippines under President Fidel Ramos (1992-1998) launched its own "Philippines 2000" national development program, aimed at transforming the country into an NIC within a decade. Curiously enough, Ramos and Thai Prime Minister Prem Tinsulanonda (1980-1988), who oversaw Thailand's dramatic surge toward NIChood, seem in many ways cut from the same cloth. The two men were former professional soldiers-turned-politicians who undertook comparable steps toward liberalization and export manufacturing and, in the process, granted the private sector a bigger role in economic policymaking. Even with these similar backgrounds and orientations, closer examination of the Thai and Philippine liberalization programs reveals key differences, and these eventually produced sharply divergent development outcomes. By 2000, the Thai economy was on its way to recovering from the 1997-1998 financial crisis, a crisis that had badly shaken things up over the previous three years. In contrast, the Philippine economy had largely been spared from the dislocating effects of that crisis, but nevertheless continued to struggle to keep pace with Thailand.[122] Despite their similar policy orientations, despite, moreover, the relatively stronger impact of the crisis on Thailand as compared to the Philippines, the trend observed throughout this study remained true: the resiliency and sustained growth in the Thai economy, and a resolute underperformance in the Philippines. What explains the difference?

This chapter discusses why Thailand and the Philippines keep producing divergent outcomes despite mirroring each other's development strategies. By way of answer, I trace the two countries' different trajectories since they began more aggressively to pursue export-oriented industrialization (EOI) in the 1970s. Thailand's robust performance can be attributed to its specific implementation of EOI, an implementation that stressed the importance of building domestic industries as it ramped up export oriented activity. Even as Thailand undertook greater economic liberalization in the 1980s to encourage greater foreign participation in export manufacturing, it retained strong currents of import substitution. Under Thailand's bureaucratic polity, the time-tested stability of the bureaucracy and the historical link between Thai governing elites and domestic capitalists produced an environment in which policy could effectively work to build relatively strong domestic entrepreneurship, better equipped to navigate a globalizing economy and produce domestic economic benefits.

Under the Philippines's proprietary polity, the pursuit of EOI unfolded in a fundamentally different fashion. Philippine EOI was deeply vulnerable to political

[122] For instance, Thailand's GDP growth rate stood at -10.4% in 1998 and 4.2% in 1999 while the Philippines's stood at -0.5% in 1998 and 3.2% in 1999. (*Asiaweek*, September 1, 2000).

disruption, for two important reasons. First, it drew on a less stable and politicized bureaucracy than did Thai policies; second, the pattern of relationships between Philippine political elites and domestic capitalists revolved more around politics than business. As such, since the 1970s, Philippine EOI had experienced two major disruptions. The first took place in the 1970s when President Marcos imposed martial law; the regime's attempt to consolidate political power by transferring economic power to Marcos cronies undermined industries nurtured during the ISI period, and in this sense, produced a break in economic activity that Thais never experienced. The second major break came when President Corazon Aquino took power from Marcos in 1986. In an effort to deprive Marcos of a power base, and bolstered by the pervasive anti-dictatorship language against corruption, rent seeking, and white-elephant projects, the new regime summarily dismantled industrial projects initiated under martial law regime. Both transitions were accompanied by a rising political leadership's efforts to restructure the economy and build a new social base for the changed form of state rule (whether authoritarian or democratic), and so turned more fully to foreign capital than typically occurred in Thailand (where a steadily expanding domestic economy produced its own sources of capital). Progress toward EOI therefore never focused on building the domestic economy, but turned away from that economy.

In this light, the contrasting institutional configurations of state power that influenced ISI processes, and the specific policy constituencies that those processes produced, drove Thai and Philippine economic performance in different directions, despite their apparently similar EOI policies. This chapter picks up the thread of the narrative where Chapter 4 left off, examining a period from the seventies to the nineties when Thailand and the Philippines were both making the transition to export manufacturing as their main bid for economic development. The discussion examines consequences of the different configuration of state power in the two countries, including their vulnerability to domestic political turbulence as well as global economic shocks, and the changing logic of industrial development policies during a period of greater political and economic liberalization.

In turning to the institutional configuration of state power as the main determinant of EOI performance, I first examine an alternative argument widely used to explain Thailand's robust growth and the Philippines's relatively low growth—liberalization, measured mainly by the country's tariff structure. The discussion below shows that, consistent with the analysis made in Chapter 4, revenue generation rather than simply protectionism guided policymaking on trade and investments. More important, a comparison between the two countries reveals that Thailand has historically had higher tariff rates, even in the 1980s when it more aggressively liberalized. This suggests the need to go beyond the free-market argument to explain economic performance.

I argue that the configuration of state power continues to matter even in the period of economic liberalization. The second half of the chapter discusses EOI implementation, identifying three specific differences: the relationship between ISI and EOI, the role that state assumes in relationship to foreign capital as expressed in regulatory policies, and the specific policy constituencies of EOI. A close reading of EOI implementation demonstrates that such differences derive from the specific nature of political contestation and the question of policy continuity under Thailand's bureaucratic polity and the Philippines's proprietary polity.

Foundations of Export-Oriented Industrialization

In Thailand and the Philippines, export promotion began tentatively to overtake import substitution as the dominant development strategy in the 1970s. The shift had both external and domestic causes. Trade-dependent developing countries experienced particular hardship in the 1970s, as two oil price shocks triggered a global recession and protectionism among northern markets, and so helped set in motion a debt crisis that would gather steam in the early 1980s. While Thailand and the Philippines did relatively well in the first half of the seventies due to a commodity boom and an inflow of foreign capital (including relatively cheap petrodollars) their economies began to slow in the decade's latter half. Both countries experienced run-away inflation and dwindling international currency reserves caused by sky-rocketing energy bills and import receipts. By the late 1970s, the Philippines and Thailand carried the world's fifth and eighth biggest debt burdens, respectively.[123] Partly to address their worsening current account deficits and partly to catch up with the first-generation NICs of South Korea and Taiwan, both adopted export-oriented industrialization as their main development strategy.

[123] The Philippines's external bank debt increased from US$2 billion in 1975 to US$7 billion in 1980; Thailand was much lower than the Philippines at U$1.2 billion in 1975 and US$3.2 billion in 1980. The other biggest debtors in 1980 were as follows (amount of debt in billions of US dollars in parentheses): Brazil (S43.3); Mexico ($41); Argentina (S18.9); South Korea ($14); Chile ($6.7); and, Peru ($3.9). (Figures in absolute number.) Source: Solomon (1981), p. 597.

Export-oriented industrialization (EOI) gradually gained momentum against this volatile economic environment. The Thai and Philippine governing elites began to increase the incentives they provided to domestic and foreign investors undertaking export manufacturing. Yet the turn to EOI in this early phase did not lead to the abandonment of import-substitution industrialization (ISI) precisely because EOI began also as a way to resolve current accounts needs. Because export promotion activities had limited initial objectives, they took place alongside ongoing ISI efforts, rather than in ways that displaced those efforts. The two countries carried out both development strategies simultaneously up to at least the early 1980s.

Even in this initial turn, however, policymakers were confronted with a dilemma. Export manufacturing required more financing than import substitution for commodities to meet global standards and to cover prohibitive transportation and marketing costs. Hence, the pursuit of EOI led directly to efforts to raise new capital, and this in turn gave impetus to economic liberalization. In the immediate sense, efforts to bring down tariff walls aimed to attract foreign capital to cover the shortfall in domestic development financing. Paradoxically, trade-dependent countries had some particular problems meeting capital accumulation objectives, for they also relied on customs duties for government revenues. In this light, one constraint on Thai and Philippine implementation of EOI (at least until the mid-1980s) was an unstable balance of payments situation. Despite their avowed aspirations to liberalize trade, Thailand and the Philippines raised tariff rates during periods of acute balance of payments deficits and lowered them in times of plenty. They also practiced selective liberalization, abandoning controls in certain industries to attract foreign and domestic investors, but covering consequent revenue shortfalls by keeping tariffs and regulations relatively high for industries not on the government investment priority list.

One study (Suphat 1995) documents the frequent changes in Thailand's tariff structure based on the global and domestic economies' ebb and flow:[124] while Thailand started out with one of the lowest levels of tariff protection in Asia in the 1960s, a 1969 balance-of-payments crisis prompted the imposition of increased tariff rates on consumer goods imports in 1971, when they reached 30-55 percent; during the second oil shock two years later, the government was compelled to lower import tariffs on raw materials and intermediate and capital goods in order to reduce industrial production costs. In 1975, another balance-of-payments crisis (partly the lingering effects of oil price increases) forced the government to increase import tariffs: the effective rate of protection for all industries—except for food, beverages and tobacco—increased to 90.3% in 1978. These tariff changes continued into the 1980s. To help alleviate the problem of overcapacity and high debt service, the Prem government lowered tariffs in 1982 to promote EOI, only to raise tariff levels again three years later because of chronic budget deficits. In 1985, the simple average of tariff rates was estimated at 41.2% (Somkiat and Onodera 2008:12).

Similarly, ever since the Philippines first became able to set tariff rates as a policy tool in the 1960s, it did so mainly to address balance-of-payments problems, rather than to pursue a specific industrial development policy. In 1970 and 1983, balance-of-payments crises led the Marcos government to avail of IMF loans and this, in turn, compelled it to more vigorously undertake export-oriented industrialization. Yet, the need for the government to increase its foreign reserves for debt servicing (part of its

[124] Figures on tariff changes from Suphat (1995), pp. 71-74.

agreement with the IMF) involved establishing some exchange rationing mechanism and the retention or addition of import and export taxes (Antonio et.al. 2001; Lamberte et.al. 1992). Thus, the implementation of liberalization changed according to domestic needs and the changing global economy (Bautista et.al. l979: 20). This pattern extended until the 1990s: for instance, the Aquino government, which in 1987 resumed the trade liberalization program abandoned by its predecessor, imposed an across-the-board 9% import levy as a result of a deepening economic crisis in 1990.

That a country's current accounts status provides a significant constraint to trade liberalization suggests that in developing countries like Thailand and the Philippines, macroeconomic stability plays as much a role as industrial development policy in determining the balance between import substitution and export promotion. This point is particularly relevant in the Philippine case since many studies attribute the country's relatively low performance almost exclusively to the inefficiencies created by protectionism and its related rent-seeking activity (Yoshihara 1995; Kang 2002). This explanation, however, has limits that emerge in the comparison between the Philippines and relatively high-performing Thailand. A comparison of the two countries' tariff structures would reveal that Thailand in fact had higher tariffs than the Philippines. (See table blow.)

Table II. Simple average of tariff rates

	Thailand	Philippines
1985	41.2	27.6
1990	39.8	27.8
1995	23.1	20
2000	18.4	7.5

Source: Archanun (2005, 2006)

Moreover, *both* countries made similar use of tariffs: to protect domestic economic interests and to raise state revenues. In other words, the impact of balance-of-payments problems provides a necessary complement, if not a fully alternative explanation to the pull of rent-seeking in explaining a country's tariff structure. This also suggests the need to examine tariff structures in combination with other policy tools (notably, investment incentives) to gain a more complete picture of a country's industrial development policy thrusts.[125]

For a more fully-developed explanation, I turn to a second factor affecting the implementation of the ISI-to-EOI transition: the character of political contestation during this transition, as influenced by the institutional configuration of state power as well as the types of policy constituencies produced during the ISI period that served to constrain policy activity thereafter. As argued in previous chapters, Thailand's bureaucratic polity

[125] In view of Thailand's relatively high tariffs, Somkiat and Onodera (2008) explain that assessments of Thailand's "openness" focus on the country's lack of a restrictive foreign exchange regime or extensive quantitative restrictions (p. 12).

and the Philippines's proprietary polity influenced economic outcomes. Among the causal mechanisms they did this was by structuring political contestations among political elites and the impact of this competition for state control on the economy. The seventies saw unprecedented violent confrontations break out in the two countries' national capital—a development that likewise began to change the terms of elite rule. In Thailand, policy issues were no longer the exclusive domain of bureaucratic elites—a trend that raised questions about the relevance of the concept of bureaucratic polity itself (Medhi 1999, Anek 1992).[126] In the Philippines, Marcos and his technocrats sought to break the stranglehold of the traditional landed politicians on the policy process. A discussion of the political struggles leading to regime changes during this period is beyond the scope of this study. For this work, I focus on the critical role that Thailand's bureaucratic elites continued to play in economic policymaking up until the late 1980s when competitive elections gained traction and brought business and civil society actors into the national political arena. In the Philippines, despite Marcos's anti-oligarchy rhetoric, the fusion of political and economic power in the political leadership—a feature of proprietary polity—intensified under his rule.

Apart from economic crises, political instability of one sort or another was a consistent feature of both countries in the period when ISI was giving way to EOI. During the seventies, in a span of 10 years, Thai political power changed hands seven times and institutional forms from direct military rule to parliamentary democracy (1973-

[126] As mentioned in Chapter 1, since a key component of the Riggsian model is the absence or weakness of non-bureaucratic social forces, some have argued that the rise of domestic capitalists as a political force and expansion of civil society actors means that the era of the bureaucratic polity had ended.

1976) and a military-backed civilian rule. From 1972-1986, the Philippines had its first experience with authoritarian rule when second-term president Ferdinand Marcos imposed martial law on September 21, 1972.

In both countries, these political difficulties indicated deeper social transformations. Thailand and the Philippines were experiencing fundamental reconfigurations of the political system and policy process, due mainly to the expansion of new economic elites and other social forces. As discussed in Chapters 3 and 4, post-war official development aid coupled with the more purposive implementation of import-substitution industrialization expanded domestic capitalism, diversified and expanded the entrepreneurial and working classes and led the way to massive new levels of higher education and a rising arc of more skilled and mobilized citizens. In Thailand's policy process, this social and economic expansion created a place at the political table for Bangkok-based and provincial business elites (Hewison 1989, Anek 1992, Pasuk and Baker 1997, Ockey 2004)—a domain previously reserved for military and civilian bureaucratic elites (Hewison 1989, Anek 1992). In the Philippines, the post-war economic boom produced a new set of politicians who did not come from the landed oligarchy, but rather started out from the middle class (Hawes 1992, Doronila 1992). Among these were lawyer-politicians who acquired wealth by dint of their political skills and ability to broker deals between government and business. At the same time, the post-war economic boom also saw the expansion of Philippine commercial elites, assisted by the nationalization of trading activities. Finally, in Thailand and the Philippines, growing student and labor militancy added to these changing configurations of power, and introduced new nationalist perspectives into the conversation about foreign domination of the economy (as well as debates on the US role in Vietnam). The expansion of working class and student movements in the seventies gave nationalism a mass, political constituency.

The shift to EOI as the dominant development strategy, therefore, came at a time when political nationalism was rising. This nationalist pressure prompted political elites seeking to attract foreign investors to make some concessions to domestic capitalists. In Thailand and the Philippines, foreign participation in the economy was regulated by legislation. Foreign investment laws reserved for nationals certain industries, notably those using natural resources and servicing the domestic market. Nevertheless, written into such laws is a broader definition of “nationals” so that it also refers to corporations where nationals own the majority of shares. The flip side to this definition is that foreign capital can engage in all areas of the economy albeit in key industries only as minority partners. Non-tariff protection included requiring wholly-owned foreign companies to export the bulk of their produce, thereby preserving the domestic market for nationals. Implementation of EOI at least in the seventies and eighties worked around the interests of domestic economic elites created under some form of ISI, and since these interests varied, so did the implementation of the new policy.

The types of economic elites nurtured under previous ISI regime, and their historic relationship with political power also influenced the design of investment policies. In Thailand, export promotion and liberalization gained momentum, drawing on but also contributing to the growing political power of domestic industrial elites, seeking to partner with multinationals. In the Philippines, with the national industrial sector crippled by the deep economic crisis of 1983-1985 and the crony capitalism charge associated with Marcos's industrial policies, the restoration of elite democracy saw a national political leadership turning more toward foreign capital and local powerbrokers to revive the economy and consolidate its hold on power. In this context, economic gains among Filipinos took place mainly in the commercial realm, and the process did less to build a stable or strong constituency for industrial development of any kind. These differences impact the policy design of incentives and influence the configuration of domestic capitalism.

Thailand

In the seventies, Thailand began to stress export manufacturing as the way to economic growth and prosperity. Nevertheless, unlike the Philippines where the political leadership's attempt to build new elite support for strongman rule contributed to the adoption of EOI, Thailand's turn toward EOI was partly designed to win or consolidate the support of an elite nurtured under an ISI regime. Gradualism was the defining feature of Thailand's implementation of export-oriented industrialization because it built on existing policies and interests. In contrast to the Philippines where Marcos's full endorsement of EOI came with the change of form of rule from electoral democracy to authoritarianism, I argue that EOI in Thailand was initiated under a political leadership that just a decade earlier had launched ISI and remained committed to supporting the domestic industries that grew at that time. This approach, moreover, persisted even in spite of frequent political turnovers and alternation between military and parliamentary rule up to the 1990s.

The seventies opened with Field Marshal Thanom, who assumed the Revolutionary Party leadership and the premiership upon Sarit's death in 1963, fighting for political survival. During this period, the expansion of business associations[127] reflected the growing political power of a Thai capitalist class that was nurtured under the ISI period. Other rising forces, such as the urban-based student and workers' movements and a communist insurgency in the countryside, also contributed to an increasingly diversified social structure. This expansion of social forces began to influence the policy process—an influence generally seen as indicating that the military-civilian bureaucratic polity was no longer impregnable (Anek 1992; Lauridsen 2000). Nationalist agitation attacked the economic dominance of Japanese businesses and the American military presence. Against the backdrop of the Vietnam War, the Thanom government also signed the controversial Treaty of Amity and Economic Relations with the US, allowing American businesses to establish majority-owned or wholly-owned companies or branches in Thailand.[128] Moreover, spiraling cost of living, deteriorating terms of trade and balance-of-payment deficits also put pressure on the regime. By the early 1970s, the Thanom leadership was under siege, and anti-regime mobilization led first to his ouster and then to a brief period of electoral democracy (1974-1976). Soon, however, power returned to the

[127] The three pillars of the Thai business community have been the Thai Bankers Association (formally established in 1958), the Federation of Thai Industries (starting out as the Association of Thai Industries in 1967), and the Thailand Chamber of Commerce, founded in 1933.

[128] The treaty, signed May 29, 1968, is still valid today. Like other nationalities, however, Americans are restricted in specific industries (e.g., banking, communications, land, and natural resources).

well-established pattern of conflict resolution when a 1976 coup returned the military to power.

Economic and political problems compelled the Thanom regime to take tentative steps toward parliamentary democracy by allowing elections in 1968 and then, realizing it could not control the process, staged a coup in 1971. Failing to use politics to shore up its rule, the regime imitated Sarit's actions in the late 1950s: it sought to deliver the economic goods. By the late 1970s the economy had begun to sputter, as export sales declined (partly due to the global recession), and with the end of Vietnam war inflows of US military spending also wound down, producing huge balance of payment deficits. On the other hand, domestic demand, always the major source of manufacturing sector growth from 1960 to 1972, had by then run its course as an engine of growth (Narongchai 1975: 276). Moreover, the World Bank, which had some influence with the technocracy since the Sarit period, began to shift the dominant development paradigm toward open markets designed to align domestic economies with the needs of international capital. Adding to the argument for EOI were criticisms of Thai industries as overly protected and thus uncompetitive, highly import-dependent and capital-intensive, and mostly of the assembly-plant variety (Ingram 1971, Phisit 1987). In 1972, Thanom issued key policies laying down a general framework that would govern industrial development for decades to come. This framework articulated the country's development plans and BOI policies via two general approaches: the parallel implementation of export promotion and import substitution and the strengthening of the relationship between domestic and foreign capital.

That said, the adoption of EOI cannot be viewed apart from the nationalist fervor in the seventies, precisely because it seems to run so much in an anti-nationalist direction. Almost by definition, an export-oriented development strategy would tie the country's economy more to the vagaries of external markets. This seeming paradox, however, could be explained by the specific implementation of Thai EOI policy. According to the Third Development Plan (1972-1976), even as government prioritized labor-intensive export-oriented industrialization, it also maintained the import-substitution policy in the manufacturing of consumer durables and intermediate goods (Falkus 1995).[129] Moreover, export promotion incentives were granted only to firms exporting 80 to 100 percent of their produce—a condition that preserved the domestic market to import substituting manufacturers.

This parallel implementation of export-oriented and import-substitution industrialization relied largely on investment promotion and tariff policies. The seventies saw the passage of investment promotion laws that gradually shifted the focus of agribusiness and industrial development toward external markets while retaining some protectionist provisions from the early ISI period. Under the 1972 Investment Promotion Law (National Executive Council or NEC No. 227), the BOI granted tax reduction or exemption for imported raw materials only to export manufacturers; it could also, on the other hand, impose surcharges on manufactured imports competing with BOI-promoted firms. The Investment Promotion Law passed in 1979 provided more generous incentives

[129] In particular, the Third National Economic and Social Development Plan (1972-1976) called for the promotion of labor- or resource-intensive export-oriented industries such as those producing food, textile, and electrical appliances while pursuing import-substitution in consumer durables and intermediate goods.

for exporters, such as exemptions from export duties and business taxes. Yet, at the same time, the government maintained relatively high tariffs that benefited industries producing for the domestic market.

A corollary to the drive to expand industrialization for both external and domestic markets was the push to bring in more foreign capital. Investment policies passed in the 1970s provided foreign businesses more incentives to set up shop in the country. For one, investment laws allowed foreigners to own the land on which promoted economic activities would be located. Nevertheless, investment laws passed during this period also indicate that while Thailand was more fully opening up its economy to foreign investors, it was also at the same time exerting more effort to structure foreign participation along two lines. First, investment laws sought to direct foreign capital into establishing joint ventures with Thai businesses. This was partly done with the passage of the Alien Business Act of 1972. The law set up the Alien Business Committee that would heretofore produce lists, categorizing industries in which foreigners could invest provided that they put in no more than 49% of a company's equity—an arrangement designed so that Thai nationals had majority ownership of these firms. The law also contained a category of businesses (including all exporting, wholesale trade, textile manufacturing) in which foreign capital could freely engage, so long as certain conditions applied such as the use of local materials.[130] BOI activities suggest more precisely how policies geared to promote foreign-domestic partnerships played out. While Thai capital dominated BOI-

[130]The Alien Business Act, however, reserved certain industries exclusively for Thais. Such industries included rice farming and milling, land trading, fruit farming, pharmaceutical manufacturing, and retail trade.

promoted firms, the number of joint ventures also grew. For instance, in 1980, 78% of firms that received BOI promotional certificates were Thai firms; about half of these were fully Thai owned, while the other half consisted of joint ventures (Hewison 1989: 114-115).

Moreover, during the seventies, policy planners also grew concerned about the concentration of economic growth in Bangkok and the surrounding areas, concerns certainly rooted in the earlier territorial dispersal of ISI activity, and the power it gave local businesspeople to advocate for their inclusion in new economic activity. Spurred by these worries, they adopted industrial decentralization as another objective of investment promotions, giving the program a territorial dimension, and setting a pattern that more robustly cultivated the whole domestic economy. A key policy innovation during the remaining year of Thanom's rule was the passage of the National Executive Committee Decree No. 339, setting up the Industrial Estate Authority of Thailand (IEAT) that would combine the provision of fiscal incentives with the setting up and management of public facilities, notably industrial estates and export processing zones, for foreign and domestic manufacturing enterprises. Before the decade ended, the Bank of Thailand began to require commercial banks applying to open more branches to allocate 60% of deposits for community credit; in small districts, one-third of this amount should go to farming activities (Christensen et.al.1997: 19). The decade, therefore, saw the flow of investments into the countryside so much so that by the eighties provincial elites began flexing their political muscle in the parliamentary arena (Ockey 2004, McVey 2000).

This said, decentralization did not diminish the critical role that national development authorities played in industrial development, as may be gleaned from how the BOI figured into investment promotion. The IEAT differed from the BOI in its focus: the IEAT sought to facilitate investments' territorial spread while the BOI concerned itself mainly with influencing investment flow into specific economic activities.[131] Nevertheless, the two investment promotion laws on the BOI passed in 1972 and 1977 gave the agency greater responsibility for servicing investors' needs and greater decision-making power over the grant of incentives. In fact, these two investment acts also gave the BOI the authority to map out the whole country into "investment promotion zones" and offer different incentive packages per zone.[132] Moreover, the Prime Minister assumed the position of BOI chair, with the Minister of Industry as vice chair.[133] These changes expanded the BOI's discretionary power. The two laws gave the BOI greater flexibility in determining the kinds and amount of incentives different firms would get—a break from

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[131] Prior to the creation of the Industrial Estate Authority, real estate agencies had already been involved in developing lands near Bangkok for factories, including two BOI-promoted industrial estates (in Pathumthani and Samutprakarn); government itself was involved in the construction of only one industrial estate (in Bang Chan) but completion of the project and recruitment of investors to the site proceeded at snail-pace (Chaktip 1975: 251). The establishment of the IEAT sought to facilitate the establishment of industrial estates, including those constructed and operated by the private sector. The 1972 law was replaced by the Industrial Estate Authority of Thailand Act of 1979.

[132] The BOI's territorial approach today consists of dividing the country into three zones, with Bangkok Metropolitan Area (BMA) as Zone 1, the 12 provinces surrounding the BMA as Zone 2, and the rest of the country as Zone 3. The BOI determines the package of incentives given to a firm based, first, on the type of activities it engages in. If the firm decides to locate in zone 2 or zone 3, it can qualify for more incentives, partly due to the additional costs (in utilities and transportation) locating in a less developed area would entail.

[133] In contrast, as per the Industrial Estate Authority of Thailand Act of 1979, the IEAT officials, including its chair and chief executive or governor, are appointed by the Council of Ministers. Since the seventies, the IEAT has been under the supervision of the Ministry of Industry.

the previous arrangement in which benefits were more or less evenly distributed to all qualified applicants.[134]

The BOI's critical role in investment promotion suggests the intent of Thailand's governing elites to maintain its control over decision-making on industrial development. Equally significant, the Alien Business Act, mentioned earlier, also ensured that the national government maintained its regulatory role over foreign investments. Whereas foreign investors previously had only to register with the Ministry of Commerce's Department of Commercial Registration[135] in order to lawfully conduct business in the country, the Alien Business Act now required wholly or majority foreign-owned enterprises to get the endorsement of a newly established Alien Business Committee, headed by the Commerce Minister, and then to secure approval from the Council of Ministers. The requirement of high-level approval for foreign companies and the fencing in of some industries for Thais suggest that the national government was attempting to maintain its traditional role as gatekeeper of the domestic economy. Interestingly, the Alien Business Act itself did not include investment promotion measures so that in order to access investment privileges like tax holidays, businesses needed to go to the BOI or IEAT, a process that entailed another bureaucratic procedure.

[134] For instance, the 1972 law changed the period of income-tax holidays from the standard five years to a range of from three to eight years, while the 1977 law changed the terms of the grant of import duties and business taxes of imported machinery from fixed to differential rates—both decisions were left for the BOI to decide on a case-to-case basis (Atchaka 1986).

[135] In 2002, the Department of Commercial Registration was renamed the Department of Business Development.

That Thai investment strategies have generally supported domestic capitalists, nurtured since the import substitution period of the 1960s, suggests that Thai political elites operated under different calculations than did their Philippine counterparts who, as the next section will show, had sought to deregulate foreign investment flows since the early 1980s. As the earlier discussion of Thailand's bureaucratic polity argues, because competition for state control was largely confined within the inner circle of senior military elites and their civilian allies, government operations proceeded with relatively minimal disruption. The institutional differentiation between the political leadership and the technocracy contributed to the potential for policy continuity. Given this supportive policy environment, domestic capitalism expanded in a more or less continual fashion and, beginning in the seventies, Thai and Sino-Thai big business grew strong enough to flex some political muscle.

In the last years of the Thanom regime, consequently, business leaders began to go beyond trade associations and organize political parties. The banking community, not surprisingly, stood at the frontline of this effort. Thai and Thai-Chinese commercial banks had by then more or less embraced their pioneering role in the country's industrial and commercial development, not only providing credit to industrial concerns but also helping to resolve coordination problems among intra-industry players in some cases and even enabling leading firms to buy out foreign partners in others (Christensen et.al. 1992: 30). When parliamentary politics broke free from military control in the 1973 to 1976 democratic interregnum, banking executive Boonchu Rojanasathien became finance minister.[136]

By the time General Prem became prime minister in 1980 and began more aggressively to liberalize the economy, Thai businesses had had almost two decades to grow and mature. In 1980, manufacturing represented 21.3% of GDP as compared to agriculture's 23.2% (Falkus 1995: 18). The cumulative strength of domestic industries is also evident in the growing competitiveness of Thai products. According to Wisarn (1989): from 1970 to 1980, Thailand's revealed comparative advantage improved in most industrial sectors, notably electrical machinery, textiles, yarns and fabrics, garments as well as wood and rubber products. Equally of note, as per Bank of Thailand data, manufactured exports rose from about 2.5% of total exports in 1961 to 35.8% in 1981 (Somsak 1989: 55).

The Fifth Plan (1982-1986) acknowledged that the medium-term was a "crucial transition period" on Thailand's road to becoming a "semi-industrial country" (p. 1). Toward restoring the country's financial position and adjusting the overall economic structure, the plan included further enhancing exports by integrating production and marketing activities and promoting basic industries to minimize imports and generate employment. Thai leaders hoped that by the end of the plan period, the contribution of the manufacturing sector would equal that of agriculture, while manufactured commodities would make up 40% of the country's exports. More importantly for our discussion, even

[136] Before the 1970s, business people had been included in the cabinet, but they played minor roles and were not aligned with any political or business organization. Boonchu was the first finance minister who did not belong to the Thai technocracy (Suehiro 2005: 29).

as the plan sought to orient production to respond more to external demand, it also maintained government's established thrust of deepening import-substitution, focusing on intermediate and heavy industries.

The 1980s is generally seen as the period in Thai politics when the business sector came into its own as a policy actor. Analysts making this point often cite the establishment of the Joint Public-Private Sector Consultative Committee (JPPCC) as their evidence, for the committee was the first time a government-business national dialogue attained institutional form (Kraiyudht 1995, Somsak 1989: 91). The JPPCC formed in 1981 under Prem's leadership as a regular, monthly mechanism for government and business representatives to discuss pressing national economic and social issues and to mobilize private sector support for national development programs and projects. The three peak business associations (Thai Bankers' Association, Federation of Thai Industries, and Thailand Chamber of Commerce) were active in JPCCC formation and in its activities. Many therefore see the JPPCC's emergence as a testament to the growing political clout of big business, if not the waning influence of Thailand's bureaucratic elites (Anek 1992).

The JPPCC process, however, cannot be viewed in isolation from other political dynamics of the time. The JPPCC began a year after Prem, then army chief, took over from Prime Minister Kriangsak Chomanan (1977-1980) who was forced to resign amidst a deteriorating economy and rising street protests. As such, Prem's political rise came not through any electoral process, but because of an agreement among the ruling coalition parties and the army (Medhi 1999). Nevertheless, almost as soon as Prem took over, he needed to withstand a coup attempt by a faction of junior officers, the "Young Turks," who reportedly worried about the demands that then Deputy Prime Minister Boonchu

Rojanasathien was making for greater control over the economy (Niksch 1982: 191-192, Chairat 1985: 154).[137] Prem survived the coup, but in the middle of his term he confronted a much trickier situation: the implementation of structural adjustment measures aimed at solving balance-of-payment problems.

In 1983, partly due to high public debt, Thailand experienced a banking crisis. In difficult financial straits, the Prem government took out a $500 million stand-by loan from the International Monetary Fund (IMF) in 1985 (Warr and Bhanupong 1996). Despite gains in the country's manufacturing sector, the economy's gross domestic product in real terms from 1980 to 1986 grew by only 4% per annum, down from the high annual average of 8% in the 1960s and 7% in the 1970s (Somsak 1989 : 47). The government reacted quickly by limiting public expenditures and borrowing; it undertook devaluation twice (in 1981 and 1984). This period also saw the further opening up of the economy to foreign capital. In 1983, BOI announced that it would give incentives to 100% foreign-owned companies—a shift from its previous position of giving priority to Thai companies, including joint ventures.

The JPPCC thus could be seen as a way for Prem, who was hit with another coup attempt in 1985, to secure business backing during this difficult period. The technocracy, generally seen as above the political fray, played an important role bridging any gap between business and the administration that Boonchu's departure in 1981 and

[137] Boonchu's time in the finance ministry during the democratic period was associated with expansionary fiscal policies. Despite his background in banking, he was known as a populist politician and became controversial among state technocrats who were fiscal conservatives (Leipziger 2001; Maxfield 1997). As such, his departure from government in 1981 facilitated the Prem government's implementation of structural adjustment (Bowie and Unger 1997: 143).

government's austerity measures might have created. Then National Economic and Social Development Board (NESDB) Secretary General Snoh Unakul, who became the lead convenor of this initiative and was instrumental in getting big business to the table, had a long history as an economic technocrat: starting in the Ministry of Finance as a career official in the 1950s under Puey, he served as the Ministry of Commerce deputy permanent secretary (briefly in 1973-1974) and Bank of Thailand governor (1975-1979). As such, he was positioned to win over business, even after taking a prominent role in government.

The economic reforms and liberalization measures that the Prem government adopted leading up to the Plaza Accord in 1985 made it possible for Thailand to benefit from the currency adjustments of the dollar and yen. According to Bank of Thailand data on total capital inflow (i.e., foreign investments and loans): from 21,112 million baht in 1987, capital inflow shot up to 70,292 million baht in 1988 (Atchana and Teerana 1989: 18). From 1980 to 1990, manufacturing grew at an annual rate of 9.5% (Weiss 2002: 15).

That the Thai government promptly undertook macroeconomic reforms in response to changing global economic trends, however, explains only part of the country's eventual sprint toward NIChood. The other source of the resiliency of the Thai economy has been the presence of a relatively stable and previously established Thai manufacturing sector, nurtured by a generally consistent industrial policy environment. Even before the dramatic increase of foreign investments, manufacturing was growing at a rate almost equaling that of agriculture. According to BOI data, from 1960 to 1987, wholly-owned and majority-owned Thai firms made up 68.5% of the total amount of the more than 50 million baht worth of BOI-promoted investments (Falkus 1995: 25). On the other hand, available data in the late 1980s suggests that direct foreign investments accounted for only around five percent of gross capital formation in the private sector (Somsak 1989: 81).[138]

Despite the frequent and erratic turnover of political power and swings in the country's fiscal health, Thailand consistently pursued a combination of export-oriented and import-substituting (or competing) industrialization. Succeeding national development plans continued this two-prong approach, even while the importance of export production in the economy had grown dramatically since the 1970s. Even as the Prem regime undertook considerable trade reform, tariff rates were still moderate to high in relative terms: 1987 data, for instance, showed that Thailand's simple average tariff rate was 31% while the Philippine's was 28% (Rachain 1989: 130-133). This time, the focus on industries producing for the domestic market particularly provided support for basic and supporting industries. In fact, despite its budgetary constraints and the World Bank-austerity program, the government launched its most ambitious project yet: the Eastern Seaboard Development Program. The ESB was originally envisioned as a 100-billion baht industrial complex (including deep seaports, an industrial estate for heavy industries such as fertilizer and petrochemical plants and an export processing zone) that would be constructed over a period of 20 years and cover three provinces in the east coast where natural gas had been discovered. The project became a source of contention within policy circles, including the World Bank; the plan was scaled back, construction was interrupted based on the availability public and private sector financing; nevertheless, the Thai government proceeded with the program, getting a loan from the Overseas

[138] Somsak, however, qualifies that the five percent figure did not include reinvestments of existing foreign firms, and that despite the relatively small amount, these investments were the primary movers in key subsectors such as the automotive and electronic industries (Somsak 1989: 81).

Economic Cooperation Fund (OECF) of Japan to support infrastructure development (Somsak 1989: 87-90, Samart 1989). Recently proclaimed fully operational, the ESDB perhaps is the best indicator of the single-mindedness with which Thailand's governing elites—both the political leadership and technocrats—pursued industrialization.

This is not to say that Thailand's pattern of economic development did not have problems. Thai economists, for instance, have noted the persistence of low employment rates in the industrial sector (despite its growing share in the country's GDP) and the urban concentration of economic growth (despite policies to distribute growth across the provinces) (Samart 1989: 10). Phisit Pakkasem (1988), then NESDB deputy secretary-general, voiced concern over the marginal contribution of foreign companies to technology transfer in joint ventures, a trend that could lead, in his words, to a "branch plant society" (p.210). In fact, as the investment incentives acts indicate, the movement away from local content requirement and tax breaks for importation of raw and semi-processed materials used for export manufacturing provided incentives for entrepreneurs to do little beyond establishing assembly factories, and this has been a problem. It not only accounts for the generally low total factor productivity of Thai industries, heavy reliance on imports also contributes to balance of payments deficits.

Finally, as was made starkly clear in the 1997 Asian crisis, the trend starting in the 1980s toward an uncritical embrace of liberalization rendered the economy more vulnerable to the vagaries of the global market and to corrupt practices. Buoyed by the benefits Thailand gained from liberalization since the 1980s, policymakers turned their attention to deregulating the financial system as a way of making the country Southeast Asia's leading financial center (Naris 1995). Chapter 2 briefly discusses the 1997 financial crisis from this perspective. Nevertheless, as noted by Glassman (2001) what has been left out in the analysis of the Thai financial crisis is the role that the manufacturing sector played in it. Indeed, the opening up of the Thai financial system was also a function of Thai capitalists expanding offshore. Before the financial meltdown, Thailand's GDP had been growing at an average annual rate of almost 10% for a decade. In the mid-1990s, the manufacturing sector began to suffer from overcapacity, but instead of simply exporting more goods as it had in the past, manufacturers also started to export investment capital. The Thai government encouraged this trend, establishing the Export-Import Bank of Thailand (EXIM Bank) in 1993 to provide financial assistance and insurance to Thai exporters and overseas investors.[139] Financial deregulation also allowed Thai capitalists to invest up to US$10 million in affiliate companies overseas (Medhi 1999: 397). Further discussion on the activities of Thai transnational corporations is beyond the scope of this study. The important point for this discussion is that liberalization in Thailand went hand in hand with domestic industries' expansion.

Thailand's experience since the 1970s shows that the institutional configuration of state power proved critical in explaining the different, even sometimes conflicting responses to domestic interests that began to impinge on the policy process as the economy grew. In particular, this section has shown that the implementation of the export-oriented industrialization program built upon existing economic and political imperatives, linked to earlier periods of ISI industrialization, and reflecting the underlying structure of political power in Thailand. Despite the frequent and erratic political turnovers, swings in the country's fiscal health, and constant criticisms that domestic industries were limited,

[139] The Exim Bank's services cover the Greater Mekong subregion.

Thailand continued to pursue industrialization in a way that concentrated on strengthening domestic entrepreneurial elites. Policies passed in the 1970s continued to guide policymaking way into the 1990s. Succeeding national development plans continued with ISI even as export production in the economy had grown dramatically since the 1970s. For instance, the Seventh National Economic Social Development Plan (1992-1996) stressed the need to "further expand export and diversify [the country's] industrial base, both in terms of export oriented and import substituting industries, especially the petrochemical, engineering, electronics and basic industries" (p.5). Even as the Thai national state opened the economy to the participation of foreign capital, it also made sure to retain its role as the arbiter between foreign and domestic capital as suggested by the passage of the Foreign Business Act of 1999. In this way, Thailand's governing elites have continued to serve the interests and needs of those who rose during earlier phases of economic development. Until the mid-1990s, the growth in Thai production for the export market had been designed to promote the interests of a domestic capitalist class, including elements of that class that had always produced for the domestic market.

The Philippines

The comparison between the Philippines and Thailand immediately runs up against a puzzle that this chapter's opening pages noted: both countries entered EOI with a similar short-term objective of raising state revenues, and, from that early moment, both pursued policies more similar to one another than distinct. For the most part of Marcos's authoritarian rule, the regime's pursuit of EOI resembled that in Thailand: the policy included parallel tracks of export promotion and import substitution, combined with efforts to match domestic and foreign capital in productive ventures. Nevertheless, the Philippines's experience differed from Thailand in a fundamental way. The Philippine EOI under authoritarian rule more cleanly broke with the past. Just as Marcos changed the political rules of the game so did he seek to reconstitute the economic elites. Unlike Thai EOI that was anchored in the needs of an expanding domestic agro-industrial sector searching for new markets, the Philippines's push toward export-oriented industrialization began with an additional task of building a social base for Marcos's New Society. What accounts for these contrasting approaches toward policy constituencies?

Beyond a strongman's desire to accumulate power and rents—something not unheard of in Thailand—this initial difference may in fact be attributed to the country's distinct structure of elite contestation. The colonial legacy of proprietary polity merged political and economic power so closely that political leaders capable of challenging Marcos belonged to or drew support from the landed oligarchy that built fortunes either in the traditional export sector, notably the sugar industry, or in ISI-sponsored industries. In this light, even as some ISI programs were undertaken in the 1970s, these worked to reinforce Marcos's other efforts to expand his regime's social base on foundations that differed from his main rivals' support among landed elites. At the same time, economic liberalization enabled the regime to obtain fresh financing for New Society development projects.

This pattern of regime transition is not unique to the shift from electoral democratic to authoritarian rule, however. Different Philippine leaders, when encountering political crises, used industrial development strategies to build their base of support, and while this took place within a general consensus around liberal economics, it nevertheless also led successive leaders to use the state to dismantle what might have served as building blocks to a successful industrialization strategy—to deprive political rivals of sources of support, and to divert economic resources to strengthen a new circle of support around the executive. Given such pattern of political transitions, Philippine economic policy since the late 1960s has experienced dramatic swings that largely prevented any cumulative strengthening of Filipino manufacturing industries. In no respect is the Philippines's difference from Thailand therefore more striking than in the vulnerability of Philippine economic policy and activity to political disruption, and the comparative stability and continuity in Thai economic activity and policy.

That said, these policy swings are difficult to detect if one only examines the policy framework, for all presidents, from Marcos onward, pursued liberalization and intensified production for export when they could. Like Thailand, the Philippines's shift to export-oriented industrialization (EOI) in the 1970s was also partly a response to an inhospitable global climate, although internal, political factors made the policy shift much more pressing. At the start of the seventies, the country was hit by a balance of payments crisis rooted in Marcos's re-election spending spree in 1969 and a massive public works program, both of which led to mounting (even then) foreign debt (Boyce 1993). Hence, Marcos began his second term signing on to an IMF program—the second since the era of decontrol under President Macapagal. Measures then taken to ease the foreign-exchange crisis included export promotion, a de facto peso devaluation, and a return to foreign currency rationing (Lim and Montes 2001).

Marcos also intensified government reliance on foreign capital for development financing. In December 1972, barely three months after imposing martial law, he issued Presidential Decree No. 81 expanding the practice of contracting foreign loans for relending to the private sector for industrial and agricultural projects. In 1977, Marcos issued two decrees that would eventually impose a heavy toll on subsequent government development budgets: PD 1080 set up a government corporation that extended sovereign guarantees to foreign loans contracted by the private sector for projects approved by the president while PD 1177, which reformed the budget process for greater inter-government coordination, also included a provision for automatic appropriation for debt servicing. These policies set the stage for what was to become an era of "debt-driven growth."

Besides tapping foreign loans, Marcos's development financing strategy also set out to mobilize foreign investments. From the start of martial law in 1972, the regime passed a series of decrees expanding incentives for nontraditional manufactured exports and further opening the economy to foreign businesses. Presidential Decree Nos. 92 and 485 amended the Investment Incentives Act of 1967 and the Export Incentives Act of 1970 toward these ends. In November 1972, government also created the Export Processing Zone Authority to establish duty-free zones for foreign manufacturing firms; the following year, the Board of Investment (1973) announced the liberalization of 37 investment lines. Foreign capital quickly returned the regime's embrace: foreign direct investment grew from about US$4.28 million in 1970 to US$82 million in 1973; by 1980, it totaled US$221.94 million (Lindsey 1983). Foreign direct investments in the second half of the 1970s went mostly to producing garments and semi-conductors for export.

The government's aggressive pursuit of foreign capital did not however mean that it abandoned the goal of developing domestic industries. In fact, the seriousness of the regime's pursuit of industrial development may be gleaned from the separation of commerce and industry into two distinct agencies: the period 1974 to 1981 was the only time that the country had a full-blown agency, the Ministry of Industry, devoted to industrial development.[140] Moreover, the World Bank mission (1980) noted, the average effective tariff in 1974 was about 36% for the economy as a whole. Protected industries included: the food industries such as flour milling, bakery, as well as vegetable oils, chocolate, and starch production; distilled liquors and cigarettes; textile mill products; motor vehicles; cosmetics; electrical machinery and household appliances. In the late 1970s, government launched 11 import substituting industries in intermediate and capital goods production, reportedly against the advice of the World Bank and other multilateral agencies (Lamberte et.al. 1992: 313). The list included an integrated iron and steel mill in Mindanao, another export-processing zone in the Visayas, and petrochemical, ammonia-urea, and nuclear power plants in Central Luzon (Dubsky 1993: 132-133).

These seemingly mixed signals produced two contradictory interpretations of the regime's development strategy, one stressing export promotion and surrender to the IMF and World Bank (Broad 1990; Bello et.al. 1982) and another citing sustained

[140]Paterno, who was then BOI chair, relates that Marcos first passed the law (Presidential Decree No. 488) before calling him to develop the agency's charter. Prior to the founding of the Ministry of Industry in 1974, the country had only a single agency responsible for trade and industry since the commonwealth period. "The problem with having trade and industry under one roof is that they have different constituencies. In the early years, the Department of Trade and Industry had been much more concerned with trade. This was one reason the BOI was established [in 1968] under the Office of the President."

As it turned out, however, the Ministry of Industry lasted only about six years. In 1981, commerce and industry were once again merged under one line agency. In contrast, Thailand has had a Ministry of Industry since 1942.

protectionism, linked to crony capitalism (Dohner and Intal 1989, Kang 2002). In fact, the regime's dual-track strategy included both elements, and aimed mainly to consolidate Marcos's hold on power. Export promotion attracted foreign capital to raise revenue while import substitution built up domestic entrepreneurship aligned with Marcos. To consolidate his rule, Marcos seized some of the country's most prominent families' businesses, especially those holding huge loans from government (Aquino 1999); he also brought Filipino-Chinese commercial elites, previously marginalized in the country's political life, into his coalition (Subianto 2004: 163-164). Finally, the regime established government-controlled monopolies run by Marcos cronies to oversee the production and trade of sugar and coconut, the country's top traditional exports. Such moves have been rightfully interpreted as rent-seeking; yet, it cannot be seen in isolation from Marcos's avowed war against *caciques*. In all these moves, foreign capital allowed Marcos autonomy from traditional vested interests, and he used that leeway, in part, to insure the free flow of that capital.

In the medium term, Marcos's gamble paid dividends. The late seventies saw the Philippine economy thriving, with manufacturing exhibiting the fastest growth and the overall economy growing at 6.44% (Lamberte et.al. 1992: 14). Moreover, the government seemed on track in meeting its export targets: exports grew at 7% annually and nontraditional exports as a percentage of total exports increased from 8.3% in 1970 to 36.4% in 1980 (Bautista 1982: 16). Until the unprecedented financial crisis in 1983, the regime even enjoyed a net capital inflow from foreign loan transactions (Boyce 1993).

The government's strategy of simultaneously pursuing EOI and ISI was contained in the Omnibus Investment Code of 1981 (Presidential Decree No. 1789). The 1981 Code affirmed certain principles found in the pre-martial law investment incentive act, passed in 1967 to encourage foreign investments toward strengthening Philippine industries. The Code declared that government would encourage foreign participation in capital-intensive "pioneer industries" using "substantial domestic raw materials and in joint venture with substantial Filipino capital," as well as seek to develop new markets for Philippine exports and achieve self-reliance in food and raw materials (Article 2). The Code also made some distinctions between investment areas for foreigners and Filipinos: incentives were given to foreign investors undertaking "pioneer" activities (e.g., manufacturing products not readily available in the country and introducing new technology) and to Filipino businesses in "preferred areas," defined as investment areas that produce goods for "domestic use in substitution of goods being imported in large quantities" (Article 30). Preferred areas would be reserved for Filipino enterprises for three years, after which time foreigners could come in although without incentives.

The implementation of the Code, however, was quickly overtaken by events. Problems with the regime's attempt to build a new industrial elite, dependent on Marcos's patronage and foreign capital, began to show. Merged political and economic power meant that investors' confidence was highly sensitive to regime stability. When the news that Marcos was suffering from lupus erythematus (a debilitating disease that could lead to kidney failure) broke in the late 1970s, the business community and the US government were alerted to the unresolved issue of succession. The combination of this news, the second oil price shock, and increased global interest rates presented a toxic combination that sent investors packing. Against the backdrop of these troubles in 1981, Marcos crony and textile magnate Dewey Dee, \$90 million in debt to government and private banks (Broad 1990: 112), fled the country, triggering a financial crisis. Growth rates fell from about 5% in 1980 to around 1% in 1982 and 1983 (Lamberte et.al. 1992: 315).

Due to its dire financial straits, the government accepted first a World Bank structural adjustment loan that called for import liberalization and tariff reforms, but had to suspend liberalization in 1983 as the balance of payments gap hit critical levels. In August of that same year, opposition leader Benigno Aquino was returning from exile when he was assassinated on the airport tarmac by government henchmen. The event triggered massive street protests and capital flight.[141] In October 1983, the government declared a debt moratorium and accepted an IMF stabilization program that was highly contractionary. The period not only saw commercial loans dry up due to the moratorium, but investments also declined by 65%. In 1984 and 1985, the country went into deep recession.

Corazon Aquino replaced Marcos in 1986 on the heels of a popular uprising and, thereafter, pursued economic policymaking in much the same way and in pursuit of the same objective: the consolidation of her political power. Upon assuming office, Aquino abolished the existing authoritarian political institutions and for over a year from that point (until the first elected Congress took office in July 1987) ruled by decree. Like its predecessor, the new government moved quickly to prevent Marcos loyalists from regrouping: it expropriated businesses and properties identified with Marcos and his cronies; her administration would later privatize many of these seized properties and

[141] It was estimated that the country experienced capital flight of $5 million a day after Aquino's assassination (Hill 1988: 272).

streamline public corporations associated with the previous regime. Aquino also reorganized the bureaucracy and, in the process, supplanted top management, many of whom had directed programs for the previous 14 years under Marcos.

As the government began to set up the infrastructure for electoral democracy, the ruling coalition of anti-Marcos forces also began to draw in members of the oligarchic families who held power in the years before martial law (families which prominently included Aquino's own) and political clans, often localized to one province or another, that had jumped from Marcos's New Society Movement to the new President's quickly-constructed political party (Lande 1996: 126). While many assessments of the Aquino presidency (Coronel 1991; Thompson 1995) credit it for restoring liberal democracy despite destabilization attempts from military and communist rebels, they also fault it for bringing back free-wheeling oligarchic rule.

Unfortunately, as bold as Aquino had been in rooting out the vestiges of authoritarian rule, she was markedly timid in relation to the country's creditors, particularly the IMF and World Bank. The Aquino government upheld economic policies that a bankrupt Marcos government, with very little options left, adopted in its waning years. It continued the World Bank-prescribed structural adjustment as well as the tariff reforms and import liberalization to which Marcos had agreed in exchange for IMF-World Bank financing. Succeeding presidents would continue this practice of debt financing of balance of payments deficits. More onerous, Aquino assumed all of its predecessor's debts, including questionable transactions contracted by Marcos's business partners with state guarantee (Boyce et.al. 1991). For Aquino, the policies taken as they were in the context of the challenges to her regime represented a clear effort to draw international support for her administration.

Finally, like its predecessor, the Aquino government looked outside the country for development financing—and this partly compelled her to maintain good international credit standing.[142] This financing strategy liberalized foreign participation in industrial development even beyond what Marcos had done. In 1987, the Aquino government issued its own version of the Omnibus Investments Code (Executive Order No. 226) that did more than merely maintain a 1983 amendment to the 1981 Investments Code extending the period a firm could enjoy incentives from five to 10 years. It deleted import substitution as a government thrust altogether and the nationality requirement for export traders and service exporters, and lowered the foreign equity limit in BOI-promoted companies from 40% to 30%. The passage of the Foreign Investment Act of 1991 (Republic Act No. 7042) allowed wholly-owned or majority-owned foreign enterprises to engage in manufacturing and commercial activities for the domestic market.

In fact, the government's strong faith in foreign capital led it to adopt a hands-off policy to industrial development, a focus it associated with the previous regime and viewed in consequence as tainted by the charge of crony capitalism. In January 1987, Aquino issued Executive Order No. 133, reorganizing the Department of Trade and Industry to "pursue a private sector based growth strategy, centered on a socially

[142] For instance, in September 1986, only seven months after she took office, Aquino spoke before the US Congress, assuring American policymakers and the international community that the Philippines would abide by all international agreements the previous government entered into.

responsible program to deregulate business in a manner that shall encourage private initiative and create dynamically competitive economic environment." Further, it dismantled offices or decentralized functions that were directly involved with policymaking on industrial development issues.[143]

In contrast to its laissez-faire approach to industry, the Aquino administration undertook expansionary spending for agriculture, particularly focused on rural development projects including small-scale public works (Lamberte 1992: 323). While the rural sector emphasis partly responded to growing peasant unrest and Aquino's social background, it also met a need of the political leadership (carried to power by an urban-based uprising) to win over provincial and local kingpins and so expand its national base. In the end, many former local officials who had previously been aligned with Marcos shifted to political parties supporting Aquino (Coronel et.al. 2004; Gutierrez 1994). The passage of the Local Government Code of 1991 further consolidated the link between the President and local governments; while the act provided provinces and municipalities considerable fiscal and administrative autonomy, it also placed them firmly under the Office of the President, in the process eliminating any intermediate levels of government supervision over local politics and administration.

The economy rebounded in the initial years, buoyed by the resumption of foreign loan inflows, the restoration of investor confidence, and proceeds from privatization; in addition, an auspicious external environment (decreased oil prices and increased external demand for the country's primary exports) helped things along considerably.

[143] Offices abolished under Executive Order No. 133 included: the Bureau of Industrial Development, Philippine Cement Industry Authority, and the Presidential Advisory Committee on the Copper Industry. The Price Stabilization Council was also disbanded.

Nevertheless, by 1989 the economy began to slow: from the average growth rate of 5% from 1986 to 1989, gross national product grew by only 1.3% in 1990, and the trade deficit ballooned from $2.6 billion in 1989 to $3.9 billion in 1990. The country's fast dwindling foreign reserves and the budget crunch worsened when foreign debt service charges increased from $1.2 billion in 1986 to $1.9 billion in the next three years. To stave off a crisis, the government negotiated for two IMF programs and drastically reduced spending.

Significantly, it was in response to the draft executive order on tariff reforms that Filipino industrialists, left reeling by the economic crisis of 1983-1986, found their voice. In 1991, they formed the Federation of Philippine Industries and their efforts worked to lessen the bite of the final executive order.[144] Filipino industrial interests also found its way into an unlikely document, the 1991 Foreign Investment Act. Sections 8 and 9 of the Act provided for the issuance of an FIA negative list C, identifying investment areas "in which existing enterprises already serve adequately the needs of the economy and the consumer and do not require further foreign investments." List C, therefore, was in keeping with other laws that reserved certain economic rights (such as those to own land and to engage in retail trade) to Filipino nationals. Another provision (section 10) required the National Economic Development Authority (NEDA) to produce a separate list of "strategic industries" that would accelerate industrialization by building backward and forward linkages and "generate substantial foreign exchange savings through import substitution and collateral foreign exchange earnings through export." This provision also

[144] One also needs to take into account however the role played by the recession in diluting the tariff reforms. As mentioned earlier, it was also around this time that the government imposed a 9% across-the-board import levy to raise needed state revenues.

called NEDA to recommend “desired equity participation by Government and/or private Filipino investors” in these industries. Nevertheless, these were small victories in light of the economic liberalization agenda that was gaining momentum during this period (De Dios and Hutchcroft 2008: 53-54). In fact, amendments made to the Foreign Investment Act in 1996 through RA 8179 did away with the list C and the NEDA list on strategic industries.

In the end, economic performance under Aquino did not live up to the democratic promise of more informed, less compromised policymaking. One reason often given for this lackluster performance was the political instability that characterized the Aquino presidency. Besides constant intramurals within the ruling coalition for leadership (a consistent feature of that broad coalition during her years in power), the administration also confronted a communist insurgency on the left, and rebel soldiers on the right—periodic attacks and coup attempts more or less consistently undermined investor confidence in the Philippine business environment (Steinberg 2000, Abinales and Amoroso 2005). An underground faction of the Philippine military staged seven failed coup attempts, the last of which in 1989 was serious enough to shake investors’ confidence and trigger a recession, administration officials and economists claim.[145]

Thailand’s experience proves valuable in assessing the adequacy of this explanation. As seen in the history of Thai coups, while such disruptions do slow down the economy, they do not doom it to recession. Rather, the critical difference between the

[145] The *New York Times* reported on December 20, 1989 that the coup worked to undermine business confidence, particularly among Taiwanese and Japanese investors, many of whom took part in the government’s debt into equity conversion arrangement. For one, Sony Corporation reportedly put on hold its plan to set up a $40 million factory.

two countries during periods of acute political instability rests in how conflict among the political elites influences economic decision-making, and how differences in the set of investors prioritized by government policy influences how they react to turmoil. Until perhaps recently, power struggles among Thai political elites had been largely contained within the ruling circle (i.e., the cabinet), and this gave the technocrats relative autonomy to provide policy continuity and indigenous capitalism time to mature and weather political changes. The Aquino take-over repeated a different, more Philippine pattern of political change, in which rising political elites not only overhauled the civilian bureaucracy; but also used economic policies to undercut political rivals. Largely because of political contingencies, Aquino's charge against crony capitalism left the industrial sector to fend for itself at a time of great economic distress, in ways similar to how the Marcos critique of the landed oligarchy led it to supplant a diversifying agrarian elite with new, more loyal business leaders. Both times, a so-called revolutionary government turned to foreign capital in order to reorganize the economy and to do so to meet political objectives. Thus, as in Marcos's waning years, near the end of Aquino's rule, her government became vulnerable to foreign investors' jitters, especially when political challenges emerged. Her administration ended with an economy in recession—the second since Marcos left office.

It is against these fundamental differences in the political economies of Thailand and the Philippines that we should assess why the Ramos presidency fell short of the economic take off that liberalization produced under Prem's premiership. The comparison is apt because the relatively smooth turnover of power from Aquino to her former Secretary of Defense minimized the question of political instability as a sufficient explanation to the weaker Philippine economic performance. Elected into office with relatively minimal political disruption, Ramos was able to continue and deepen the liberalization policies began by Aquino. But if political instability cannot explain weaker Philippine performance under Ramos than Thai performance under Prem, what does?

It certainly cannot be argued that Ramos was not thorough in his efforts to liberalize the Philippine economy. In line with the GATT and Asia-Pacific Economic Coordination (APEC)/ASEAN free trade negotiations in the early 1990s, his administration lowered tariffs and removed trade regulations still further. He expanded upon the Aquino government's preference for market-led industrialization with the Export Development Act of 1994. That act did more than merely provide additional incentives for exporters. To achieve what its section 14 termed as "the privatization of export promotion," the law established the parameters for a government-private sector Export Development Council, an umbrella organization for exporters (the Philippine Exporters Confederation) and government-assisted, private sector-run export financing institutions (the Export and Industry Bank). Significantly, the law never mentioned the independently organized Federation of Philippine Industries; rather, business representatives to the council were appointed by the President—and this suggests the political objectives at the heart of the Ramos program.

Ramos also pushed for legislation that removed institutional constraints on foreign participation in the economy, again in keeping with the previous government's push to mobilize external financing to restructure the economy. Republic Act No. 7652 of 1993 allowed foreign businesses to lease private lands for a maximum of 75 years, effectively neutralizing a constitutional provision against foreigners owning land. Equally important, the Investment Incentives Act of 1991 was amended, removing most conditions set under Aquino for foreign participation in domestic ventures. Notably, the act minimized the classification of economic activities that government with domestic business would identify and reserve for wholly-owned or majority-owned Philippine enterprises. Thus, unlike in Thailand, where liberalization promoted joint ventures between Thai and foreign investors, Philippine policy has increasingly favored wholly-owned or majority-owned foreign enterprises.

What explains the poor performance of the liberalized economy under Ramos? Significantly, by the time Ramos came to power, the influence of Philippine industrial elites as a sector had all but dissipated, and both Aquino and Ramos had devoted important resources and energy to the task of building alternative economic elites to shore up their political power. In fact, during this period, the Ramos administration pursued an economic development policy aimed at building a constituency rooted specifically in local government actors. The key piece of legislation for effort was the Special Economic Zone Act of 1995 (Republic Act No. 7916). This law designated specific cities and municipalities (or clusters of municipalities) as "ecozones" in which existing or to-be-established industrial estates, tourism, financial or recreation centers, export processing or duty-free port zones are granted tax holidays and infrastructure-support from the national government. Each ecozone, while technically under the Philippine Economic Zone Authority or PEZA (formerly the Export Processing Zone Authority established under Marcos), would operate as relatively autonomous territorial units managed by an executive committee that included the provincial governor and mayor. Also provided in the law, these territorial units (whether industrial or commercial centers) could be considered separate customs territories with special tax privileges and might set up their own defense or security forces. All this, according to the law, could be had by obtaining a Presidential Proclamation—and in this way, the policy opened the way to a new and stronger network of political alliances between the president and local government units.

Significantly, this institutional arrangement also removed national administrative or oversight agencies, notably the BOI, from the role of mediating between foreign business interests and the needs of the domestic economy. Rather, as the basis of the grant of incentives become territorial rather than industrial, the PEZA has taken a higher profile. That said, even PEZA's participation in the development of ecozones has been minimal, limited as it is to approving applications of foreign investors to set up an ecozone.[146] Because the law itself designated ecozones in at least 30 provinces without giving any technical bases for the selection, one is left to believe that the law smells of political accommodation. At the minimum, the fact that a strong economic elite had never been created over the previous decades of development policy meant that, even when Ramos no longer needed to undercut industrial elites he had no incentive to undertake anything like a systematic policy to support industrial development. Instead, what had grown over the years were the interests of Filipino commercial elites, those who could more easily build partnerships with foreign capital, but contributed relatively little to broad-based economic growth. Notably, it was during this period that the service sector

[146] Interview with a PEZA official on June 25, 2007 in Manila. According to this official, the process of identifying a zone begins when an investor commits to developing a site for its business rather than the other way around.

really experienced its greatest expansion, growing at an annual average of 4.76% between 1993 and 1997 (Nasution 1999).

That said, for most of the Ramos presidency, there was wide agreement that the economy was finally on track. Starting out in a 1992 recession, economic growth averaged a respectable 4.42% per annum between 1993 and 1997; in nominal dollar values, exports registered a 21% growth annually from 1992 to 1997.[147] Nevertheless, as seen in earlier Philippine economic cycles, the recovery proved short-lived. Like his predecessors, Ramos ended his presidency in an economic crisis—immediately attributable to the 1997 Asian financial crisis. More significantly, because of substantial financial liberalization during the 1990s, one estimate puts capital flight for the decade at $43 billion, up from the $36 billion in the 1980s (Beja 2006: 60). But even this explanation proves inadequate given Thailand's more devastating experience with the 1997 crisis. In a few years, Thailand began to recover; while it has not attained a level of growth that replicates its pre-crisis performance, it has nevertheless grown respectably. The Philippines has not budged from its last-place position among the ASEAN-4 economies, bringing into question the foundation of growth in the 1990s.

Breaking down growth according to sectoral contributions indicates the unsustainable character of Philippine development, even under the Ramos growth period. Based on Central Bank data between 1993 and 1997, agriculture's growth averaged a low 2.28% annually. During this period, average annual growth of the industrial sector stood at 5.28%, led by the construction sector at 9.66% while manufacturing placed a distant

[147] Unless otherwise stated, facts and figures on Ramos economic performance in this and the succeeding paragraphs from Nasution 1999.

second at 4.42%. Partly this reflects additional incentives provided by the Omnibus Investment Code of 1987 to assembly operations—a fact that in the 1990s the biggest dollar exchange earners were electronics and electrical equipment, both of which have high import content (Nasution 1999: 15). On the other hand, the ecozone initiative helped no economic sector more than that most exemplary of commercial sectors, the real estate industry: as noted, domestic and foreign investors' confidence was especially evident in property development, "resulting in the proliferation of industrial parks and export zones as well as high-rise buildings, golf courses, memorial parks and enormous shopping malls" (Montinola 1999: 68).

Significantly, in his 1992 inaugural address, Ramos warned against "groups with wealth and power enough to bend the state to do their will" who stood in the way of the Philippines becoming a tiger economy (Budd 2004: 29-30). Perhaps such fighting words, echoing those of past Philippine presidents, should have given notice that politics would continue to guide economic policymaking. Nevertheless, unlike past administrations where economic decisions solidified the link between national political and economic elites, in the post-martial law era, the national political leaders undertook economic decisions to strengthen their territorial base. But the bottom line for economic performance remains disappointingly the same.

Conclusion

Since the 1970s, Thailand and the Philippines have adopted export-oriented industrialization as a way to play catch-up with East Asia's newly-industrialized countries (NICs). EOI presented both governments a way to raise state revenues to cover balance-of-payments deficits and gave domestic entrepreneurs a strategy for extending capital accumulation beyond their small home markets. Nevertheless, countries implement specific EOI strategies, and the differences in these strategies produce different outcomes. Thai and Philippine EOI experiences differed in three key areas. First, even as both started by pursuing export promotion and import substitution simultaneously, Thailand followed this dual track more consistently into the 1990s, while the Philippine government ceased to prioritize ISI in the 1980s. Second, while liberalization was a defining feature of EOI in each case, their respective governing elites assumed different roles in relation to foreign capital: Thai officials retained their role as arbiters of economic interests between foreign and domestic business while their Philippine counterparts more decisively withdrew from the economy and gave market forces freer play. These trends appear in the strengthening of the Thai BOI and the weakening of Philippine BOI across different regimes. Third, although both Thailand and the Philippines used fiscal and non-fiscal incentives in the pursuit of EOI, they adopted different bureaucratic arrangements and criteria for the grant of benefits. While Thai investment promotion prioritized manufacturing, Philippine policy stressed the territorial spread as part and parcel of its decentralization thrust. By the 1990s, these differences produced distinct development patterns: export promotion in Thailand worked to strengthen Thai industrialists while that in the Philippines favored foreign manufacturing firms and Philippine commercial elites.

Given how much more rooted in the domestic economy Thailand's export industries are, it is no wonder that they outperformed comparable Philippine industries. This dissertation asks a deeper question: what differences between the Thai and Philippine political economies explain the Philippines's inability to develop a more effective implementation strategy? This study has developed two large answers to this question, based on the countries' configuration of state power. One factor influencing the balance between ISI and EOI was the nature of political contestation in each country. Under Thailand's bureaucratic polity, since power struggles largely took place among bureaucratic elites in the cabinet, changes in the political leadership and system were not as disruptive as similar changes would be under the Philippines's proprietary polity, where economic and political power were so intertwined that new political leaders had incentives to dismantle economic programs identified with the previous regime and to reorganize the economy to build a social base for their rule. Moreover, the institutional differentiation between the political leadership and economic technocracy in Thailand minimized the disruption of economic programs even during periods of political turmoil. ISI survived the changing of the guard in Thailand in part because of these two characteristics, while, in the Philippines, ISI fell by the wayside with every change in the political leadership.

But another reason exists for the resilience of ISI in Thailand, and it also helps explain why the Thai state consistently worked to build the domestic economy. Largely as a function of this first difference, export-oriented industrialization in the two cases created different policy constituencies. In Thailand, businesses that participated in EOI were those that had benefited from ISI; the dual-track Thai policy, that is, helped industrialists who had been producing for the domestic market figure out how they could begin developing export markets for their goods—or different goods for the export market. In contrast, the Marcos and Aquino governments attempted to build new policy constituencies for their own EOI programs, distinct from the economic elites that had previously benefited from earlier economic programs. Regardless of whether these moves were valid, they nevertheless present costs to an economy, especially one running on debt financing.

CHAPTER 6

Conclusion

This dissertation explained divergence in economic performance among late-late developing countries as a function of the different ways in which politics intrudes in economic policymaking. I focused on the political economies of Thailand and the Philippines and showed that while pursuing similar industrial development programs, divergent political interests drove governing elites to adopt different policy designs. These differences reflected the extent to which state-building and political competition influenced economic policymaking: political leaders worked to develop the economy, but also to recruit or create constituents for themselves and to outflank political opponents. Concretely, the political interests that animated Thailand's bureaucratic polity and the Philippines's proprietary polity influenced how import-substitution and export-oriented industrialization were implemented.

Institutional configuration of state power has here been defined along two dimensions: the embeddedness of governing elites (that is, the political leadership and the economic technocracy) in state institutions, and the way technocrats and political leaders relate to each other in the development policy process. This definition clearly demarcates the two cases. The Thai political leadership up until the late 1980s came from the military while those in the Philippines belonged to weak political parties. Thai technocrats who served as top economic managers rose from the ranks of the civilian bureaucracy while their Philippine counterparts were recruited from outside the bureaucracy by political incumbents. Along the definition's second dimension: in Thailand's bifurcated policy process technocratic policymaking enjoyed some autonomy from the political leadership, and this contrasted sharply from the Philippines's subordinated policy process where policymaking has been largely driven by political contingencies. Chapter 3 described the historical processes that produced these configurations of state power; Chapters 4 and 5 laid out how governing elites' political calculations shaped different policy outputs in the two cases. The discussion left off with Thai governing elites working to expand domestic capitalism based in banking and agro-industry (which had become the state's main constituencies) and their Philippine counterparts building domestic capitalism that has been trending toward the commercial sector and exhibiting more closely classic dependency relations.

This analysis identified four mechanisms that connect the interests and orientations attached to the configuration of state power to patterns in the implementation of industrial development policy. The mechanisms are (1) political contestation, 2) the presence of policy continuity, 3) choice of policy design and policy tools, and, 4) the consolidation of different policy constituencies among the economic sectors. The next section fleshes out these causal mechanisms as they played out in the empirical analysis.

Politics of economic development

In this dissertation, I looked at the comparative experiences of Thailand and the Philippines—two countries historically associated with troubled polities and open markets in a region of high growth. They followed broadly similar development strategies with assistance from multilateral development agencies; at one time or another, both undertook government reorganization to strengthen technocratic rule. Along the many twists and turns of the story that unfolded in the previous chapters, Thailand gradually but consistently gained ground toward becoming a newly industrializing country (NIC) while the Philippines continued to falter. Given their broadly similar environmental circumstances and policy programs, what factors account for the divergence in the two countries' economic performance?

The historical comparisons between Thailand and the Philippines reveal that the outcomes of their respective economic development policies have political roots. In the rise of the modern state and during the post-colonial period, economic development policymaking became part and parcel of state-building processes and touched directly on traditionally political concerns. Emerging political elites used economic policy not only to secure a resource base for regime activity but also to mobilize and expand regime constituents. As Thailand's bureaucratic polity emerged, military and civilian bureaucratic elites within it began to prioritize industrialization as a way to build an indigenous social base distinct from the landed nobility and Chinese traders. In the late 1950s, the policy shift from establishing state enterprises to the provision of more market-oriented investment incentives was also partly motivated by Sarit's desire to neutralize Phibun's support base in the bureaucracy. Similarly, governing elites in the Philippine proprietary polity brought politics to the fore of economic policymaking. Most clearly, during the Marcos period, the declaration of martial law in 1972 signaled the country's first major attempt at state-building since it gained independence in 1946 and the start of state-directed restructuring of the economy—both intended to consolidate

Marcos's hold on power. In these two countries, therefore, the regimes' political calculations informed the crafting of economic policies.

The influence of politics on economic development policymaking in Thailand and the Philippines, however, differed based on the underlying institutional configuration of state power in each country, and this difference accounted for the disparities in the two countries' economic performance. Up until the late 1980s, before competitive electoral contests gained momentum in the political process, Thailand had a bureaucratic polity, characterized by a ruling coalition composed of a national political leadership that came from the military and of senior technocrats who were career officials before their appointment as heads of economic agencies. The Philippines's colonial past gave rise to a proprietary polity where political rule is organized around individual politicians whose rise to national prominence reflected their families' social status and personal wealth. Unlike in Thailand, therefore, elite status did not originate in any long-standing membership in a national political party or any other state institutions. Rather, in the proprietary polity, there is very little institutional differentiation between economic and political power, and political elites pursue personalistic power agendas. This system of proprietary polity is complete with the dominant practice of elected politicians bringing their own circle of technocrats with them to serve as economic managers, mainly recruited from the private sector (usually from corporate or academic circles).

That governing elites assumed leading positions in distinctly configured state institutions meant that they brought different interests to bear on the process of economic policymaking. Thailand's bureaucratic polity and the Philippines's proprietary polity organized governing elites in different ways that influenced economic policy outcomes. I now turn to a more detailed summary of the Thai and Philippine cases. In each, I begin by specifying more fully the configuration of state power and then move directly into a discussion of how those configurations, working through the four mechanisms specified above, influenced economic outcomes.

As Chapter 3 discussed, both the Thai political leadership and the state's economic managers or technocrats rose from the ranks of central state institutions that trace their roots back to the 19th century when Thai kings undertook rapid state-building. This shared institutional heritage and identification with the country's history provided the military rulers and economic state managers a greater sense of national purpose and degree of unity than the personalistic state actors in the Philippines would have. Since the 1930s, this unity could be seen from the country's governing elites' relentless push toward industrialization. From Phibun's economic nationalism up to the 1950s and Sarit-Thanom's investment promotions in the 1960s to Prem's liberalization drive in the 1980s, the goal had been to expand Thailand's domestic industries as sources of rents, political constituency, and national pride for incoming leaders. Anchoring this push across military regimes was a technocracy that, starting in late 1950s when Sarit seized power, pushed for a private sector-led import-substitution industrialization program. Because military leaders appointed senior career officials to head state agencies, economic state managers could combine their experience in government and technical expertise to assert bureaucratic policy programs and preferences. Moreover, since their long government career put them in contact with the private sector, senior technocrats also acted as bridges between changing military rulers and industry leaders. The influential roles played by Bank of Thailand Governor Puey under Sarit in the 1960s and National Economic and

Social Development Secretary General Snoh in the 1980s under Prem exemplify this relationship between the military leaders, technocrats, and the private sector.

Thailand's bureaucratic polity operated through four mechanisms to produce the country's growth economy. First, and perhaps most immediately, the configuration of state power structured political contestation and how such conflicts intruded on economic development policy. As noted in the literature on Thailand's bureaucratic elites (Riggs 1966, Girling 1981), political contestation, even violent transitions in political power as those seen in the 1970s, was largely confined within the small ruling circles of military officials and their immediate civilian allies. Up until the late 1980s, military rulers did not see economic elites as potential political rivals mainly because power struggles were launched and largely resolved *inside* state institutions. The bureaucratic polity, therefore, promoted some degree of separation between political and economic power so that political elites had scant incentive to undermine economic elites or disrupt their activity. Rather, Thailand's bureaucratic elites saw domestic business as potential sources of rents and revenues and so political rivals shared an interest in nurturing economic elites.

The second mechanism, linking the specific configuration of state power and economic performance: Thailand's bureaucratic polity promoted policy continuity. Because the military rulers and senior technocrats rose from distinct hierarchies, frequent turnover in the political leadership did not generally disrupt economic development programs and services. In fact, since the country's economic managers were career officials, they were better able to sustain government programs through different premierships. This distinct interaction between political and technocratic interests may be gleaned from the investment promotions laws in the 1970s that placed the Board of

Investment directly under the political office of the Prime Minister while stipulating that the agency be run by a civil servant. Enacted during a period of political turmoil and frequent political turnovers, the law gave the Prime Minister almost exclusive control over the grant of incentives while helping ensure that political decisions did not interfere with technocratic management.

If the first two mechanisms describe the reasons politics and political turbulence did not often disrupt economic policymaking in Thailand, the next two describe the processes by which particular elements of that economic policy were selected, as well as reproduced and reinforced over time. The third mechanism describes the kinds of policies and tools that were chosen by state elites, while the fourth mechanism explains how the development of specific constituencies for economic development policy shaped and constrained future policymaking. In what follows, I describe these two mechanisms in sequence for the sake of analytic clarity. Policy design and policy constituency have recursive relationships to one another, since policy choices created policy constituents that, in turn, influenced future policymaking. Despite this interaction, the two mechanisms remained distinct since other factors influenced policy design (e.g., negotiations between the domestic state authorities and global actors); policy design was not, that is, simply captured by social forces.

A close reading of the series of industrial development programs guiding import-substitution industrialization (ISI) and export-oriented industrialization (EOI) reveals overlapping policy preferences of the different Thai administrations. In specific cases, the change laid in the choice of policy tools. For instance, in pursuit of ISI, Phibun stressed state enterprises while Sarit adopted investment promotion. When the country began to prioritize export-oriented industrialization in the seventies, it never abandoned ISI, especially for basic industries. Thus, even as the BOI incentives started focusing on export manufacturing, the Thai government maintained some tariff protection for strategic industries producing for the domestic market. Finally, although the country's governing elites have more fully opened the economy to foreign investors since the 1980s, they nevertheless have directed foreign capital toward joint ventures with Thai nationals, as an examination of foreign investment laws would reveal.

These policy programs created and helped structure a set of constituent economic elites, and these elites in turn constrained the formation of future economic development policy. Economic development policies in Thailand created a new entrepreneurial class that, over time, has been grounded in the domestic economy. That government elites stayed the course as far as the country's industrialization was concerned soon became a function as well of the growing clout of domestic industries. The steady expansion of Thai businesses, nurtured by government policy, translated into their increased political clout, as first seen in the seventies. Industrial elites, including those in agri-business, began to grow alongside the banking community so that the shift toward EOI and greater liberalization was anchored on the growing needs of domestic capital.

Philippine economic development does not merely differ from that which happened in Thailand in terms of its outcomes. The processes by which officials made economic development policy and the political influences on those processes also differed sharply from what transpired in Thailand. As in the Thai case, Philippine dynamics begin with the distinct influence of the configuration of state power, operating through the same four mechanisms cited above.

In the Philippine proprietary polity, there is little institutional differentiation between political and economic power. The political leaders did not arise from any state institutions, including established, fully functional political parties. Rather, skeletal national electoral parties come alive during elections to run campaigns funded largely out of presidential and some other national candidates' pockets. Personal wealth has, therefore, been historically the gateway to political power, and public office, an entitlement to be passed on to family members. In fact, as I argued in Chapter 3, rent-seeking is organized along familial lines, as one member seeks out political office and another goes into business. This blurring of lines between public service and private gain is also seen in the government practice of incumbents bringing in their own staff to fill up so-called "confidential positions"—an incumbent's prerogative written into the 1935 Constitution. At the level of the political leadership, this provision translates into the president appointing allies from business and the academe to serve as the country's economic managers. Given this arrangement, most senior technocrats' connection with the state bureaucracy and with each other is mainly through their relationship with the incumbent.

Because of this institutional configuration of state power, political contestation can be highly disruptive to the economy. This causal mechanism plays out in two ways. One, since national politicians were also members of the economic elite, ascendant political leaders seeking to consolidate power have an incentive to use state sanctions and other policy tools to neutralize potential political rivals by going after the economic interests aligned with their rivals. This logic of political contestation under a proprietary polity and an insatiable desire for power, for instance, prompted Marcos to declare a "class war" against agrarian oligarchs from where prominent members of the traditional opposition came and to replace them quickly with his own set of economic allies in order to secure his political position. More than a decade after, industrial projects identified with the Marcos regime were summarily dismissed, castigated as remnants of Marcos's crony capitalism. Partly due to the close relationship between economic and political power, political contestation in the Philippines hit not only individual cronies of defeated regimes, but impacted the fate of entire sectors—first agriculture in the 1970s and then industry in the 1980s.

Two, because most economic state managers were not organized and thus socialized in any state institutions before joining government service, they take with them distinct policy and personal agendas. This lack of shared history among them gives rise to competing centers of influence, based on each technocrat's access to the political leadership. As Chapter 3 discussed, this competition was evident from the production of many different medium-term development programs, all competing for the president's approval, in the pre-martial law period. As such, political contestation also permeates in the bureaucracy (albeit in more subtle ways) so that technocrats themselves begin acting like politicians.

Under the Philippines's proprietary polity, political contestation had the effect of eroding the continuity of economic development policy. This erosion, my second mechanism, predictably was the exact opposite of what happened in Thailand. The close relationship between political and economic power meant that the fallout of political transitions spilled over to the economy. Moreover, since changes in the political leadership generally triggered a massive turnover of top state managers, the Philippine bureaucracy lacked the constancy and capacity for the consistent pursuit of a policy as seen in Thailand. Aquino's takeover from Marcos in 1986 repeated the highly disruptive transition in which gains in industrial development were swept aside to make way for a more liberal policy regime. For lack of any anchor in the bureaucracy, development programs and projects were easily forgotten or discarded in the shuffle. Policy continuity, that is, suffered both because political elites had more incentive to attack rivals' economic interests, and because no bureaucratic counterweight existed to those interests.

Apart from the economic consequences of political contestation and the lack of policy continuity, two other mechanisms connect the Philippines's proprietary polity to economic outcome: the specific design of policy implementation strategies and the development and impact of distinct policy constituencies. In the realm of implementation strategies (the third mechanism), the proprietary polity influenced how import-substitution and export-oriented industrialization were pursued in ways that bound the Philippines much more to the global economy and benefited Filipino commercial elites much more than they did manufacturers producing for the domestic market. Partly this orientation was a legacy of American colonial rule: duty-free trade and exchange rate policies that favored the export of Philippine primary commodities and the import of American finished goods worked against Philippine manufacturing. Still, a close examination of ISI policies also revealed that the post-colonial Philippine political elites used foreign exchange controls and other protectionist measures to benefit not only domestic manufacturers but also traders. Dollar allocation and the granting of import licenses were designed to gradually turn over to Filipinos the import business, previously dominated by foreigners. Filipino policymakers only integrated industrial development policies, first passed in 1946, and protectionist measures in the late 1950s—a shift in response to the reality that with the end of colonial rule the era of preferential treatment would too come to pass. On the other hand, export promotion was much more skewed toward foreign capital than it was in Thailand as may be gleaned from the more liberal provisions to attract foreign businesses. The push to allow wholly owned foreign companies to engage in more areas in the economy that began in the 1980s intensified in the 1990s. The regulation of foreign business was also relaxed in the 1990s.

Like Thailand, policy implementation reflected not only governing elites' economic interests but also political calculations. The difference is that, in the Philippines, political calculations have had much more direct and immediate impact on the economy than in Thailand where, at least until the consolidation of competitive elections, political contestation was largely contained within state institutions. Linking the proprietary polity with this specific impact on the economy is the creation and expansion of distinct economic policy constituencies—the fourth mechanism. Agrarian interests that used to dominate the post-colonial state were gradually overtaken by commercial interests as the class character of the political leadership changed: over time leading political families evolved from a predictable, but focused interest in agricultural or industrial development to a more generic strategy of simply building family legacies in politics. As Chapter 3 discussed, many middle class-born "professional" politicians and many Filipino entrepreneurs got their start in the post-war reconstruction period when the country was awash with rehabilitation funds and US surplus goods. Thus, with politicians lobbying in behalf of clients seeking foreign exchange cover from the Central Bank, domestic entrepreneurs peddling US surplus goods and cheap imports, and diversifying agrarian elites importing raw and semi-processed materials to be assembled and the finished product sold in the domestic market, trade became even more central to the accumulation of wealth and power in the Philippines. In fact, it can be argued that the only real effort to favor industrialists over agricultural elites had political motivations—the consolidation of martial law—and this came in rebuke of pre-martial-law cacique democracy. Moreover, due to the lack of institutional separation between political and economic power and the logic of political contestation that this creates, there is an incentive for the political leadership—from Marcos, who sought to displace the old rich, to Ramos, who sought to strengthen links with local government executives—to turn more fully to foreign capital to finance economic development.

That import-substitution industrialization was layered atop a political economy grounded in the export of primary and semi-processed goods and commercial activities, rather than manufacturing interests, meant that Filipino industrial elites were never as central, or more exactly, as *permanently* central to the Philippine economy as were the Thai industrialists. Instead, commercial elites have been more central constituents to Philippine policymakers. The histories of the Ministry of Industry in the two countries illustrate this difference in dominant policy constituencies: while Thailand has had a separate Ministry of Industry and Ministry of Commerce since the early 1940s, the Philippines always had only one agency for both industry and commerce except for the brief period between 1974 and 1981—an arrangement that worked against industry. The difference in their constituencies also could be seen in the contrasting ways in which Thailand and the Philippines set about implementing export-oriented industrialization. Whereas Thai governing elites pursued EOI as a way to support the changing needs of domestic manufacturers (including joint ventures), their Philippine counterparts pursued EOI mostly as a way to get more foreign capital investments in the country. Thus, Philippine investment incentives gradually removed legal constraints on foreign capital participation in the economy, designed previously to ensure some sort of joint venture with domestic investors.

Synthesis, Comparison, and Theory

The key differences in Thai and Philippine institutions of state power, I have argued, pushed Thai economic development policy toward efforts to expand industrial production and contribute steadily to the growth of the domestic economy. In the Philippines, less sustained and more frequently disrupted policy efforts promoted the commercial sector more than industrial concerns, and in the long run, contributed to a pattern of far weaker development and growth. I have presented these effects as emerging through the influence of four key mechanisms. This approach to the explanation of divergent economic outcomes yields a number of empirical and theoretical contrasts.

Apart from the relatively greater institutional embeddedness of Thai political leaders as compared to their Filipino counterparts, I have also noted the difference in the structure of this embeddedness. The Thai political leadership and the technocracy occupied distinct yet parallel hierarchies while those in the Philippines lacked this institutional separation. These two factors led to some important contrasts between the two. One, political contestation in Thailand's bureaucratic polity proved less disruptive to the economy than contests that broke out under the Philippines's proprietary polity. The two cases, in fact, present a paradox: there were more political turnovers in Thailand than in the Philippines, and the main Thai mode of resolving power struggles was through potentially disruptive and violent coups; Philippine transitions were less frequent and mainly occurred through regular elections. Yet, Thai transitions proved far less damaging to economic policymaking than those in the Philippines. The reason should be clear. While political contests in Thailand traditionally took place largely within bureaucratic circles and were primarily factional struggles contained within relatively robust state institutions for state control, Philippine political competition took place among factions who belonged to weak electoral parties and were at once political and economic elites. As such, political struggles frequently spilt over to the economy. The case of Bangkok Bank's Chin Sophonpanich illustrates the point. Being a business partner of Phibun's generals, he fled the country when Sarit took over. Bangkok Bank, however, was left intact: it simply reconstituted the board and asked Sarit's interior minister to chair it. The Philippines's proprietary polity personalized political rule, merged political authority and economic power, and provided stronger incentives for a beleaguered or incoming political leadership to use state sanctions to neutralize economic bases of political rivals.

On the other hand, because senior technocrats in Thailand usually were career officials and agency heads, they more strongly appreciated program strategies and usually carried these over from one administration to the next; new political leaders in the Philippines lacked a similar anchor in the bureaucracy and were more inclined to do away with the programs they inherited from and thus identified with their predecessors. The pattern emerges clearly in a comparison of the two countries' import-substitution industrialization programs. ISI continued to play a strong role, for instance, in Thai national development plans during the 1990s while the 1958 Filipino First Policy never got off the ground. Similarly, the 1987 Philippine Investment Promotion Act provisions mandating government and domestic industries to identify strategic industrial programs ended even before they began, while across political transitions, Thai economic development policy continued to work for the realization of mega-development projects like the Eastern Seaboard program. These differences reflect the fact that, unlike Philippine economic managers who served at the pleasure of their appointing authority, long histories in the bureaucracy gave Thai economic managers cache with more transient political rulers, and allowed them to champion established bureaucratic programs and preferences.

Differences in state configuration in Thailand and the Philippines also help illuminate some puzzles concerning corruption and growth. While rent-seeking between governing elites and business allies often occurs in both countries, it has hampered economic growth in Thailand less than in the Philippines. This puzzle has preoccupied comparative studies of Thailand and the Philippines, as I have noted: Hutchcroft (1998) attributed the differential impact to the divergent flow of rents: where Thai rents flowed into the state and its bureaucrats, Philippine rents flowed out from the state to vested interests. Others indicate the presence of competitive clientelism in Thailand and its absence in the Philippines to explain the difference (Doner and Ramsay 1997, Anek 1994). In this argument, frequent changes in the political leadership in Thailand leveled the playing field among business groups and made them compete both through lobbying and by demonstrating their effectiveness. In the Philippines, especially under Marcos, no such competition took place: government favors and assistance came automatically to Marcos's circle, a dynamic that virtually defined the idea of crony capitalism. Finally, there is the explanation of bifurcation (Christensen et.al. 1993, Thitinan 2004): the separation of policymaking, where rents were mostly concentrated in the sectoral policy domain rather than the macroeconomic policy domain, meant that even when corruption takes place in government-business dealings, it has relatively limited impact on fiscal and monetary policies, thus producing a stable environment for investments. Implicit in this explanation is the argument that the blurring of lines between these two general policy domains hampers growth.

This work outlines another possibility, linking the influence of rents over economic performance to the core structural argument. Chapter 3 discussed the distinct organization of rents as a function of different state configuration. In the Philippine proprietary polity, rent-seeking is family-based, with one member seeking political office and another focusing on business. In Thailand's bureaucratic polity, rent-seeking occurs in an institutional setting, with governing elites linking up with already established corporate sectors. This difference suggests that Thai dynamics would produce greater accountability than those in the Philippines. Moreover, the impact of rents on growth also seems to depend on which economic sectors benefit from such rents. The discussions in Chapter 4 and 5 of import-substitution and export-oriented industrialization suggest that beyond the mere existence of rents (e.g., the issue of licenses and protections) analysis must identify which economic sectors (i.e., agriculture, industry, or service sector) received rents. I argue that this pattern of rent distribution reflects political calculations that governing elites make to secure their hold on power.

The argument runs as follows: emergent political elites sought to control the development of economic sectors because they could then direct resources and rents in ways that would nurture their political bases. At key conjunctures, the emergence or expansion of new social classes and forces produced or accompanied the rise of new political elites. At such crucial moments, in ways that reflected key political imperatives, shifts in sectoral policies reshaped domestic capitalism. In this sense, my research explores Khan's (2000) notion of rents as "political transfers," which he argues often served as the basis for the emergence of new capitalists in developing countries (p. 35). This dissertation, however, suggests that where these rents go also matters to the growth of domestic industries. While in Thailand and the Philippines, the service sector always drove growth (as Chapter 2 shows), Thai agro-industrial sectors also gained. In the Philippines, the commercial sector has gotten the largest share of rents and resources since the colonial period. A fuller account of these processes will require a more detailed discussion of the mechanisms linking patterns of sectoral growth to more sustainable growth; this dissertation, however, suggests that this is a promising area for further research.

Finally, the institutional configuration of state power also influenced the roles that national states assumed in the interaction between domestic and global capital. Thailand's bureaucratic polity created governing elites that guarded its role as gatekeeper of the domestic economy while the Philippines's proprietary polity created governing elites who did not share this concern and worked toward deregulating foreign investments. Even as Thailand opened the economy further to foreign participation, beginning in the 1980s, it has maintained the inter-agency Alien Business Committee as a regulatory body. During this same period, the Philippines began to dismantle or ease legal constraints on foreign investments. Moreover, Thailand's relatively centralized industry-specific delivery of fiscal and non-fiscal incentives and its emphasis on developing policy that would promote and regulate joint ventures stands in sharp contrast to the Philippines's decentralized, territorial approach to investment promotion, and its greater willingness to permit wholly-owned foreign enterprises.

These differences in approaches to foreign capital were partly influenced by the kind of relationship the country's governing elites have with domestic capital. As mentioned above, because of the institutional separation of political authority and economic power under the bureaucratic polity, Thai governing elites did not see domestic economic elites as a potential threat but rather as future business partners. The arrangement, therefore, creates an incentive for bureaucrats to ensure that economic liberalization work to expand Thai businesses and that they are in the middle of any foreign and domestic business transactions. On the other hand, because of the terms of political contestation in the Philippines where political rivals are also the economic elites, foreign capital provides the political leadership a non-threatening source of revenue and rents. In both Thailand and the Philippines, official and private foreign capital flows become a resource for generally cash-strapped regimes to build or strengthen technocratic rule or to dispense patronage to political allies.

Late-late developing countries, grappling with political instability and the greater penetration of global capital and the influences of international development paradigms like liberalization can draw from the Thai and Philippine experiences. Despite these two countries' open economies, the factors that have emerged as the most important influences on economic development have roots in domestic political structures. In my two cases, the national state was deeply involved in economic policy, and so the simple fact of that involvement explains neither Thai success nor Philippine difficulties. Rather, this study shows that the embeddedness of governing elites in national state institutions and the historically-contingent pattern of interaction between the political leadership and economic technocracy are key factors to the successful implementation of any strategic development program. In both cases, I have looked to gauge the strength of state institutions, the direction and character of rents, the cultivation of different policy constituencies, and the resulting pattern of sectoral growth. Efforts to strip central institutions of their power—or indeed any blanket program that assumes inefficiencies are resolvable by a single, undifferentiated policy thrust (decentralization, de-bureaucratization) will often miss the mark. The point is to identify the kinds of institutional incentives that drive economic policymaking in dysfunctional directions. Solutions to problems will therefore both be contingent on the history and institutional configuration of the state evident in each case, and necessarily need to address problems that arise at the political level, and particularly in questions of contestation among state elites.

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