BY ROBERT LOONEY

As this article went to press, a political party favoring the return of Thaksin Shinawatra to power won a plurality of the votes in Thailand's parliamentary elections. It is not yet clear whether the military will allow Thaksin back into the country. But the election does suggest that the rural poor still see him as their best hope for change. — the editors

Newshounds know that Thaksin Shinawatra, Thailand's fabulously rich, democratically chosen prime minister, was deposed by the military in 2006. What they probably don't know is that Thaksin led an effort to define a softer approach to economic development — one that acknowledged the central role of export expansion and open markets in generating growth, but attempted to protect those left behind in the rush to serve international markets.

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Nor are they likely to know that the fate of Thaksin (as well as Thaksinomics) may say important things about the limits of unorthodox economic policies in the teeth of globalization.

But I get ahead of myself. In many ways, Thaksin's meteoric career reflects the fortunes of Thailand in the last 30 years. Descended from 19th-century Chinese immigrants, Thaksin was the son of a silk merchant from the northern provincial capital of Chiang Mai. His career path, like those of many of his generation, began in public employment – in his case, as a police officer. Soon, however, the lure of the country's expanding private sector proved too attractive to resist: In less than a decade, Thaksin built a business empire around communications and information technology. And in 2001, he made the *Forbes* list of the world's richest people, with a fortune estimated at $1.2 billion. That same year, he was elected prime minister.

Thaksin's governing style was unique for his time and region. In his mind, he was Thailand's CEO, whose job was to maximize the

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country's growth rate while alleviating chronic rural poverty. Despite strenuous objections from the bureaucracy, he restructured the institutions of government through privatization, decentralization of power, accountability and strict fiscal discipline.

At first, everything came up roses. Thaksin was lauded for his entrepreneurial flair, and foreign investors in particular saw him as a catalyst for constructive change at a time when Thailand appeared to be losing direction. His economic policies promised to reduce reliance on export growth by spurring domestic demand, especially in the least-developed parts of the country. "Thaksin's name carried a hefty investment premium," remembers one prominent international investment banker. "He had new ideas and a new paradigm for growth."

But what a difference a few years can make. On Sept. 19, 2006, Thaksin's government was deposed in a bloodless coup. And to the surprise of most outsiders, the coup had popular support (at least in urban areas), as well as tacit support from the country's king. On hearing the news, thousands of Thais headed for the streets, calling for Thaksin's head. And while Thaksin's ouster was triggered by a mix of factors, there is no doubt that the perceived failure of his economic polices played a central role.

RICHES TO RAGS

Like the other Asian Tigers, Thailand's growth in the 1980s and 1990s was guided by what is often called the East Asian economic model, which was built on a foundation of rising industrial productivity stemming mainly from direct injections of foreign capital and technology, as well as for the care and feeding of labor-intensive manufactured exports. Multinational corporations have often played a

dominant role in both, building factories to manufacture apparel, shoes, toys, consumer electronics and the like for foreign markets. Until the summer of 1997, this strategy seemed to promise Thailand a secure spot among the Asian growth leaders – a promise implying that urban residents would eventually enjoy the living standards of South Koreans, Singaporeans and Taiwanese.

Thaksinomics' first priority was alleviating poverty, especially in rural areas – and in the process cementing the loyalty of the Tai Rak Thai Party's political base.

But in July 1997, a real estate bubble that had sucked in enormous amounts of "hot money" from abroad burst, revealing the fragility of the banking system and forcing a sharp depreciation of the Thai baht as foreign capital beat a hasty retreat. To restore financial order, the Thai government agreed to a variety of conditions imposed by the International Monetary Fund in return for massive hard-currency loans.

The IMF's approach to the meltdown leaned on the received wisdom of the so-called Washington Consensus approach to development, which emphasized a mix of regulation to increase the transparency and stability of the banking system, corporate-governance reforms to inhibit crony capitalism, and strict adherence to balanced budgets and anti-inflationary monetary policies. But this package of neo-liberal fixes failed to jump-start the Thai economy. Indeed, it seemed to exacerbate a recession brought on by the decline of investment and the crisis of confidence in the banking system.

With the banks largely out of the business of lending money, most enterprises lost access to capital. Popular anger at the government rose as wages declined and income inequality widened.

One consequence was the dazzling rise of the Tai Rak Thai (translation: Thais love Thais) Party, led by Thaksin. The TRT offered all things to all people, with a platform promising credit to hard-hit businesses, subsidies to alleviate the suffering of the (largely rural) poor – and, more generally, a rejection of the austerity imposed by the IMF.

THAKSINOMICS DEFINED

Cutting to the chase, Thaksinomics combined the venerable East Asian export model's emphasis on mass manufacturing spearheaded by foreign direct investment (dubbed the First Track) with initiatives to stimulate smaller businesses that leveraged indigenous skills and resources (the Second Track). There was no sense in throwing out the tried and true, Thaksin reasoned: export-led growth worked. But the practical way to protect an export-led economy from external shocks – anything from a SARS-like epidemic to a recession in the United States – was to buffer the economy's dependence on foreign markets and foreign capital.

Thaksin's First Track amounted to an affirmation of the ongoing need to attract foreign capital, technology and managerial skills. The Second Track, however, focused on supporting enterprises that could shift Thailand away from direct competition with China in labor-intensive products along with insulating local demand from external shocks. The goal was to reduce exports as a proportion of GDP from

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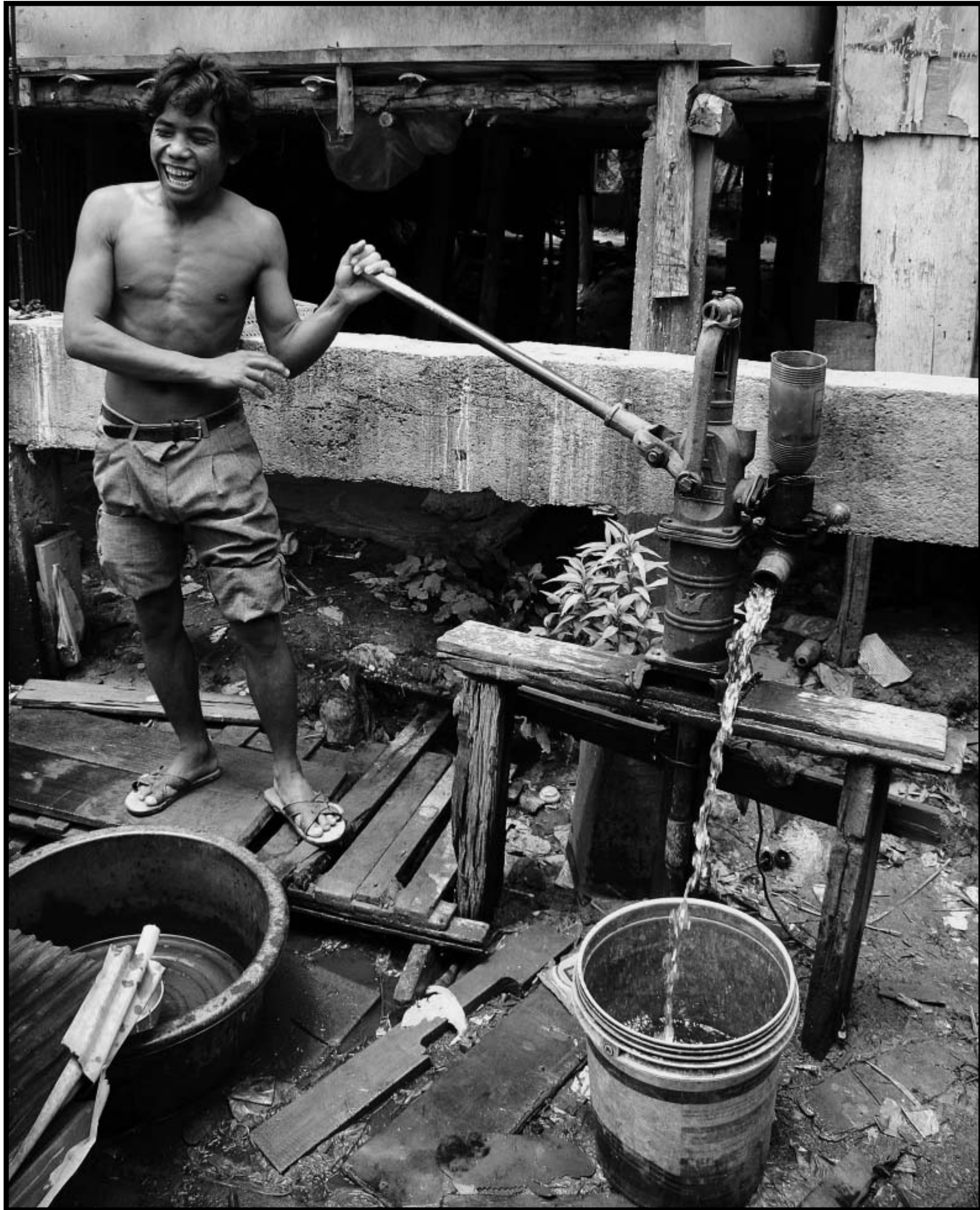

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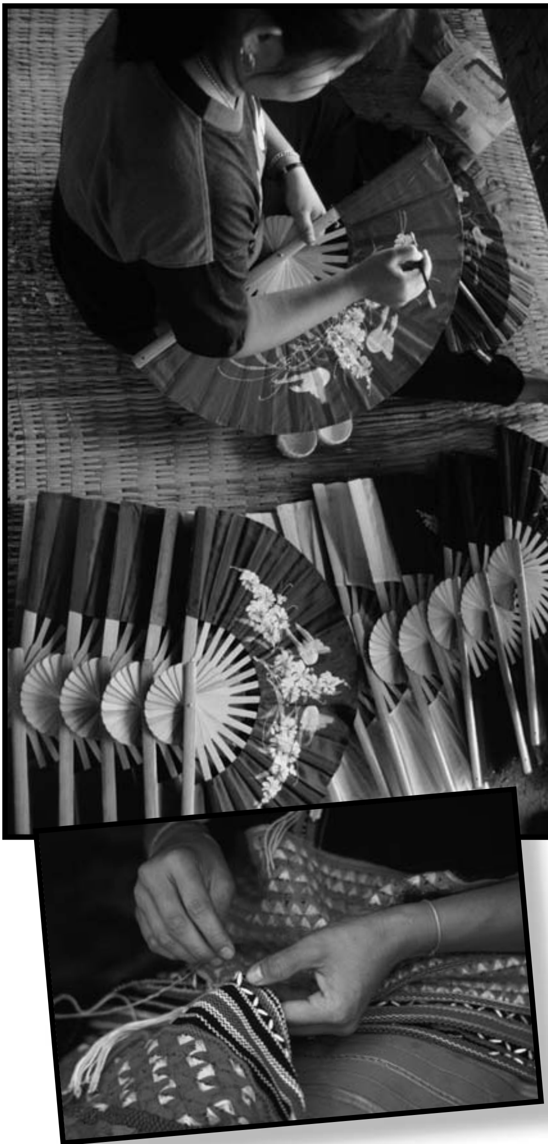
60 percent to 50 percent, and to increase the domestic demand for local products and services from 55 percent of GDP to 60 percent – all without alienating foreign investors.

GETTING FROM HERE TO THERE

Thaksinomics' highest priority was alleviating poverty, especially in rural areas – and in the process cementing the loyalty of the Tai Rak Thai Party's political base. The government decreed a three-year moratorium on farmers' debt payments to the Bank for Agriculture and Agricultural Cooperatives as an initial step in reforming that banks' credit

structure and loan-maturity profile to match the crop-production cycle. At the same time, Bangkok launched a program to clarify land titles, so property could be used more readily as bank collateral. The urban poor were not entirely neglected: small loans were made available to ubiquitous street-side vendors through the Government Savings Bank.



To create demand for large-ticket items like houses (and to shore up support from another key constituency), the government granted civil servants a family death benefit equivalent to 30 times their salaries. What gave this proposal some immediate fiscal kick was a provision permitting retirees to spend half of this sum before their deaths. The total amount of spending power created by this plan was estimated at 45 billion baht (then worth about $1.1 billion) – small change, perhaps, in an economy with a GDP on the order of $150 billion, but money nicely targeted to boost consumption in the near term.

To improve grass-roots access to credit, the Thaksin administration also created a number of new institutions. One of them, the Village and Urban Revolving Fund, aimed at stimulating the rural economy. While it fulfilled Thaksin's flashy election campaign pledge to provide a one-million-baht ($24,000) kitty to each of Thailand's 70,000 villages, the fund was not simply a populist handout. Rather, village leaders and bankers were asked to identify promising development projects and to provide loans at 4 percent interest (compared to commercial farm loans, at 5 to 8 percent). The idea was to enable farmers to increase productivity by branching into related activities like food processing. Households and groups could also draw on their local funds to start small businesses.

This latter mission was supplemented by the People's Bank, set up to provide credit to micro-enterprises. In addition to financing tiny investments for those lacking access to the formal banking system, the People's Bank aimed at promoting entrepreneurship among poor and traditional small-village producers.

Thaksin's Small and Medium Enterprise Development Bank (SME Bank) provided capital to promote businesses above the scale

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The One Tambon, One Product project was predicated on the idea that Thai tambons should showcase specialized local products fit for a much larger market.

of micro-enterprises. Small and medium-size enterprises played a critical role in Thaksin's plans for ongoing economic development, and for good reason. They accounted for 40 to 50 percent of Thailand's GDP, 38 percent of the total value of exports, and 69 percent of the country's employment. Note that the emphasis on small and medium-size enterprises fit neatly into Thaksinomics because of their potential to adjust to rapidly changing conditions and to reduce reliance on unreliable global markets.

Finally, the One Tambon, One Product project was based on an idea that had been a big hit in Japan. It was predicated on the idea that Thai tambons (sub-districts above the village level) should showcase specialized local products – apparel, jewelry, foods, even crafts – fit for a much larger market. The project, which covered nearly all of Thailand's 7,252 tambons, helped communities to identify such products in order to modernize their manufacturing and to distribute them in national (and even international) markets. As with the SME Bank, the goal was to find alternatives to the mass-produced products from big factories that were inevitably losing ground to their counterparts in China, Vietnam and Indonesia, which had the advantage of cheaper labor.

While these programs raised eyebrows among the Thai economic elites, they seem to have been effective in helping to halt post-meltdown asset deflation and in reviving domestic demand.

Running parallel to programs designed to diversify the Thai economy away from mass-

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produced exports and toward smaller-scale production in the countryside was the Capital Creation Scheme, which aimed to spell out legal rights to property so that it could be used to collateralize market-rate commercial bank loans. The program had an ambitious agenda, including the reclassification of land, intellectual property and even the vested informal rights to sell food and other goods at specific street locations. Like many of Thaksin's projects, it was inspired by foreigners – in this case the Peruvian economist Hernando de Soto, who argued that many poor countries' woes could be traced to the inability of small

businesses to join the visible economy. By one estimate, the Capital Creation Scheme had the potential to resurrect at least $10 billion worth of "dead" capital, transferring $10-$15 billion worth of underground economic activities into the formal economy.

It's worth noting, too, that Thaksinomics involved more than the democratization of capital. Thaksin's wildly popular "30-baht" health plan offered health care to anyone not otherwise insured for a flat co-payment of 30 baht (less than $1) per visit. With the stroke of a pen in 2001, Thailand extended health insurance to all in a middle-income country in which 30 percent of the population had previously been on their own.

On the theoretical level, Thaksinomics combined elements of demand management (Keynesianism), supply-side incentives (Reaganomics), entrepreneurial development (Schumpeterism), grass-roots empowerment (de Sotoism) and the structuralist state-led growth advocated by the political economist Albert Hirschman. It embraced globalization and production based on the hoary concept of comparative advantage, while at the same time attempting to shape that advantage through government intervention.

On the theoretical level, Thaksinomics combined elements of demand management, supply-side incentives, entrepreneurial development, grass-roots empowerment and structuralist state-led growth.

WHAT IT DID AND DID NOT DO

Thaksinomics is easier to define in terms of what it was not. It definitely was not just opportunistic populism by another name, as critics have labeled it. And it was certainly not the sort of ideologically-inspired economic populism practiced by Alan Garcia in Peru in the 1980s or currently by Hugo Chavez in Venezuela. Nor did it resemble the "heterodox" wage-and-price-control approach to stagflation that has been used to stimulate economies in a number of other countries in defiance of the IMF. By the same token, it was non-confrontational, and, as such, did not mimic the anti-globalism in vogue in the last decade.

Thaksinomics is best viewed as a unique approach designed to meet the challenges to Thailand posed by globalization in general, China in particular and the disappointing record of the IMF in the wake of the Asian currency crisis. Clearly, it was a high-risk strategy, taking advantage of post-crisis excess manufacturing capacity to manage a Keynesian recovery without serious inflation. But it was the failure of Thaksinomics to sustain high growth – and the high expectations associated with it – that proved its undoing.

Under Thaksin's leadership, the Thai economy did quite nicely at first, with real GDP growing at around 6 percent annually from 2002 to 2004. While Thaksin and his followers attributed this surge to Thaksinomics, good luck also played a role: this period coincided with both a strong upswing of the business cycle in Thailand's export markets and a new drive for regional economic integration built around the emerging China colossus.

But by 2005, that tide was ebbing. Good luck turned to bad as the Thai economy was beset by the collapse of tourism after the Indian Ocean tsunami, the outbreak of bird flu that gave investors pause, and rising violence as Muslim separatist insurgents challenged the army in the three southern border provinces. In the midst of these events, rising world interest rates and higher oil prices dampened private investment and reduced consumption demand. The final blow came when the government countered sagging growth with a large-scale infrastructure development plan costing the equivalent of $40 billion. This Keynesian blunderbuss added to inflationary pressures by increasing the strain on skilled manpower without generating many jobs for Thaksin's largely rural constituents.

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Thaksin's falling popularity throughout most of 2005 was not entirely due to sagging economic growth. The World Bank's governance indicators confirm the public's general sense that Thaksin had failed to deliver the competent, no-nonsense leadership that he claimed as his mantle. In 2002, Thailand scored in the 60th percentile in "voice and accountability" – a solid score for a country lacking a long history of democracy. Four years later, the figure had fallen to the 32nd percentile. And over the same period, the country's score on the World's Bank political stability scale fell from the 58th to the 16th percentile.

This decline in the perceived openness of Thai democracy no doubt reflected Thaksin's CEO style. He never seemed to understand that, unlike a corporate head dealing with subordinates, he could not casually demand obedience from a free people. He brought sedition charges against critics, shut down opposition news media and openly undermined the authority of Thailand's judges. Civil servants who questioned his wisdom were fired. What's more, his heavy-handed attempts to stem the insurgency in the south further alienated democrats.

Another catalyst for energizing opposition to Thaksin came from an unexpected source.

In January 2006, Thaksin sold his family's controlling share in the Thai telecommunications giant, the Shin Corporation, to Singapore's government-controlled investment company for $1.9 billion. While the transaction, which was structured to avoid all tax liability, was legal, it incited outrage. Many Thais believed that Thaksin was selling a vital national asset to a foreign government. And though the coup itself would not occur until later in the year, the handwriting was on the wall.

POST-THAKSINOMICS

The generals who took over from Thaksin replaced his policies with an even more unorthodox strategy whose goal is to maximize "happiness" rather than growth. The blueprint drew inspiration from the country's highest moral authority: 70-year-old King Bhumibol Adulyadej. The king has long advocated "sufficiency" in Thai life, meaning humility, simplicity and living within one's means – an approach at odds with both hell-bent-for affluence export-led growth and Thaksin's effort to find a third way that did not abandon the rural poor.

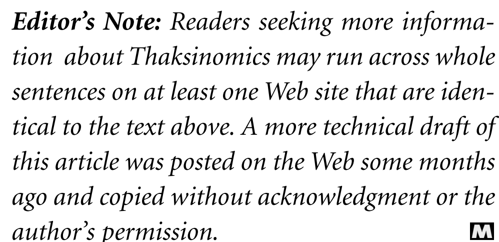
Thaksinomics offered the poor a shot at upward mobility through low-interest loans, low-cost medical care and programs that spurred farmyard capitalism – measures the coup leaders and the king now argue were unsustainable. Sufficiency, by contrast, is less a policy than a strategy to minimize the risk of economic crises at the likely price of slower growth. This vaguely Buddhist approach to economics has left Thaksin's supporters in rural Thailand to wonder if the boom days will ever return.

As this article is being written in the fall of 2007, the Thai economy seems to be moving sideways. It is still growing modestly, thanks to strong exports. But investment is down from 2006 and manufacturing demand is only absorbing about three-quarters of the sector's productive capacity. Rising oil prices (which divert demand from domestic output), a weakening dollar (which undermines Thailand's competitiveness in the huge U.S. market) and the possibility of a recession in the United States could push Thailand into just the sort of economic failure that led Thais to elect Thaksin in 2001.

Would the Thai economy have better prospects today under a continuation of Thaksinomics? Certainly the rural poor would be better off. But for the foreseeable future, Thaksin's talents will be directed toward very personal adventures – notably, overseeing the Manchester City professional football club of the English Premier League, which he owns.

A harder question to answer is whether the failings of Thaksinomics imply that softer development models that include a lot of government intervention in the name of helping the poor cannot work in Asia. Thaksin certainly promised too much, raising popular expectations beyond what he could deliver. But China and India, Asia's development giants, are now facing – and not facing up to – problems of coping with rural poverty in the midst of urban prosperity that Thaksin attempted to address.

Thaksinomics did not get it all right. But it is entirely possible that the failure to intervene, Thaksin-style, to prevent growing income inequality in Asia will sooner or later derail the continent's rush to affluence.



***Editor's Note:** Readers seeking more information about Thaksinomics may run across whole sentences on at least one Web site that are identical to the text above. A more technical draft of this article was posted on the Web some months ago and copied without acknowledgment or the author's permission.*