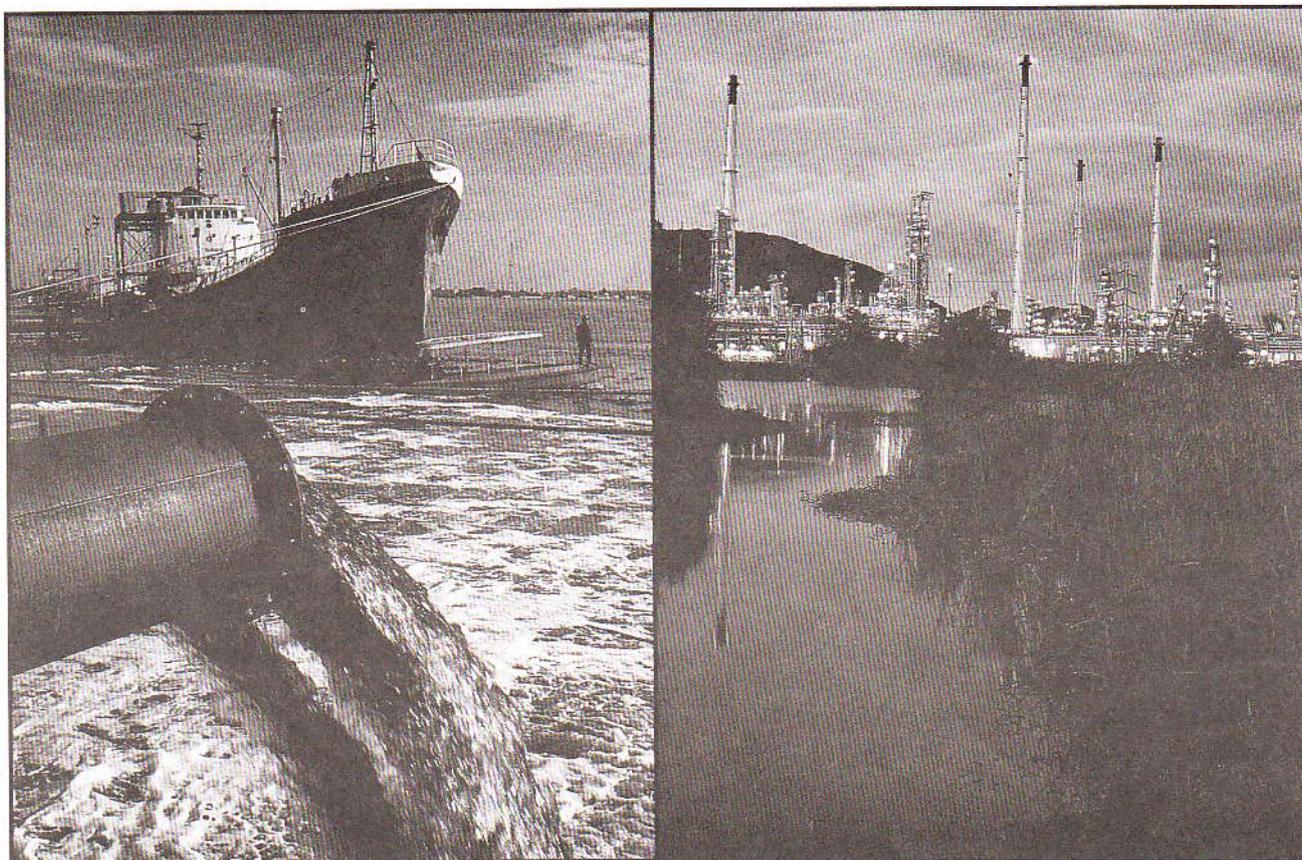


TDRI

Quarterly
Review

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The performance of even the most miraculous of the Asian economies is tempered by a dismal environmental record. Water pollution and the increased demand for energy consumption are just a few examples of common environmental problems Asia is facing. Can the region afford to grow now and clean later?(see related article on page 19).

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The FRA and the Financial Crisis*

Amaret Sila-on**

Chairman of the Stock Exchange of Thailand and Chairman of the Financial Sector Restructuring Authority (FRA) Mr. Amaret Sila-on recently shared his experience as Chairman of the FRA with members of the Harvard Club of Thailand at a dinner where he was the guest speaker. The speech printed below at his courtesy not only sketches a number of personal encounters and observations as chairman of the organization, but also unfolds insightful points of view on the FRA's being and its implications on the Thai financial crisis.

Distinguished Guests:
Ladies and Gentlemen:
Fellow Alumni:

If you were to look at the FRA today, particularly at the success it has had with the various auctions, it is easy to be led into believing that it has always been smooth sailing. Nothing could be further from the truth. The FRA has had to face a variety of hurdles since its very inception. In fact, the FRA had to weather many false starts before it could evolve into the organization it is today.

To give you some feel about the obstacles that we have to face, I would like to start at the beginning. You are all aware of the initial confusion that was created when 16 finance companies were suspended in June 1997, then accompanied by another 42 institutions in August of the same year. To manage the suspended 58 finance companies taken-over, the government set up the Committee to Supervise Mergers and Acquisitions of Financial Institutions, COSMAFI for short. This committee was first chaired by a very senior government official.

As Chairman of the Stock Exchange of Thailand at that time, I was obviously concerned how events in the financial sector would unfold. But my worries could only be characterized as a keen interest, one that was shared by every other member of the business community; I merely saw myself as a passive participant in the whole situation. As a former business executive and retired amateur politician, I was under no illusion that I could or would actually play a role in resolving the

financial crisis. The situation did not take on a personal dimension—at least not until I received an invitation to be the Chairman of COSMAFI in late August 1997.

For reasons still unbeknown to me, the appointment did not come easily. As the days went by, my enthusiasm gradually waned to the point that I had become largely indifferent. You see, the person who approached me to become the Chairman of the COSMAFI was the Deputy Prime Minister in charge of the IMF program and he has got to work things out with the Finance Minister. Both of these gentlemen—and they are real gentlemen—were newly appointed and relatively short of experience in the wily ways of our esteemed bureaucrats.

For example, in order to get me installed as Chairman of the COSMAFI, the existing Chairman—a very senior and quite powerful government official—had to be persuaded to resign; this might have been construed as a loss of face. Another awkward thing was that, at the time, the original COSMAFI had never been convened since its creation 40 days previously. So the official order for my appointment had to be postponed by several days in order that the existing committee could hold its first meeting and make an appropriate number of resolutions so that the previous chairman could make a graceful exit.

Then there was also the attempt to put an overwhelming number of bureaucrats on the new COSMAFI, which I was supposed to chair. To avoid another NATO—no action, talk only—I responded with my own slate of committee members, mostly from the private sector and academia.

* Speech given to members of the Harvard Club of Thailand at the Regent Hotel, Bangkok, Thailand on August 19, 1998.

** Mr. Amaret Sila-on is currently member of the TDRI Council of Trustees.

Fortunately, I was able to persuade the Minister of Finance to accept my nominations for the committee and, with that, the second COSMAFI was established some 2½ months after the first finance company was suspended. May I say, at this point, that the expertise and dedication of these committee members are critical factors behind the FRA's current accomplishments. That committee met everyday for over a month, with neither pay nor perks, and set up most of the rules of the game for the FRA to follow.

One of the first tasks of the COSMAFI was to set up parameters for the rehabilitation of the suspended finance companies. Conditions for rehabilitation were intentionally tough and, unsurprisingly, many players in the financial sector were upset. Needless to say, many groups did some very aggressive lobbying to persuade us and the Ministry of Finance to revise the rules of game. Despite various forms of political pressure and criticisms directed at us, I realized it was extremely important for the COSMAFI to remain steadfast in its plans, if it wanted to maintain any credibility—not only for the committee itself but also for Thailand.

More importantly, however, stringent rehabilitation prerequisites would put in place a framework for stability, especially through the enforcement of strict requirements such as a BIS (Bank for International Settlements) standard of 15 percent in the first year and 12 percent in the second year. We wanted to be doubly sure that the revived firms—if there were any—would be able to survive in the medium term. You could well imagine how the confidence of international investors would be affected if a finance company, which was allowed to resume operations, had to be re-closed only after a couple of quarters.

Any reconfiguration of the status quo will invariably create winners and, of course, losers. But it cannot always be predicted with any degree of accuracy who will come out on top, especially when there is a radical dislocation as was the case with the suspension of the 58 finance companies. That is why in all areas of society—whether it is in politics, corporations or even households—human beings have a natural tendency to resist change. Also, it is often the weakest that feel the most threatened.

Given the rising level of tension, resulting undoubtedly from both fear and uncertainty, it is understandable that the COSMAFI quickly became the target of public frustrations. Such frustrations, when transformed into constructive energy, can certainly be beneficial.

However, misdirected anger will more often than not aggravate the problems rather than initiate a solution. That was exactly what happened at the time. Politicians found reasons, many of which could not be justified, to meddle with the recovery process.

So, six weeks into the job, I handed in my resignation stating that it was clearly impossible to achieve any significant progress in face of serious political meddling as well as attempts to undermine the

transparency and credibility of the COSMAFI. Soon after that the Finance Minister also resigned as the then Prime Minister forced him to backtrack on oil tax increases.

The work on several Emergency Decrees to solve the financial crisis, including the establishment of the FRA was left to be completed by another Minister of Finance. The FRA was eventually set up on 24th October 1997. With Khun Twatchai Yongkittikul as Chairman and Khun Bunyaraks Ninsananda as Secretary-General, I felt that things would work out fairly well. However, these two capable individuals chose to resign after the announcement to close 56 finance companies.

The pressures they felt must have been tremendous and I sympathize with them. To be behind the decision to shut down 56 finance companies, a landmark in the development of the Thai financial system, surely required great courage and strong convictions. Without the perseverance of such committed reformers, the problems would have dragged on much longer and the whole financial system could have fallen into an even deeper abyss. What they correctly realized was that in times of crisis, a sense of urgency and acting in a resolute manner are as critical as quality of the proposed solution.

With the resignation of Khun Twatchai, I was again asked to fill the vacant position. Reluctant at first, I finally accepted the new government's invitation to be chairman on the condition that Khun Tarrin Nimmanahaeminda, the new Minister of Finance, would guarantee that the FRA remain an independent organization, free from any political interference and that the Prime Minister was made aware of the understanding. This time I requested that Khun Vicharat Vichit-Vadakan, who had been a member of the COSMAFI as a technical adviser from the very beginning, be appointed Secretary-General.

Lest you feel that I have invited you to join me for a stroll down memory lane, I must hasten to add that there is a reason for these anecdotes. They serve to illustrate problems which continue to plague Thai society in general and the Government sector in particular. The first problem is vested interests which have become ever more blatant in their clamor for special favors, and the second problem is the tendency for Tom, Dick and Harry to offer opinions about everything without any intention of actually solving any problems. The Thai bureaucracy is truly world-class, in its lack of resolves to get things done, despite the availability of professional skills and proliferation of creative ideas.

I have, therefore, been absolutely determined to make sure that the FRA does not fall victim to clever talks and glacial actions, and is not subsequently reduced to an organization that merely pays lip-service to reform policies. Of all the institutions involved in financial sector restructuring, the FRA must be among the most proactive and assertive. This is because, ultimately, the objective of the FRA is to rebuild

confidence of international investors in the Thai financial system rather than to introduce standard solutions to please the media and local pundits, some of whom helped to bring down the system in the first place.

This is not to say that the process of redistributing distressed assets in order to solve the debt overhang is unimportant. Instead, I would like you to consider the FRA auctions as simply the mechanics for achieving a far larger goal: that is, to restore faith in and credibility of the Thai financial system, in the eyes of both the general public and foreign investors. Unless confidence is quickly regained, I fear that our task of putting Thailand back on the road to recovery will become increasingly arduous.

By conducting asset sales that are quick, efficient and transparent, the FRA believes that it can re-establish investors' confidence in three distinct manners. First, to demonstrate that the Thai government is serious in its financial reform efforts and is committed to the stated agenda. Secondly, to create reassurances that there is the knowledge and expertise available to effect viable solutions. And thirdly, to convince skeptics that the magnitude of the problems can be contained and that the solution is within the capabilities of the Thai government. In sum, the FRA strives to develop a focused strategy to create trust in our financial sector.

At this juncture, I would like to switch gears and update you on some of the progress the FRA has made. To date, FRA auctions have generated about 55 billion baht in cash from the sale of assets—almost the same amount as the recent recapitalization of Bangkok Bank and Thai Farmers Bank. Next on the block will be corporate and commercial real estate loans, which represent the largest asset class, valued at 470 billion baht. While it is true that we have only been able to dispose of only 10 percent of the book value of core assets thus far, we remain committed to the year-end target and are confident that we will be able to meet the tight schedule.

With regards to the speed of the FRA's operations, I must admit that we have received mixed reviews. On one hand, the local business community is under the impression that we are moving along too slowly and that the FRA is destroying value either by not bringing the assets to the market faster or by impeding the debt restructuring process. Foreign analysts, on the other hand, seem to indicate that asset disposal is timely and may perhaps even be too fast when one considers how re-pricing will affect the economy.

To provide you with some reference points, I would like to mention some statistics drawn from the experiences of other countries. In the United States, the Resolution Trust Corporation took 19 months to complete its first sale, valued at US\$337 million. As for Mexico, 31 months elapsed before authorities were able to close their first sale, which had an outstanding principal balance of US\$19 million. By way of

comparison, the FRA completed its first two auctions of core assets, with a face value of US\$1.9 billion, in eight months.

The question of whether the FRA process is too fast or too slow is perhaps secondary to concerns that have been raised over the appropriateness of the current strategy of auctioning off core assets in mixed tranches of good and delinquent loans. One alternative would be for the FRA to separate the good loans from the bad ones and sell them in different packages. The problem with this approach, however, is that the FRA might not have the credibility or the resources to do the selections. Moreover, this option would undermine the transparency and timeliness of the FRA's actions. Therefore, we felt that it is more optimal for the buyers, who have the expertise, to decide what is good or bad and let the market determine the price.

While other questions will continue to be raised, it is perfectly clear, however, that the government had to close the 56 finance companies. Allowing those institutions to continue operating was simply not an option. At that time, it was practically impossible to ascertain how long the government would have to continue injecting funds and how much would be needed. The decision to end the bail out—or to cut the lifeline—definitely shored up investors' confidence and saved the tax-payers from more massive losses.

When the government is faced with a systemic failure in the financial system, it has no choice but to intervene. If it were the case of a limited number of institutions going under, then a hands-off approach may have been in order. But when some two-thirds of the total number of finance companies, which account for roughly 60 percent of all assets held by the finance and securities industry, are unable to function, the referee must blow the whistle.

I would like to remind you that the FRA, by its very nature, is an interim organization with a very specific mandate. However, the effects of the FRA's actions will be far-reaching and, by setting the direction for future development of the financial system, will create irreversible precedents. Therefore, just as Odysseus had to navigate between Scylla and Charybdis, the FRA must implement financial sector reform while avoid killing either the banking or the real sector.

To complicate things further, the FRA must be forever mindful of the importance of maintaining a delicate balance between speed and recovery ratios. Should the FRA auctions be delayed by, say 12 months, the value of our proceeds would diminish in real terms. For example, given inflation of 10 percent and interest rates of 15 percent, the difference between receiving 800 billion baht today and 800 billion baht in one year from now is roughly 200 billion baht. I don't know about you, but that is a lot of money for me.

There also have been concerns raised that problems could arise if some of the finance companies taken over (FCTs), which have received significant

payments from their debtors during the period between the sale date and the closing date, have received low allocations of the proceeds. To avoid any problems of this nature, the FRA will reallocate the proceeds among the FCTs to achieve greater fairness and in a manner reflecting international best practice. Since the winning bids are taken as given, there will be no reimbursement made to the bidders. In other words, reallocation of proceeds will not in any way affect the bidders. In addition, I would like to emphasize that whether the bids are too high or too low is not at issue—the market must be allowed to determine the prices. The FRA realizes that the only way to clear such a significant volume of assets, while maintaining credibility, market mechanisms must be allowed to function freely.

Although it is decidedly premature to judge how successful the FRA will be, I would like to offer some of my own assessments. Let me start first with what I feel has been the shortcoming of the FRA. Despite our efforts to push for a faster pace, I believe that we have not been fast enough. As you are well aware, the disease, which was originally confined to finance and securities firms, has begun to spread to the banks. In this regard, the FRA has not been as active or as quick as one could hope. Thus, the FRA may be perceived as

having failed to help shore-up the overall integrity of the financial system.

On the other hand, at the risk of sounding pompous, I am prepared to say that the FRA has been largely successful in boosting confidence. There is a general consensus among foreign investors that Thailand, unlike some of our neighbors, has made considerable headway in tackling the problems at hand. Similarly, the international community often cites the FRA as evidence of the Thai government's commitment to reform. Comments such as these were also voiced by many members of the financial fraternities that we met during our recent roadshows. Now that I have given you my views on the issue, you can be the judge of where things stand.

In closing, I would like to end my talk this evening by leaving you with some final thoughts. It is often said in financial circles—and please forgive this slight plagiarism—it is said that capital has the sight of a falcon, the speed of a cheetah but the courage of a deer. The FRA is faced with the unenviable challenge to create an environment where some of these deers will take on the hearts of lions.

Thank you.



Philanthropy

Raising Capital for Society

Anan Ganjanapan*

INTRODUCTION

Reciprocity has always been the norm of Thai society and has always been manifested in everyday life. However, it has been remarked that, compared to other societies, for example the Chinese, Thais seem to lack philanthropic organization. In the case of Thailand, when a group of people want to arrange an activity to provide social welfare they usually lack financial support and have to rely for money from abroad, while the rich in Thai society tend not to give donations.

Some academics try to answer this puzzle by pointing out that Thais also make public donation, but that they differ from those of other cultures such as the Chinese or the West, in that Thais usually make public donation through a religious organization, that is, the temple. This is a kind of merit-making. However, nowadays, many temples have lost their social welfare function and cannot cope with structural changes and changes in public welfare needs. Some temples, though small in number, however, have managed to change their role in helping to provide for social welfare for modern needs (นิรัน 2539).

If Thais really do make a large amount of public donations, though through religious organizations rather than public organizations, it is surprising that this large amount of public donations seem to have disappeared, and the question must be raised regarding the whereabouts of its disappearance. Why is it that these money have not been spent to solve social problems? While Thai society is full of conflicts—on the one hand, some people are becoming richer, while on the other, poor people are deprived of many rights and opportunities—a question must be raised as to why Thais do not seem to change their way of donating. Is the mechanism of public donation through the temple really out of date, as some academics have remarked, or are there more complex underlying conditions? Most important, why cannot Thais and temples cope with the changing circumstances?

Today, many questions about capital for society have been raised, especially as modern society has become individualistic. Under this circumstance, capital for society will become important and necessary to social development, especially in providing social welfare to the less fortunate, to help increase social opportunity, and to provide more alternatives to society by providing supports to various ethnic groups to adapt themselves to better cope with changing social conditions. This will also lead to the protection of human rights, and to providing new directions for future social development. Social capital will become a powerful moving and creative force, but the problem is on what condition can Thai society raise its social capital and on what foundations.

To answer these questions, this article will pay attention to three issues. First, what were the traditional institutions that used to provide social welfare in Thai society, and on what thought system and ideology were they based? Second, on what thought system are non-governmental institutions in Thailand based, and how much have external ideas impacted on these groups? Third, how can Thai society provide support to independent organizations, especially in adapting existing relations to cope with modern structural change?

FOUNDATIONS OF THOUGHT SYSTEM AND IDEOLOGY ON WELFARE SYSTEM IN THAI SOCIETY

In the history of Thai society, despite the fact that politics was involved with power struggle, for the majority of people, politics must be justified on the grounds of prosperity. As appears in historical archives, in the age of prosperity, it was often assumed that the rulers were benevolent; in times of famine, the rulers' integrity was often blamed and, as a consequence, it signified the moment of a change of rulers (อนันท์ 2530).

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This understanding as appears in history suggests that prosperity and fertility formed the most important foundation of thought system and ideology of good governance and was an important foundation for the rise of institutions that provided welfare for Thai society, and this was very much closely connected with all levels of political actions. This ideology has a long history in Thai society, dating back perhaps to before the acceptance of Buddhism. The ancient Thai society, which was an agrarian society based on natural uncertainties, advocated prosperity as a prime target of life, as manifested in various rituals and ceremonies called fertility rites.

One example of these rituals which is still being practiced today is the rain-requesting ceremony. This signified that the community has reproduced an ideology on fertility in symbols for more than a thousand years. Archaeological evidence, several drums made of bronze of thousand years old, were found in the North of Thailand and believed to be important instruments in the performance of the rain-requesting ceremony (ศรีศักดิ์ 2534, 132). Today, the rain requesting ceremony in the North and Northeastern provinces takes the form of flying rockets, and is usually celebrated before the rainy season. Anthropologists believe that flying rockets are meant to request rain, as the rockets are built to signify male sexual organs to be fired into the sky. This is in compliance with many religious ceremonies that worship sexual organs as symbols of fertility and reproduction of a new life (Davis 1984, 123-132).

The belief in fertility was important to society and it implied a powerful force in the form of rituals which acted as rules to regulate social relations. In Lanna society, an idea of "khud" were taboos of actions that might have impact on balances between an individual, community, and the environment. Such balances were believed to be crucial for fertility. Therefore "khud" became taboos to draw a boundary of social control (คณนเศรษฐ 2539). On the one hand, it provided a control on individual behavior not to break away from communal norms, as it was believed that this would bring bad luck to both the rule breaker and the community. On the other hand, these were rules to regulate social relations so that everyone equally received the same prosperity. An important example of actions considered as "khud" was the filling of all kinds of water sources.

As the breaking of taboos not only had impact on the rule breakers, but also on the community, taboos and traditions were important for regulating social relations to give security and guarantee the well-being of the community, and they became the foundation of the ethics of subsistence (cf. Scott 1976). This was based on the idea that if everyone was well-off, prosperity would be secured. Such an ethic was a foundation of many regulations and social bonds and was related to other beliefs such as the worship of the "heart of the community" and the worship of other spirits, such as the

guardian spirit. Annual sacrifice to the spirit was considered a request to the spirit to provide the community with prosperity.

The first important principle, the norm of reciprocity might be considered as the first form of philanthropic action. This was erected on the social bonds of reciprocity as the mechanism of cooperation in various activities such as labor exchange in agricultural tasks or in house building. Most importantly, this principle was based on equality, and this had evolved into an important institution in guaranteeing social security. In the North, the norm of reciprocity appeared in the forms of cooperations, such as irrigation associations, or ad hoc formations such as a helping group to search for lost buffaloes. Other forms of cooperation included the exchange of other things for rice, to assist people who did not have sufficient rice to eat, and, at present, can be found in a form of funeral associations, where members contribute money to help prepare the funeral.

Another principle was that of communality, or "Nah Muu" in Northern dialect. This may be considered as a form of social capital. Mostly, this terminology suggests a common area, such as a communal forest, where community members may bring their livestock to graze, or where they may be able to draw water out of a common pond. This principle was based on communal participation. On the one hand, it allowed all members an open access. On the other hand, it implied a communal management. In the case of a communal forest, the community would set up regulations to govern the use of forest produce; for example, only a newly-wed would be allowed to cut timber to build a new house (ฉลาดชายแลดะคณน 2536).

Moreover, the ethics of subsistence were the foundations of two other important principles, that is, that of usufruct rights, and that of natural rights, both of which were important social capital as they recognized an equal access to resources. These two kind of rights were based on the principle of common utility and the idea that resources must be considered as communal or "Nah Muu."

Usufruct rights referred to the rights of all members of the community who spent their labor in utilizing resources. As long as a member still utilized the resource his right over the resource remained, but as soon as he left the resource to its natural conditions, which was often found in the case of swidden land, others could claim the right to use the land when the original user refrained to use the land for specified time. This traditional practice suggests that the right of management was retained within the community.

Usufruct rights are closely related to natural rights. By natural rights, it is meant the rights of all human beings to utilize their labor to make a living from natural resources. This meant an equal access to resources or the prevention of monopoly in resource utilization. One example of utilization of resource based on the principle of natural rights was a case when people were allowed to collect natural produce, such as

ants' eggs or mushrooms on the land which was being utilized by others. Another example was when people were allowed to catch fish in the paddy fields of others (ฉลาดชายและคณะ 2536, 60-62).

After the acceptance of Buddhism some 700 years ago, the ideology of "merit" have been added into the idea of fertility and the ethic of subsistence as an ideological social capital in building up social security through social welfare. This ideology of merit appeared in many traditions, and also in everyday merit-making (Tambiah 1968), both through the major Buddhist institution, that is the temple, and directly to those in need.

The role of the temple as the center of social welfare—to promote social learning, to provide political stability, and to provide security in life—has often been acknowledged (ปรีดี 2536ก, 2539; Amara 1994b). This paper therefore will not elaborate further on these points. However, an example of one tradition of merit-making, called Tan Khao Lon Batr (literally meaning excessive rice from the monk's bowl), will be given to show how such tradition was crucial in providing social welfare and security in life. According to this tradition, villagers brought new rice to the temple in the Fourth lunar month (Second lunar month in the central plain, or January). This was considered a paying back to the Mother of Rice (Mae Posop). The temple would keep the rice for use in temple affairs and give some to the villagers in need. Apart from this ritual, there are other rituals performed through the temple which helped provide for social welfare.

Apart from merit-making through the temple, the ideology of merit in Buddhism was another important factor in molding a benevolent personality. Other merit-making activities not performed through the temple also existed. For example, the ritual of Tan Tod (literally meaning leaving alms to the poor) involved leaving things necessary for everyday use to the poor; the givers would remain hidden but would make a lot of noise after things were left. When hearing the noise, the poor would come out and gather the alms without necessarily having seen the alms givers. The ritual of throwing coins to the poor at funerals was also an act of merit-making. Merit-making on birthdays, apart from food being provided to monks, may involve directly giving alms to the poor.

The giving of alms to the poor, which evolved within a society with differentiated social status, led to a social bond of gratitude, which further developed into a patronage system. In the North, the patronage system appeared in the form of a Pau Liang system. The Pau Liang, or patron, took a critical role in providing security for the livelihood of his clients who were dependent on him almost entirely. The dependency developed into the feeling of gratitude. On the other hand, the patron needed the labor of his clients, especially in the production systems where large numbers of laborers are needed as in the timber

industry, tea leaf picking, and tobacco gardening and curing.

The patronage system has expanded to cover nearly all kinds of activities, especially activities which are under monopoly power and those which are unlawful; these may be dubbed as the Chao Pau system. The Chao Pau, or influential persons, are usually powerful local figures who act as an agent of state power. They can use their powerful position to bargain with state power to provide protection for their clients (เวียงรัฐ 2539).

The connection between the patronage system and state power suggests that we cannot understand the social welfare system in Thai society solely from an ideological perspective, but that we also need to consider this ideology within the context of the power relation between state and community, and within changing historical context. Despite the fact that the idea of either fertility or the ideology of merit-making are both important foundations of social capital which helped the community to determine its own survival throughout past history, considered from another perspective, this social capital may be defined as a cultural space, as it opens a venue for the community to survive with pride. The modern understanding of a cultural space is closely equivalent to a meaning of a public space, which is a venue for communal participation. History, however suggests that this communal space usually decreased with the expansion of state power.

During the period of nation building in Thai society, when communities were being annexed as part of state territory, either the idea of fertility or the ethics of subsistence became the ideology maintained by the community as a counterpower to maintain its public space in order to maintain the management of its way of life. Despite this attempted resistance, the community seems to have been unable to maintain its public space and became penetrated by the state, until it reached a condition of structural paralysis, being unable to solve internal problems as it had been able to do in the past.

On the other hand, the ideology of merit in Buddhism was taken over by the state to justify its own existence, so much so that the temple gradually lost its function of independent provider of social welfare. As the monkhood gradually came under the control of the state and ceased its connection with the community, the temple has become "fundamentalist" (i.e., interested only in maintaining the "form") (ปรีดี 2536ก). On top of that, the temple was penetrated by business interests, so that it cannot respond to the needs of the society. A clear example is the ceremony of Tod Kathin (giving Robes to the temple). This ceremony has been utilized by the local bank as a means by which money can be collected and then deposited into local banks (Gray 1985). Under such circumstances, existing ideology will be queried until it has lost its influence as a social security.

Meanwhile, new developments within religious movements, especially the development of new cults in the urban area, tend to bend Buddhism toward the tendency to respond more and more to individual secular needs, which, on the other hand, means the bending away from the needs of society and community. A most studied example is the case of the Tammakaya cult. This cult emphasizes religious practice through meditation as a means to an understanding of certain middle class values on modernity, such as cleanliness, orderliness, progress, purity, management, and spiritual power. However, these have often been mixed with business implication, so much so that it became suspected of being commercial Buddhism (Apinya 1993).

Despite the large amount of money that has been donated following the popularity of new cults among the middle class, that money has not been fully returned to society. People prefer to donate to famous monks. For example, Luang Pau Khun of the temple of Ban Rai received more than one hundred million baht in donation. Among donors were businessmen and politicians who wanted to make themselves known—in other words, they wanted to give themselves this worldly return rather than sincerely wanting to make merit according to true Buddhist principle. Donations were usually spent on buildings engraved with names of donors rather than returned fully to society.

The principle of making-merit for oneself rather than for society has made it difficult to respond to modern society's welfare need. As often reported in the news, people do not seem to want to make merit that will contribute to social development or humanitarian projects. A monk from a distant district in Si Sa Ket province in an interview with *the Nation* newspaper noted that he had asked his congregation to donate computers to the temple so that the temple can use them to give computer lessons to children. However, the request had been turned down as people still preferred to give donations to contribute to the building of temple. The temple therefore had to bear the burden of a large amount of expenditure in providing computer lessons to villagers (*The Nation*, 16 April 1997).

The idea of merit-making to satisfy on individual's desire is not limited only within a religion institution like the temple but has expanded into other major institutions in Thai society. Donations through the Royal family for charity has become a popular tradition as it is a good indicator of the status of the donors. As a result, this activity has been able to raise more capital than other institutions, whether they be bureaucratic, military or other organizations established for the purpose of arranging for social welfare.

In sum, we may conclude that merit-making is still the most important form of raising of money for society in Thailand. However, some academics, for example, Nithi Euisriwongse, have made the interesting remark that capital raising based on traditional principle may not be compatible with the needs of modern society. Limitations comprise the lack of a sufficient

community basis and the lack of volunteer workers to distribute the capital effectively throughout society, resulting in funds being clustered in construction of buildings.

EVOLUTION AND IDEOLOGICAL BASIS OF NGOs

As the State became more centralized, institutions (e.g., communities and temples) which had traditionally looked after the welfare of Thai people slowly lost their independence by becoming embedded in the government system. At the same time, an urban way of life was adopted and migration from rural areas to towns and cities resulted. Consequently, a number of urban organizations providing welfare and indiscriminate assistance to the less advantaged grew, namely, missionary groups, which were the first official welfare organizations. They preceded Chinese philanthropy organizations, such as the Po Tek Tueng Foundation and the Ruam Katanyu Foundation, which receive money from overseas Chinese and Thais of Chinese origin. The main activity of these agencies is to bury the unclaimed dead: an important process in Chinese culture.

The first non-profit organizations were closely affiliated to the government. They were created by the wealthy class whose merit-making intentions were combined with Western concepts of public welfare and social services to provide charity and assistance for the "victims" within society. In 1890, Sapha Unalom Daeng, which later became the Thai Red Cross, was established. Following the Second World War, other foundations and clubs, such as the Women's Council and the Girl Guides Association of Thailand, were formed. The majority of these organizations assisted the needy through charitable donations to groups such as the handicapped and poor children, and provided help in times of crisis. During the period of military rule, these organizations were limited to providing social welfare only (Amara 1994a).

The expansion of the middle class facilitated the growth of charitable organizations, especially those concerned with children. The former, the educated class, made philanthropic donations based on merit-making intentions and Western views regarding welfare and humanitarianism.

The characteristics and basis of NGOs, as they are known today, most likely originated in the 1973 student movement against the military regime. Since the change in the governing system in 1932, democracy had gradually infiltrated Thai society and intensified under the military dictatorship's economic development drive of 1957. The transition toward a liberal system led to the historical student movement which involved a new generation and way of thinking. The protesters did not fit either the civil service or government role, neither did they belong to the rural agricultural class. Mainly

students and business people, they rejected the traditions and customs of the patronage system and broke ranks with conservative respect for the governing authority. Today, those students, business and educated people would be called the middle class.

Some academics claim that members of the Thai middle class are unusual because they continue to have faith in the government even though their freedom is limited accordingly. Although liberal thinking has developed and taken root in Thai culture, support for patron-client relationships, where respect and allegiance is owed to those higher up in the hierarchy, still remains. The patronage system facilitates and is often the basis for dictatorship, but Thai academics have yet to establish an indigenous development philosophy (วิจิตร 2536๗).

Nevertheless, the experience of fighting for democracy and the period which followed, when students worked to help farmers in rural areas, has led to a new way of thinking about development. This alternative development strategy has progressed into what we regard as NGO work, and contradicts the State's approach which had led to disparities between rural and urban standards of living. The past approach had often resulted in farmers receiving few benefits and being pushed to the margins of society as their resources were appropriated for national use. Under such discrepancies, students felt they owed a debt to the rural people, who had essentially paid for their education through taxes and hard labor. Consequently, the students attempted to turn society's attention to returning the benefits of development to rural communities and demanded justice for the equitable sharing of development benefits. In Western philosophical thinking, this is known as liberal humanism, an ideology that was transferred to the students through university education.

The development ideology espoused by students was at first rejected and branded as communist. When a democratic political atmosphere returned to Thailand, and the Communist Party faded around the 1980s, the middle class, influenced by liberal thought, once again performed humanitarian tasks. Many worked in the border areas alongside international agencies to assist refugees fleeing the Indo-Chinese war (Amara 1994a).

Since then the middle class, especially those who had participated in rural development activities as students, increased their efforts by forming non-profit groups (or NGOs) in order to seriously address the development of rural areas. Another contributing factor was a change in the direction of international development toward self-help methods. This approach reflected the failure of the Green Revolution which placed farmers into debt and further poverty. Thus, international NGOs became interested in supporting Thai NGOs which in turn provided the latter with a new approach to their lives and an alternative to the government's sole role as the engineer of development.

The new development direction taken up by NGOs is based on equity principles of a just society and

encourages the participation of villagers in decision-making for the purpose of strengthening their authority, i.e., to empower society's disadvantaged sector. The concept is rooted in Commons Theory whereby the public shares responsibilities and decision-making regarding common interests or concerns. Originally, the theory was based on the village commons, or publicly shared grounds, where various social classes were able to enjoy the open areas without infringing on another segment of society. Currently, the theory is primarily applied to fisheries management where the ocean is the common area and communities and other people with an interest in the sea participate in deciding the use or development of the area. A mental parallel can be drawn between the logic behind NGOs' development strategy and Commons Theory: participation in decisions concerning their lives. The former is also a process of empowerment through participation. This method has reopened a channel for community interaction, e.g., a return to reciprocal community relationships, reestablishment of traditional communal rules and guidelines, as well as allowing new concepts of civil rights to be understood.

NGOs apply participation in two ways. The first direction encourages the participation of villagers in forming groups in order to increase their capacities and standard of daily life; examples include business ventures or health schemes. The second direction regards participation as a channel for villagers to understand society's structure, related problems and the relationships between government, the market and themselves. With this understanding, communities are able to find ways to empower themselves (Turton 1987).

NGOs pursuing the first strategy place value on spiritual well-being as opposed to material gains of villagers. They encourage the use of local wisdom in problem solving; hold traditional ceremonies, such as annual merit-making, to revive community spirit and open a channel for philanthropy to collect project funding, to bring together city and rural peoples and foster feelings of social responsibility (Darlington 1990b). This direction criticizes the capitalist approach to development as lacking morals and suggests a development system based on a combination of Buddhist principles and economic activities. For instance, villagers may draw upon a central fund for health payments or investment in joint projects.

The second strategy stresses the formulation of village groups to identify local needs and problems, as well as analyze its difficulties in dealing with establishments outside the community. The group will be gradually strengthened and villagers empowered as decision makers. They would use existing networks and relationships both inside and outside the community to bargain with the government and make business deals. A collective effort would be applied to create a "Commons," which can also be considered as a form of social capital. Initially, this method was used to tackle economic problems, but was later applied by NGOs to the problems of

organizing natural resource management, such as community forestry.

Although both directions are based on a philosophy of liberal humanism, as well as adopt a cultural approach to development, one has slight anarchistic tendencies in its denial of the role of government by stressing the self-reliance of communities, while the other system emphasizes civil rights, which in turn requires the modern-day State to respect traditions and customs. They push for a new social structure that incorporates the needs of various communities and different backgrounds, i.e., demanding a return of the Commons, or decision-making power, from the State.

Urban NGOs have also used the issue of protecting rights as the basis for their work and to create their own "Commons." Their work concerns protecting the rights of slum communities, women, children and workers, and, at present, there are also NGOs working on the rights of HIV patients. Their method usually involves both the provision of welfare and pressure for policy change. These organizations also have been extended to include consumer rights protection, especially in the areas of health information, basic health and medicine awareness, for example, encouraging health policies and awareness of the danger of using the wrong medicines.

NGOs later turned to issues concerning natural resources and the environment, when they found that the development work they had been pursuing was not improving the status and quality of life of the poor since the environment had been steadily degraded simultaneously (e.g., watershed destruction and dwindling forests). They were especially opposed to large mega-projects, such as dam construction, which disrupt ecological systems. They pushed for changes in forestry policies to alter the government's encouragement of commercial forestry to supporting community forestry (Ruland and Bhansoon 1993). This policy would be linked with protecting the rights of highland ethnic groups whose settlement rights and participation in the management of forests had previously been taken away.

NGOs' work on the protection of rights has been significant in the expansion of civil society for the self-determination of both rural communities and the urban middle class, as well as giving them the power to pursue philanthropy. Nevertheless, there are different approaches for these conservation NGOs; urban and rural environmental NGOs have different priorities. The former concentrates on the protection of nature with little concern for the role of local people, while the latter regards conservation and community rights as essentially linked since they share the same common space. Local people are those who are most affected by the degradation of their surrounding environment and are often required to make sacrifices for the good of the whole, for example by reallocating, which in turn destroys their quality of life. Rural conservation groups therefore fight for the participation of villagers in the

Commons, in order to enable them to protect their rights.

As the environmental issue received more interest it became the mainstream concern of the middle class. Various sectors of society began to open up channels for this trend: even private businesses have supported the establishment of environmental non-profit organizations to raise awareness in society to the environmental impacts of people's behavior. These NGOs, such as Think Earth and Community Development Association (Magic Eye), are based on the nature conservation philosophy which emphasizes the protection of the physical environment. They represent the new wave of philanthropic associations. Some are created by those who feel responsible to society or wish to improve society. Others were created to improve a company's image or involve companies whose business it is to conserve the environment. These organizations do not assign a great deal of attention to the right of minority or fringe groups to access natural resources (Hirsch 1996).

The problems, in particular those which affect lives of the poor and minority groups on the fringes of society, have intensified due to the conflicting demands of resources among different groups in society, namely the State, private businesses and the disadvantaged. The latter have adjusted to the wave of environmentalism by seeking funding and establishing networks to demand rights on the basis of local culture. One example is through ceremonies such as tree blessings, which can be considered as a combination of the Western idea of rights with local customs. To pressure the government to provide legal supports, such as a community forest law, they have demonstrated their empowerment through many forums demanding such changes from the State (Anan 1996b). The latest example of such an initiative is the Forum of the Poor Network, whereby 20,000 people from various areas joined together and walked to the Government House in Bangkok to demand their rights and voice their needs. Such a large gathering required extensive funding and can be considered as a landmark in the evolution of philanthropy.

PROBLEMS AND IDEAS IN THE RAISING OF CAPITAL FOR SOCIETY IN THE FUTURE

Despite the fact that Thai society already has an ideological foundation to support the raising of capital for society, and despite the expansion of independent organizations (NGOs?) advocating alternative development, human rights and environmental awareness, the 40 years of development in the direction of intensive industrialization, persisting patron-clients relations, and a strong centralized state, has created conditions which have become obstacles to the raising of capital for society. This has resulted in an insufficient expansion of

donations to cope with increasing social problems, coming at the time when donations that Thailand once receive from abroad have greatly decreased.

The first problem or obstacle is evident in the case of the middle class, which has expanded greatly as a result of the expansion of capitalism, who still prefer self-care rather than demanding public welfare from the State. This is partly because they still receive benefits under the persisting patronage system, and partly because they receive benefits from capitalist development which permits the accumulation of wealth in the form of land. The accumulation of land, which is inheritable, and which lacks any control under any taxation measurement, has facilitated the accumulation of individual capital while at the same time greatly reducing the size of capital that may be raised for society.

The second problem is the feeling of individualism which has become so strong under the expansion of industrial capitalism. This has resulted in a situation wherein people leave nearly no space for either the public or social sectors. This especially occurs among the middle class in the urban area, similarly to the situation that once took place in European societies wherein people became interested only in their own private world and abstained from involvement in the public sector (Sennett 1978). In Thai society, the feeling of individualism is manifested in the emphasis on personal this-worldliness rather than on paying interest to the public. When people make donations, they usually do so for self-interest rather than for any specific value, or else they donate for charity which gives a feeling of self-superiority rather than an understanding that they are also a part of the society.

Another problem in Thai society is the unlimited expansion of bureaucracy. This expansion of bureaucracy as a justification for nation building leads to a crisis (limit) of public participation. This is because bureaucracy can assume centralized control in nearly all aspects of public management, including the temple. This results in the exclusion of the middle class and the community from participation, until a state of "structural paralysis" is reached, wherein the community and various social components pay no interest in acting out their social roles but leave it to the bureaucracy to manage everything, as they have become used to having a bureaucracy to manage things for them, out of good intention. The social sector, especially the community, gradually lost its capability to manage its own problems. Hence some academics have dubbed Thai society as a Bureaucratic Polity, reflecting the image of a huge bureaucratic sector overshadowing all other social sectors.

Under such above-mentioned conditions, the raising of capital for society will still be limited. The ideological foundations are still limited to the idea of merit-making, social welfare, and donations as a form of self-aggrandizement rather than in the belief that philanthropic action should be based on a certain social value to give benefits to those we do not know

(altruism), or as a feeling of love and care for other human beings (humanitarianism), as took place in the West. The questions that need to be asked are: How do such social values take place in Western societies? and then, If Thai society wants to promote such social values, how likely can it happen?

In the West, both in Europe and America, humanitarianism became a predominant value since 1750—the same time as the rise of capitalism, with a result that many people try to draw a connection between humanitarianism and capitalism. Most people, however, tried to explain it in terms of socioeconomic structural change. Lately, an additional explanation states that humanitarianism not only arose out of the growth of the middle class within the capitalist system, but had its roots in an important institution within the capitalist system, the market. This is because the market helped create a responsible moral bond often found in economic undertakings. Lifestyles within capitalist market relations created new habits which in turn initiated the humanitarian idea. Such habits are evident from two related lessons. First, the market created contractual bonds. Second, the market created an awareness of long-term consequences of one's own actions. These two lessons were responsible for the creation of a new morality which developed into a thought system that emphasizes responsibility to others (Haskell 1985).

In the case of Thailand, lifestyles under a capitalist market system have not fully developed because of the still predominant influence of kinship and patronage systems, as well as the influence of the centralized state. As a result, humanitarian consciousness and value have been slow to develop. However, some of these values are being demanded by NGOs, as mentioned.

Among intellectuals, the humanitarian ideology may be accepted faster than among other groups. For example, the writing of Dr. Prawes Wasi in a book on *The Rich and Social Development* (ปริญญานิพนธ์ 2532) tried to raise an awareness among the rich, that is, the business sector, to have more responsibility toward society, especially in intellectual development, such as the development of education and research. He also suggested the creation of a public venue to raise public awareness, in addition to the already existing social activities on social welfare, so that intellectual development might become independent from state control. In justifying his request, Dr. Prawes relied on the previous two lessons already mentioned, pointing out that man must live in a social system in which he must be related to others and, as such, a consequence of one's action may affect others. He calls this principle a new morality (ethic). He suggested that this is a "deep issue," not yet aware of either by monks or laymen (ปริญญานิพนธ์ 2532:3). By this, he is probably implying that this new morality is not yet well-known and well-understood in Thai society.

Among other intellectuals who favor the new morality propagated by Dr. Prawes is Nithi

Euisriwongse. In his lecture on “The Middle Class Helping The Poor” (1 March 2540), Nithi emphasized that the middle class cannot remain concerned only with its own interests while society is still full of poor people. He initiated the idea of “The Otherness” to explain the cause of alienation among social members, blinding people of their interconnectedness, despite the fact that, in reality, any action of one group of people will bear consequences upon other groups. Nithi defined poverty as a condition of “no alternative.” This is a result of lopsided development policy which favors only the benefits of the minority while refraining to be fair in letting others develop an alternative, leaving this latter group in poverty. Nithi urged the middle class to get rid of this otherness between themselves and the poor by trying to seriously study the problem of the poor from their perspective and by trying to publicize this knowledge to the wider society. At the same time, more alternatives from the standpoint of the poor should be broadened (นิตี 2540). Nithi’s request is based on the principle derived from the second lesson (already mentioned) which, in the case of the West, developed out of lifestyles in a modern capitalist market system.

Despite the fact that the Thai intellectuals understand the principle of the “new morality” and try to urge Thai society to accept this humanitarian value, general understanding of this value is still limited. If one wishes for this value to gradually evolve out of a capitalist market lifestyle, as it did in the West, one may become discouraged, because the influence of the bureaucratic sector in Thailand is still predominant, so much so that the public space beyond the bureaucratic

sector is very limited. Even the market and business sectors have their limitations, as discussed. To create humanitarian value as a foundation for philanthropic movement in the future will require the elimination of the above-mentioned problems, and support for the idea that favors the reduction of the size and monopolistic power of the bureaucratic sector. This must be accomplished simultaneously with the expansion of the space of the social sector beyond the influence of the State, in other words, expanding the public space. Meanwhile, the significance of the personal sector should be given less emphasis. A public space is like a venue which will provide an open access to various ethnic groups, providing them with more opportunity to participate, to be able to understand and respect the rights of others, and to be able to cooperate as a strong association, in order to commonly maintain the new values and morality. The modern terminology of this public space is “civil society” (cf. ชูชัยและบุวดี 2540, and Figure 1).

In Thai society, the civil society should have more potentiality than other sectors within the society to develop new values for society. This civil society should replace the market, which had given important lessons to the West to develop (Western) new morality. The civil society has clearly proved, ever since the past decade, that it can raise cooperation from among differential social sectors, whether they be the community, the middle class, or the business sector. One evidence of such cooperation is the success in the movement for political reform and the success in the rally directed to the parliament to pass the new constitution of 2540.

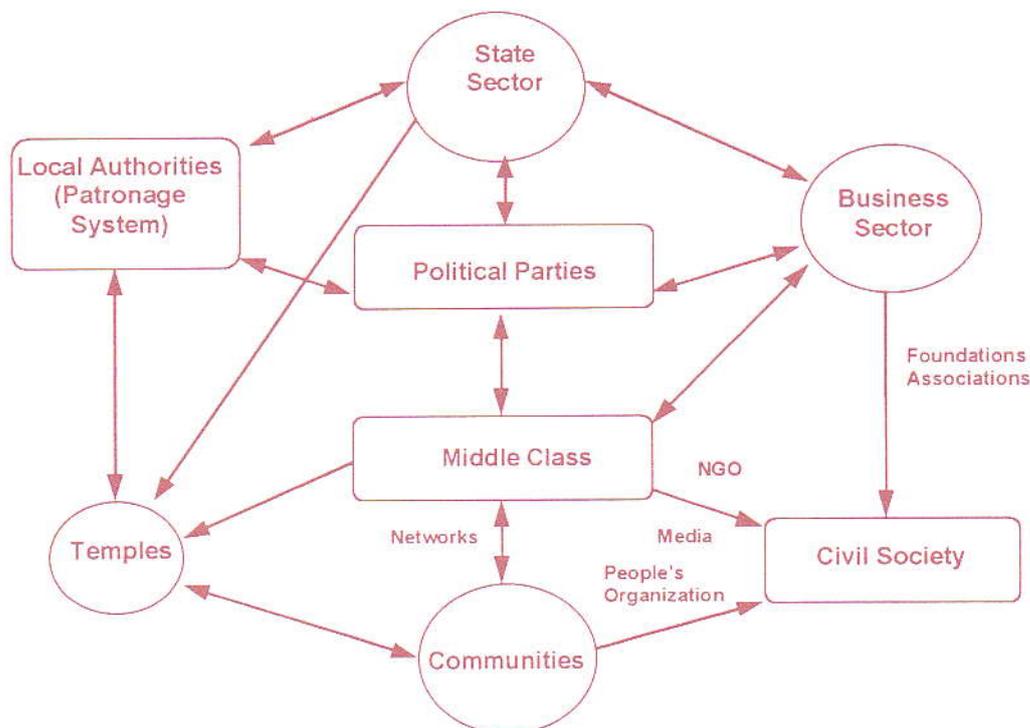


Figure 1 Relationship between Social Sectors

As a matter of fact, the civil society in Thailand has been gradually formulated for quite some time. According to Thirayuth Boonmee, the civil society, or what Thirayuth calls "strong society," has developed in four stages. In the first stage beginning around 2500, after facing various problems resulting from modern economic development, Thais raised a social awareness to replace the communal awareness because they realized that they are a part of a lifestyle which is larger than the traditional community and they sensed that they must take a part in solving societal problems. The second stage was during the period when various kinds of organizations were established, for example, social welfare organizations, occupation organizations, various kinds of interest groups, mass media organizations, and community organizations. The third stage, the present, is the time of common construction of shared societal ideology emphasizing virtues as values and moral guidance for society. The last stage is still in the future. It is the period when shared societal ideology will be crystalized and become an institution having roles and functions acceptable to society at large (ศิริพุทธ 2536).

Despite the fact that "civil society" has different meanings for different academics, there is still a certain shared idea. For example, Nithi paid attention to the importance of social relations. He thought that a civil society would arise when people believe that they belong to the same group and they must accept the rights of others. The strength of the civil society depended on internal organization within the association and the building up of a network with other groups (ชูชัยและบุวดี 2540). This is quite similar to Thirayuth's idea, especially on the point of social consciousness, although Thirayuth paid more attention to the issue of common problems; and while Nithi paid attention to mutual respects of rights, Thirayuth would call this a shared ideology. As a result, Nithi considered the rise of civil society as a movement which has only appeared in the past decade (2530), especially after the time of a popular cooperation demanding rights, and after it is evident that others respect their rights to make a demand. Anek Lauthammatas called this phenomenon a proud political expression. All in all, this does not mean that a civil society is a space to express only cooperation. According to Kasien Techapira, the basis of a civil society must lie in the ability to manage conflicts in a civilized manner (ชูชัยและบุวดี 2540). In other words, this should mean the management of conflicts which is acceptable to all those involved.

From such understanding we may see that for the past decade the civil society has gradually evolved more and more clearly within Thai society. When crises arose people did not leave them to the responsibility of any one organization but had tried to take part in various forms and activities to solve the crises (ชูชัยและบุวดี 2540, 177).

Apart from political crises which resulted in movements for political reforms, movements have expanded into many of the provinces. Attempts have been made to strengthen local powers. Civic movements to solve environmental crises, for example the protests against constructions of large dams, and the large network of campaigns for conservation of forests and beaches, have resulted to a movement to make a plea to government to support the community forestry decree (ฉลาดชายและคณะ 2536). Within the urban sector, movements among associations within slum areas—the JS 100 radio listeners network, and the urban forum—have arisen. Within the public health sphere, networks of community health care groups to fight against AIDs have arisen (มหาวิทยาลัยเชียงใหม่, สถาบันวิจัยสังคม 2536). Other networks include the association of monks fighting against AIDs (มหาวิทยาลัยเชียงใหม่, สถาบันวิจัยสังคม 2539) and the network of Northern NGOs fighting against AIDs (กาญจนา 2540).

These civic movements indicate attempts to create some new values and morality in Thai society, based on two important connected ideologies—first, the dignity of humanity expressed through ideas on rights, and second, the idea of identity which is considered as a power of a group standing firm not to be excluded of its rights. These two ideologies comprised a value, similar to the idea on community rights, to give a guarantee to protect the rights and power of all ethnic groups and to promote equal participation of various groups, which, in other words, is the principle of mutual respect of equality in democratic society. Community rights, therefore, is a kind of value, accepting the rights of all kinds of groups. When exclusion takes place, the civic movement will fight for the rights of the excluded group to determine or participate in the determination of their status, rather than leave it for others to do (อนันท์ 2540 and Figure 2).

From research on the movement in support of the community forestry decree, an interesting point has emerged suggesting that the idea favoring community rights is highly dynamic and is still in the process of continual adaptation. Many groups in Thai society, especially the community, the middle class, and in some part the business sector, have helped construct this idea of community rights, amidst the movements and networks to fight against inequality and monopoly of ideas. Tactics included protests, denial of mythologies, adaptation of local rituals and values based on the ethics of subsistence such as reciprocity, "Nah Muu" (right of communal usage), usufruct rights, natural rights as mentioned, and turning all of these into a universal value by combining the idea of rights within the globalized stream into the traditional rituals and values (Anan 1996a, 1996b). Most importantly, the civic movement has been successful in promoting the idea of community rights as a part of the new constitution (cf. Figure 3).

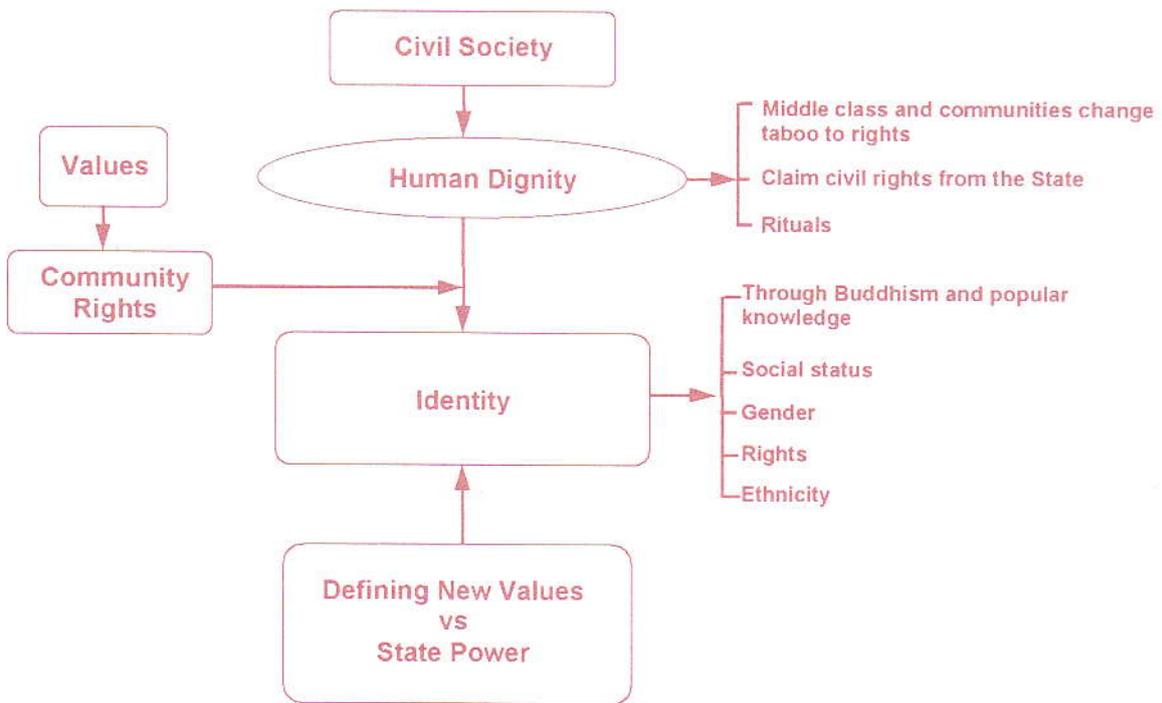


Figure 2 The Process of Redefining Values

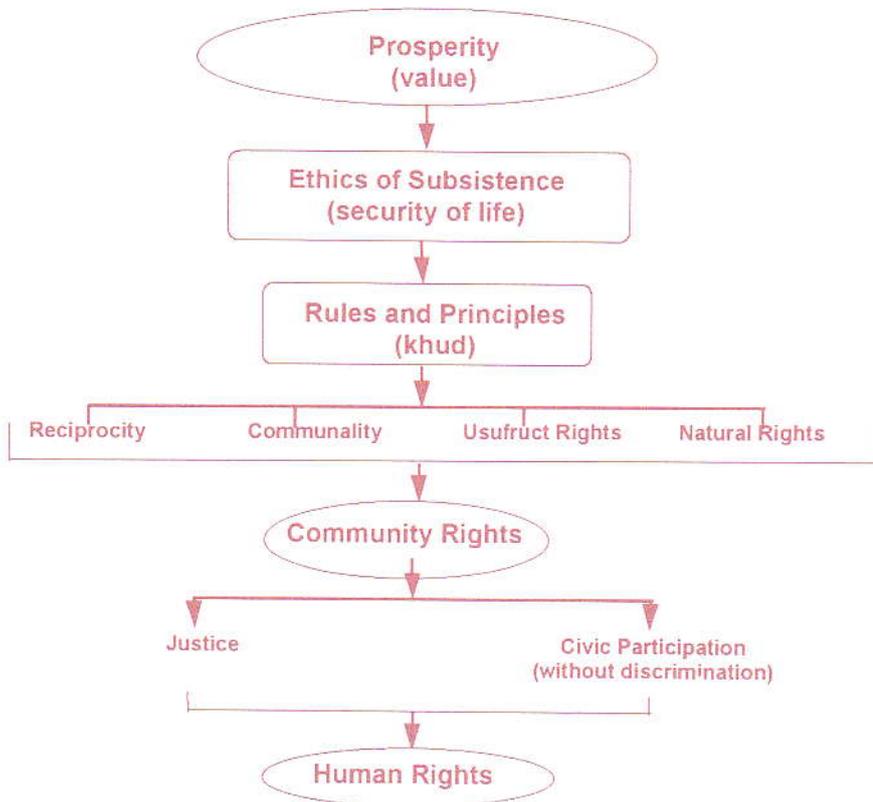


Figure 3 The Relationship between Taboo and Rights

Despite the fact that the constitution has accepted community rights, and this may be considered an important condition in promoting community rights as a value which will support raising capital for society in the future, many conditions and mechanism remain still to be improved, especially, the following:

First, conditions and mechanisms involving tax policy must be improved. Donations to social causes should be entitled to tax reductions. Progressive taxation and inheritance tax to discourage private accumulation, especially that part which has not been reinvested, should be made.

Second, education policy must be improved. Education should be liberated from the bureaucratic system, especially tertiary education. The private sector and the civic sector should assume more responsibility for education management so that civil society will have a greater role in intellectual development.

Third, policy decentralization must be made. The civic sector should have more participation, especially in changing the direction of and making suggestions for new alternatives to development. This will cause civil society to become more aware of the emerging issue of community rights.

Fourth, civic participation, especially in affairs that used to be under state monopoly, must be promoted. The workings of the bureaucratic sector should be under continual check. Management and conservation of resources and the solving of social crises should be encouraged.

However, the above proposals to improve social conditions and mechanisms are only suggestions for consideration of further research problems. More details need to be studied and understood before they can be used to construct practical public policy.

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Industry and the Environment in Asia

Peter J. Evans *

INTRODUCTION

In the past three decades, Asia has been through a remarkable transformation. Driven by rapid economic growth, the region includes countries which have now reached the standard of living enjoyed by the OECD economies, those that seem poised to follow shortly, and the remaining which hope to emulate the progress of the "East Asian Miracle." Yet the growth did not come without costs and the entirety of Asia is now plagued with serious environmental problems. This paper will explore the relationship between the emergence and growth of industry, and the deteriorating environment in Asia. Section one will provide an industrial overview of Asia and highlight the differences between countries and regions. Section two will consider the recent industrial growth and the current environmental condition and attempt to show the successes and failures of the variety of environmental routes followed across the area. This section will also consider the trends and factors that have led to either mitigated or exacerbated environmental degradation during industrialization. The third and final section will turn to the 1997 economic crisis and speculate as to the environmental implications this impact to the growth pattern route may cause.

ASIAN INDUSTRIAL PERFORMANCE

At the beginning of the 1990s, the Asia-Pacific Region contributed slightly more than 20 percent of the world's gross national product (GNP). World Bank projections indicate that the region will continue to grow more quickly than most others and that, by 2025, Asia's share of world GNP will have risen to 30 percent (Kato 1996). The primary source of this expected growth has been and will continue to be the expansion of manufacturing, as well as other types of industry.

The accuracy of such projections, however, has been put into question by the economic crisis and, for the short term, certainly, growth rates in the adversely affected economies are expected to be quite modest. However, the long-term outlook may not be dramati-

ly altered. In the May 1998 World Economic Outlook, IMF staff predict a slow rebuilding of confidence during 1998, followed by a modest return of growth in 1999, and a solid recovery by 2000 (IMF 1998). Naturally, the predictions are based on the assumption that their recommended policies are followed. Provided that they hold true, long-term growth rates will possibly match the projections made in advance of the crisis.

While Asia as a whole has outperformed other regions, considering the continent as a single entity masks key differences between specific areas. Looking at the entirety of Asia, therefore, it is impossible to make generalizations about industrial performance. There is no blanket truth that would apply equally to each country. By considering the continent in four distinct regions, however, it is possible to make some general conclusions about each of them. To this end, the following section will consider Japan, East and Southeast Asia, South Asia and China.

Table 1 tracks gross domestic product (GDP) growth in these regions from the 1970s until the mid-1990s. GDP and MVA (manufacturing value added) figures represent the national currencies at 1990 prices and subsequently converted to US dollars at the 1990 value.

The industrial development of Japan in the years following the end of the Second World War can be considered in three stages that have dramatically changed its structure. In the first phase, which continued until the middle of the 1970s, Japan's impressive GDP growth rates, averaging nearly 10 percent annually, were driven by heavy industry. Food processing and light manufacturing, which had accounted for more than 60 percent of industry in 1955, were replaced by pollution intensive industries such as chemicals, oil and coal products, pulp and paper, and primary metals as the key industries by 1975. In the following decade, from 1975 through 1985, Japan moved away from the material and pollution intensive heavy industries and began to expand 'process' type industries such as electrical and electronics and transport equipment (O'Connor 1994). During the second phase, these process industries saw their share of MVA rise from

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about 25 percent to nearly 40. These industries have continued to increase in importance in the third phase, which has continued up until the present time, and is distinguished from the second phase by falling oil prices and a rising yen. Recent events could signal the beginning of a new phase as the effects of a falling yen and severe depreciation of other Asian currencies on the structure of Japanese industry become clear.

In East and Southeast Asia, impressive GDP growth is visible throughout the measurement period shown in Table 1. Moreover, the growth has been dominated by the manufacturing sector. With a small number of exceptions, such as Hong Kong, which has become a service and information-processing center, the manufacturing sector is the driving force of the economies of the region. This region actually includes two sub-groups that have followed somewhat different time-frames for development, if similar patterns. The Newly Industrialized Countries (NICs) of East Asia, along with Singapore, were the first to enjoy rapid increases in economic prosperity, and they have been followed by the ASEAN countries, excluding Singapore. For both groups, the original export-led development strategy relied on labor intensive and inexpensive products. With the emergence of industry in the ASEAN countries, and a new low wage competitor, the NICs have been forced to alter their strategies and are now producing goods from more capital intensive and heavier industries. Overall the industrial sector of East Asia has grown by more than 9.1 percent annually over the past 25 years (Kato 1996).

For South Asia, or the Indian Sub-Continent, the trend has been similar although less extreme. The

industrial sector has grown at an annualized rate of 5.1 percent over the past quarter century, and has risen from 21 to 26 percent of GDP during that time (Kato 1996). As of 1994, food processing and textiles remained the largest manufacturing categories, with shares of total MVA at 10.3 and 14.5 percent respectively. Capital goods industries have also recently improved performance. The MVA growth rate for non-electrical machinery was 8.4 percent in 1994. Electrical machinery and transport equipment were rated at 6.5 percent and 6 percent (UNIDO 1995).

In China, the manufacturing sector's importance is more pronounced. In 1994, MVA held at 31 percent share of GDP and was continuing to grow at rates of nearly 15 percent. As this was moderately higher than the growth rate in the overall economy, the proportion of MVA will continue to increase. China's own strategy of export-driven growth, coupled with a transfer of labor intensive production from Taiwan and Hong Kong, has altered the composition of Chinese exports significantly. Whereas, manufactured goods represented approximately 50 percent of exports between 1985 and 1990, they had risen to over 80 percent by the mid-1990s (UNIDO 1995). The majority of these goods are labor intensive products. Nevertheless, the Chinese government plans to promote the machinery, electronics, automobile, petrochemical and construction industries as the basis for future industrial development, although these industries currently remain very much in infancy. As of 1994, textiles, industrial chemicals and non-electrical machinery were the three largest ISIC (International Standard Industrial Classification of All Economic Activities) manufacturing sectors (UNIDO 1995).

Table 1 East Asia: Economic Growth and Industrial Performance

(Unit: Percent)

Region	Economic Indicators	1970-1980	1980-1990	1990-1993	1994 ¹	1995 ¹
Japan	GDP growth rate	4.5	4.1	1.8	0.8	1.8
	MVA growth rate	5.2	5.8	-0.3	0.8	2.9
	MVA share of GDP	24.8	29.1	28.7	27.4	27.7
South Asia	GDP growth rate	3.3	5.3	3.6	3.8	5.0
	MVA growth rate	4.3	6.9	2.4	6.4	5.4
	MVA share of GDP	13.2	15.4	14.9	15.2	15.3
East & Southeast Asia	GDP growth rate	8.1	7.1	6.3	7.2	7.1
	MVA growth rate	11.4	8.5	6.3	8.1	9.5
	MVA share of GDP	23.3	26.4	26.5	26.7	27.3
China	GDP growth rate	6.2	8.9	11.1	11.4	9.0
	MVA growth rate	10.2	8.7	16.4	15.8	14.0
	MVA share of GDP	26.7	26.1	28.2	31.2	32.6

¹ Estimates

Source: UNIDO.

ASIAN ENVIRONMENTAL PERFORMANCE — GROW NOW, CLEAN LATER?

The performance of even the most miraculous of the Asian economies is tempered by a dismal environmental record, and the region is facing a wide range of environmental problems. While the economic growth rates achieved have never been matched, such rapid growth has also exacerbated the environmental difficulties, as regulators have had to deal with independent problems either simultaneously, or in rapid succession (O'Connor 1996). One illustration of the uniquely Asian dilemma is the task of coping with massive industrialization and an explosion in the use of personal automobiles concurrently.

Asia's most serious environmental problems are identified in Table 2.

As indicated by the array and severity of problems illustrated in Table 2, Asia's environment is in a woeful state. The important question is "how to minimize industrial pollution throughout production

processing such that the net benefit (i.e., minus environmental costs) is maximized?" In one sense, it is not possible to desegregate the types of problems as the activities and harm caused by one issue tend to compound those of others. Nevertheless, there are three types of environmental problems which are more closely and specifically related to industrial development. From the table these include air and water pollution, as well as energy consumption. In addition, industrialization creates problems in terms of toxic and hazardous waste.

The growth of industry affects the pollution entering the environment in two distinct ways. The growth itself increases the total volume of pollutants released. This increase is inevitable in the short to medium term but can be overcome in the long term by choices affecting cleaner industries or cleaner technologies. An expanding industrial sector also tends to increase the pollution intensity of industry. In other words, the amount of pollution per unit of output increases (Brandon and Ramankutty 1993).

Table 2 Asia's Environmental Challenges

Pollutant	East Asia	Southeast Asia	South Asia	China	India
Air pollution					
Sulphur dioxide	XXX	XX	X	XX	XX
Particulates		XX	XXX	XX	XX
Lead		XXX	XX	X	X
Water pollution					
Suspended solids		XX	XX	XXX	XX
Faecal coliforms		XXX	XX	XX	XXX
Biological oxygen demand		XXX	XX		XXX
Nitrates	XX	X	XXX	XX	XXX
Lead	XX	XXX	X	X	X
Access to water and sanitation					
Lack of access to safe water		XXX	XXX	X	XXX
Lack of access to sanitation		XX	XXX	XXX	XXX
Deforestation					
Deforestation rate		XXX	XX	XX	XX
Land degradation					
Soil erosion		XXX	XXX	XXX	XXX
Waterlogging and salinization		XX	XXX	XX	XXX
Desertification			XXX		XX
Imperata spread		XXX			XX
Energy consumption					
Annual growth rate	XXX	XXX	XXX	XX	XX
Carbon dioxide emissions	XX	X	X	XXX	XX

Note: XXX=very severe, XX=severe; X=moderate but rising

Source: compiled by ADB (1997) from Global Environment Monitoring System (1996), World Bank (1995), World Resources Institute (1996)

Water Pollution

As reflected by Table 2, water pollution is generally recognized as the most serious environmental challenge facing Asia, both in terms of its current impact and its projected clean-up costs (Brandon and Ramankutty 1993). Three main factors lead to the water pollution: domestic sewage, industrial effluents, and run-off from activities such as agriculture and mining. Of the three, domestic sewage is the chief culprit. Nevertheless, there is variance between countries and regions. In China, suspended solids are the main concern, while in India it is faecal coliform counts. Southeast Asia suffers from elevated lead counts in the water, while in India and the rest of South Asia, nitrates are a more serious concern (ADB 1997).

Without proper enforcement of town planning in Asia, industries tend to locate both near urban centers and close to water (into which they discharge waste). In this case, industrialization compounds the problem of domestic sewage. This becomes more severe as industry shifts into high polluting activities such as chemicals, electronics, electroplating, and machinery. These types of activities create pollutants containing heavy metals and non-degradable hazardous waste and toxins that can lead to health problems for domestic water users. As the amount of such waste increases, groundwater contamination through leaching becomes a problem (Brandon and Ramankutty 1993).

Energy Consumption

It is not unusual for economic growth to be accompanied by an increase in energy consumption, but the Asian experience has been somewhat unique in the scope of the increased demand. Between 1975 and 1990, the developing Asian economies increased their share of world primary energy consumption from 8 percent to 15 percent (Ishiguro, Akiyama 1995). The industrial sector generally accounts for the highest share of final energy consumption. An exception is Thailand, where transportation holds the largest share.

Energy consumption affects the environment in a number of ways that make the growing consumption levels more worrying. Some East Asian countries are burdened by acid rain, owing largely to extensive coal burning in China (ADB 1997). Due to the abundance and low price of coal, however, the growing demand for electricity will likely be met chiefly by coal-fired power plants (Ishiguro, Akiyama 1995). Where hydroelectric power plants are used, the environment suffers as a result of the dam construction and community opposition often negates the option for nuclear power. Given these considerations, it is likely that the bulk of Asia's continued explosive demand for energy will be met with coal.

Air Pollution

This problem is strongly related to the energy consumption issue outlined above. The heavy reliance

on coal causes tremendous air pollutants when available technological interventions (such as scrubbers) are not employed (Park 1996). In addition, coal mining results in problematic fly ash generation, especially in India. Sufficient accumulation of fly ash adds suspended particulate matter in the air and decreases overall air quality. The industrial contribution to air pollution in Asia is also heightened by the expansion of the iron, steel, fertilizer and cement industries.

Toxic and Hazardous Waste

One might expect that the NICs of East Asia would be the region's worst offenders of hazardous waste disposal. In fact, the creation of such waste tends to fall as incomes rise and China and India account for a nearly 100 million tons of toxic waste each year, much more per person than countries that have developed further (ADB 1997). Unfortunately, this relationship means that it is the countries least able to treat the waste who are also the ones faced with the problem. The result is that nearly three-quarters of Asia's toxic and hazardous waste is dumped into landfills or pumped into the ocean. The remaining quarter is treated chemically or incinerated, but often without adequate safeguards, if they exist at all (ADB 1997).

DOES ECONOMIC GROWTH OR INDUSTRIALIZATION IMPLY ENVIRONMENTAL DEGRADATION?

Too often, Asian development has followed the pattern established by earlier industrializing countries of sacrificing the environment in the early stages of growth with the belief that the depletion of natural resources and environmental degradation are a necessity for economic growth and that the mess can be cleaned up later. It has been proposed that any other development pattern would mean slower growth, but is this necessarily the case?

The most simple and empirical answer to this question is a resounding "no." For one reason, the environmental implications of the growth depend to a large extent on the basis for the growth. As a case in point, during the industrial boom occurring in Indonesia during the late 1980s, when the countries' overall national output doubled, the performance of the province of Bali was more remarkable still, tripling in industrial output. During the same time, while the country as a whole experienced environmental degradation, the adverse effects on the island province were negligible. Bali's growth was driven by export-oriented assembly which is much less pollution intensive than the manufacturing occurring elsewhere in the country (Afsah, Laplante, and Wheeler 1996).

This argument is somewhat misleading, however, as not every country or region can be a Bali. Someone must do the "heavy" and more pollution

intense work that transforms raw materials into the products that can be used for the less polluting light manufacturing and assembly.

THE ENVIRONMENTAL KUZNET'S CURVE AND THE RELATIONSHIP BETWEEN GROWTH AND THE ENVIRONMENT

A growing body of research has attempted to identify and quantify the relationship between economic growth and adverse environmental consequences. The determined result is an inverted U-shaped curve, known as the environmental Kuznet's curve (EKC). The implication of the EKC is that in the economic development of a country, as per capita income begins to grow, there is a phase where the general state of the environment weakens, before it levels off and begins to improve as income grows further. The standard EKC is shown by the solid line in Figure 1.

At first glance, the relationship may appear puzzling. Why should early stages of economic growth impact the environment so adversely, and what causes the reversal as income levels rise? A number of changes that accompany economic growth may help to explain. First, in the agricultural sector, land use becomes more intense and an increasing number of pesticides and fertilizers are used, often without consideration of environmental consequences. The emergence of industry compounds the problem by adding to the already increased resource extraction process. In addition, industry contributes to increased levels and toxicity of waste materials.

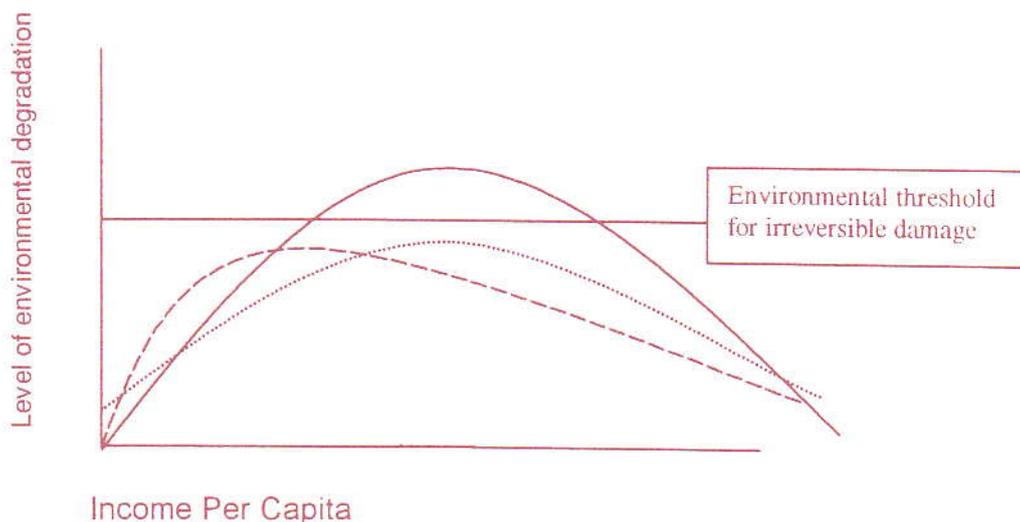
With rising income levels, a number of changes account for the environmental improvement. First, there is a shift away from the heavy (and most pollution intensive) industries, and less demand on natural

resources extraction. Cleaner industries and services employ a higher number of people. People's awareness of the environment also rises with income, and they may pressure the government to enforce protective laws more strictly. This enforcement is also made possible by the rising government budgets. Investment in adequate environmental infrastructure, such as proper sewage and transportation systems, is also more feasible (O'Connor 1996).

There are two other features of the curve that warrant comment. First, the horizontal line near the top of the curve illustrates that the eventual improvements to the environment with rising income levels may come too late, and that some of the damage done in the waiting period may be irreversible. Second, the two dashed curves in Figure 1 are shown to illustrate that income is not the only factor that will influence the environmental picture as an economy develops. Government strategies, policies, and enforcement practices are more important in determining both the rate and extent of environmental damage.

But while the evidence suggests the existence of the EKC, it presents a danger in propagating the philosophy that growth first, followed by clean-up strategy, is inevitable. A secondary implication of this philosophy is that there is a trade-off such that concern for the environment will necessarily slow or impede economic development. In truth, the Asian experience refutes both of these theories. Looking at the high-performing Asian economies, O'Connor (1996) found that those who chose a more relatively clean path to industrialization did not grow at a slower rate than those pursuing growth at the expense of the environment. The question that remains unanswered is to what extent future growth will be slowed for those countries that have not protected their environments during development.

Figure 1 The Environmental Kuznet's Curve



To illustrate the point, the growth patterns of Korea and Singapore can be compared and contrasted. Both countries enjoyed rapid economic growth over the same approximate time-frame but followed vastly different environmental strategies. In Singapore, environmental policy became thoroughly integrated with industrial policy by the late 1960s. Land use plans were designed and implemented to protect the water catchment area, and establish an industrial zone outside of that area. These plans have been supported by a strong regulatory framework and rigorous enforcement (US-AEP 1998b). Such policies have ensured Singapore's enjoyment of a protected environment during its rapid growth phase. By contrast, Korea's growth has led to severe environmental degradation. Minor laws were passed to protect the environment through the 1960s and 1970s, but there was no serious attempt to integrate environmental and industrial policies until the mid-1980s when the Constitution was amended to grant the right to a clean environment. Its late start in environmental protection has led to a Korea with severe air pollution in cities and industrial areas, badly damaged rivers and streams, and soil polluted from acid rain, chemicals and chemical fertilizers (US-AEP 1998a). Sadly, too many Asian countries have followed the Korean path, and now face the same problems.

Returning to the EKC, while the curve may imply that with economic growth the environmental problems disappear naturally, the issue of causality is not explained. A study of the income environment relationship curve for a number of pollutants across many regions of varying income levels found that in general the shape of the curve supported the idea of an EKC (Islam 1997). The more important finding, however, was that there was a pronounced difference in the shapes of the curve between Asian and non-Asian cases, and a significant variance from one pollutant to the next. The implication of the result is that while there is an effect of income on the environment, it is only one of many factors at play, and may not be among the most critical. Nevertheless, it is roughly figured that the harmful effects of industrial pollution begin to subside when per capita incomes (adjusted for purchasing power parity) reach somewhere between US\$5,000 and US\$7,000 (Islam 1997; ADB 1997).

A DIFFERENT MODEL FOR ASIA?

As suggested above, the relationship between industry and the environment is noticeably different in Asia than is found in the development stages of other parts of the world, or for that matter in the history of the OECD countries. The following factors highlight advantages that Asia's environment has enjoyed.

- *Availability of clean technology:* This is simply a temporal factor. With the industrialization occurring later in Asia than it did

for the Western economies, the benefits of improved technology were readily accessible. Instead of moving in step with industrialization, clean technology was available from the beginning. And, of course, the clean technology has emerged because of an overall increase in environmental awareness and consumer preference for cleaner goods.

- *Fast growth rates:* In general, the faster growing economies also enjoy faster turnover in manufacturing plants and equipment. This provides the opportunity to update polluting technologies with cleaner options (Hammer and Shetty 1995). The crisis, of course, means that these growth rates have slowed, and the environmental ramifications of this change could become an issue in the affected countries.
- *Open economies:* The reliance of the East and Southeast Asian economies on exports for growth has benefited the environment in at least four ways. First, the exports helped to create the high savings, a portion of which was used to finance the imported capital equipment, including the clean technology, discussed earlier. Second, to make the export strategy profitable, industry was forced to be cost-sensitive, with positive implications for materials and energy use. Third, the specialization that emerges from an open economy has led many of the economies to focus on the relatively cleaner labor intensive industries as opposed to capital or energy intensive ones. Finally, the reliance on exports has meant paying heed to the growing preference for environmentally friendly products by global consumers.
- *Energy policies:* As mentioned earlier, growing energy use is a severe problem in Asia. Too much of industry remains inefficient and wasteful. For example, for major industrial products such as iron and steel, cement, pulp and paper and fertilizer, energy requirements are 55 percent higher in China, and 50 percent higher in India per unit of output than they are in industrialized countries (Ishiguro and Akiyama 1995). For the more industrial advanced of East and Southeast Asia, however, progressive policies eliminating energy subsidies from heavy industry have served to protect the environment. Energy intensities of industry in the high-performing Asian economies are mere fractions of those of Eastern Europe, where energy subsidies have remained (O'Connor 1996). Moreover, less developed countries have made progress in achieving energy

efficiency in the last decade since the mid-1980s (Brandon and Ramankutty 1993).

While a reading of the preceding section might indicate that Asia's environment should be relatively free of industrial pollutants, this is known to be untrue. The following section explains features of the Asian industrial growth model which have made environmental management difficult and exacerbated degradation.

- *Multiple problems occurring at once:* Industry is one of a number of factors that have created the environmental problems facing Asia. Poverty, population growth, urbanization, increasing popularity of personal vehicles, and excessive natural resource extraction do not exhaust the list problems. Some governments have managed to address individual elements, but tackling all the problems together has proven to be an impossible task. For instance, Taipei and Korea have seen rapidly escalating populations with minimal attributable environmental damage owing to policies fostering sustainable growth in agriculture and job creation in other sectors (ADB 1997).
- *Institutional failures:* There are at least three major problem groups combined under this broad heading and they will be considered in turn. First, despite the existence of environmental legislation in every Asian country, the vast majority lack environmental institutions with the strength necessary to formulate, implement and enforce the policies necessary for true environmental protection (Brandon and Ramankutty 1993). Second, the local governments, which are by and large responsible for monitoring and enforcement, do not have the resources and skills necessary to adequately carry out the functions. Finally, the information that would be required for optimal environmental planning simply does not exist, leaving governments unaware of the effects of current pollution and possible solutions. Yet while the government institutions are not incapable of improving the situation on their own, they are equally hesitant to solicit support from the private sector, or the community in most cases.
- *Compressed time-frame:* The industrialization process in the Early Industrialized Countries (EICs) took centuries to achieve what has been done in the NICs in only a few decades. This, of course, puts an additional stress on the environment. The rapid progress also removes the possibility of seeing the consequences of one decision before it is time to make the next. Problems tend to pile up on top of each other; new ones emerge before the previous set has been dealt with adequately.
- *Change in output and consumption patterns:* Put simply, the goods that are produced and consumed today are generally manufactured by more pollution intensive industries than those of the EICs development phase. Consider, for example, the number of plastic and toxic substances used in industry today that were non-existent even in the recent past. EICs did not have to account for the non-biodegradable elements found today.
- *Moral hazard and the benefits of late abatement:* While there may not be a necessary link between industrialization and environmental degradation, in a rapidly growing economy there are factors at work that may discourage proactive environmental practices by industry. As pollution control technologies can be expected to improve over time, "late abaters" can expect both lower marginal costs for the technology and higher marginal benefits (O'Connor 1996). In other words, there is an incentive for industry to put off pollution control measures in expectation of paying less for it later on.

THE ENVIRONMENTAL IMPLICATIONS OF THE FINANCIAL CRISIS

The extent of the economic crisis indicates that the Asia that emerges will be recognizably different from the Asia beset. There are fears that some of the short-term effects of the economic crisis will be environmentally harmful in the countries most adversely affected. Remembering Table 2, deforestation is among the most serious and most pervasive environmental problems in the region. The fear is that as the new unemployed return to their traditional rural homes and agricultural practices, the problem will be compounded yet again (The Economist 1998).

In the hardest hit economies, it is also expected that government and private initiatives for environmental spending will be curtailed in the short term. In Thailand, for instance, the budget for environmental infrastructure was slashed by a third by the Office for Environmental Policy and Planning in the wake of the crisis (The Region in Crisis 1988). The cut is typical of the response of governments across the region. While aid supplied for environmental projects is not expected to decline, and may increase in local currency terms, there are fears that much of this money could be delayed by state agencies suffering from liquidity crises. For these reasons, the short-term effects of the crisis on the environment should be expected to be negative.

On the other hand, there may be room for optimism in the longer term. As the economies recover and address the factors that led to the crisis, there will be spillover environmental benefits in several areas:

- *Transparency and Good Governance:* As evidenced by the changes of government in Thailand, Korea and Indonesia in the wake of the crisis, it is apparent that the public demand for improved government performance is on the increase. Pressure for more responsible and responsive government will not subside after the economies have healed. In conjunction with the heightened environmental awareness of the public at large, the result will be a cleaner environment.

In truth, the decisions of policy-makers and activities of enforcement agents will not be fully effective unless the general public continues the trend of consideration of the environment in their economic decisions. The lack of green consumerism in Asia has been a major contributor to the ongoing business and industrial degradation of the environment (Park 1996). Yet, this trend appears to be changing with the heightened awareness that individuals have of the environmental condition and consequences of inactivity.

A 1995 Gallup poll on public opinion concerning the seriousness of environmental problems, showed that people in developing countries were cognizant of the environmental problems in their local communities (43 percent of respondents cited poor water quality as very serious, and 35 percent had the same reply for poor air quality). Moreover, higher percentages still saw these issues as being of serious concern in the world and matched in number the respondents from industrialized countries (DeShazo 1997). The heightened awareness of the environment in Asia may be attributable to the increase in press coverage, with articles on environmental issues more than doubling between 1986 and 1996 (DeShazo 1997).

- *Institutional failure:* In the years when the affected economies were enjoying rapid GDP growth, faith in the institutional framework of the countries was solid. The failures have shattered the faith and people will now scrutinize all aspects of government activity more closely, including environmental policies. In this sense, the crisis will have opened people's eyes to whatever may have been lacking in that area previously.
- *The return of foreign capital:* As the crisis eases and foreign capital returns to the affected countries, the decisions investors make will impact on development patterns. Research from the World Bank (Dasgupta et al. 1997) suggests that among developing countries in South America, and Southeast Asia, the shares of publicly traded companies

are affected by environmental performance and reporting. Even in countries with lax environmental legislation and enforcement, the markets show a tendency to punish companies reporting harmful environmental practices and reward those that show heightened sensitivity to the environment and allow it to influence decisions. The authors do not argue that this relationship can replace positive state and community influence; nevertheless, their results indicate the value of collecting, analyzing and publishing timely and accurate environmental performance information. To the extent that environmental performance affects the markets, it can be expected that when the capital flows return to the battered economies of those stricken by the crisis, it will show a preference toward clean industries and environmentally sound companies.

- *Export reliance:* Just as the industrial growth of the affected countries was largely export driven, the speed of the recovery and the health of the economies emerging from it will also depend on exports. Owing to increased global preferences for cleaner goods, industries showing concern for the environment and evidencing this activity can expect performance benefits in export terms. With this in mind, there is further support for the theory that on the whole the crisis will be environmentally friendly for the region.

CONCLUSIONS

The Asian environment is being challenged by the triple threat of a large and growing population, massive urbanization, and rapid industrialization. The existence and interplay of these three factors will continue to provide environmental challenges to the region for the foreseeable future.

While the environmental performance on the whole for Asia has been poor, the damage that can be directly attributed to industry has been limited by a combination of proactive government policies and the availability of lessons and clean technology from countries having already industrialized. There is still much room to improve. The influence of markets and communities should be allowed to flourish. In the coming decades, the largest threat to Asia's environment as it relates to industry is the large and growing energy demands of the sector. Other areas also call for improved performance.

Currently, the most significant barrier to an improved Asian industrial relationship with the environment is the lack of accurate and comprehensive information. Many of the damage estimates and predictions for clean-up costs come from the World

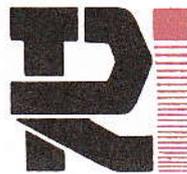
Bank's Industrial Pollution Projection System (IPPS), using pollution coefficients from the United States in 1988, and considered representative of the current Asian industrial state. The lack of data creates a host of problems for all affected parties. Citizens are unable to judge the risks facing them, policy-makers cannot devise optimal economic instruments nor create ideal legislation, and enforcement officers cannot distinguish the compliant from the heavy polluters.

Despite the overall malaise of the Asian environment, there have been significant policy innovations and positive steps made in the industrializing countries. Much of what is to come in the following years will depend to a large extent on how well the countries that are still developing, or have yet to develop, will learn and apply the lessons that East Asia offers.

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