เอกสารประกอบการสัมมนาวิชาการประจำปี ๒๕๔๕ เรื่อง

เผชิญความท้าทายจากกระแสโลกาภิวัฒน์

การสัมมนาวิชาการประจำปี 2545

เรื่อง

เผชิญความท้าทายจากกระแสโลกาภิวัตน์

Globalization and Its Governance in Historical Perspective, with Special Reference to Mainland Southeast Asia

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สำนักงานคณะกรรมการพัฒนาการเศรษฐกิจและสังคมแห่งชาติ

กระทรวงพาณิชย์

สถาบันพัฒนาองค์กรชุมชน

และ

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ประวัติโลกาภิวัตน์และการจัดระเบียบเศรษฐกิจโลก

อัมมาร สยามวาลา

โลกาภิวัตน์ในเศรษฐกิจโลก

โลกาภิวัตน์ที่เกิดขึ้นในระยะครึ่งหลังของคริสตศตวรรษที่ 20 เป็นโลกาภิวัตน์ระลอกที่สอง ระลอกแรกนั้นมีขึ้นในระยะครึ่งหลังของศตวรรษที่ 19 ในทั้งสองระลอกจะมีการเปลี่ยนแปลงทางการเมืองการปกครองระหว่างประเทศควบคู่กันไปกับกระแสทางเศรษฐกิจที่เรียกกันว่าโลกาภิวัตน์ การที่สองกระแสนี้เกิดขึ้นอย่างควบคู่กันนั้นมิได้เป็นโดยบังเอิญแต่เป็นเพราะสองกระแสนี้เสริมซึ่งกันและกัน

ในโลกาภิวัตน์ระลอกแรกกระแสทางเศรษฐกิจจะเป็นตัวนำ โดยมีการเปลี่ยนแปลงในเทคโนโลยีทางการขนส่งเป็นตัวจักรใหญ่ โดยเฉพาะการขนส่งทางเรือ การเปลี่ยนแปลงในเทคโนโลยีดังกล่าวมีผลทำให้ต้นทุนการขนส่งระหว่างประเทศลดลงอย่างรวดเร็ว ผลที่ตามมาก็คือวิถีการค้าเปลี่ยนแปลงอย่างรุนแรงและรวดเร็ว บรรดาประเทศที่ปัจจุบันเรียกว่าประเทศโลกที่สาม (หรือที่จะเรียกต่อไปนี้ว่าประเทศชายขอบ) เริ่มผลิตสินค้าขั้นปฐมในปริมาณที่สูงเพื่อสนองความต้องการและเพื่อแลกกับสินค้าอุตสาหกรรมประเภทอุปโภคและบริโภคจากประเทศอุตสาหกรรมในสมัยนั้น อันได้แก่ประเทศทางด้านตะวันตกเฉียงเหนือของยุโรป และด้านตะวันออกของอเมริกาเหนือ (ต่อไปนี้จะเรียกว่าประเทศศูนย์กลาง)

ผลผลิตในประเทศชายขอบจะเปลี่ยนแปลงและเพิ่มขึ้นจากเดิมมากมายเช่นนี้ได้ก็ต่อเมื่ออยู่ภายใต้เงื่อนไขว่า ประเทศเหล่านี้ยอมให้มีการเปลี่ยนแปลงบางประการ ในขั้นต้นประเทศในศูนย์กลางจะพยายามผลักดันแกมบังคับให้ประเทศชายขอบเซ็นสัญญาการค้ากับตน อาทิเช่น สัญญาที่อังกฤษเซ็นกับไทยในปี พ.ศ.2398 (ค.ศ.1855) แต่ถ้าผลักดันไม่ได้ก็จะเข้าครอบครองเป็นอาณานิคมไปเลย อาทิเช่นกรณีที่อังกฤษเข้ายึดลุ่มน้ำอิราวดีด้านล่างในระยะเวลาใกล้เคียงกัน (ค.ศ. 1852)

แต่มีเงื่อนไขอีกประการหนึ่งที่ชวนให้ประเทศศูนย์กลางเข้ามาครอบงำอย่างเบ็ดเสร็จก็คือ การเปลี่ยนแปลงในระบบการผลิตในประเทศชายขอบบางแห่ง ต้องอาศัยการลงทุนในด้านการผลิต และในการขนส่งไปยังท่าเรือ เมื่อมีการลงทุนแล้วก็ต้องมีการคุ้มครองผลประโยชน์ของผู้ลงทุน ซึ่งจะกระทำได้ก็จากการควบคุมอำนาจรัฐในประเทศชายขอบ ด้วยเหตุนี้จึงเกิดปรากฏการณ์การ “ล่า” อาณานิคมขึ้นในช่วงปลายคริสตศตวรรษที่ 19

ดังนั้นระบบโลกาภิวัตน์ระลอกแรกจึงอาศัยระบบจักรวรรดินิยมเป็นระบบกำกับประเทศชายขอบโดยสมบูรณ์ แต่เป็นที่น่าสังเกตว่าในระหว่างประเทศศูนย์กลางด้วยกัน ไม่มีองค์กรกลางใดที่จัดระเบียบการค้า และแต่ละประเทศเหล่านี้ก็สามารถเลือกที่จะมีระบบการคุ้มครองเศรษฐกิจ

ของตนและอาณานิคมของตนตามที่เห็นสมควร แต่ในด้านการเงินนั้น ในที่สุดทุกประเทศในศูนย์กลางก็เลือกที่จะผูกค่าเงินตราของตนกับค่าของทองคำ ซึ่งก็สามารถให้เสถียรภาพกับระบบการเงินระหว่างประเทศได้ในระดับหนึ่ง

ระบบดังกล่าวมีผลทำให้วิถีการค้าส่วนใหญ่เป็นการแลกเปลี่ยนสินค้าอุตสาหกรรมและสินค้าขั้นปฐมระหว่างประเทศในศูนย์กลางและประเทศชายขอบ การค้าระหว่างประเทศศูนย์กลางด้วยกันหรือระหว่างประเทศชายขอบด้วยกันจะมีอยู่น้อยในการค้าโลกขณะนั้น

อย่างไรก็ตาม ระบบดังกล่าวถึงแก่อวสานทางด้านการเมืองจากสงครามโลกครั้งที่หนึ่ง ขณะที่ความพยายามที่จะรื้อฟื้นระบบการเงินเดิมก็ถึงจุดจบเมื่อเกิดมหาวิกฤตโลกในระยะตั้งแต่ ค.ศ.1931 เป็นต้นมา เหตุการณ์เหล่านี้ได้ทำให้ประเทศศูนย์กลางต้องประสบกับปัญหาภายในประเทศและระหว่างประเทศอย่างรุนแรง และในที่สุดก็นำไปสู่สงครามโลกครั้งที่สอง

เมื่อสงครามโลกครั้งที่สองใกล้จะสิ้นสุดลง ประเทศมหาอำนาจทางฝ่ายพันธมิตรที่เป็นทุนนิยมที่ยังหลงเหลืออยู่มีสหรัฐอเมริกาและอังกฤษ ทั้งสองได้เริ่มวางแผนสำหรับการจัดระเบียบเศรษฐกิจโลก โดยมีการประชุมที่เมืองเบร็ตตั้นวูดส์ ในสหรัฐอเมริกาในปี 2544 ในการประชุมครั้งนี้ ความสนใจของสองประเทศนี้อยู่ที่การจัดระเบียบระหว่างประเทศศูนย์กลางด้วยกันเป็นหลัก เรื่องของประเทศชายขอบนั้นแทบจะไม่ได้รับความสนใจแต่อย่างใด ผลของการประชุมครั้งนั้นก็คือข้อเสนอที่จะตั้งสองในสามองค์กรหลักที่เป็นตัวจัดระเบียบ คือกองทุนการเงินระหว่างประเทศ (International Monetary Fund หรือ IMF) และธนาคารโลก

ส่วนด้านการค้านั้นก็มีการประชุมระหว่างประเทศขึ้นหลายครั้ง โดยมีประเทศชายขอบร่วมอยู่ด้วย และให้ข้อเสนอต่าง ๆ ในที่ประชุม แต่ในที่สุดแล้ว ข้อเสนอเหล่านี้ไม่ได้รับการยอมรับแต่อย่างใด ที่ประชุมได้มีมติให้ตั้งองค์กรการค้าระหว่างประเทศ (International Trade Organization) แต่มติดังกล่าวตกไปเพราะรัฐสภาสหรัฐไม่ยอมให้สัตยาบันกับข้อตกลงดังกล่าว ในที่สุด ก็ยอมให้รับเฉพาะข้อตกลงทั่วไปเกี่ยวกับภาษีศุลกากรและการค้า (General Agreement on Tariffs and Trade หรือ GATT) โดยให้มีสำนักงานเลขาธิการอยู่ที่กรุงเจนีวา

ในช่วงสามทศวรรษแรกหลังจากสิ้นสงครามโลกครั้งที่สอง ระเบียบที่จัดขึ้นในช่วงทศวรรษ 1940 มีผลกระทบต่อเศรษฐกิจของประเทศศูนย์กลางเป็นหลัก ในสามองค์กรที่ตั้งขึ้นในช่วงนั้นมีแต่ธนาคารโลกที่เข้ามามีบทบาทในประเทศชายขอบอย่างเต็มตัวในทศวรรษ 1950 ส่วนกองทุนการเงินระหว่างประเทศและ GATT นั้นมีผลกระทบเฉพาะต่อประเทศในศูนย์กลาง โดยเฉพาะอย่างยิ่ง GATT ซึ่งมีสภาพเมื่อแรกเกิดที่ค่อนข้างง่อนแง่น กลับประสบผลสำเร็จมากที่สุดในบรรดาองค์กรที่เกิดขึ้นในช่วงหลังสงครามโลกครั้งที่สอง สามารถเป็นเวทีเจรจาลดกำแพงภาษีในด้านการค้าระหว่างประเทศได้อย่างมาก ยังผลให้การค้าระหว่างประเทศศูนย์กลางในช่วงนั้นพุ่งสูงขึ้นอย่างรวดเร็ว

เป็นที่น่าสังเกตว่าในการเปลี่ยนแปลงต่าง ๆ ในช่วงแรกนี้ ประเทศชายขอบทั้งหลายแทบจะมิได้มามีส่วนเกี่ยวข้องด้วยกับกองทุนการเงินระหว่างประเทศหรือกับ GATT ภาระส่วนใหญ่ของกองทุนการเงินระหว่างประเทศในช่วงนี้เป็นการดูแลเสถียรภาพของเศรษฐกิจของประเทศศูนย์กลางเป็นหลัก และพยายามสงวนไว้ซึ่งระบบอัตราแลกเปลี่ยนคงที่ซึ่งเป็นภาระหน้าที่ที่กำหนดไว้ตั้งแต่การประชุมที่เบร็ตตั้นวูดส์ แต่เมื่อประเทศศูนย์กลางเลิกยึดนโยบายรักษาอัตราแลกเปลี่ยนของตนนับตั้งแต่ทศวรรษ 1970 เป็นต้นมา บทบาทของกองทุนการเงินระหว่างประเทศในประเทศศูนย์กลางก็ลดน้อยถอยลงไปอย่างมาก จึงได้หันมาแก้ปัญหาการเงินการคลังของประเทศชายขอบเป็นหลัก

ขณะเดียวกัน ระหว่างที่ประเทศศูนย์กลางประสบผลสำเร็จในการลดกำแพงภาษีต่อกันอย่างรวดเร็ว ประเทศชายขอบซึ่งเพิ่งได้รับเอกราชใหม่ ๆ ก็เริ่มมีนโยบายที่จะปกป้องอุตสาหกรรมของตนอย่างเข้มข้น ประเทศที่เป็นภาคีของ GATT ก็ใช้เวทีนั้นร่างกฎเพื่อมิให้ตนอยู่ภายใต้วินัยของ GATT หลักใหม่ ๆ เช่น Non-Reciprocity, Special and Differential Treatment และ Generalized System of Preferences ก็ถือกำเนิดตั้งแต่ยุคนี้

ดังนั้น ประเทศชายขอบทั้งหลายก็สามารถอยู่นอกกระแสโลกาภิวัตน์ได้ตลอดมาจนกระทั่งประมาณปี ค.ศ.1980 หลังจากนั้นประเทศชายขอบก็เข้าไปมีส่วนในการเจรจาในรอบการค้า Uruguay ซึ่งเป็นรอบแรกที่ประเทศชายขอบมิได้พยายามขอข้อยกเว้นให้กับตนเอง แต่เข้ามาเจรจาและเรียกร้องให้ประเทศศูนย์กลางลดกำแพงภาษีและเปลี่ยนระบบการค้าสำหรับสินค้าที่ตนสนใจเป็นพิเศษ เช่นสิ่งทอ เป็นต้น ด้วยเหตุนี้ทศวรรษ 1980 และทศวรรษ 1990 จึงเป็นช่วงที่ประเทศชายขอบ (อย่างน้อยก็ส่วนหนึ่งที่มิใช่ประเทศยากจนมาก ๆ) เริ่มมีบทบาทที่เด่นชัดขึ้นในเวทีโลกเหล่านี้ แต่ในมุมกลับกันก็เริ่มได้รับผลกระทบจากการผันผวนของกระแสเศรษฐกิจมากขึ้นและต้องหันมารับความดูแลจากกองทุนการเงินระหว่างประเทศบ่อยครั้งขึ้น

โลกาภิวัตน์ในเอเซียอาคเนย์: เปรียบเทียบไทยและพม่า

คลื่นโลกาภิวัตน์ทั้งสองระลอกที่กระทบประเทศเพื่อนบ้านเราแตกต่างกัน ประเทศไทยซึ่งยอมโอนอ่อนตามกระแสระลอกแรกและเซ็นสนธิสัญญาเบาริ่งกับอังกฤษ สามารถป้องกันการเข้ามาครอบงำสังคมและการเมืองของประเทศได้ในระดับหนึ่ง เพราะฉะนั้นผลกระทบของโลกาภิวัตน์จึงไม่มากและรุนแรงเท่ากับในประเทศพม่า ซึ่งต่อต้านอังกฤษแต่ไม่ประสบผลสำเร็จจนกระทั่งต้องตกเป็นเมืองขึ้นของอังกฤษไป เมื่ออังกฤษเข้ามาครอบครอง ก็เปลี่ยนแปลงระบบเศรษฐกิจ สังคม และการปกครองอย่างถอนรากถอนโคน ถ้ามองในแง่ของผลกระทบทางเศรษฐกิจแต่อย่างเดียวแล้ว พม่าภายใต้การปกครองของอังกฤษก็ประสบผลสำเร็จอย่างงดงาม แต่ปัญหาสังคมและการเมืองที่อังกฤษได้สร้างและทิ้งไว้เมื่อถอนตัวออกในปี ค.ศ.1947 นั้นก็มีความรุนแรงไม่น้อยทีเดียว ความขมขื่นที่คนในพม่ามีต่อระบบเศรษฐกิจที่อังกฤษทิ้งไว้เป็นชนวนที่ทำให้พม่าเลือกใช้นโยบายที่ต่อต้านกระแสโลกาภิวัตน์และต่อต้านการใช้กลไกตลาดมาอย่างต่อเนื่องจนกระทั่งประมาณสิบปีที่ผ่านมา ขณะที่ไทยซึ่งโดนผลกระทบจากกระแสโลกาภิวัตน์รอบแรกน้อยกว่าพม่า

มาก มีท่าทีที่เปิดต่อกระแสภายนอกมากกว่า และการต่อต้านดังกล่าวก็ลดน้อยถอยลงไปเป็นลำดับจนกระทั่งไทยเองถูกกระทบกระเทือนอย่างรุนแรงจากวิกฤตเศรษฐกิจในปี พ.ศ. 2540 อันเกิดจากการที่ไทยเปิดตลาดการเงินกว้างเกินไปและรวดเร็วเกินไป โดยขาดความรอบคอบนั่นเอง.

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GLOBALIZATION AND ITS GOVERNANCE IN HISTORICAL PERSPECTIVE, WITH SPECIAL REFERENCE TO MAINLAND SOUTHEAST ASIA*

Ammar Siamwalla[**]

Over the last two centuries, the world has witnessed two waves of globalization. The first began with the transport revolution in the second half of the nineteenth century, which affected the countries around the Atlantic Ocean at first, but its effects soon spread to other parts of the world. Accompanying that economic transformation was the process of colonization of the countries outside Europe and the Americas. This first Globalization died during the First World War, and was finally buried at the time of the Great Depression.

The Second Globalization began at the end of the Second World War with the convening of the Bretton Woods Conference in1944. During its first stages the emphasis was on policy measures to be collectively agreed upon, but with the agenda and the outcome set mostly by the United States, which emerged from the war as the dominant hegemon, at least of the capitalist world. It was also in its pro-free-trade phase at the time, and this set the tone for the international economic order that emerged from the ashes of the Second World War. The pace of this second globalization quickened in the last two decades of the twentieth century, following developments in information technology. Some has labeled these recent changes as the third wave of globalization,[1] but I shall regard them as part of the same ongoing process set in train in the 1940s, thereby emphasizing the break between the first and second waves.

During each of these two waves of globalization, the dominant system of world governance was different. The first wave saw a regime dominated by the colonial empires of the European powers, which set up a coerced legal order along Western lines. During the second wave, various international agencies loosely oversee a liberal world economic order, with the core institutions being the International Monetary Fund, the GATT (to be

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[1] See World Bank (2002).

transformed into the World Trade Organization – WTO)[2] and the World Bank. These organizations are in theory accountable to their member states, although both in terms of formal voting rights (particularly the IMF) and in terms of the informal power that comes from their financial or trading strength, the member states do not have equal power to direct the policies of these institutions.

The story of globalization that follows will focus on this interplay between technology and global governance, and how they affect Mainland Southeast Asia,[3] which has not been immune to the two waves of globalization. The basic thesis of the paper is that the force of the first wave of globalization affected the various parts of the region unequally and that this has lasting consequences on the response to the second wave. The main task of the paper is therefore to trace out the differential impact of the two globalizations, to examine the reasons for the differences, and to hazard guesses as to how the process will play out in those parts of the region that remain incompletely globalized.

Before I proceed to the main body of the paper, a word about the use of the term "governance" in this paper, which seems to cause more of a problem for economists than for others. Economists tend to consider the phenomenon of globalization mostly as an expansion of the role of the market mechanism on a global scale. They are further inclined to believe that markets evolve spontaneously without human agency. Great as the intellectual achievement of economists (going back to Adam Smith) have been in pointing to the possibility that order may emerge out of chaos of self-interested motives through the market mechanism, it has blinded them to the reality that a market usually emerges only within a political order.[4] And global markets emerge within a particular global political order. The term "governance" as used in this paper attempts to capture the structure of that global order.

Transport Technology during the First Globalization

The transport revolution, the main motor of the First Globalization, was driven by a series of technological changes that followed the application of steam-power in transport. This was first realized on land, and led to the emergence of the railway industry in the second quarter of the 19th century. This was itself a major event, leading to a revolution not only in transport and trade on the land, but to major changes in the ways businesses were organized and financed. A similar, almost simultaneous, application to water transport led to the invention of steamboats, which in the beginning was used mostly

[2] An International Trade Organization was proposed at Bretton Woods, but the U.S. Congress refused to ratify it. International trade for the next five decades was subject to the rules of the General Agreement on Tariffs and Trade. The World Trade Organization was set up in 1997.

[3] Mainland Southeast Asia in this paper means primarily Myanmar, Thailand, Laos, Cambodia and Vietnam. Peninsular Malaysia should properly be included in the study, but owing to lack of information and of time will not.

[4] Actually, in the *Wealth of Nations* Adam Smith discussed extensively, and wisely, the proper role of the State in a market economy, but that appears to have been outshone by the brilliance of his insight into the workings of a spontaneous economic system.

for river and coastal traffic. The emergence of a global economy, however, had to await further technological developments, such as the invention of the screw propeller, the compound engine, and steel hulls, which made possible ships of greater size, with ocean-going capability. For East Asia, the opening of the Suez Canal was an important booster, possibly even essential for steamship operations, as there were inadequate coaling stations on the African coast.

All of these made ocean-going steamships after 1850 much more efficient and therefore far cheaper than traditional sailing ships. Real freight rates came down dramatically. Between 1850 and 1900 freight rate indices for ships leaving the U.S. and Britain more than halved (O'Rourke and Williamson 1999: Figure 3.2). For Asian routes, data are available only for the latter part of the century. But even then, the decline continued to be dramatic. Between 1882 and 1914, for the Rangoon to Europe route, the proportion of freight rate to the price of rice fell from 74 to 18 per cent (Williamson 2002).

Such a fall in transport cost could not but have a profound influence in world trading patterns. Prior to the transport revolution, international trade over long distances was primarily in luxury products, or goods that have a high value relative to its weight. Trade in bulky commodities such as cereals was largely local, at most between neighboring countries. After the mid-19th century, long-distance trade in such commodities became commonplace, with the share of primary products in total world trade hovering between three-fifths and two-thirds until the Second World War. In this classical pattern of trade, what later became known as developing countries (hereafter to be referred to as the Periphery) produced primary products in exchange for manufactured goods from the developed countries, which at that time meant primarily Northwestern Europe, and Eastern United States (hereafter the Center). This was in contrast to the trading pattern in the eighteenth century, when textiles from the Periphery formed a major component (sometimes as much as a half) of European imports (Findlay and O'Rourke 2001: Table 1). It was also, as will be discussed below, different from the ruling pattern in the second half of the twentieth century.

The changing trade pattern had a major impact on the domestic economy and society in the Periphery. First of all, the sheer volume of trade increased enormously. Unlike production of the previously traded luxuries, that for the newly traded primary commodities drew in a much larger segment of the Periphery's population. In some cases, the domestic labor force was inadequate to meet the demand and it had to be supplemented by bringing in people from the more densely populated part of the Periphery, which meant primarily China and India, as well as from Europe itself. Mass migrations took place in many regions of the world, some of them leading to major social problems that in some cases are still with us today.

The "vertical" trading pattern with trade flowing mostly between the Center and the Periphery, and only a small share being within either the Center or the Periphery had another consequence, namely that there was little need for a mechanism for trading arrangements among the countries, particularly of the Center. To be sure, the high point of the Free Trade Doctrine was reached in 1860, with the signing of the Cobden-Chevalier treaty between the U.K. and France, which among other things introduced the concept of "most-favored nation" for the first time in international law. But that was precisely it: a high point. Towards the end of the 19th century, protection returned to Europe and the United States, particularly when the surge of grain exports from the U.S. and other newly settled territories threatened European agriculture. By 1900, Britain remained the solitary holdout to the wave of protection.

At around this time, the Center experienced a wave of technological development within industries such as steel, chemicals and electricity. This wave is sometimes called the Second Industrial Revolution, because the logic underlying it differed significantly from the First. The technological innovations involved in this Revolution were much more science-based, whereas earlier, the invention and innovation was the work of tinkering artisans, although there are important exceptions in both Revolutions.[5] Once the innovation was implemented, production could be carried out only in very large firms, which could survive only if they sold their products to an ever-larger market. Very large industrial firms supplying to the larger national – in many cases global – markets emerged, particularly in the United States and Germany. Such firms required different methods of financing and management from what the traditional industrial firms used to do, and they had to learn to do so fast, which they did by looking at railroad companies as their role models (Chandler 1962: Chapter 1). These large multi-divisional firms were eventually to evolve into the great multinationals that dominate the global economy today.

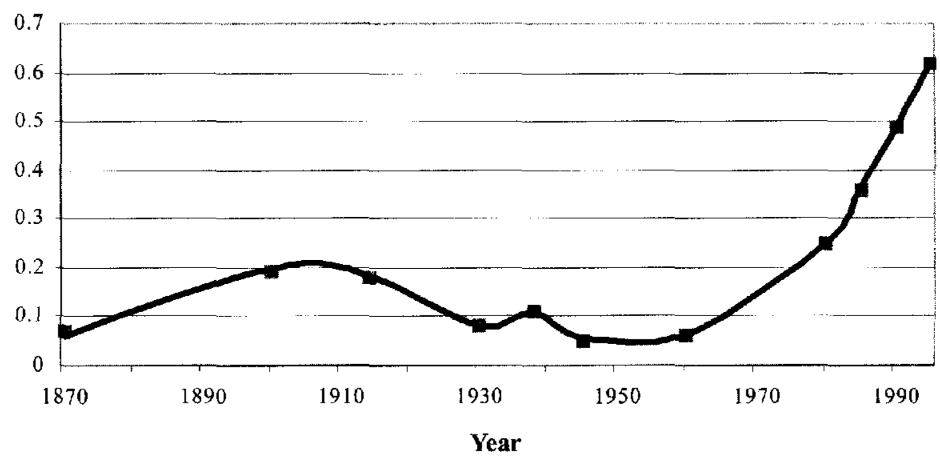
From the perspective of the Periphery, the science-based nature of the Second Industrial Revolution only increased the technological distance between it and the Periphery, even as the physical distance narrowed as a result of the transport revolution. The latter now had to develop its own education system, indeed its entire intellectual approach to the natural world, in order to catch up with the Center economically and militarily. The increasing technological distance reinforced the evolution of the trading pattern and condemned the Periphery to its role as suppliers of primary produce in exchange for industrial goods from the Center. With one exception, all the countries of the Periphery suffered considerable de-industrialization as a result of competition from the Center, as consumers fled to the far cheaper mass-produced goods from Western factories.

Japan, the exception, successfully crossed the chasm opened up by the Second Industrial Revolution during this period. The major impact of the reforms consequent upon Japan's industrialization, however, was to enhance its military and naval strength, so successfully that it managed to play the imperial game itself. But this success was at the expense of its people's standard of living. They had to wait another century before they could enjoy the fruits of industrialization.

[5] In the First Industrial Revolution, James Watt took a much more scientific approach to his invention of the steam engine (and his business). In the Second, figures like Edison and the Wright brothers were closer to being tinkerers, but the technical knowledge required to scale up their inventions was much more sophisticated.

To enable the export of the primary goods from the Periphery, large amounts of capital were sometimes required to produce and to support the trade and transport of these newly traded commodities. In many cases, railways and sometimes canals had to be built into the interior of these countries to collect the goods, which could be tropical produce, or minerals or timber. Ports capable of handling ocean-going traffic also needed to be built. Some, but not all, of the capital for these building activities was supplied by countries of the Center in an increasingly globalized capital market. Obstfeld and Taylor (2002) provided a measure of the mobility of capital by finding out how large the assets owned by foreigners were.[6] They then divided these numbers by World GDP to normalize for the change in income. Despite the data limitations, the results they obtained were quite illuminating as to broad trends. For the world as a whole, foreigners' assets to GDP rose from 7 per cent to 19 per cent between 1870 and 1914. Figure 1 allows the reader to see these figures in a longer-range perspective.

Figure 1. Foreign Owned Assets to World GDP



Source: Obstfeld and Taylor (2002).

These figures indicate the importance of the stock of foreign investments relative to world income. However, to get at the contribution of foreign investments to the recipients' resource mobilization, it is better to have the share of foreign savings (that is the rate of capital inflow) in total investments. Direct estimates of this ratio are not available, but a crude estimate may be obtained if the ratio of foreign assets to world GDP is divided by the capital-output ratio. If one uses the magic number of 3 as an estimate of

[6] Obstfeld and Taylor also obtained figures for liabilities owed to foreigners. In principal, the two should be identical for the world as a whole, but because of the data difficulties, world liabilities exceeded world assets by as much as 30-40 per cent during the pre-World War I period, fell to about 20 per cent in the post-World War II era. These differences provide an estimate of the order of magnitude of the error. As will be seen, the magnitude of the changes that Obstfeld and Taylor reports is much higher than these errors, and therefore must be considered robust. In the following discussion, I shall be discussing only their estimates of the foreign assets/GDP ratio.

the capital-output ratio, a number economists tend to use when data are unavailable, the steady-state share of foreign investment or saving should be over 2 per cent of GDP in 1870 and 6 per cent in 1914. When one considers that the saving rates in most countries were unlikely to exceed 15 per cent and for the countries of the capital-importing Periphery even less, a contribution 2 and 6 per cent from outside then look quite impressive. At the same time, one should not lose sight of the fact that probably the larger part of the capital formation during this period was financed out of domestic resources.

Data, also from Obstfeld and Taylor, show how important Britain was as a source of capital during this era, providing about two-thirds of the total in 1870, comfortably exceeding the share of the U.S. in the post-World War II era, whose maximum of 50 per cent was reached in 1960. Before World War I, the U.S. was actually a recipient of overseas investment. By 1914, capital owned by foreigners in North America (mostly the U.S.) was 11.1 billion dollars, while in all the countries of the Periphery, foreigners owned about 13 billion dollars.

What explained this huge growth of foreign capital? It would be nice and symmetrical with our explanation of trade expansion if technological developments similar to the transport revolution can be cited as a cause. Presumably, the relevant technology in this case would have been in communications as information plays a central role in capital markets. There was indeed a communications revolution with the coming of the telegraph. It lessened the time for information to flow from New York to London to fall from three weeks to one day after the laying of the transatlantic cable in the 1860s, and by 1914 it fell to less than a minute (Eichengreen and Bordo 2002).

But important as the telegraph was, its impact on the globalization of capital flows was considerably less than was the impact of the transport revolution on trade flows. Capital flows involved a longer-term relationship that had to be sustained by contracts that were properly enforced, and by a financial regime that preserved investment values. Speedy communications no doubt helped, but the system of governance that support capital investments mattered more.

For markets to emerge, for production to expand to feed the markets, and for investment to be made to sustain the production, institutions had to be developed. In the case of natural resources, whether they were mineral or timber, property rights have to be clearly established to allow investment and sustained extraction. In the case of agricultural production, whole new relationships between people who owned the land and invested the capital on the one hand, and labor (who might be immigrants) had to be established. Indeed the very concept of land ownership had to be redefined. When the products left the farms or the plantations, they had to pass through various hands. All such relationships are predicated on the existence of a State that was ruled by a particular concept of law, that is one in which the power of the State was explicitly limited in some ways. In particular, there must be a limit on the right of the State to expropriate the property of its citizens in an arbitrary fashion.

The First Globalization and Governance in Mainland Southeast Asia

The Southeast Asian kingdoms of the nineteenth century were deemed by Westerners to be incapable of providing these institutional infrastructures. It is doubtful whether these constituted States as understood by the West. Pressure was brought to bear on them to reorganize themselves and to mimic Western ways of doing things.

Roughly, two stages of this pressure could be discerned. During the first stage in the middle of the 19th century, the Western powers, primarily the British, continued to expand their *influence* throughout the world, including Southeast Asia. The means used was to persuade (always with an implicit, and sometimes explicit, threat of force) various rulers to conform to the Westerners' wishes in the matter of trade. The imperative of protecting investors mattered somewhat less at this point.

Typical of this approach was when the British obtained the agreement of the Siamese Court to limit its right to set import tariffs and to cede its own legal independence and grant extraterritorial rights to citizens (and subjects) of Western powers. This agreement, known as the Bowring Treaty, was later extended to other Western countries. The conciliatory approach of the Siamese Court contrasted sharply with that of the Burmese Court. The latter was not as accommodating, and furthermore, was not quite able to control the situation in Lower Burma where British traders were active. A trivial dispute involving the levying of a fine of 1,000 Rupees on the captains and crews of two British ships by the Governor of Pegu escalated into the Second Anglo-Burman War,[7] and ended with the annexation of Lower Burma in 1852. The contrasting treatment of Burma and Thailand by the British neatly illustrated Gallagher and Robinson's (1953) characterization of its policy during the middle of the 19th century as "trade with informal control if possible; trade with rule where necessary".

The second stage of Western pressures came during the last quarter of the nineteenth century and was marked by a more aggressive stance, partly because Britain was no longer as dominant a player in the imperial game (although, as already indicated, it remained a dominant investor). Other European powers, as well as the United States, became contenders. Equally – and this is the argument put forward by Hobson (1938 [1902])[8] and Lenin (1971[1917]) – the change was caused by the dramatic expansion of overseas investments by the Center, particularly by the British.[9] It was the need to protect these investments that direct rule had to be imposed, inasmuch as a great deal of European investments were in railroads, and if not, it was to extract natural resources. In line with the international division of labor that was emerging as part of this wave of globalization, little investments were made in industry.

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7 The First Anglo-Burmese War was in 1824, and ended with the British annexation of Tenessarim and Arakan provinces.

8 This notation means that the edition from which the citation was made was in 1938, but that the first publication of the work was in 1902.

9 Gallagher and Robinson (1953) deny there was any discontinuity in British policy between the first and second stages.

Burma again provided an interesting case study. The teak forests of Northern Burma attracted many operators, including British companies. The Third (and last) Anglo-Burmese War erupted in 1885, in part as a result of a fine levied by the Burmese supreme council on one such company. This war brought an end to the Burmese monarchy. Siam, on the other hand did not experience a similar incident. This is because foreign investors enjoyed the benefit of extraterritoriality granted by the Court, under the terms of the treaties signed with Western powers in the 1850s. With extraterritoriality, any dispute involving foreign investors would be settled by the consular courts using the laws of their own countries. Nevertheless, as the teak companies also began to move into Siam following the unsettled conditions in Burma in the first few years after the British moved in, the Siamese Court began to look with concern at the system of concessions that were granted by the northern princes, over whom the Bangkok court was the theoretical suzerain. But this suzerainty could be questioned and over-ruled by the Western powers, as was the case with the Laotian princes and the Cambodian kingdom. For this and for other reasons, it began radically to centralize the system of administration, in effect removing the powers of the local rulers. This was to culminate in the great administrative reform of 1892 introduced by Rama V (Tej 1977). With this essentially defensive measure, the Siamese Court engaged in an internal colonialism with Bangkok as a local center, bringing in its own periphery more firmly under its control. A Siamese state with sharply demarcated borders (i.e. in the Western sense) began to emerge, and that conception of the State began to take hold among the Siamese.

The above account should not be taken to mean that economic motives provided the sole explanation of colonialism, even though they provided the background to the expansion of the British Empire in Southeast Asia. The disputes that eventually led to the acquisition of Indochina by the French, on the other hand, had relatively little to do with economics. But even here, in French domestic politics, the imperialists used economic arguments to support their case for a forward policy. Nevertheless, to provide some balance to the somewhat simplistic, but intellectually attractive Hobson-Lenin thesis outlined above, we need the following reminder from a more recent scholar:

> "By the early nineteenth century Europe was unavoidably linked with the still-independent countries of Africa, Asia and the Pacific in many ways. The growth of European technology and industry rapidly extended trade with all parts of the world. Steamships generated types of commerce which would once have been unprofitable. Christian missions were establishing stations everywhere, and explorers mapped 'dark' continents. Europe was now an immense power house, radiating energy indiscriminately, stumbling into closer contact with all independent states. Such contacts were the solvent of a 'hands-off' policy. Improved European military and naval equipment and techniques were reversing the old power balance. … In the past colonization had often been made possible by the skilful use of small resources against great odds, as in India. Now it was almost too easy. Indigenous states, previously formidable obstacles or valuable buttresses to

European activities, now crumbled to the touch. These were the causes of the new expansion of Europe." (Fieldhouse 1966:179).

Regardless of the causal chain explaining imperialism, the disputation over which has generated a vast literature, it cannot be denied that it made the world safe for capitalism. What occurred after the entry of the Europeans into Southeast Asia, was the formation of the modern state, or, more accurately, the concept of the modern state. Except for the Siamese, the only reality of the modern state that Southeast Asians could observe and experience was the colonial administration, which was but an extension of the European states (minus some of the liberal and democratic trappings that they had acquired during the nineteenth century). Thus, when King Rama V was creating the modern Siamese state, his working models were the colonial administrations in British India and in the Dutch East Indies. Later on, in rising against their colonial masters, the nationalists always have as their aim the creation of a unitary nation-state.

Ironically, once they were in control, the British in Burma were following a much more complex, or as some would say, a more devious policy there. They exerted direct rule over the majority Burmese, indeed merged Burma into British India. On the other hand, their control over the hill-tribes (except of course in the teak areas) was relatively light. The Shan, Karen and other minority princes were allowed to retain their authority. Roughly speaking, Burma was divided into two major parts, namely, Ministerial Burma (or Burma Proper) and the Frontier Areas. In addition there were "independent" Karen states that were not even included as part of Burma. To rub salt into Burmese wound, these minority groups were recruited to serve in the colonial army, while the Burmese were excluded. This last discrimination began during the Anglo-Burman wars, during which the minorities fought enthusiastically on the British side, and continued until 1937. All of these were to store up trouble when Burma became independent in 1948.

Clearly, this dispensation in Burma was related to the economic potential in the different areas. Other than the teak areas, for which special arrangements were made with the friendly princes, the productive areas were in the delta, where the British exercised direct rule. But outside these areas, the British were not deeply concerned, and left both the economy and the governance to the inhabitants' device. The same applied to the French in Indochina. They exerted direct control in Cochin-China, which coincides roughly with the Mekong delta, and in Tonkin in the Red River delta. Laos and Cambodia, more marginal to French interests, were granted protectorate status.

The Economic Impact of the First Globalization in the Greater Mekong Sub-region

The primary impact of the First Globalization on the Greater Mekong Sub-region was economic. But this impact was quite uneven. Parts of the sub-region with easy access to the sea enjoyed tremendous economic boom. The three delta regions, those of the Irrawaddy, the Chao Phraya and of the Mekong were completely transformed. They became the suppliers of rice to the rest of Asia, which fed workers in plantations in what are now Malaysia, Indonesia and the Philippines, which in turn fed the industries and consumers of the Center. The quantitative dimensions of these changes can be seen in the growth of rice exports from these deltas, shown in Table 1.

Table 1
Rice Exports from Burma, Siam and Cochin-China
1863-1910

('000 metric tons)

	Burma	Siam	Cochin-China
1863	289	104	11
1870	336	156	230
1880	742	209	286
1890	934	490	529
1900	1,105	422	625
1910	2,192[a]	970	905

Note: [a] This figure is the average of Burmese exports between 1902 and 1911.

Source: Owen (1971: Table 1-A).

As in other parts of the world, such rapid expansion had an enormous impact on the social relations of the societies that enveloped the new rice economies. But because the main crop grown was an ancient staple of the region, the changes were not mediated through a change in the production technology, as in many other countries of the Periphery where the plantation system of production was introduced. Production remained in the hands of small farmers, who were however quickly drawn into new relationships, defined and set out by the new colonial administrations. Large numbers of people moved into the three great delta areas, which were at that time mostly empty lands.

Who gained and who lost from this entry by at least a part of the region into the global arena? As the first impulse of the globalization of the markets was the dramatic fall in transport costs between two countries, we should begin by asking which one gained and which one lost from this fall in transport cost.

Between trading countries, one should expect that, as transport costs fell, countries should receive a higher price for their exports and pay less for their imports, and *all* trading countries should benefit. This was indeed what happened (Williamson 2002). Economic theory then predicts how that gain would be distributed within a country. A trading country, say Siam, would be expected to shift its production to the set of commodities, say rice, requiring more intensively the factor of production that it has in abundance, i.e. land. That is the reason why it is said to have a comparative advantage in rice. After the production shift toward rice, the demand for land would naturally increase, and so would its price. At the same time, if there were no technological change, the price of other factors of production in which the country is relatively less well endowed, say labor, would decline. This is because competition from imports of labor-intensive goods from countries that have abundant labor would come in and replace domestic production, and release Siamese labor from employment in these sectors. The theory just outlined thus mapped changes in goods prices into changes in factor prices.

Jeffrey Williamson (2002) has attempted to test this prediction against data from a large number of countries both in the Center and the Periphery for the period during the First Globalization. Despite, some caveats to be discussed further below, one striking conclusion emerged concerning the peripheral countries. If these were to be classified into labor-abundant countries (Japan, Korea, Taiwan) and land-abundant countries (Latin America and Southeast Asia), then the ratio of wages to land-rents rose in the former and fell in the latter, as predicted by economic theory. Williamson indeed singled out Burma and Siam in his sample of 19 countries where the fall in the said ratio was particularly dramatic. In the case of Siam, the fall was as much as 98 percent between the quinquennial average of 1870/74 and that of 1910/14.

The significance of the reported changes in this ratio in various parts of the world lies in the fact that in all countries, one would expect that land rental income to accrue mostly to the rich and also to be unequally distributed in contrast to wage incomes. The fall in the ratio of wages to rental incomes observed for Burma and Siam would therefore suggest a worsening income distribution.

However suggestive, capturing a complex phenomenon by means of a simple ratio could be misleading, particularly in a highly dynamic environment as in the delta areas. First of all, note that the only claim that has been made is that the ratio of wages and rental rates has fallen in Burma and Siam. This is quite compatible with the numerator or the denominator rising or falling. Actually until at least about 1900 wages were rising in both countries. Furthermore, for the fall in this ratio to translate into a worsening of income distribution, the distribution of land ownership must have been relatively constant. This decidedly was not the case. Recall that the three delta areas were at that time mostly unoccupied. As people moved in, some rights must be granted to them to allow them to engage in production and sell the product of their labor to the market.

Because of the prevalence of shifting cultivation, traditional laws granted only conditional rights to land. To retain possession, cultivators must be farming the land in their possession. There were also many features of the law (at least in Siam) that suggested that at least an important fraction of the land was under shifting cultivation. Land laws were changed, to allow private property rights along Western lines, including the ability to put the land up as collateral.

One possible outcome would be that the introduction of private property rights in a regime with production done by small farmers, in a frontier type situation where land was plentiful would have given rise to a sturdy class of property-owning farmers. But that was not to be, for aside from land and labor, capital was needed for the rapid expansion of production. In Siam, the Court granted land by the Crown in the Rangsit region, a large area in the central plains northeast of Bangkok, to a firm to develop. It cleared the land, constructed the canals in exchange for a grant of the land, which was then sold to wealthy individuals, including members of the Court, indeed the King himself. Similarly, in Cochin-China, the colonial administration constructed a network of canals in the south of the Mekong Delta, while private land-speculators, first the French, but increasingly Vietnamese invested in land clearance. Since some of the areas had alum deposits which would have interfered with rice production, they also had to invest in "washing" the land of these deposits, which involved alternately flooding and emptying the land for a number of years before it could be used. In the Irrawaddy Delta, the investment in flood protection was done by the colonial administration, but the investment in land clearance was done by the farmers themselves, with loans from Indian money-lenders, who gradually acquired more and more of the land. In all three countries, the landlords would let out their land to be farmed by tenants, mostly new migrants moving into the deltas.

It would however be a mistake to make a broad generalization that the entire delta areas were taken over by large landholders. Where the settlement was gradual, and farmers had time to adjust their livelihoods to the new market economies, the resultant land-holding pattern was healthier. These would include the northern delta areas in Burma, the more northerly part of the Mekong Delta, and areas in central Siam away from the Rangsit scheme (Ammar 1972).

However, even in the areas destined to be dominated by the large landlords the settlement in the new lands benefited much of the peasantry in the beginning (that is, until about 1910). Hence, the massive migrations into the deltas from other parts of the countries in Burma and Vietnam, and the profitability of the Rangsit project for its promoters.

Beneficial as the close ties to the world commodity markets might have been in the beginning, there are a number of downsides to these developments. First, it led to a decline in the strength of local communities. These changes were due both to the changes in the administrative system, and the increasing penetration of the markets in the coastal areas which was growing most rapidly (Scott 1976, but see also Popkin 1979). The tasks that used to be performed by communities were increasingly done by state organs and the markets. Thus, to take an example, the helter-skelter growth in the frontier areas in Burma, with migrants converging in from many areas, led to an explosion in the number of land disputes. Furthermore, the emergence of a landlord class in all three deltas did not make for a healthy social order. In lectures given to post-independence Burma, Furnivall, a former British colonial officer and an authority on Burmese land problems had this comment on developments in Burma:

> "... Under foreign rule all social relations [in Burma] were dominated by the economic motive, the desire for material gain, continually pitting the individual against society, and ... consequently the social order has disintegrated and Burma had been transformed from a human society into a business concern. As a business concern, Burma flourished. There was rapid economic progress and those who were making money, dazzled by the glitter, had no desire to look below the surface. In any form of social

life economic considerations must have a place, a very important place; but not the first place. An attempt to construct human society on purely economic foundations is to build on sand, and any one who looked below the surface could see that the edifice, however imposing, was unstable."

Once the boom wore off in the beginning of the 20th century, the delta farmers' standard of living was no longer clearly improving, and their fate was increasingly tied to the vicissitudes of the global economy. Currency ties to the metropolitan countries with the gradual establishment of the gold standard worldwide (substantially completed by 1898) meant that that instability was transmitted in full back to the colonies. No protective measures were devised by the colonial regimes to insulate their subjects from the home country's or from the world's problems. The economic situation of the farmers became very serious in the long period of primary-product price decline in the 1920s and almost catastrophic during the Great Depression. During this period, the loci of the peasant revolts, which had been in the less developed inland areas in the last quarter of the nineteenth century, shifted toward the coastal areas.

Two coastal areas that remained immune from the First Globalization are the Red River Delta and the long strip of land between it and the Mekong Delta, with a number of river valleys. While the rest of mainland Southeast Asia was sparsely populated at the advent of the First Globalization, these areas were exceptionally quite densely settled. While they could have adapted to the First Globalization by engaging in labor-intensive industrialization, essentially following the Japanese route, this did not happen, as their French colonial masters were not interested. As pointed out in the earlier discussion regarding the possibilities of industrialization during the second half of the nineteenth century, the reforms needed both on the social and economic fronts had to be very profound for the attempt to be successful. In this respect, Japan was truly unique.

These coastal areas in Vietnam and the inland areas benefited little from the boom in the three rice-exporting deltas. They nonetheless had to finance their share of the increased cost of the government imposed by the colonial regimes. While it was possible that the traditional governance system was just as costly as the new one, the centralization of power in a modern state also meant the centralization of revenues, and therefore more transfer of resources from the outlying areas to the capital city. There was in addition a forced monetization of the economy, for while the traditional monarchies extracted a great deal of in-kind resources (notably corvee labor) from the population, the modern state demanded only money. Consequently, tax revolts broke out in many areas, abetted by the dissatisfaction of the old local rulers, now deprived of power. The last reason was of course important, and explained the instability in Upper Burma, the heartland of the old Burmese kingdom. The unrest lasted for five years after the British dismantled the Burmese monarchy, and which spread to the fringe areas of Lower Burma (Cady 1958:132-137). Similar revolts broke out in various parts Vietnam during the somewhat more protracted occupation of the French (Marr 1971:22-43), and also Siam in the wake of its centralizing administrative reform (Tej 1977:150-153).

Thus it came about that, among the great river basins of the world, that formed by the Mekong is one of the least globalized. Quite large parts of the basin have not even completed the transformation consequent upon the First Globalization. Divided among six states, not all of which have enjoyed long periods of uninterrupted peace, the basin did not see infrastructure built up to overcome their transport problems. Nor does the river itself provide a transportation route, on account of its physical limitations (hugely fluctuating flows and the presence of rapids). As Jeffrey Sachs and his colleagues have pointed out, contiguity or access to the sea is an important component explaining the level and growth of incomes. Except for the delta area in Vietnam and for Cambodia, this condition is not met. Laos, the Northeast of Thailand, Yunnan province and the bit of Myanmar that abuts on to the Mekong are all classical land-locked areas, and remained largely undeveloped on the eve of the First World War.

The End of the First Globalization

Politically, the First Globalization came to an end with that great European civil war known as the First World War. The war ended with the disappearance of two great empires (Germany and Austria-Hungary), and the replacement of a third by a Union of Soviet Socialist Republics, with a radically different socio-economic order from what the world had known.

With the Center broken up, and with its constituent states at daggers drawn for most of the first half of the 20th century, globalization could not advance very much and indeed regressed. Once the Great Depression hit the world in 1929, it came to an end economically, the death-knell being rung when the U.S. Congress passed the Smoot-Hawley Act in 1930, which sharply raised tariffs across a broad range of goods. As countries of the Center became increasingly mired in financial difficulties, they left the Gold Standard. Even the British finally abandoned its policy of free trade.

Because the deflation that came with the Great Depression affected primary produce much more than other goods, the effect on the commercialized (and monetized) parts of Mainland Southeast Asia was substantial. Nowhere is this more so than in Lower Burma. There the collapse in rice prices led to a sharp curtailment of credit and land alienation to the moneylenders, mostly Indians from the Chettyar caste. At the same time, the labor market became fiercely competitive, with imported Indian laborers generally outbidding the Burmese. The standard of living of tenant farmers (as suppliers of their own and their family labor) deteriorated so that it approached the level of the landless laborers from levels that had been comfortably well above at the turn of the century. These in turn led to social discord, occasionally to violence. A more lasting imprint was the emergence of nationalism, which had as its key component an antipathy towards the Indians (Adas 1971: Chapter 10). Although direct comparison of the effects of the Depression in Lower Burma and in Lower Siam is not possible, there is reason to believe that it was relatively mild in the latter. Zimmerman, who conducted an economic survey of rural Siam in 1930-1931, reported a relatively mild impact in general, although mention was made of the increased incidence of land alienation in some Central Plain provinces (Zimmerman 1999, first published in 1931, p.208). Part of the reason for the relatively mild impact on Siam might have stemmed from the fact that even in 1930, the land frontier was not yet closed, unlike in Burma. Thus Zimmerman, while reporting on the demoralized condition of tenant farmers in the Rangsit region, could report that some had the option of abandoning their tenure to go and farm in new lands (Zimmerman 1999: 305-310).

The apparent unwillingness or the inability of the colonial administrations to tackle the problems created by the Great Depression enlarged the support base of the emerging nationalist movements in Burma and French Indochina.[10] Their cause was given a further boost with the victories of the Japanese over the British and French armed forces during the Second World War. After this the position of the colonial powers in Southeast Asia became untenable. Britain quickly conceded independence to the Burmese in 1947. The French fought on fiercely for almost a decade, before withdrawing in 1954, although that did not mean that the peoples of Indochina gained independence, because the departure of the French was followed by a long period of civil wars in all the three successor-states of French Indochina – wars in which various outside powers, particularly the United States, played major roles.

Foundation Stones for the Second Globalization

The end of the Second World War saw the formal arrival of the United States as the world economic hegemon. Actually, the U.S. economy had been the world's largest since the beginning of the 20th century. Unlike in the immediate aftermath of the First World War, the U.S. this time was willing to assume and exert the power that came with the economic hegemony. Also, this hegemony was unquestioned, as the other would-be superpower of the postwar years, the Soviet Union, appeared uninterested in the kind of questions that exercised the leaders of the capitalist world.

The postwar economic settlement gave us three basic institutions under which the global economy has been operating ever since, namely:

i. The International Monetary Fund to oversee the monetary system, and to provide short-term financial resources to countries for stabilization purposes. Maintaining a fixed exchange rate regime, and facilitating free capital flows were among the policy objectives to be pursued.

[10] In Burma, there was a remission of the capitation and land taxes, but apparently it was not enough to compensate for the fall in rice prices (Brown 2000). In Indochina, the colonial government had, as early as 1892, provided imperial preference for Indochinese goods entering metropolitan France. This was strengthened in 1928, but was insufficient to prevent the fall of rice prices sold in third markets in Asia. In fact on this last point, the competitiveness of Cochin-Chinese exports was reduced by the decision of metropolitan France to keep the franc, and with it the Indochinese piastre, on the gold standard (Norlund 2000).

ii. The International Bank for Reconstruction and Development (IBRD), popularly known as the World Bank (a name which it later officially adopted), to provide long-term financing to government for developmental purposes.

iii. The GATT, which were to provide a forum for mutual tariff reductions, and which were to provide a legal framework under which trade disputes among contracting parties were to be resolved.

The first two were created at the Bretton Woods Conference, convened in 1944 to lay the foundations for the postwar international economic order. The number of nations that attended it was quite small, and was dominated by two victorious powers, the U.S. and the U.K. The influence exerted by the U.K. rested more on the intellectual firepower of one of its delegates, the great economist John Maynard Keynes, than on its intrinsic economic might. Indeed, on many issues Keynes had to concede to the interests of the U.S. Aside from these two, most of the countries of the Periphery were then still colonies of the European powers, the main exception being from Latin America. France, Germany and Japan, countries that were later to play major roles in the postwar era, could not attend, either because they were occupied by enemy forces or were still at war with the Allies. Despite the limited attendance, the system designed in 1944 remains with us today.

The framers of the postwar settlement were not only the prisoners of their national interests, but also of their history. All of them had lived through the crises of the inter-war period, and above all, through the Great Depression, and saw it as their task not to repeat what they saw as the mistakes in policies and institutional arrangements of that era.

Foremost among these lessons were the consequences for the global economy of the retreat of the U.S. into isolationism after the First World War. This time the U.S. dominated the Conference, and stayed committed to the international order that it almost single-handedly created throughout the postwar period.

The second lesson drawn was that a lack of rules could lead to a competitive round of tariff increases or competitive devaluations, which ended up harming everyone. Hence a central task of the International Monetary Fund, was to enforce and facilitate a fixed exchange rate regime. Almost incidentally, the emergence of the International Monetary Fund also signaled the final divorce of the world's leading currencies from gold – Keynes's "barbarous relic", with the emergence of the paper dollar as the international standard of value.

To control competitive tariff increases, the Conference also envisaged an international trade organization. Of course for countries to submit to these common rules, some losses were to be expected, but the United States, again as the dominant country, with over half of the world's industrial production was willing to make side-payments to others to obtain agreement.

The third lesson drawn was that to sustain commitments to international agreements, each country had to find a domestic social compact between different interest groups, in particular between capital and labor. This was facilitated in most countries by the success of full-employment policies, made possible by the intellectual triumph of Keynesian economics. Not to be ignored are the aforementioned side-payments by the U.S., at least in the first decade after Bretton Woods in the form of Marshall Plan to Europe and considerable assistance to Japan. The American contribution was not only monetary, but also extended to the tolerance of widespread interventions in their economy by European countries in the early postwar period – interventions which sometimes (e.g. exchange controls) contravened both the spirit and letter of the Bretton Woods agreement (Eichengreen and Kenen 1994).

One more feature that should be noted about Bretton Woods was the small role played by developing countries in its framing. Not only were they mostly absent, as a large number of them remained colonies of the European empires, they were seldom on the radar screen of the negotiators. Even though the foreign policy of the U.S. government at the time favored the granting of independence to the colonies, it did not have a clear picture of what institutional arrangements were necessary to cope with the special problems posed by them. The central focus of the Bretton Woods negotiators was the immediate problems caused by the wartime devastation in Europe, and to prevent the recurrence of the terrible instability of the inter-war period in the industrialized countries. The IBRD, which would be the natural place for the concerns for developing countries to be expressed by the framers, was designed with the reconstruction of Europe mostly in mind. It was under-capitalized even for that, and the Marshall Plan had to be devised for that reason.

The marginal role of the developing countries during this formative period could be best seen in the arena of trade policy, where the developing countries. At that time the Latin American countries were the more numerous among the sovereign independent states and took an active part in the two Conferences in Geneva (1947) and Havana (1948), held to discuss the charter for an International Trade Organization (ITO) as proposed by the United States.

Developing countries proposed many amendments to the draft charter. These appeared to cover the entire program of what developing countries had to fight over the next four decades, and which were at complete variance to the spirit of the U.S. proposals. The cornerstones of the GATT system as was proposed by the U.S. and which was eventually adopted were concepts such as uniform treatment (most favored nation) and no preferences, and reciprocity of trade concessions. One scholar of international trade law explained the opposition thus:

> "The almost spontaneous rejection of the policy goals of the United States was no doubt primarily due to the trade-policy education which developing countries had in the past. Those that had been colonies had been taught by their parent counties that economic benefit was maximized by controlling trade and suppressing competition from alternative suppliers. This lesson had even been given to the United Kingdom's colonies and former colonies when, in 1932, it had abandoned its long-standing free trade policies by

> enacting both a general tariff and a systematic and reciprocal programme of tariff preferences called the Imperial (later the Commonwealth) Preference System. Those who traded with the United States had been taught a similar lesson when, in 1930, the United States had chosen to protect itself by enacting what was believed to be the highest tariff in its history – the infamous Smoot-Hawley tariff." (Hudec 1987:11-12).

In the event, the United States got what it wanted from the trade negotiations, although ironically it was the U.S. Congress that rejected the ITO Charter. Originally, the General Agreement on Tariffs and Trade (GATT) was to be appended to the ITO Charter, but with the ITO Charter brought down by the Congress, the GATT was rescued from oblivion by a legal technicality. And it was the GATT that eventually provided the legal framework for trade liberalization. In the words of Jackson (1998), the GATT was born with a birth defect. But, as we shall see below, of the three organizations, it has proved the most resilient and has been relatively the most successful in pushing its agenda.

Nevertheless, during the first few decades, developing countries remained substantially outside the GATT system, either by not becoming contracting parties, or by collectively asking for (and getting) exemptions from the developed countries. These special treatments were eventually enshrined in Part IV of the GATT, adopted at the end of the Kennedy Round in 1964. But the victory won was however empty, as it embodied almost no legal obligations, either on the developing countries, or, more to the point, on the developed countries who were being asked to grant concessions[11].

This meant that the developing countries had the freedom to pursue policies that insulated their economies from all global trends. But it also meant that issues of interest to them also were kept out of the GATT system, sometimes by developed countries' action. Agriculture was always an exception, but soon textiles were *de facto* taken out in a series of special agreements that limited developing countries' exports.

The developing countries had the cold war to thank for their ability to pursue closed-economy policies domestically without being strongly penalized. By not allowing themselves to be penalized, they also gave developed countries the excuse to opt out of their obligations when it suited them.

The First Three Decades of the Second Globalization

For the industrialized countries, the first three decades saw a successful implementation of the new global order. The recovery from the war was rapid, and afterwards led to about two decades of sustained growth, at rates that were historical highs, even for Britain which was considered the sick man of the postwar world.

[11] Hudec (1987:57) cites the following sentence from Article XXXVII (Commitments): "The developed countries shall to the fullest extent possible – that is, except when compelling reasons, which may include legal reasons, make it impossible – give effect to the following provisions..."

Under the auspices of the GATT, the industrialized countries substantially reduced tariffs among themselves. Most of these cuts were in industrial goods, with agriculture usually excluded from the discussion. Indeed, agricultural exceptionalism was written into the GATT. Despite being the main exporter of agricultural goods, the U.S. agreed to this exceptional treatment of agriculture, and even sought additional waiver for sugar, a product it was (and is) weak in. As already mentioned, the developing countries, most of them recently independent, were not committed to the multilateral trading system. Indeed they saw their problems as stemming from an over-dependence on the production of primary products for exports, and consequently wanted to turn away from the trade regime imposed on them by the colonial powers. It was only during the Uruguay Round in the 1980s that the developing countries began to play the GATT game as originally conceived.

These contrasting positions in trade policies of the developed and developing countries led to a major shift in the pattern of trade away from its nineteenth-century configuration, from a predominance of trade in primary products to one where trade in manufactured goods became predominant. During this early period, the manufactured goods trade was carried out mostly among the industrialized countries themselves, the developing countries still exporting mostly primary products.

On the monetary side, the industrialized countries pushed forward with the Bretton Woods program, fixed the exchange rates for their currencies, and made them convertible. This in turn led to a very rapid expansion of the size of the international money and capital markets. Herein lay the seeds of destruction of the system as conceived at Bretton Woods, for the system of fixed exchange rates proved to be incompatible with the kind of capital mobility that emerged in the 1960s. Management was particularly difficult for countries whose currencies were held as reserves by the rest of the world, namely the U.K. and the U.S. The former in particular had a particularly difficult time, as countries were continually shifting their holdings out of pound sterling into dollars. But the breakdown really came when the U.S., having run persistent deficits in its balance of payments for over a decade partly as a result of the Vietnam War, suspended the dollar's convertibility to gold. After this, the commitment to a fixed exchange rate regime was no longer part of the agenda of the IMF, although the promotion of capital movements remained its objective, at least until the Asian crisis.

After the industrial countries floated their currencies, the IMF became almost exclusively the banker of last resort to snuff out crises among developing countries.

A beneficiary of the liberalized markets in goods and capital among the industrialized countries was the multinational corporation. As already pointed out, the origins of very large-scale enterprises, particularly in the U.S., can be traced to the Second Industrial Revolution at the end of the nineteenth century (coinciding with the First Globalization). Many of them had begun to expand the scope of their operations overseas, but in specific sectors (e.g. petroleum) or specific regions (e.g. American businesses in Latin America). But beginning in the 1960s, American manufacturing businesses began to move out from their home base to Europe in a big way, leading to European fears that the Americans will take over their continent. Soon enough, the Europeans began to invest in the U.S. too. And over the years, large corporations, whether they are American, European or Japanese began to expand to other parts of the world with good economic prospects, including a few developing countries. Notably, Japan, Korea and Taiwan, while encouraging their own firms to invest abroad, successfully thwarted foreign firms from investing in their countries.

The benefits and costs to the host country of multinational entry have been debated in a voluminous literature. In my view, the key to understanding the benefits of multinationals for developing countries is in the approach one takes to the acquisition of technological capability. Recall that the Second Industrial Revolution was based on a more science-based approach to technology, and increasingly, it is based on how the science and technology can be harnessed by businesses for commercial ends. Multinational enterprises *can* be a good conduit for new technologies to be indigenized, but they are neither necessary (e.g. in the case of the three East Asian countries that discouraged foreign firms) nor sufficient (e.g. most other developing countries). Within Southeast Asia, Singapore, and to some extent, Malaysia have been reasonably successful in handling the multinationals.

During this episode of rapid integration of industrialized countries, almost all developing countries did not open their trade and investment regimes, and pursued an industrialization strategy based on import substitution, i.e. by having their domestic industries depend on local purchasing power to sustain themselves. The consequence has been generally that their industries could not achieve sufficient economies of scale to be profitable. Many industrial firms ended up being owned or subsidized by the government. Some other countries, including very large ones such as Brazil, China and India, opted directly for government ownership of some key sectors of the economy for ideological reasons. In either case, such government intrusion into industry usually made for an inefficient industry.

The Last Two Decades of the Second Globalization

In the meantime, a number of East Asian countries followed a somewhat different path than suggested by the Soviet economic model, which was certainly an inspiration for some of the developing countries (notably India), or by the Western capitalist model. The pioneer of this path was Japan, followed with variations by Korea and Taiwan. The starting point of their policies is to enable indigenous firms to acquire new (i.e. Western) technologies, by supporting them with access to credit and import protection. In these respects they were no different from other developing countries. The difference came in their attitude to global markets. The *quid pro quo* for state assistance to their industries was that they must be able to export, and indeed the assistance was conditional upon that ability. In this way, the support provided was subject to some disciplines, and not open-ended as is the case in so many other countries. Far from globalizing their economies, these countries successfully exploited the global economy, and used it both to acquire the economies of scale and to discipline their businesses.

The success of these East Asian countries became the subject of many studies. But people chose to read their own predilections into the "East Asian model". It was widely believed that their success owed a great deal to their "openness". The World Bank and the IMF were given further ammunition to recommend trade and investment liberalization to their borrowers. No doubt, the advent of the Thatcher and Reagan governments in their countries added to the pressure on these institutions to follow their neo-liberal lines, given the dominance of U.S. voice (and voting power) on their boards. Critics of this line on the other hand argue that the successes of these countries did not arise from a liberal economic regime (Amsden 1989, Johnson 1982, Wade 1990). On the contrary, the state intervened pervasively in the economy, not just by sectors, but going down even to the level of the firm, using their control first of scarce foreign exchange and then of bank credit to direct resources to the preferred firms or industries.

These successes led many developing countries to reassess their industrialization strategies, but another reason was the manifest failure of their earlier approach, which seemed to be heading nowhere, either in terms of industrial success or poverty alleviation. The consequence was that many of them, particularly in Asia, began to switch their policies and took a more proactive approach to global markets and institutions. In particular, their participation in such forum as the Uruguay round of trade negotiations was much more aggressive, as well as constructive. Unlike in earlier rounds, they wanted to make the GATT (and the WTO) work for themselves, rather than to give them the right to exclude themselves from it, by various devices such as non-reciprocity, or special and differential treatment.

One alternative that is being increasingly tried in various parts of the world is to go regional rather than global, so as to reap some economies of scale, without facing the cold competition of total globalization. Except for the Mercosur in South America, which went for a full customs union, most of these regional arrangements remain fairly unambitious in their aims, including the bloc in this neighborhood, the Association of Southeast Asian Nations (ASEAN), and its associated free-trade area, the AFTA.

The discussion of the First Globalization has led with a technological revolution, with changes in global governance (in the form of oversea empires) following in sequential, if not causal order. The discussion on the Second Globalization began with the establishment of a new economic order created by the U.S. as the hegemonic power among capitalist nations, with as yet very little discussion on technology. It would be inappropriate to close the discussion without some mention of the revolution in information technology, which arose from advances in computation power, which made communications device both smarter and much, much faster than the traditional modes of the pre-Second-World-War vintage.

For many developing countries, the relevant feature of this revolution is that it has lessened the economies of scale inherent in the industrial processes of the Second Industrial Revolution. Large-batch production no longer allows for massively lower costs. From a producer's point of view, the change has enabled a much greater dispersal of manufacturing. Large corporations in developed countries, even some smaller ones, no longer have to invest in large plants overseas if they are to save costs. In many cases, they can contract out their manufacturing to firms owned and operated by developing countries' entrepreneurs, who receive the design and technological specifications using standardized software. It is on the back of such operations, covering a wide diversity of industries from garments to electronics that enabled East Asia to become a workshop of the world.

The irony in this development is that, while developing countries have tried very hard over the decades to move away from agriculture to industry, because, it was alleged, agriculture was peculiarly unstable, dependent both on the vagaries of the weather and of the international commodity markets. Those countries that have successfully industrialized now discover that industry is not that much more stable. One of the precursors of the 1997 crisis that hit Asia particularly hard was the sharp fall in semi-conductor prices in 1996, which depressed exports in nearly every emerging country in Asia.

Thus, the Second Globalization is far more wide ranging. Technologically, it is driven by the communications revolution, which should not be taken to mean merely that associated with the rise of information technology of the last two decades, but should include the growth of mass communications through radio and television which dates back earlier. This has had profound social and political consequences. By way of contrast, consider Europe of the eighteenth or nineteenth centuries. Then, public awareness of important national issues that increasingly affected people's lives was enjoyed by only the literate, by no means all or even the majority of the people. It was only when the literacy became universal was European democracy (including its totalitarian forms, namely National Socialism and Communism) inevitable. With mass media using more direct means of communications than the printed word, many more people can become aware of national and indeed of global issues. Not only is this access wider, but it is also faster. Whether such instantaneous and graphic means of communications provide sufficient depth of analysis to help informed public discussion is a debatable point, but no one could doubt that the gatekeeper role of the literate classes could be and is increasingly bypassed.

The recent development of the Internet has merely accelerated this trend. True, currently it still relies mostly on the word, rather than on more direct means such as radio and television, although the technology to bring in these should be available soon, and true, access to it is limited to those who could have access to a computer. But the key contribution of this technology is that the gatekeeper role of the State, extensively deployed with both the print and broadcast media, particularly in the region, could be bypassed. Also, radio and television allowed broadcast corporations to control content, but with the Internet, they no longer have that control. One group, the people's or non-government organizations (NGOs), have come to see considerable potential in this characteristic of the new technology and has begun to use it in earnest in their various advocacy campaigns, among which is a broad ranging one against globalization. Consequently, the debate on this issue has been joined on a worldwide basis.

Mainland Southeast Asia and the Second Globalization

As shown above, the First Globalization touched on the various parts of Mainland Southeast Asia unequally. Broadly, the coastal regions were drawn rapidly into the global economy, while the rest was scarcely affected. This inequality was due to the exigencies of the technology that propelled the process of globalization. To be sure, the nature of the colonial regime affected the relative degree of integration of the local societies to the global economy, but this was subsidiary to the favoring of the coastal areas.

The first order of business after the end of the war was the dismantling of the colonial regime. In the case of the former French Indochina, this took a tragically long time. Its three constituent parts – Cambodia, Laos and Vietnam – spent the first three decades after the end of the Second World War fighting their former colonial masters, the Americans and among themselves. Once they emerged from this long period of warfare, all three countries first opted for a centrally planned economy closely linked to other socialist countries, which meant little engagement with the forces of globalization, at least as drawn up by the West.

The Burmese also had to tackle the political legacy of the colonial period. The British policy of protecting the minorities against the majority Burmese deepened the divisions between these groups, and ensured that the country would know no real peace throughout the postwar period. Meanwhile, the Rangoon government, which had been taken over by the military, adopted in 1962 a policy of retreating into an isolation which was as total as any in the world, with the exception of Albania and North Korea.

Siam, as we have pointed out, survived the impact of the First Globalization, and more importantly of its denouement in the Great Depression, with relatively mild wounds. Now called Thailand, it committed itself early on to an open economy regime, which Marshal Sarit Thanarat put in place in 1958, and which successive governments have unquestioningly followed until the economic crisis hit it in 1997. Having adopted such a regime, it found its main domestic task to be to overcome the economic disparity between the relatively prosperous Central region and the more inland and more isolated Northern and Northeastern regions, left behind during the First Globalization. In the first two decades after 1958, Thailand invested heavily in the infrastructure (primarily roads, but including also other things such as education) to integrate the rest of Thailand to the Central region, and thence to the world economy.

The country was integrated not only economically, but culturally as well. While the ethnic division lines at the end of the Second World War were not as sharp as in

Burma,[12] it had nonetheless quite a complex ethnic structure. Thus it was quite common for state documents in the late nineteenth century to refer to Northerners and Northeasterners as Lao. The Central Region itself was dotted with villages of the Mon, the Lao, the Malays, and in the Northeast, even today, a significant number of Cambodian-speaking people live in its southern part.

The most numerous and problematic minority were the Chinese. The economic presence of the Chinese in the Thai economy had a long history. Before the signing of the Bowring Treaty, they were important in foreign trade in a regime closely regulated by the Court, or else they were tax farmers where they were also obviously under the control of the King. The liberalization of the economy during the First Globalization gave them the autonomy to accumulate considerable wealth, and to acquire strong market positions, which formed the basis of their wealth and power, to the point which caught the attention of the Court, and became the subject of a royal diatribe ("Asavabhahu" 1967[1914])[13].

The current picture of Thailand as a remarkably homogeneous nation-state is therefore a post Second World War creation.[14] Consciously, the State chose to employ education policy as a means to transform all children born within its borders into Thais, speaking, reading and writing standard (i.e. Central Region) Thai, and learning a standard version of Thai history, with a particular conception of the Thai State. Chinese-medium schools in particular were banned. There were a whole host of other anti-Chinese policies in the 1950s, ostensibly aimed at undermining Chinese economic dominance. These measures, together with the fact that mainland China became communist, and therefore no longer provided an outlet for the savings of the Chinese working in Thailand, had seen the Chinese community being gradually assimilated and became part of the mainstream society.

Quite aside from such moves, the increased mobility of its people made possible by the road-building program meant increased interaction among its people, which promoted "natural" homogenization to a degree. While this kind of integration dissolves the ethnic particularism, it also resulted in a greater degree of differentiation, above all the cleavage between rural and urban people, and increasingly, simply between rich and poor. But such developments pointed to a class-based politics rather than an ethnic-based one.

One side effect of Thailand's development has been the impact on its neighbors. As its economy grows, and particularly in the 1990s during the bubble, the pressure on its labor market led to scarcity in some sectors (for example in agriculture and fisheries), and to increased wages in others. It thereby became a magnet for the neighboring countries'

[12] As already pointed out, the sharp division was itself a consequence of British policy.

[13] "Asavabhahu" was the pen-name of King Rama VI.

[14] Many would put the implementation of a homogenization policy in 1932, with the coming to power of the People's party in a coup d'etat against the absolute monarch. It initiated the policy of having universal primary education, with a strong centralized curriculum.

labor, with Myanmar providing the lion's share.[15] The emigration has affected the society of the exporting regions in Myanmar, mostly its hill areas.

What is the lesson for that part of the Greater Mekong Region that had only partially globalized? No research is available that measured rigorously and comprehensively the costs and benefits of globalization from the point of view of the Periphery. At a gross level, there is no question that the Second Globalization has served Thailand far better than a closed approach had for Myanmar even if the severe impact of the 1997 crisis on Thailand is taken into account. But the choices that individual countries, including these two, face are not at this gross level, but to fine-tune their participation in the global economy and society so as to obtain the best (to them) combination of well-being and autonomy. Indeed, both countries are now revising their policies, and searching for a better balance between a completely closed economy and a substantially open one. Myanmar (and the former constituents of French Indochina) are now trying to open up their economies to foreign trade and investment. Thailand, having paid a very heavy price for opening up its economy too much and too fast in the 1990s, is now experimenting with various economic models that would lessen its exposure to the fluctuations of the global economy.

For the inland regions, the tragedy is not that they are incompletely integrated with the world markets, but that they are, in all countries except Thailand, insufficiently integrated with the rest of their own countries. The priority of their governments is to integrate their economy. A powerful means of doing so is to invest heavily in their road and communications infrastructure. Thus, it is only on the back of a good domestic transport system that a national market can be created, and only when domestic producers serve a national market can they be strong enough to tackle the global market. Having a good transport network also would make for a less divisive society, at least along ethnic or regional lines.

If and when a nationally integrated market and society is created, the country can then perhaps choose to integrate itself with the rest of the world. Myanmar and, with somewhat greater conviction, Vietnam have decided to do so and open their economies to take advantage of the gains from international trade in goods – that there are gains on this front admits of little doubt. The dispersion of industries consequent upon the new mode of industrialization (sometimes called the Third Industrial Revolution) has also had its effects on the region. Thailand and to a lesser extent Vietnam, have benefited from this trend, even though they have not yet gone through the complete process of change demanded by the Second Industrial Revolution. The Second Industrial Revolution, it will be recalled, took place during the second half of the nineteenth century, around the same time as the First Globalization. Innovations and production in manufacturing became increasingly science-based. For countries to become industrial, mastering such a science-based technology became essential. This required increasingly a well-educated labor force, an

[15] Thailand also exports workers to other Asian countries, for example Malaysia and Taiwan. These are somewhat higher-skilled than its immigrants.

area in which Thailand happens to lag seriously behind other East Asian economics. Among the remaining countries, Vietnam is somewhat better placed than the others in this respect.

If sovereign states have lost some of their autonomy vis-à-vis the international economic system, it cannot be denied that they have also increased their role in domestic society enormously. The centralization that was one of the colonial heritages continued and has been turned around to implement many programs conceived of in the capital. The process of democratization has been inching forward in the Region very slowly (Ammar and others 2001). Consequently, local communities have lost even more of their autonomy: not only was it lost to the markets in the economic sphere, it was lost to the state in many other spheres as well.

For an economy to advance economically, and to be able to integrate with the rest of the economy, and yet to retain some control over its affairs, it is also essential that it manage its macro-economy well, and in this respect both domestic and international dimensions need to be considered. Many have argued that macroeconomic instability is part and parcel of capitalist development, but the history of Thailand shows both that if properly managed, the economy can be kept on an even keel, but when poorly managed (as it was in the 1990s), it could lead to catastrophic results.

In the area of finance particularly, the communications revolution has increased the volume of trading in the various financial markets enormously. The speed with which information flows in, a trade decided on and implemented all makes for a very high turnover. Under normal circumstances, this high turnover means higher liquidity and greater price stability. But it also means that the amount of information available to traders is almost identical, and their responses herd-like. Hence, for the countries affected by it, the increasing fluidity of the capital markets does not remove the vulnerability of the markets to serious hitches. When they do occur, the risks are very large indeed, as was dramatically demonstrated in 1997, when the floating of the Thai baht sparked the Asian crisis. Given that Vietnam and Thailand appear to have high domestic saving rates, opening up their economies to foreign capital, particularly of the more volatile sort, appear to be of dubious value. Indeed, if the country manages its macro-economy well, its exposure to currency crises, and their dreaded accompaniment, the arrival of the IMF mission team, can be staved off.

Ultimately, as long as an economy is investing and growing, it is inevitably subject to risks that are both natural and man-made, regardless of whether the society chooses to have a capitalist arrangement or a centrally planned one. A Soviet style economy may give rise to the belief that the uncertainties can be planned away, but events of the last two decades have shown that belief to be an illusion. It is true that a capitalist economy, by permitting private agents to take key decisions may give rise to additional uncertainties, as they would have to outguess what other agents are doing. But by diffusing the decision-making role, the probability of a systematic and major error is reduced.

Nevertheless, it is undoubtedly true that a capitalist economy is prone to economic fluctuations where wealth that has been created is destroyed. Currently, all governments in the region except Thailand are transitional economies, in the sense that they have all decided, with varying degrees of commitment and enthusiasm, to re-allow private sector participation in their economies and to open them up to global forces. As such, they may find it useful to heed some of the lessons from the economic history of Thailand, the country with the longest experience of a capitalist system. The following final section is therefore my own summary of the lessons from Thailand, some of which I have already touched upon earlier.

Thailand: Role Model or a Warning Sign?

Before proceeding to the lessons from Thailand, I would like to point out one initial condition that differentiates it from the rest of the region. When it started on its path of private sector development and opening up its economy in earnest in the late 1950s, it still had a private sector, albeit one that had just went into a decade of bruising struggle with the government's anti-Chinese policies. In the other countries, that private sector has been nearly completely destroyed. The creation of a private sector from scratch, and one that will restart the process of productive capital accumulation is by no means an easy task, as all transitional economies are discovering. In this respect, Thailand's experience offers less guidance than the other transitional economies, which have followed quite a variety of paths. One thing however should be borne in mind, if for whatever reason, the creation of a private sector is to be deferred, the country should immediately ensure that the existing State-sector firms operate in a competitive market. Competition, rather than the ownership of the firm, is the key to performance.

These then were the steps (and missteps) taken by Thailand before 1990:

- The first step was the creation of a national market for all goods, by breaking down as much as possible the physical barriers to movement of goods within the economy. Only when there are farms and firms (whether it be State-owned or privately owned) that can supply the national markets can they go out and compete in the world markets.
- Through a myriad of policies – among which I would rank education and roads as the most important – it managed to create a somewhat homogeneous society and culture, which took away at least one dimension of political conflict. Particularly useful for the economy was the incorporation of the Chinese capitalist and entrepreneurial class into the elite.
- Like most developing countries, it encouraged industrialization by various means, including erecting tariff barriers, granting investment privileges (which consisted mostly of tax holidays and occasionally import surcharges). The best that can be said of these measures was that the harm it did was not fatal to the

economy, nor did it permit its industrial sector to disengage itself completely from the world markets.

- As a consequence, the government played a somewhat marginal role in capital allocation, with much of that work being taken over by the banks, which were very successful in mobilizing savings. Unfortunately they also never acquired the capability to perform the task of allocating capital efficiently. Thus, they relied a great deal, indeed almost exclusively, on collateral and consequently paid scant attention to monitoring the performance or the soundness of the firms they lent to.
- One problem that Thailand faces is the quality of its civil service, which has deteriorated steadily since the Second World War. The deterioration has accelerated in the last two decades. That decline is even faster if compared to the personnel of the business sector. This means that the ability of the State to manage its economy is quite limited.
- One exception to that last observation is in the area of the macro-economy. Its managers succeeded in maintaining economic stability, and thus promoted a rather high volume of savings, that made for rapid capital accumulation.

In general, despite the protection accorded to its industries and the taxation of its agriculture, Thailand until 1990 was exposed to the world economy. It also encouraged foreign direct investment, although there were controls on foreign currency movements on the capital account. These policies and their apparent success in raising the standards of living in the country attracted a great deal of investment from abroad, starting a boom that led to double-digit growth in the late 1980s and continuing on until the early 1990s.

This boom gave the authorities sufficient confidence in the country's ability to engage more deeply with the world economy. In a move that was to be Thailand's undoing, they began to open up the country's financial system. In particularly it made it easier for Thai banks and companies to acquire funds from abroad.

If the local financial system was capable of vetting the investments made by its customers, then opening up the market to foreign lenders[16] would add to the domestic economy, and would make the local credit market somewhat more competitive. Only the last was true, and as it turned out, the competition worsened the situation further, as all financial institutions, both domestic and foreign, engaged in a mad scramble for market share. Borrowers were attracted by the low interest rates on dollar loans, overlooking the exchange risk by a misguided belief in the fixed exchange rate system.

The elements were thus in place for the crash of 1997, from which Thailand has yet to recover fully from.

[16] Foreign money came in mostly in the form of loans and not as equity, nor as foreign direct investment.

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