



東南亞研究中心  
Southeast Asia Research Centre

COLLEGE OF  
**LIBERAL ARTS AND  
SOCIAL SCIENCES**

**Veerayooth KANCHOCHAT**

**Assistant Professor of Political Economy  
National Graduate Institute for Policy Studies  
(GRIPS, Tokyo)**

**Why NIE Fails:  
New Institutionalism and Old Institutions in  
Thailand**

**Working Paper Series**

**No. 162  
*January 2015***



香港城市大學  
City University  
of Hong Kong

**The Southeast Asia Research Centre (SEARC) of the City University of Hong Kong publishes SEARC Working Papers Series electronically**

© Copyright is held by the author or authors of the Working Paper.

SEARC Working Papers cannot be republished, reprinted, or reproduced in any format without the permission of the author or authors.

**Note:** The views expressed in each paper are those of the author or authors of the paper. They do not represent the views of the Southeast Asia Research Centre, its Management Committee, or the City University of Hong Kong.

**Southeast Asia Research Centre Management Committee**

Professor Mark R Thompson, Director  
Dr Thomas Patton, Associate Director  
Professor William Case  
Dr Bill Taylor  
Dr Nankyung Choi

**Editor of the SEARC Working Paper Series**

Professor Mark R Thompson

**Southeast Asia Research Centre**

The City University of Hong Kong  
83 Tat Chee Avenue  
Kowloon Tong, Hong Kong SAR  
Tel: (852) 3442 6330  
Fax: (852) 3442 0103  
<http://www.cityu.edu.hk/searc>

**Why NIE Fails:**

**New Institutionalism and Old Institutions in Thailand**

**Veerayooth KanchooChat**

Assistant Professor of Political Economy

National Graduate Institute for Policy Studies (GRIPS, Tokyo)

Contact: [kanchooChat@grips.ac.jp](mailto:kanchooChat@grips.ac.jp)

Prepared for the SEARC Working Papers Series

Southeast Asia Research Centre, City University of Hong Kong

This version: 26 January 2015

## **Why NIE Fails:**

### **New Institutionalism and Old Institutions in Thailand**

**Veerayooth Kanchoochat**

#### *Abstract*

The role of institutions has moved to centre stage in the international development community since the mid-1990s. However, the theoretical framework for thinking about institutions and prescribing policies for developing countries has been dominated by one institutionalist school of thought: the new institutional economics (NIE). From arguing that property rights are the fundamental cause of long-term growth, recent studies, led by Douglass North and Daron Acemoglu, delve deeper into the violence and political conflicts behind institutional evolution and their economic consequences. Notwithstanding its contributions, the NIE still subscribes to flawed neoclassical explanations for economic growth, which are unable to account for the latecomer economies, not least the East Asian development experience. Moreover, the recent NIE literature offers no clear explanations for institutional change and persistence. This paper provides a critique of the NIE literature, and presents an alternative framework that incorporates theoretical insights learned from other institutionalist schools as well as empirical insights from East Asia. It argues that the developmental path of a latecomer has been defined by a series and sequence of three state building projects: that is, a nation-state; a developmental state; and a liberal-welfare state. It then describes how acknowledging the different modes of institutional evolution could shed light on the understanding of institutional transformations and consequential developmental outcomes. Thailand is used as a main empirical case in comparison with the East Asian experience.

From its emergence in the 1980s, the new institutional economics (NIE) has been ascendant and has come to dominate the debate on the political economy of development since the late 1990s. This paper critically examines the NIE approach to the political economy of development<sup>1</sup> and suggests an alternative analytical framework that mitigates its limitations. After tracing the overview of the NIE and its major contributions (Section I), I discuss its shortcomings, particularly the recent work of Douglass North and Daron Acemoglu, regarding the explanations for economic growth and institutional change (Section II). Although it is beyond the scope of this paper to develop the new approach in a fully fledged form, this section provides the analytical features of an alternative institutionalist approach. Above all else, I call for ‘bringing states back into an institutional analysis’ by arguing that the developmental path of a latecomer has been defined by a series and sequence of three state building projects: that is, a nation-state; a developmental state; and a liberal-welfare state (Section III). The case of Thailand is used as a main empirical observation (Section IV). A short part of concluding remarks follows (Section V).

## **I. From North to Acemoglu: Evolution and Progress of the NIE**

Institutions have become a new ‘magic bullet’ in the international development community. Since the 1980s it has been increasingly recognised that institutions are more fundamental to the process of economic growth because they are systemic patterns of shared expectations that shape the motivations and behaviours of human interaction. In other words, the overarching agenda has moved from ‘getting prices right’ to ‘getting institutions right’.

In his seminal book, which lays the foundations for the NIE, Douglass North (1990: 110) argues that: ‘Third World countries are poor because the institutional constraints define a set of payoffs to political/economic activity that do not encourage productive activity.’ Institutions, or

---

<sup>1</sup> The NIE has advanced in different sub-fields such as property-rights economics, transaction-cost economics, or positive contract theory. Herein, I focus only on the new institutional approach to long-term economic development.

the ‘rules of the game’, can reduce the uncertainty of human interaction and the costs of cooperation. Among others, the security of property rights is accorded the key role in explaining the development and underdevelopment of countries (see also North 2005; North et al. 2009).

If the 1990s was the decade of Douglass North, the 2000s belonged to Daron Acemoglu. In line with North, Acemoglu et al. (2005) consider institutions, not geography or culture, to be the prime cause of differences in national economic development. They further enquire why institutions differ across countries and what the sources of inefficient institutions are. Both answers lie in politics: ‘Bad institutions arise because the groups with political power benefit from bad institutions’ (Acemoglu et al. 2005: 396; see Acemoglu 2009, for supporting mathematical models; Acemoglu and Robinson 2012, for a historical account).

### **Three Contributions of the NIE**

Compared to neoclassical economics and the early generation of new institutionalism, the recent NIE literature, particularly that of North and Acemoglu, has made progress in three major areas.

First and foremost, it takes politics more seriously. Political conflicts and violence are at the analytical centre in terms of explaining institutional evolution and economic consequences. This is far more realistic than the previously dominant concept of ‘voluntary choice’. Earlier rational-choice institutionalism tends to view institutions as structures of voluntary cooperation that resolve collective action problems and produce efficient or socially optimal outcomes.<sup>2</sup> The most cited work is perhaps Calvert (1995), but also found in Williamson (1986) and Weingast (2002), which models the process of institutional reform as a coordination game that equips all the parties with a better outcome (more efficiency or lower costs) if they can agree on new institutional settings. The voluntary cooperation logic is built around the concepts of mutual gain, credible commitments, and other concepts that flow from the logic of voluntary choice (Moe 2005). The missing links of politics and coercive mechanisms have been addressed in the

---

<sup>2</sup> According to Knight (1992:4–9), this view is influenced by the work of Thomas Hobbes, David Hume and Adam Smith.

present NIE scholarship.

Second, the recent NIE literature is more aware of the perverse outcomes of institutional importation in host countries. During the high times of the ‘good governance’ agenda, after the 1997 Asian financial crisis, institutions – such as corporate governance, constitutional design – were seen as a technocratic project. Once adopted in any host country, following the technical manuals, they should be able to function in the same way as those in home countries. Yet, not long afterwards, the failures of institutional reform had been pervasive worldwide (see review in Andrews 2013). The work emanating from the NIE since the 2000s has had more reservations about institutional exportation and importation.

Finally, as a result of the above two areas of progress, a host of recent work in the NIE has surprisingly shifted the focus from the conventional ‘large-N’ to ‘small-N’ analyses or even single-case studies. As elaborated in Sen (2013), most of the existing literature on the political economy of development typically compares countries based on their average growth of per capita income, thereby overlooking the fact that most developing countries undergo dramatic fluctuations in growth. There is a need to shift from the determinants of long-run average economic growth to an understanding of the determinants of within-country growth patterns. The recent volume co-edited by North et al (2012), *In the Shadow of Violence*, is a good example that pays careful attention to single-case studies and the long-term institutional evolution of the country in question.

## **II. The NIE’s Fundamental Problems**

Notwithstanding its contributions, the NIE literature, especially but not exclusively the work by North and Acemoglu, still has two fundamental problems in explaining economic growth and institutional change.

### **Explaining Growth: Good Ingredients Always Create a Good Dish?**

First of all, the NIE remains stuck to the simplistic characterisations of ‘good’ institutions, as shown in the recent work by North and Acemoglu. In North et al. (2009), *Violence and Social*

*Orders*, it is argued that economic prosperity is sustained only when a society has moved from the ‘natural state’, in which personal relationships form the basis for social organisation, to the ‘open access order’, which possesses five characteristics: (1) a widely held set of beliefs about equality for all citizens; (2) entry into economic, political, religious, and educational activities without restraint; (3) support for organisational forms in each activity that is open to all (e.g. contract enforcement); (4) rule of law enforced impartially for all citizens; and (5) impersonal exchange (North et al. 2009: 114).

In *Why Nations Fail*, Acemoglu and Robinson (2012: 429–30) narrate the world history based on the concept of ‘extractive’ versus ‘inclusive’ institutions. Inclusive economic institutions mean secure property rights, free entry and a level playing field for new businesses, and equal access to education. Inclusive political institutions mean that constraints and checks are placed on politicians while the rule of law is upheld. Extractive economic and political institutions are on the opposite side, where power and opportunity are in the hands of just a few. Some countries have mixed institutions. China, for example, is considered currently to have inclusive economic institutions in the context of extractive politics, and its growth will therefore not be sustainable.

By and large, new institutionalism attempts to jumble all ‘good’ things together as a wholesale package. From the theoretical perspective, all the good institutions suggested by North and Acemoglu imply that ‘liberalised’ institutions are better for economic development. However, there have been numerous theoretical and empirical arguments asserting that free markets are less able to generate growth than are properly regulated markets (e.g. Nelson and Winter 1982; Lall and Teubal 1998; Cimoli et al. 2009).<sup>3</sup> In addition, the overemphasis on the security of property rights is problematic in taking for granted that private ownerships are better at generating economic growth than state or communal ownerships – which is not necessarily true (see Ostrom 1990, for communal ownerships; and Chang 2008, for state-owned enterprises).

From the historical perspective, the narratives that form the basis for such good institutions

---

<sup>3</sup> This is even assuming that one can objectively create a ‘free market’, which is an unrealistic assumption in the first place (see Chang 2001).

contain egregious mistakes if we examine national developmental trajectories case by case. It is not necessary for us to go back as far as Britain's Glorious Revolution of 1688 (of which the accounts of both North and Acemoglu are also historically flawed; see Daunton 2010). The more recent East Asian experience is sufficient to disprove all the 'good' institutions listed above. The experience of East Asian, and even now-developed, countries show us that they could catch up with the more advanced countries despite their institutions being highly deficient by modern standards – in such areas as democracy, bureaucracy and judiciary, property rights, corporate governance, and financial institutions (see Chang 2002; also Amsden 1989; Wade 1990).

New institutionalism should learn more from 'old' institutionalism.<sup>4</sup> In contrast to the NIE, which focuses on the 'individual betterment' institutions, old institutionalists and previous generations of development economists in the tradition of, inter alia, Arthur Lewis, Simon Kuznets, Nicholas Kaldor, was rather in the 'productionist' tradition, with a primary focus on the state and collective institutions that transform the productive activities of a country. Before the rise of neo-liberalism, there was a general consensus that development is largely about the transformation of the productive structure. The emphasis is placed on manufacturing as the source of national prosperity because it offers greater returns to scale and spillovers from learning and productivity potential (e.g. Rodrik 2007; Cimoli et al. 2009; Veerayooth and Patarapong 2014). This means, rather than the obsession with individual betterment, the debate about institutions can be more 'productive' by placing greater effort on studying institutions in regard to the state, production, and structural change.

### **Explaining Institutional Change: A Random Walk Hypothesis?**

The recent NIE seems to have a more balanced view of external vis-à-vis internal sources of institutional change and persistence. However, particular to the work of North and Acemoglu, the explanation for institutional change and persistence is far from clear. In their analyses, a

---

<sup>4</sup> The old or 'original' institutionalism emerged during the late nineteenth century. The most influential figures were John R. Commons, Thorstein Veblen, and Wesley C. Mitchell. More recent scholars in this tradition *might* include Simon Kuznets and Gunnar Myrdal.

major driver of institutional change is either economic and intentional or completely random. Efficiency-driven behaviours usually generate the change towards better (growth-enhancing) institutions, whereas rent-seeking behaviours towards worse (growth-reducing) institutions. North et al. (2009) draw heavily on the notion of vicious and virtuous circles of change without specifying the causal logic behind them. Acemoglu and Robinson (2012) mention a vast number of ‘critical junctures’ and ‘randomness’.

In my view, the reason why the NIE offers problematic explanations for institutional change is twofold. First, the NIE overlooks the contested and uneven nature of institutions. Learned from other institutionalist schools, such as historical institutionalism in political science, institutions – even written rules – are often fraught with ambiguities and tensions, making them subject to reinterpretation over time. As March and Olsen (2006:14) point out:

Conflict is also endemic in institutions. It cannot be assumed that conflict is solved through the terms of some prior agreement (constitution, coalition agreement, or employment contract) and that all participants agree to be bound by institutional rules. There are tensions, “institutional irritants”, and anti-systems, and the basic assumptions on which an institution is constituted are never fully accepted by the entire society.

As a result, ambiguities and tensions inherent in an institution are another important source of institutional change and persistence over time, even in the absence of external shocks.

Second, and more importantly, gradual institutional change has been neglected in the NIE literature. As scholars from other institutionalist schools indicate, we need to go beyond the simple characterisation of change merely as either ‘incremental’ or ‘disruptive’. For example, Campbell (2004) illustrates the *bricolage* mode of institutional change, the process by which institutional change involves the rearrangement or recombination of institutional principles and practices in new and creative ways, and *translation* mode, the blending of new elements into already existing institutional arrangements. For another example, Mahoney and Thelen (2010: 15–16) illustrate four modal types of institutional change. In addition to institutional change in a typical form of displacement, it can gradually take place in three other forms: layering, drift, or conversion (more on this below). The key point is to acknowledge variation in modes of

institutional change and their different implications.

### **III. The Way Forward: Bringing States Back into an Institutional Analysis**

To mitigate the fundamental limitations of the NIE discussed above, I contend that an alternative institutionalist approach is required. Even though it is beyond the scope of this paper to develop the new approach in a fully fledged form, this section attempts to describe its analytical features divided into two parts. Above all else, I call for ‘bringing states back into an institutional analysis’ as a way to tackle the NIE’s shortcomings. Based mainly on the East and Southeast Asian experience, it argues that the developmental path of a latecomer has been defined by a series and sequence of three major institutional transformations: that is, a nation-state; a developmental state; and a liberal-welfare state. It then describes how realising a range of modes of institutional change could shed light on the understanding of institutional transformations and consequential developmental outcomes over a long period of time.

#### **Three State Buildings in a Latecomer**

To begin with, we need to analytically separate institution building in the Western European history from the latecomers. I argue that the developmental path of a latecomer has been defined by a series and sequence of three major institutional transformations: that is, (a) a nation-state; (b) a developmental state; and (c) a liberal-welfare state. Each state type is built in response to different challenges.

*A. Colonialism and Modern State Formation:* Colonialism was the major threat from the late nineteenth to mid-twentieth centuries, which triggered or coerced most developing countries towards modern nation-state formation. While state formation was a lengthy process that dragged on for centuries in Western Europe (see Tilly 1990), it was a relatively short and intense process in most colonised peripheries in the twentieth century, yet with a long-lasting impact afterwards. As Kohli (2004: 2) puts it: ‘The impact of colonialism on state formation was especially significant because most developing country states are the product of colonialism, and

their respective forms were moulded decisively by this encounter with more advanced political economies. Once established, core institutional characteristics acquired during colonial rule have also proved difficult to alter.’ Japanese colonialism in Korea and Taiwan is often used as an exemplary case with growth-conducive state structures in contrast to British and French colonialism in Africa.

Table 1. Three types of state building in a latecomer

<b>External force</b>	<b>Latecomer’s Gordian knot</b>	<b>An ultimate purpose</b>
Colonialism	Building a ‘nation-state’	Modern state formation
Communism	Building a ‘developmental state’	Economic growth
Neoliberalism	Building a ‘liberal-welfare state’	Growth with redistribution

Nonetheless, while most state-centric scholars consider that colonial history plays a decisive role in shaping the post-war economic trajectory of a latecomer, I argue that we have to incorporate the other two state-building projects that took place after the colonial era, that is, a developmental state and a liberal-welfare state.

*B. Communism and Developmental State Building:* A developmental state that was built during the mid-twentieth century in response to a communist threat deserves further analytical focus. In East and Southeast Asia, the Cold War context and geopolitics were closely associated with their anti-communist strategies and capitalist embeddedness. Many works have shown how the characters and capacities of East Asian and, to a lesser extent, Southeast Asian developmental states were the product of a specific time and place. In terms of policy orientation, the post-war developmental state was characterised by intensive state intervention and selective industrial policies. These policies were tolerated by the rest of the world because of the imperatives of

post-war economic reconstruction and the need to contain the spread of communism during the Cold War (Wong 2004). East and Southeast Asian latecomers benefited from what Gerschenkron termed the ‘advantages of economic backwardness’. By being economic laggards in the immediate post-war period, they learned the ways of economic advancement, not from scratch but by importing knowledge, technology, and economic know-how from abroad. The colonial thesis (e.g. Kohli 2004) fails to explain convincingly how colonial legacies were perpetuated, strengthened, or even weakened, after colonial disintegration (Vu 2010). This is especially important if we are not to take ‘path dependence’ for granted, but rather assume institutions to be dynamic and contingent upon a changing balance of political force.

*C. Neoliberalism and Liberal-welfare State Building:* Last but not least, following the widespread extension of state activities around the world since the end of the Second World War, the landscape of the global political economy changed again. On the one hand, the 1980s marked the emergence of neoliberalism<sup>5</sup> as the new political–economic ruling ideology that has lasted until the present time. Paradigm shifts also took place in the World Bank, which turned to the neoliberal approach from the late 1970s, and which laid much of the intellectual groundwork for the structural adjustment programme (Stein 2008). On the other hand, most countries in the developing world have democratised during this period, raising hopes that elected governments would be more attentive to social and welfare issues. At the same time, most developing countries also experienced financial crises, recession, and associated fiscal constraints. All these challenges have precipitated wide-ranging reforms that centred around economic liberalisation and social welfare expansion, or what can be called the ‘liberal-welfare’ state building.

In summary, in contrast to North’s ‘open access order’ and Acemoglu’s ‘inclusive institutions’, my unit of analysis is state building. I contend that a developmental path of a latecomer is an accumulated sequence of a nation-state, a developmental state, and a liberal-

---

<sup>5</sup> Neoliberalism is a combination of neoclassical economics and, what many call, the Austrian–Libertarian political philosophy. The former provides the analytical tools while the latter provides the underlying political and moral principles (see a detailed discussion in Chang 2001).

welfare state. More importantly, good and bad institutions, or growth-enhancing and growth-reducing factors, are not universal and timeless as depicted in the NIE literature, but are contingent upon state types.

However, unlike conventional state-centric approaches, the state should not be considered as a static variable or a single entity, but as an *institutional configuration* formed and changed by interactions among actors. The exercise and effectiveness of state power are contingent products of a changing balance of political forces. Moreover, along with the examination of its external relations, we also need the anatomy of the Leviathan's internal organs to capture ongoing, albeit uneven, changes inside. By considering the state as an institutional configuration, we can apply useful insights learned from the institutionalist literature to study the state itself – its origins, evolution and effect on economic development.

### **Variation in Modes of Institutional Change**

The assumptions about institutional change and persistence require a rethinking that departs from the NIE. New institutionalism, especially the earlier generation, does not view institutional change as analytically problematic. With a 'punctuated equilibrium' model of change, long periods of continuity are punctuated only by periods of abrupt and far-reaching change (e.g. Krasner 1988). The hidden presumption behind this is a model of 'discontinuous' institutional change, drawing a sharp line between the periods of institutional continuity and that of change.

Nonetheless, the punctuated equilibrium model fails to capture various forms of institutional change and persistence. Institutional change can unfold in various modes; we need to go beyond the simple characterisation of change only as either incremental or disruptive. More related to economic issues, such different modes of institutional change have resulted in different developmental consequences.

My framework regarding institutional change is modified from Mahoney and Thelen (2010: 15–16). In there, they argue that institutional change is often not abrupt and discontinuous, but rather slow and gradual. They then identify four modal types of institutional change. In addition to the conventional form of (1) *displacement* ('the removal of existing rules and the introduction

of new ones’), institutional change can gradually arise in other forms such as: (2) *layering* (‘the introduction of new rules on top of or alongside existing ones’); (3) *conversion* (‘rules remain formally the same but are interpreted and enacted in new ways’); and (4) *drift* (‘the changed impact of existing rules due to shifts in the environment’).

Table 2. Four modes of institutional change proposed in Mahoney and Thelen (2010)

	Removal of old rules	Neglect of old rules	Changed impact/enactment of old rules	Introduction of new rules
<b>Displacement</b>	Yes	–	–	Yes
<b>Layering</b>	No	No	No	Yes
<b>Drift</b>	No	Yes	Yes	No
<b>Conversion</b>	No	No	Yes	No

Source: Adapted from Mahoney and Thelen (2010: 16).

However, what Mahoney and Thelen propose is based on the experience of industrialised democracies. As criticised by Levitsky and Murillo (2013), the above typology is most appropriate in a strong institutional environment (such as those in most advanced industrialised democracies), in which the core rules of the game (such as political regime and legal system) are entrenched and actors expect that existing rules will endure and be regularly enforced.

In contrast, based on Latin American experience, Levitsky and Murillo (2013) argue that institutional change often takes the form of *serial replacement*, in which institutions repeatedly undergo abrupt and wholesale transformation. This is because power distributions are uncertain or rapidly shifting and there is greater incongruence between the formal rule-writing process and underlying power structures. Specific to the case of latecomers in East and Southeast Asia, I propose an additional mode of institutional change, namely, *consolidation*, meaning that the infrastructural and operational capacity of an institution under consideration has been strengthened.

In a nutshell, to understand more fully the processes of institutional change and its developmental consequences, we should acknowledge the subtle differences in mode of institutional change. The four-mode typology (displacement, layering, conversion, drift) suggested by Mahoney and Thelen (2010) can be a good starting point. But to take into account the contexts of developing countries, institutional change can also unfold in other modes, such as serial replacement and consolidation.

#### **IV. Thailand's State Buildings and Institutional Persistence**

Thailand presents one of the interesting cases among developing countries because of the persistence of its deficient bureaucratic and political institutions, perceived by most analysts as the country's main culprits. Despite emerging in the international development community as a rising star in the late 1980s, Thailand became ground zero for the 1997–8 Asian financial crisis and ended the 2000s with bloodshed, political turmoil, and a coup conundrum. From the viewpoint of more developed countries, Thailand would have grown faster and more healthily if its institutional deficiencies had been remedied. From the viewpoint of less developed countries, it is puzzling how Thailand manages to sit in the middle-income level despite such deficiencies.

This section uses the case of Thailand to indicate how tracing a country in terms of three state buildings – with specific modes of institutional change – could improve our understanding of its developmental trajectory. Essentially, it demonstrates how the problem of institutional persistence in Thailand is more structural and deeper rooted than is commonly assumed. This is because, unlike the East Asian experience, major institutional transformations in Thailand occurred in the layering or conversion modes, not displacement.

##### **Colonialism and Nation-state Building**

In the late nineteenth century, Thailand (known at the time as Siam) was among a handful of developing countries that could escape from being formally colonised by Western powers. Conventional wisdom attributes Siam's survival to its fortuitous positioning as a buffer state between the French and British possessions and the timely modernisation implemented by King

Chulalongkorn (the fifth reign, 1868–1910). As a consequence, the outcomes were not only national independence but also the modern state formation with a cohesive structure (e.g. Doner et al. 2005; Kuhonta 2011).

Nonetheless, Siam's nation-state building was more complicated than that and, by design, possessed certain 'inefficient' configurations right from the beginning. Institutional change of the Siamese modern state arose in the displacement mode in the early period of the reign, but in the layering mode in the later years. Radical reforms, with *institutional displacement*, were seen in the fiscal and administrative structures. The Finance Office was established to oversee the revenue and expenditure of the tax farms, previously under the control of great nobles, while the Interior Ministry was initiated as the incubator of a series of newly established departments (see Kullada 2004). However, the Gordian knot for King Chulalongkorn was not just how to escape being colonised but also how to undermine the power of, without overly alienating, the great nobles and provincial elites. Such conditions led to the creation of new organisational functions in the *layering mode* of institutional change, to superimpose, without abolishing, the existing provincial administration (Wyatt 1984: 220). It is worth noting that the administration before his reign was segmented across regions, not functionally differentiated. The King maintained some overlapping authority not only to avoid further conflict with the regional elites but also to ensure that a 'check-and-balance' system would be in place to diminish the nobles' power to challenge the throne. The bloated structure consequently caused a budget deficit and widespread official corruption whereas the overlapping structure encouraged unproductive competition and duplication among ministries – all by design from its inception.

Accordingly, it is misleading to assume that Thai twentieth-century political actors had been accommodated by the cohesive state apparatus. In tandem with the centralised structure, the Siamese bureaucracy was designed to be bloated and overlapping as an outcome of calculated political moves and compromises by King Chulalongkorn, the architect of the country's modern bureaucracy, to serve his absolutist state building project. These uneven and contested characters should be perceived as the 'initial condition' in the study of the Thai state.

## **Communism and Developmental State Building**

The next state building project took place in the mid-twentieth century with the threat of communism and amid the Cold War context. With the communist movements conquering neighbouring Laos and Vietnam, the strategic partnership with the US was welcomed by the Thai elite. Funding and support from the US strengthened the penetration of Thai state into society – but in tandem with the changed roles of the monarchy and the military: ‘Dollars consolidated Thailand’s militarised state’ (Banker and Pasuk 2009: 149).

Despite the formal regulations relating to the Thai royalty and military being virtually the same as before, their functions had been transformed in the *conversion* mode of institutional change in order to fight communism and embed capitalism. As detailed in Porphant (2008), the Crown Property Bureau (CPB) had grown significantly throughout this period of developmental state building. The CPB’s assets have been based on three pillars. In banking, the CPB owns Siam Commercial Bank, the country’s first bank, and in the 1980s the country’s fourth largest commercial bank. In manufacturing and construction, the CPB holds the Siam Cement Group, which until 1955 remained the monopoly domestic supplier of cement, and until 1980 controlled around 70–75 per cent of domestic cement markets. The third pillar is land. In the 1950s, the CPB possessed around a third of the land within the official city limit of Bangkok, thereby being an attractive partner for both native and foreign property developers by providing land in return for a lease income and some share in the overall venture. In sum, together with capitalist embeddedness, ‘[t]he CPB’s interests stretched across the spectrum of Thailand’s modern urban enterprise’ (Porphant 2008: 174).

Meanwhile, the authoritarian rulers had founded a new economic management model relying on the coordination and bargain between ruling generals who controlled rent-seeking agencies and unelected technocrats who ran macroeconomic policymaking (Doner and Ramsay 1997). The alliance between military junta and macroeconomic (mostly neoliberal) technocrats profoundly shaped the priority of the state towards macro-stabilisation required for foreign direct investments with scant attention paid to enhancing indigenous technological capacity and manufacturing competitiveness.

Capitalism had since been cemented in Thailand to the point that in the 1980s the interests of the nation became the interests of capital in general (Hewison 1989). Nonetheless, almost all private capitals and conglomerates that emerged in this era had to be under the royal and military patronage. Communism faded away as time passed. But what really flourished in the so-called American Era in Thailand was the oligarchic system, with the crown and the military as the political-economic epicentre. The capacity of the state had been significantly boosted in this period. But its capacity was exerted to promote royal and military capitalism as well as macroeconomic stability for foreign direct investment, in contrast to the promotion of indigenous manufacturing and export-led capitalism through selective industrial policies as found in East Asia.

### **Neoliberalism and Liberal-welfare State Building**

The neoliberal surge since the 1980s has pushed developing countries to rationalise their economies in the free-market direction, while the so-called ‘third wave’ democratisation has been widespread. These global forces have steered developing countries towards the building of a ‘liberal-welfare’ state.

In Thailand the liberal-welfare state building project was built in this international context – conditional upon the nation-state and developmental-state structures it had been accumulated. In essence, institutional change during this contemporary period has unfolded in a *layering* mode, with the democratic regulations and organisations being introduced alongside the traditional values and organisations. As a consequence, amid the messy political struggle since 1980, Thai politics can be characterised by the ongoing struggle between the two groups of elite. The traditional or unelected elite is the alliance between the monarchy, military, legal and economic technocrats, and the Democrat Party. The elected elite comprises elected politicians, provincial businessmen, and local mafias.<sup>6</sup> As elaborated in my other paper (Veerayooth 2013), I argue that

---

<sup>6</sup> Of course, the two elites by no means play a zero-sum game at all times. Both groups coordinated in suppressing the mass movements of the late 1970s. Thereafter, competition, collaboration, and compromises have all been observed. Moreover, both camps not only have internal contradictions and cliques but they also share overlapping

such an elite tussle has perpetuated regime swings and policy fluctuations in post-1980 Thailand. For example, economic orientation was forged into macroeconomic stabilisation and exclusive industrial policy when ruled by strong governments, albeit with varying degree, of the traditional elite (Prem, Anand, and Surayud), in contrast to an expansionary budget and inclusive industrial policy when ruled by the strong elected elite (Chatichai and Thaksin). When with fragmented administrations, Thai political leaders ended up with either internationally dominant paradigms (Chuan and Abhisit) or pork-barrel projects (Banham and Chavalit).

Table 3. A summary of institutional change and developmental consequences in Thailand

<b>External force</b>	<b>Critical mode of institutional change</b>	<b>Developmental consequences</b>
<b>Colonialism</b>	<i>Institutional replacement, followed by institutional layering, of the modern state over the pre-modern one.</i>	King Chulalongkorn grasped the chance to topple noble families and the Bunnag clan. The state was designed to be centralised, bloated and overlapping to serve the absolutist monarch. Budgets were devoted to ‘internal colonisation’ rather than irrigation building.
<b>Communism</b>	<i>Institutional conversion of the military and monarchy as a capitalist epicentre.</i>	The military and the monarchy were the focal point of capitalist development and communist eradication. High-growth period relying on royal and macro stability. No land reform. Traditional interests and ideas embedded hand in hand with capitalist development.
<b>Neoliberalism</b>	<i>Institutional layering of democratic components in parallel with traditional ones.</i>	Elections and individual rights have been endorsed in tandem with the promotion of traditional values and structures. The ongoing tussle between two groups of elite, based on different legitimacies and power bases, leading to regime and policy fluctuations.

---

social networks, such as having common family and school ties.

## **V. Concluding Remarks**

This paper has provided a critical examination of the NIE approach to the political economy of development, and suggested an alternative analytical framework that remedies its limitations. The first section raised three major contributions of the NIE. I have commended the recent NIE literature for: (a) taking politics more seriously and putting political conflicts and violence at its analytical centre; (b) being more aware of the perverse outcomes of institutional importation in host countries; and (c) shifting the empirical focus from the conventional ‘large-N’ to ‘small-N’ analyses and single-case historical studies.

Yet, I have asserted that the NIE is still seriously problematic in terms of analysing growth and institutional change in a latecomer, as discussed in the second section. After all, all good institutions envisaged by prominent NIE scholars such as Douglass North and Daron Acemoglu imply that ‘liberalised’ institutions are better for economic development. However, there have been numerous theoretical and empirical arguments demonstrating how free markets are less good at generating growth than are properly regulated markets. Moreover, although the recent NIE seems to have a more balanced view of external vis-à-vis internal sources of institutional change and persistence, particular to the work of North and Acemoglu, the explanations for institutional change and persistence remain ambiguous and underdeveloped.

To alleviate the fundamental limitations of the NIE, the third section described the analytical features of my alternative institutionalist framework. Based on the East and Southeast Asian experience, I have argued that the developmental path of a latecomer has been defined by a series and sequence of three major institutional transformations: that is, a nation-state; a developmental state; and a liberal-welfare state. I then described how acknowledging the different modes of institutional evolution could shed light on the understanding of institutional transformations and consequential developmental outcomes. Above all else, I call for ‘bringing states back into an institutional analysis’ as a way to tackle the NIE’s shortcomings. The case of Thailand’s institutional transformations and its developmental trajectory was investigated in the fourth section.

Granted, the alternative institutionalist approach illustrated in this paper is far from being in a fully fledged form, and is exemplified with limited case studies. But I hope it can provide a useful step towards the improvement of our understanding of institutional change and persistence in developing countries. The rise of institutionalism has pushed the international development agenda away from the pessimistic arguments that regard unalterable factors like resources, climate or geography as the primary sources of economic growth. The institutional turn gives the state more policy space and ordinary people greater hope. Institutions matter, but even more so do the theoretical lenses through which institutions are viewed. Institutional scholarship has flourished in various disciplines and we should learn more from non-NIE institutionalisms.

## References

- Acemoglu, D. (2009) *Introduction to Modern Economic Growth*. Princeton, NJ: Princeton University Press.
- Acemoglu, D. and J. Robinson (2012) *Why Nations Fail: The Origins of Power, Prosperity, and Poverty*. London: Profile.
- Acemoglu, D., S. Johnson, and J. Robinson (2005) “Institutions as the Fundamental Cause of Long-Run Growth”, in P. Aghion and S. Durlauf (eds) *Handbook of Economic Growth*, North Holland: Elsevier.
- Amsden, A. (1989) *Asia’s Next Giant: South Korea and Late Industrialization*. New York: Oxford University Press.
- Andrews, M. (2013) *The Limits of Institutional Reform in Development: Changing Rules for Realistic Solutions*. Cambridge: Cambridge University Press.
- Baker, C. and Pasuk Phongpaichit (2009) *A History of Thailand* (Second Edition). New York: Cambridge University Press.
- Calvert, R. (1995) “The Rational Choice Theory of Social Institutions: Cooperation, Coordination, and Communication.” in J. Banks and E. Hanushek (eds) *Modern Political Economy: Old Topics, New Directions*. Cambridge: Cambridge University Press.
- Campbell, J. (2004) *Institutional Change and Globalization*. Princeton, NJ: Princeton University Press.
- Chang, H.-J. (2001) “Breaking the Mould: An Institutionalist Political Economy Alternative to the Neoliberal Theory of the Market and the State.” Social policy and development programme paper No.6, United Nations Research Institute for Social Development.
- Chang, H.-J. (2002) *Kicking Away the Ladder: Development Strategy in Historical Perspective*. London: Anthem Press.
- Chang, H.-J. (2008) “State- owned Enterprise Reform.” in the United Nations Department of Social and Economic Affairs (ed.) *National Development Strategies – Policy Notes*. New York: United Nations.
- Chung, Y. I. (2007). *South Korea in the Fast Lane: Economic Development and Capital Formation*. Oxford: Oxford University Press.
- Cimoli, M., G. Dosi and J. Stiglitz (eds) *Industrial Policy and Development: The Political Economy of Capabilities Accumulation*. Oxford: Oxford University Press.
- Daunton, M. (2010) “Rationality and Institutions: Reflections on Douglass North.” *Structural Change and Economic Dynamics*, 21(2): 147-156.
- Doner, R. and A. Ramsay (1997) “Competitive Clientelism and Economic Governance: The Case of Thailand.” in S. Maxfield and B. Schneider (eds) *Business and the State in*

- Developing Countries*. Ithaca, NY: Cornell University Press.
- Doner, R., B. Ritchie and D. Slater (2005) "Systemic Vulnerability and the Origins of Developmental States: Northeast and Southeast Asia in Comparative Perspective." *International Organization*, 59(2): 327-361.
- Hewison, K. (1989) *Bankers and Bureaucrats: Capital and the Role of the State in Thailand*. New Haven, Conn: Yale University Southeast Asia Studies.
- Knight, J. (1992) *Institutions and Social Conflict*. New York: Cambridge University Press.
- Kohli, A. (2004) *State-Directed Development: Political Power and Industrialization in the Global Periphery*. Cambridge: Cambridge University Press.
- Krasner, S. (1988) "Sovereignty: An Institutional Perspective." *Comparative Political Studies*, 21(1): 66-94.
- Kuhonta, E. (2011) *The Institutional Imperative: The Politics of Equitable Development in Southeast Asia*. Stanford: Stanford University Press.
- Kullada Kesboonchoo-Mead (2004) *The Rise and Decline of Thai Absolutism*. New York; London: Routledge Curzon.
- Lall S. and M. Teubal (1998) "Market stimulating Technology Policies in Developing Countries: A Framework with Examples from East Asia." *World Development*, 26(8): 1369-1385.
- Levitsky, S. and M. Murillo (2013) "Building Institutions on Weak Foundations." *Journal of Democracy*, 24(2): 93-107.
- Mahoney, J. and K. Thelen (eds) (2010) *Explaining Institutional Change: Ambiguity, Agency, and Power*. New York: Cambridge University Press.
- March, J. and J. Olsen (2006) "Elaborating the New Institutionalism." in R. Rhodes, S. Binder and B. Rockman (eds) *The Oxford Handbook of Political Institutions*. Oxford: Oxford University Press.
- Moe, T. (2005) "Power and Political Institutions." *Perspectives on Politics*, 3(2): 215-233.
- Nelson, R. and S. J. Winter (1982) *An Evolutionary Theory of Economic Change*. Cambridge: Belknap Press.
- North, D. C. (1990) *Institutions, Institutional Change and Economic Performance*. Cambridge: Cambridge university press.
- North, D. C. (2005) *Understanding the Process of Economic Change*. Princeton, NJ: Princeton University Press.
- North, D. C., J. J. Wallis, S. B. Webb, and B. R. Weingast (eds) (2012) *In the Shadow of Violence: Politics, Economics, and the Problems of Development*. Cambridge: Cambridge University Press.
- North, D. C., J. J. Wallis, and B. R. Weingast (2009) *Violence and Social Order: A Conceptual Framework for Interpreting Recorded Human History*. New York: Cambridge University

Press.

- Ostrom, O. (1990) *Governing the Commons: The Evolution of Institutions for Collective Action*. Cambridge: Cambridge University Press.
- Porphant Ouyyanont (2008) “The Crown Property Bureau in Thailand and the Crisis of 1997.” *Journal of Contemporary Asia*, 38(1): 166-189.
- Rodrik, D. (2007) *One Economics, Many Recipes: Globalization, Institutions, and Economic Growth*. Princeton, NJ: Princeton University Press.
- Sen, K. (2013) “The Political Dynamics of Economic Growth.” *World Development*, 47, 71-86.
- Stein, H. (2008) *Beyond the World Bank Agenda: An Institutional Approach to Development*. Chicago: University of Chicago Press.
- Tilly, C. (1990) *Coercion, Capital, and European States, AD 990-1990*. Oxford: Basil Blackwell.
- UNIDO (2013) *Competitive Industrial Performance Report 2012-2013*. Vienna: United Nations.
- Veerayooth Kanchoochat (2013) “Coalition Politics and Reform Dynamics in Thailand.” *GRIPS Discussion Paper 13-26*.
- Veerayooth Kanchoochat and Patarapong Intarakumnerd (2014) “Tigers Trapped: Tracing the Middle-income Trap through the East and Southeast Asian Experiences.” Berlin Working Paper on Money, Finance, Trade, and Development No. 04/2014.
- Vu, T. (2010) *Paths to Development in Asia: South Korea, Vietnam, China, and Indonesia*. Cambridge: Cambridge University Press.
- Wade, R. (1990) *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization*. Princeton, NJ: Princeton University Press.
- Weingast, B. (2002) “Rational-choice Institutionalism.” in I. Katznelson and H. Milner (eds) *Political Science: State of the Discipline*. Washington, DC: American Political Science Association.
- Williamson, O. (1986) *Economic Organization: Firms, Markets, and Policy Control*. New York: New York University Press.
- Wyatt, D. (1984) *Thailand: A Short History*. London: Yale University Press.