

Ten years after

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Ten years ago next month, the bubble burst, the baht crashed, and Thailand led Asia into its worst economic crisis of modern times. The US policy elite diagnosed the problem as “Asian capitalism” which was too much based on family firms, too dependent on banks for loans, and too closely locked in cronyist ties with politicians. The solution would have to be reform, and lots of good western capital replacing bad Asian capital. Hearing this imperial diagnosis, local commentators predicted doomsday for “Yaowarat capital”, meaning the Chinese immigrant families which had often started out in Bangkok’s Chinatown. Ten years on, what actually happened?

The foreign capital certainly came. Although some believe the prior Asian boom was based on foreign investment, in truth foreign investors were much more active in the bust than the boom. The inflow over the bust decade (1997-2006) was three times higher than in the boom decade (1987-96) in dollar terms, and five times higher in baht terms. At the height of the boom, 112 of the world’s top 500 multinationals had an operation in Thailand. The figure is now over 250.

What was the scale of the damage to Thai firms? In the bust decade, a hundred firms were delisted from the Thai stock exchange. About half of these were forced to withdraw because of bankruptcy or collapse. Most of the others were taken over by foreign owners who did not want to be listed locally. The delisted firms amount to over a quarter of the total before the crisis.

Professor Akira Suehiro compiled a list of the top 220 business groups in Thailand on the eve of the crisis. By the time the dust settled, over fifty of these had disappeared altogether or been radically diminished. The figure of fifty is about a quarter of the sample.

Among Professor Suehiro’s top thirty before the crisis, seven groups either collapsed completely or slid far down into the lowest rankings. Again, that proportion is about a quarter.

A quarter is not a total massacre, but it amounts to carnage on quite a large scale. What were the factors which sifted the winners from the losers?

Two main ones. First, government policies dictated that some sectors would be more vulnerable than others.

Because the economy had come to depend so much on the export of manufactures, government let foreign firms buy up manufacturing firms so they could keep operating rather than remaining hog-tied by debt. Government also decided a handful of banks should survive, but the rest of the financial industry was beyond repair. Government was two-minded about service industries. The 1999 Alien Business Law retained barriers to protect many service businesses for domestic enterprise, but in practice foreign companies could get round these barriers with a little determination.

Hence the business groups which disappeared from the map tended to be those which had been joint-venture partners with foreign manufacturers, or which had been in the racier parts of the finance industry. Many of the groups which survived and prospered were clustered in protected service sectors like media, entertainment, telecoms, property, and retailing.

The second factor which sifted winners from losers was how the business group was organized.

Almost all Thai business groups were family concerns based on the kongsi system. The patriarch of the family was the absolute boss. All family members were expected to work in the concern. Over the previous generation, a few of these families which had lots of capital, good political contacts, and acute business sense, had moved into many new areas which opened up as the economy rapidly changed. They grew into sprawling conglomerates with hundreds of subsidiaries.

The fatal combination was to have become such a conglomerate without changing the kongsi structure. The patriarch was still the sole authority. Family members occupied key executive positions throughout the group. The concern could not attract talented middle managers because there was no upward career path. Operations were not transparent.

Many of the casualties of the crisis had this form. The prime example is the Techaphaibun family which had been at the forefront of Bangkok business for half a century, with interests which spanned from liquor through banking and insurance into property. Other great surnames brought down for the same reasons include Srifuengfung, Wanglee, Chansrichawla, Huntrakun and Liaophairat.

Families which had modernized the kongsi had a much better chance. They had hired professional management, required family members to prove their worth, listed their firms on the stock exchange, and accepted the greater transparency required. They still kept family control through a pyramid of holding companies and cross-holdings. In the crisis, they had more resources to fall back on, and more flexibility to streamline for survival. Some of the best examples are the CP, Shin, and Sahapat groups who all emerged stronger.

But then there is the case of Khun Charoen Sirivadhanabhakdi, the liquor king. Without doubt, he has been the single most successful Thai entrepreneur through the crisis era. Before the crisis he had been rich, but not head and shoulders above the rest. In 2005, Forbes anointed him as Thailand's richest man with assets of 88 billion baht, almost half as much again as his nearest rival.

The irony is that he succeeded in the crisis precisely because his business was so old-fashioned. He ran a protected monopoly with roots which could be traced back to the feudal era of tax-farming. He sold a commodity. Most of his business was based on cash. Revenues dipped little because people drowned their crisis sorrows in his cheap hooch. With an enormous cash flow, he managed to defeat the liberalization of his own industry, steal the beer market from Boonrawd, and buy countless land plots and other assets from his stricken colleagues.

To his credit, Charoen has since modernized his business and begun to go global. But those who back in 1997 saw the crisis as an agent of the modernization process at the heart of capitalism need to reflect on why he rode the crisis better than anyone.

P.S.

* From: <http://www.geocities.com/changnoi2/tenyears.htm>