

## The Thailand-US Alliance after the Asian Financial Crisis: The Security Implications of International Economic Policy\*

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### Abstract

This article explains Thailand's reduced commitment to the security alliance with the United States (US) in the aftermath of the Asian financial crisis of 1997-98. It argues that the economic pressure Washington applied against Bangkok was the primary cause of the change in Thailand's policy. In the aftermath of the crisis, the US pushed for economic restructuring in Thailand, which hurt the interests of elite groups in the financial and corporate sectors, and the labor they employed. Fearing future losses, these social actors demanded that the leadership defend their interests against further foreign interference in the domestic economy. Thailand's bargaining power vis-à-vis the US, however, remained relatively weak due to its excessive reliance for security on the great power ally. To regain policy autonomy, the governments of Chuan Leekpai and Thaksin Shinawatra attempted to minimize security dependency by reducing alliance commitment and investing in alternative strategies to improve

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Thailand's own defensive capabilities.

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## I. Introduction

After the Asian financial crisis of 1997-98 (AFC), the security alliance between Thailand and the United States came under significant strain. Bangkok unilaterally started decreasing its commitment to the relationship with Washington. Defense policy objectives were changed to allow for more autonomy. Thai leadership reached out to potential new partners with the aim of establishing frameworks for managing security issues inside the region without involving the US. The new path included strengthening of bilateral ties with other countries, most significantly with China. Two civilian prime ministers unexpectedly committed to modernization of the armed forces and increased weapons procurement. These developments were surprising given their unusual timing. Alliance theory tells us that commitments falter when threats dissolve and allegiances switch in the turmoil of power shifts. No such changes occurred at the turn of the century in Southeast Asia. The US was at the height of its dominance, neighbor states were neither more nor less threatening than the previous year, no development in Thailand's surroundings was significant enough to influence the security relationship between the two old allies. At the same time, the financial crisis turned into a spectacular disaster that caused substantial damage

to the economy of Thailand. The shock to the financial system undermined the defense industry's capability to acquire foreign-made technology and modern equipment (International Institute for Strategic Studies [IISS] 1999: 173). Maintaining close ties with a powerful ally would have been natural at a time when the weaker state needed to take care of its military vulnerabilities with limited expenses. Why did Thailand decide to decrease its commitment to the alliance with the US in the aftermath of AFC?

This question has important implications for international security study and practice because the US depends on its network of alliances to maintain presence in strategic regions. For scholars, the alliance tensions discussed here highlight the way economic relations can affect governments' decisions to maintain or reconsider security ties. As a great power, America faces a dilemma—it must exercise influence within alliances without constraining the freedom of action of the partners to the extent that they are excessively burdened by the relationship. Understanding how and when competitive interests, spurred by economic policies, create costs sufficient to pull allies apart will help develop a more precise theory of alliance management, explaining alliance dynamics during peacetime.

For policymakers, this research provides useful insights for sustaining the Thai-US alliance. When states incur excessive costs due to pressure from an ally, they are encouraged to explore alternatives that will allow future policy independence. Whether these alternatives lead to closer regional cooperation among minor states, enhanced bilateral interaction with other major powers, or increased self-reliance, once developed they serve as defensive mechanisms that

can reduce US bargaining leverage within its alliances. In this way, developments that took place two decades ago created opportunities in the form of connections and institutions that continue to affect Thailand's policy choices today. Recently, president Donald Trump's administration returned to a pattern of behavior reminiscent of the late 1990s by making efforts to reinvigorate the security alliance, while pressuring Thailand on the economic front as part of the campaign to reduce US trade deficit (Parameswaran 2017). In this sense, it is worthwhile to analyze the long-term consequences of past policies resembling Washington's current assertive approach towards its regional allies amid growing concern about increasing Chinese influence in Southeast Asia.

This article argues that Thailand reduced its alliance commitment because America's response to the financial crisis increased the costs of maintaining the security partnership relative to the benefits in the utility calculations of the Thai government's support coalition. The reforms imposed on Thailand after AFC, hurt the interests of elite groups in the financial and corporate sectors, and the labor they employed. These social actors traditionally benefited from close cooperation with the state and, taken together, they held the necessary power resources to influence policy. Fearing future losses, they demanded that the leadership defends their interests against foreign interference. Thailand's intra-alliance bargaining power, however, was relatively weak as Thailand was excessively dependent on the powerful ally and thus vulnerable to pressure (Acharya 1999; on the determinants of alliance bargaining power see also Snyder 1997). To gain space for policy autonomy, Bangkok chose to reduce its alliance

commitment and invest into alternative strategies to improve the country's defensive capabilities instead.

This research contributes to the theoretical debate on alliance cohesion. The ways in which international economic relations impact conflict and cooperation between states are a popular theme for analysis in international relations theory. Few studies, however, investigate how economic relations affect security alliances. It is possible to find explanations for reduced alliance commitment based on the conventional theory of alliance cohesion developed by George Liska (1962) and refined by Stephen Walt (1997). The first theory focuses on downward change in threat perception, when one or both sides decide that the alliance has outlived its utility. The problem is that this approach cannot explain the case of Thailand where the level of threat remained constant. A second set of theories focuses on domestic politics. An alliance commitment may weaken when broad societal pressures influence the decision-making process, or when a reformist government comes to power and changes the course of foreign policy. Several experts conclude, for example, that general public sentiment affected Thai relations with the US after AFC (Prasirtsuk 2013; Stern 2009). Some identify negative public perceptions against America as the reason for Thailand's turn to Asia during Thaksin's administration (Busbarat 2016). They also observe the emergence of a nationalistic coalition of elites and intellectuals promoting self-reliance (Busbarat 2017). In addition, there exist a number of theoretical works in the field of international political economy that deal with the consequences of abandonment and exploitation of economic partners (Andrews 2006; Grimes 2009; Sohn

2005; 2007). These and other studies note that distributional effects and nationalistic sentiments at home influence regional cooperation and seek to explain how the preferences and sentiments of domestic actors emerge and translate into foreign policy, but they often stop short of searching for repercussions outside the economic sphere (Cohen 2012; Katada and Solis 2008). By incorporating some of their insights, I extend the argument to demonstrate specifically how economic relations between allies can negatively affect security cooperation. In this sense, the findings add to the debate surrounding the effects of economic interdependence on conflict.

The article covers the period immediately after AFC, divided between the governments of Chuan Leekpai (November 1997 - February 2001) and Thaksin Shinawatra (February 2001 - September 2006). The remainder is organized as follows. In the next section I describe the costs of post-crisis economic reforms for politically significant social groups in Thailand. Next, I discuss the pressure these groups applied on politicians to push policy in a more favorable direction. Finally, I turn to the governments' efforts to decrease dependence on the US in order to gain more autonomy on economic policy and satisfy the demands of their key supporters. The concluding section summarizes the findings and sketches some implications for economic foreign policy and its effects on national security.

## II. Economic Restructuring and Support Coalitions

The financial meltdown in early 1997 forced Thailand to seek assistance from the International Monetary Fund (IMF) and accept a rescue package conditional on economic liberalization and reorganization of state-business relations. The Fund insisted that the country implements Western economic practices centered on free market competition, transparency in transactions, and efficient regulation. The required structural reforms would create significant adjustment costs for Thai society with some groups experiencing a stronger negative impact than others. The new policies would hurt the interests of finance companies, corporations, and the labor they employed. Impeding changes were particularly threatening to wealthy elites who risked being deprived of the privileges provided by a traditional government system based on money politics. If the plan for recovery was implemented in full, not only would they lose easy access to rent and much of their political influence, but they would have to compete on equal terms with strong foreign companies. The other big group that suffered from the new policies was urban labor, whose wages depended on the profits of financial institutions and major companies on one hand and on government support through labor market regulation on the other.

The IMF program required tightening of monetary and fiscal policy and structural reforms of the financial and corporate sectors. Financial sector reform included abandoning failing financial institutions, close central bank supervision over weak financial companies, and

strengthened regulation. In the corporate sector debt renegotiation was to be accompanied with changes in the structure of corporate governance. Other reforms included facilitating asset purchases by foreign investors, lifting restrictions on foreign ownership, and privatization. The Fund demanded tightening of domestic labor market conditions, increasing flexibility of the labor market, and deregulation of minimal wage (IMF 1997).

Financial institutions took a severe blow as a result of reforms in the sector. Of the original 91 financial and securities companies only 35 survived to 1998 and 7 of those in addition to 4 major banks became government property. A third of the financial system went out of business. The value of the failed institutions plummeted, which facilitated their takeover by foreign firms. Ciam City Bank, established by members of the powerful royal Mahadumrungskul family, and Bangkok Metropolitan Bank of the Tejapaibul family were nationalized, depriving the former owners of their shares, and later merged together after plans for selling them off to foreign companies failed. First Bangkok City Bank was also nationalized and merged with the state-owned Krung Thai Bank (Pandey 2001: 3). Thai Dhanu, Laem Thong, Bank of Asia, and several others were forced to sell majority stakes to foreign groups (Hewison 2000).

Macroeconomic policy created significant adjustment costs for Thai banking elites. The austerity program involved a value-added tax increase from 7 to 10 percent, a cut in fiscal spending, and raising interest rates (Lauridsen 1998). Added to the currency depreciation, this rendered failing banks unable to repay their own debts, access to capital was quickly cut off and many businesses were pushed into



bankruptcy.

Strengthened supervision and regulation created more pressure. Rules for accounting, loan classification and provision prescribed by the Basel Committee on Bank Supervision, which had been successfully circumvented in Thailand since their official adoption in 1992, now had to be followed closely. The change affected all bankers together with the governing elites who were used to treating bank loans as bribes that they did not have to repay. The common practice of bankers to lend themselves and their friends and families large sums either without collateral or guaranteed by heavily overvalued properties would become hard to perpetuate. Tightening of the loan classification procedure meant that a loan classified as non-performing after six months, instead of twelve, which automatically wrote off the majority of loan assets of Thai financial companies amounting to 1.3 trillion baht (Choe 2005: 179).

Foreign ownership increased most significantly in the banking sector. Before the crisis, a limited number of families controlled 12 out of the 15 domestic commercial banks, more than 50 percent of assets being concentrated in the hand of the top four groups. The presence of foreign banks was strictly regulated and their activities highly limited not only by law, but also by Chinese-Thai elites who were unwilling to open the sector to competition. Foreign companies were not allowed to possess a share larger than 25 percent in any bank. Combined foreign interests constituted no more than ten percent of the total assets, almost half of which in Bangkok Bank, Thai Farmers, Siam Commercial, and the Bank of Ayudaya. Post-crisis restructuring resulted in 38 percent of all shares being sold to foreign

companies by 2002 as mergers and acquisitions in the sector accounted for 38 percent of all consolidations between 1997 and 2002 (Choe 2005: 157-161).

The corporate sector was also negatively affected by reforms. The relationship structure between banks, government, and firms was fundamentally altered. What happened has been described as “the most substantial restructuring of [the capitalist] class since the Second World War” (Hewison 2000: 192). Previously, borrowers and lenders had cooperated and realized mutual profits under the government's benevolent protection. Insider lending was the norm in the elite-owned conglomerates consisting of a number of firms and a bank at the center. After the new regulations took place, the state no longer guaranteed loans thus turning borrowers and lenders into competitors for scarce funding and lowering the profitability of both groups (Leightner 2007).

Freer investment, accompanied by more transparent management and replacing of patron-client relationship structures with modern market relations weakened domestic monopolies. Policies, aimed to make it easier for foreign investors to acquire shares in Thai companies, included the elimination of majority stakes over a term of 10 years, after which period all assets over 49 percent had to be sold out. The Alien Business Law (National Executive Council Announcement 281) of 1972 forbidding all foreign ownership, with the exception of that agreed by the Treaty of Amity and Economic Relations between the United States and Thailand, was replaced by a much more permissive Foreign Business Act. The latter allowed majority foreign ownership in many sectors and minority ownership

of up to 49 percent in others (Dixon 2004: 47).

Urban labor was another group that suffered from the reforms and policies prescribed by the IMF. Tightening of domestic labor market conditions badly affected workers employed by the failing financial institutions and businesses. Increased foreign ownership precipitated downsizing accompanied by substantial layoffs. An estimated 30000 workers lost their jobs in the financial sector alone (Lauridsen 2007: 1586). Increased flexibility of the labor market meant that many more would be laid off and others would have to switch to temporary or part-time employment or turn to the grey economy to provide for existence. Switching between sectors was not an option for representatives of urban labor first, because there were few employment opportunities in agriculture and, second, because they were uncompetitive compared to the young low-pay workers in the provinces. The complete lack of unemployment insurance in the social security scheme of Thailand at the time further aggravated the situation. Most people were unaware of the ad-hoc assistance program designed by the government as a response to the crisis and no more than one fifth benefited from it in any way. Deregulation of minimal wage allowed for reductions in pay and welfare benefits for those who remained employed. Many of them saw a decline in real wages approximating eight percent in the years immediately after the crisis (Charoenloet 1997).

The social groups affected by the post-crisis reforms had the necessary power to influence foreign policy during the terms of prime ministers Chuan and Thaksin. Much of the financial and corporate sector was controlled by a core circle of so called 'old elites'—

powerful military figures and representatives of wealthy banking families who held enough political resources to pressure any government into satisfying their demands. In addition to them, each PM was accountable to the people that helped him get elected. For Chuan, those were the newly empowered urban workers who became the main supporters of the Democratic Party (DP) in the 1990s. Thaksin and his Thai Rak Thai (TRT)'s victory in 2001 was secured by the other prominent group of capitalists—the “new elites”—who came to dominate the political scene in the period of recovery after the crisis.

Despite democratization, no government in Thailand could escape the influence of the old elites. Until the 2000s, King Bhumibol controlled the political scene through network-based relations with powerful representatives of the military, bureaucracy, and civil society. Although none of them could prevent political opponents from being elected to high posts, together they yielded enough power to undermine those who would not cooperate and are believed to have displaced no less than four legally elected prime ministers from office before 1997 (Chambers 2010; McCargo 2005). Banking families, concentrated in Bangkok, also belonged on the list of most powerful people in the state. As domestic banks had been the main source of capital for industry and crucial for the implementation of the government's industrialization plan, they were traditionally allowed to guide policy in their best interest. Expanding their activities in all directions, banks became the hubs of Thailand's economy (Hewison 1988). The high level of centralization of the financial sector contributed to its increased capacity for collective action in the

political arena. The cartel formed by the top banks constituted what has been aptly called “one of the most potent political forces in the country” (Overholt 1999: 1013). Its power grew so much that instead of bankers relying on political patronage, the government became dependent on the cartel’s assistance.

Chuan’s government failed to exclude these groups from policy-making. His ruling coalition incorporated many representatives of the Chart Pattana Party (CPP) known for their close ties to old elites. Some ministers were major shareholders in the financial companies threatened by bankruptcy during the crisis (Choe 2005: 188). Following a cabinet reshuffle, CPP member Sompong Armornviwat took over labor and social welfare policy and CPP Secretary-General Suwat Liptapallop became industry minister. The DP retained control over trade and fiscal policy as democratic technocrat Tarrin Nimmanahaeminda kept his post as finance minister, but as Korn Dabbaransi (leader of CPP and now health minister) famously stated, economic policy-making would not be left in the hands of the Democrats (Oxford Analytica 1998/10/07).

Old elites aside, Chuan’s core supporters were the urban middle and upper classes employed by big business in the capital. Their votes were essential for the DP, because they held the potential to shift the election results in the Central region of the country—the only area remaining outside the vote-buying networks of *jao pho* (rural godfathers) that required huge capital to control.

Thaksin rose to political dominance as a representative of the new capitalist class and openly declared support for business as top priority of state management. He and the TRT acted on behalf of

Thai-Chinese corporations in a political system that presented itself as an effective oligarchy (McCargo and Pathmanand 2005). Thaksin used the new constitution to curb factionalism and ensure that his TRT remained the single dominant party with stable majority in parliament. Elites exploited loopholes in the legislation to fill the Senate with members of their families reducing its role to an affiliate of the TRT (Kuhonta 2008: 375). After dismissing the reformist Chatumongol Sonakul from the post of Governor of the Bank of Thailand, Thaksin asserted his hold on the financial system of the state (Dixon 2004: 62). While new capital succeeded in effectively securing control over the state apparatus, old elites also remained relevant. Thaksin allied with some members of the Charoen Pokphand (CP)—an older group closely connected with military and political elites in the New Aspiration, Prachakorn Thai, and CPP parties, as well as with influential bureaucrats (Pathmanand 1998). King Bhumibol too was able to control the PM in several ways, including the appointment of key figures in government from a pool of loyal old elites (Leightner 2007: 68).

### III. Opposition to Reform

In 1997, the common perception in Thailand was that United States exploited its position to further its own business interests (Bullard et al. 1998; Higgot 1998). It made policy choices that failed to alleviate the consequences of AFC and deepened its negative effects on the weakened economy of the junior ally (Cho and West 2003; Furman

and Stiglitz 1998; Jomo 2000). At the beginning, immediate supply of liquidity would have been sufficient to restore investor confidence and make the crisis more short-lived and manageable (Weiss and Hobson 2000). Washington refused to provide adequate help through the IMF or independently, and blocked Japan from intervening, despite Tokyo's willingness to bear the cost (Cohen 2012). The US had the means and the opportunity to prevent the economic downturn from turning into the catastrophe it became, but instead it chose to let the affected state struggle. Later, America used its influence over the IMF to push for structural reforms that were perceived to benefit its home corporations, while causing additional harm to the crisis-affected country (on US influence over the IMF see Blustein 2003; Dreher and Jensen 2007; Thacker 1999). Imposed conditions, such as restructuring of the capital market to allow greater access for foreign firms, were not directly related to the crisis and further undermined investor confidence by hinting at nonexistent systemic weaknesses (Weiss and Hobson 2000). The reform process required significant adjustment on the side of the crisis-stricken state, while benefiting US firms.

Old and new elites and urban labor were united in their opposition to the economic restructuring prescribed by IMF strategists. Their influence was first felt during Chuan's term when his initial reformist position ran against their core interests. Capital owners used their status, connections to government officials, and money to pressure the administration not to implement the most problematic reforms (Busbarat 2017). Their efforts were successful in convincing the PM to abandon the conformist approach and start regaining economic

policy autonomy to satisfy their demands. However, by the time his new course became apparent, his administration's support base had eroded beyond repair. The new elites, feeling the need for a leader that would better defend their interests, promoted Thaksin as their representative to gain direct control over policy-making. His success was facilitated by urban voters who felt betrayed by Chuan and opened the way for the media mogul to win the 2001 election.

Big business directly confronted Chuan on his initial commitment to adhere to IMF's prescriptions showing him that they would not go along with this policy course. In 1997, the PM took the position that the crisis was the result of structural weaknesses in the Thai economy which needed to be addressed with guidance from the US (Leekpai 2015). Leading businessmen used a crisis session with him to demand relaxation of restrictions on major banks among other measures. The chairman of CP, Dhanin Chearavanont, stated before the meeting that "[t]he tough rules should be imposed at a time when our economy is healthy. Our economy is like a man who is seriously sick and recovering... and the government should feed him until he is stronger." As pressure mounted, Abhisit Vejjajiva, spokesman for the DP at the time, acknowledged that they expected the unpopular policies to further erode support for the administration (Torode 1998a: 10).

Elites' voices against structural reforms in the financial and corporate sector were often heard in Senate. The legislation on bankruptcy and foreclosure proposed in 1998 was met with vehement opposition from politicians related to the failing institutions. The administration was accused of 'selling out the nation' as the proposed



'Economic Recovery Bills' threatened to hurt the interests of several senators, including Prachai Leophairatana—the chief executive of the highly indebted Thai Petro-chemical Industry Public Co Ltd. Chuan's opponents filed a series of motions intended to remove the PM and his closest ministers, which further undermined support for the administration (McVey 2002). The opposition was partially successful and the adoption of the new bankruptcy and foreclosure law was delayed until 1999. The establishment of a Financial Restructuring Authority and the Thailand Asset Management Corporation (TAMC) with a mandate of restructuring bad debts was also delayed due to the lobbying efforts of the failing financial companies. The TAMC was eventually instructed to help revive companies instead of closing them down. The Senate, however, did not have the power to completely overrule the proposed reforms and succeeded only in diluting their contents (Siamwalla 2001).

The corporate sector resisted the expected expansion of foreign ownership with limited success. Corporations fought to exempt certain industries, among which trade with native products, construction, law and accountancy from the Foreign Business Act on security, environmental, and so called "special" grounds. A cumbersome application procedure was kept in place and the decision of the Commercial Registration Department whether to grant permission to foreign businesses to operate remained largely arbitrary (Ratprasatporn and Thienpreecha 2002). However, they could not prevent full foreign ownership of land, most manufactures and services, including insurance, the restrictions for which fell by 1999.

Electoral support for the government was diminishing as the

economic situation grew worse. Chuan was criticized for not defending the national interests by submitting to the demands of the IMF, which represented foreign investors (Baker 2005). Voters turned against him in part due to his “perceived inability to cope with foreign interests” (Chambers 2005: 496). The middle class loudly expressed its “disillusionment with globalization” and aversion to the liberalization policies prescribed by the IMF (Dixon 2004: 61). By 1999 Chuan and his finance minister had grasped the sentiment of this crucial group of voters and attempted to clearly distance themselves from the Fund. It was, however, too late and urban workers expressed their frustration at the 2001 election, in which the DP suffered a landslide defeat.

The TRT scored a major victory due to what has been called a “back-lash against neo-liberalism” (Glassman 2001: 142). Thaksin built a strong anti-IMF platform and appealed to urban workers with nationalist rhetoric directed against foreign ownership, promises for protection of local industry and institution of working laws favoring Thais over foreigners. Thaksin’s plan was to clearly differentiate himself from his predecessor who was perceived to be too submissive to the US. He stated that Thailand must not implement policies that did not serve the national interest and “cease being a slave to the world” (Crispin 2001: 47). Part of his strategy was to promise the banks that an asset management company would take care of their loans, clean up their balance sheets and allow them to resume lending. Capitalizing on nationalistic sentiment, Thaksin managed to unify the country's capitalists, villagers, and the middle class against a common enemy in the face of the IMF with its economic restructuring package.

This was a clear statement that the new government would act in the interest of the capitalist class (Hewison 2002; Leightner 2007). The DP's neo-liberal economic policy course was still associated with the Fund, which helped the TRT win in every region except a few firm strongholds of the Democrats in the South (Ockey 2003).

Regardless of their intentions, neither administration was free not to comply with US demands reflected in IMF's conditions. Thai officials often expressed their frustration with the asymmetry of the relationship with the US, one summing up that Thailand simply had "no negotiation power and no bargaining power" (Brandon and Chen 2002: 7). Their options were further constrained by concerns that if it adopted a non-conciliatory approach it would affect the relationship with Washington, and by extension the security alliance itself. From the very beginning, the alliance was based upon a trade-off where the smaller state agreed to give up some of its policy-making autonomy in exchange for security guarantees (see Morrow 1991). Being an asymmetric partnership, it was by definition more important for the weaker ally, which gave the stronger state significant advantage in intra-alliance bargaining. As an aggravating circumstance, the long term dependence on the US for security had made it more difficult for Thailand to risk deterioration of relations. Were it not so, Thailand could have adopted a path to recovery similar to the autonomous solution sought by Malaysia when it was hit by AFC. The Thai government assessed various options when the crisis struck. As late as August 1997, Surasak Nananukool—a senior economic advisor to Prime Minister Chavalit Yongchaiyudh—stated that Thailand did not need a credit line from the IMF and would not

ask for it (Hookway and Paul 1997: 9). By the end of the month, however, in a secretive negotiations process, the leadership had reached an agreement with the Fund. The weakness of Bangkok's bargaining position could be seen in the commitments that were clearly going to have considerable negative consequences for the government's key supporters.

#### IV. Alliance Commitment

Unable to protect the interests of their support coalitions without risking deterioration of relations with the US, Thailand's leaders needed to regain some of the state's policy autonomy. The strategy available to them was to reduce dependence on the US by investing in the development of alternative defense arrangements instead. The two governments administering post-crisis recovery engaged in pursuing security cooperation with other states in the region, building a partnership with China, and supporting the development of a stronger, more independent military.

##### 1. Regional Security Cooperation

Historically, Thailand's commitment to the security alliance with the United States started from disappointment with the reliability of regional collective defense arrangements against the threat from China and North Vietnam (Chinwanno 2004: 195). After 1997, Bangkok adopted a more proactive approach towards ASEAN urging its

neighbors to build the foundations for multilateral security cooperation. Thai diplomats called for exclusionary multilateralism, focused on seeking an Asian identity as a starting point for gaining autonomy in security and economic matters. Observers noted that “Thailand played a leading role in establishing the agendas for both conventional and human security in the Southeast Asian region through the ASEAN Regional Forum (ARF) and the ASEAN Ministerial Meeting, as well as other venues” (Rathanamongkolmas 2001). Thailand was resurrecting traditional tactics used in the past to counter pressure from great powers. The rationale behind them was famously summarized by Thanad Khoman—the foreign minister who had played a pivotal role in the formation of ASEAN in the 1960s—“We are doing this to enable us to deal more effectively and more adequately with, not only with our foes... but also with our friends. If one is better organized, our friends will respect one more” (Chinwanno 2004: 196). In the few years after AFC, Thailand contributed to the development of a new form of regionalism, focused on institutionalization of cooperation and reducing dependence on non-regional actors.

Thai activism in regional institutions intensified during Chuan’s term. His foreign minister—Surin Pitsuwan—became an outspoken advocate for a stronger ASEAN committed to intraregional cooperation. A highlight of his efforts to strengthen the organization, was the proposal to change its policy from “non-intervention” to “flexible engagement” in the internal affairs of member states. The plan reflected his personal pro-democratic orientation and the wish to be able to influence Myanmar over border issues, but also the view

that the lack of openness in the workings of the Association affected the members' ability to respond to common threats (Bolongaita Jr. 1999). Although the proposal was rejected, Surin persisted in pointing out the need for closer cooperation on security, stating that "ASEAN may need to build on the success of existing regional security institutions, such as the ASEAN Regional Forum, in order to preserve the stability of our region and avoid danger of over-reliance on third parties" (Pitsuwan 1999). He pledged to make the establishment of a High Council to handle disputes between member states his personal priority as ASEAN chairman (Porter 1999: 9). At the ARF, he was a leading enthusiast promoting an active move beyond dialogue to preventive diplomacy (*China Daily* 1999/07/30). Supporting words with actions, Thai Foreign Ministry was one of the first to submit a report for the Annual Security Outlook booklet published by ARF to increase transparency (Singapore being the only other ASEAN state to do so), setting example for the other member states. For Bangkok, the Forum emerged as an option for satisfying regional security needs that did not have the disadvantage of depending on an ally. Its initiatives prepared the region for increased defense cooperation, such as multilateral military exercises among ASEAN member states (Kusuma 2001).

Thaksin's administration continued Chuan's push for greater regional cooperation. Foreign minister Surakiart Sathirathai shared the view that regional cooperation creates negotiating leverage with great powers and committed to building relations with other regional states. He abandoned the more controversial aspects of Surin's approach and pledged to focus entirely on the interests of Thai business saying that

the foreign policy “must correspond with the economic needs of Thailand.” For this purpose, he proposed a new “forward engagement” agenda, aimed at establishing closer ties with neighboring countries while working in a more “Asian way” (Crispin and Vatikiotis 2001: 26). As Pavin Chachavalpongpun (2010: 94) attests, “an important principle of [the policy] was self-help and self-reliance.” The focus was also notably on regional and sub-regional levels, meaning that the US and other outsiders were explicitly excluded.

Embracing a vision of an “Asian Community”, Thaksin and his team initiated a number of ambitious foreign policy initiatives. The main one was the Asia Cooperation Dialogue (ACD), launched in 2002 with participants from 18 Asian states (Chachavalpongpun 2010: 97). The ASD grew from Surakiart’s effort to build cooperation networks within Asia, which he justified with the need to increase national capabilities and work closely together to be competitive against other regions (Sathirathai 2001b). His repeated mentions of perceived changes in the strategic environment in the Asia-Pacific reflected a new cautious attitude towards the US and realization that smaller states must cooperate to increase their economic and political strength. The foreign minister sought to link together and strengthen the many institutional networks existing in Asia (Sathirathai 2002). These ideas became embedded in the ACD’s official objective “to ultimately transform the Asian continent into an Asian Community, capable of interacting with the rest of the world on a more equal footing” (ACD 2019). Thaksin promoted several further initiatives in line with the new policy course, including the Asian Bond Market,

and the Ayeyawady-Chao Phraya-Mekong Economic Cooperation Strategy (Busbarat 2016: 245; Chachavalpongpun 2010: 103 - 113). The idea behind these initiatives was to build up regional capacity thus reducing the vulnerability of domestic businesses to foreign interests.

The shift in foreign policy also included active involvement with non-traditional partners ranging from economic accords to collaboration on security issues. For example, cooperation was sought with Latin American states under the framework of the East Asia-Latin America Forum where Surakiart stated that the financial crisis of 1997 had highlighted the vulnerabilities of developing states thus providing an impetus for building partnerships aimed at enhancing the two regions' representation in international politics (Sathirathai 2001a).

## 2. Partnership with China

From 1998, Thailand's foreign policy showed another development—a shift from dependence on the US to a two-pronged approach of cooperating simultaneously with both America and China. This involved the building of a strategic partnership with Beijing at the expense of decreased commitment to the US alliance (Oxford Analytica 1998/07/27). This step was also indicative of a change of stance towards Washington. Although very skilled in navigating between strong nations, Thai politicians only resorted to such complex maneuvering when both sides were perceived to be equally threatening (as Britain and France were during the colonial period). The turn to China can be interpreted as a form of hedging against



the risk of future US pressure.

Chuan was quick to declare his intention to expand cooperation with China. The immediate result was the signing of a wide-ranging protocol between Bangkok and Beijing and the establishment of strategic partnership relationship between the two countries. In 1999, Thai officials approached Beijing with a proposal for an agenda for future security cooperation that led to the publication of the Joint Statement on the Plan for Action in the 21<sup>st</sup> century. The agreement was the first of its kind to be signed by Thailand and expressed intent to eliminate trade barriers and increase cooperation in security and technology development (BBC Monitoring: Asia Pacific 1999/04/29). Exchange visits of senior military personnel intensified and China emerged as an alternative to the US supplier of equipment for the Thai military (Chinwanno 2004: 200). An unprecedented advancement in Thai-Chinese relations could be seen in policy documents, in diplomatic visits at all levels, and in intensified cooperation, most notably in the security area (BBC Monitoring: Asia Pacific 1999/02/05; 1999/08/31; Xinhua 2001/05/20). The PM and top military officers expressed gratitude for China's help during the financial crisis and emphasized that China and Thailand have little differences in position on international issues (Stratfor Worldview 1999/07/09).

Bilateral ties flourished during Thaksin's term. The greatest contribution for the strengthening of cooperation can be credited to former PM general Chavalit Yongchaiyudh in his role of deputy prime minister and minister of defense. In 2001, he and Chinese counterpart and personal friend General Chi Haotian agreed to hold

annual defense talks to discuss security cooperation between the two countries. The meetings—the first of this kind between China and a member of ASEAN—brought tangible results. The diplomats arranged for exchange of observers during military exercises, including US-Thai Cobra Gold and Chinese Northern Sword in Inner Mongolia. Cooperation expanded in the areas of military education and joint training exercises. Perhaps most significant was Thailand’s decision to resume arms purchases from China (Storey 2008; 2011: 138). Analyzing these developments, one expert account concludes that “Thailand began to construct an alliance with China in a similar way as it has done with the United States” (Chachavalpongpun 2010: 196). Along with the rapidly developing military ties, economic exchange also notably intensified under Thaksin. Beijing actively participated in the ACD, helping to promote the organization (Busbarat 2016: 246). In 2003, Thailand became the first ASEAN country to conclude a free trade agreement with China. The two countries also provided strong diplomatic support for each other’s policies. For example, Bangkok backed the One-China policy, while Beijing committed not to interfere with Thaksin’s handling of the Malay-Muslim insurgency in the Southern provinces of Thailand (Chachavalpongpun 2010: 197 - 198). Overall, China and Thailand’s expansion of bilateral ties during this period was viewed as coming at the expense of relations with the US (Busbarat 2016: 246; Vatikiotis 2003: 71).

### 3. Armed Forces

Diplomatic balancing aside, the Thai defense ministry managed to

get back on track with the modernization of the armed forces. The economic downturn in 1997 had forced the government to cut spending in all sectors, including defense, but by 2001 military expenditure had bounced back to 2.3 billion USD (IISS 2000: 185). As civilian leaders in a state where a military coup was a looming possibility, neither Chuan, nor Thaksin personally supported increase in military spending and often clashed with army generals over financing (Torode 1998b: 14; Nanuam 2003a: 1). Yet the former committed to complete a military restructuring plan while in office and the latter signed off increased funding for weapon purchases and modernization of the military (*Bangkok Post* 1998/10/23; Nanuam 2003b).

Chuan's position on military financing changed early in his term allowing the Royal Thai Army to intensify weapons procurement. In 1997, the PM (who acted as a defense minister at the time) wanted to prevent the purchase of F/A-18 fighter jets from the US, because he believed they were "unnecessary" and the contract was "irrational" (Stern 2009: 4). Using the tough economic situation as an excuse, he met President Clinton and requested a renegotiation of the terms for the USD392 million deal concluded in 1996 (Myers 1998: A5). The sale was eventually cancelled even though the jets were already assembled, Boeing could not find a new buyer for the aircraft, and the US could not use them at home, as they were incompatible with the arsenal produced for the domestic market (U.S. Newswire 1998/03/13). By October 1999, however, Chuan gave the military green light to buy 25 Alpha Jets from Germany and place an order for another eight US F-16s (*Bangkok Post* 1999/08/04; *PRNewswire*

2000/07/14). A five-year plan for the acquisition of a significant number of aircraft and missiles was drafted and purchases started as soon as 2000 (Xinhua 2001/03/28).

Thai generals pushed to build a more independent and capable military, which included diversification of weapon suppliers. By 1999, the defense ministry had started to shop around for lucrative arms deals (BBC Monitoring: Asia Pacific 1999/07/15). In the years after AFC, Thailand would more than double the number of its major conventional arms suppliers by adding 9 countries to the list (Britain, Israel, Italy, Norway, Ukraine, Russia, Singapore, South Africa, and Sweden; United Nations Register of Conventional Arms 2019). What is noteworthy is not the purchase of military equipment from different vendors in itself, but the fact that although US weaponry was preferred, it began to be substituted, because it was now seen as coming with “various forms of conditionality” (Dalapino 2011: 9).

## Conclusion

Thailand's new foreign policy course in the aftermath of AFC reflected the demands of capital owners and urban middle classes. Old and new elites alike incurred significant losses when inadequate support from the US followed by economic reforms imposed by the IMF reduced the profitability of their companies and limited their access to patronage. For these two groups and the labor they employed the cost of America's security assistance rose, as it came to include a complete restructuring of Thai business-government

relationship and rapid economic liberalization. Originally pro-reform oriented, PM Chuan Leekpai started a process of reducing commitment to the alliance with the US to satisfy his support coalition's demand for regaining economic policy autonomy. He, however, was too slow in distancing the DP from the unpopular neo-liberal reform course imposed by the Fund and this cost him the loyalty of urban labor and the elections in 2001. Premier Thaksin Shinawatra continued the nationalistic security policy in the interest of a support coalition consisting of old and new elites.

These findings contrast with a common explanation for the weakening of alliance commitments: there is little evidence that changes in threat perception among Thai leadership led to reformulation of the foreign policy. Further, this case exemplifies how the aggressive economic policies of a patron state can affect the alliance commitment of a junior ally by shaping the preferences of domestic actors.

The cold spell in the security relationship between Bangkok and Washington had long-term consequences. Overall, the policy shift seen under Chuan and Thaksin was neither radical nor irreversible, but it set defined the conditions for future interaction with the US. While Thailand never intended to terminate its ties with the powerful ally, by building defense frameworks offering alternatives to reliance on the Washington, it is becoming less willing than before to accommodate US policy preferences and more capable of ignoring them. In 1998, Thai officials told Defense Secretary William S. Cohen that "they may not be so accommodating the next time the United States needs to move its military forces through Thai air

bases” (Sanger and Stevenson 1998: BU1). In 2002, Thaksin faced strong domestic opposition when the US requested assistance for its War on Terror and offered only lukewarm support under strong pressure from Washington (Busbarat 2017: 264; Vatikiotis 2003: 71). In 2012, the Thai government refused to allow NASA’s scientific research in U-Tapao (Busbarat 2016: 246-9). The same year representatives from the Ministry of Foreign Affairs, Ministry of Defense, and Ministry of Commerce held a private meeting with businessmen and academics to discuss the future strategy toward Washington and Beijing. They reached a unanimous agreement that Thailand “must look beyond the US alliance and strengthen relations with China.” Officials are reported to have expressed a regret that “Thailand failed to reap benefits proportionate to its strategic values” as an old American ally (Chongkittavorn 2012). This happens at a time when Thailand’s growing strategic importance and a changing international environment would permit it to gradually reduce its dependence on a single security partner should it choose to pursue this path. As a reflection of these trends, even Cobra Gold—the annual event that started as bilateral training between the armed forces of the US and Thailand—has now become Asia’s largest multilateral exercise involving both Japan (as a participant) and China (as an observer). Such developments are unlikely to bring an end to defense cooperation between Bangkok and Washington, but they could weaken US inter-alliance bargaining position and hence its ability to project power in the region.

A lesson that America can take from the AFC is that its loss in influence will be another’s gain. Thailand continues to face both

internal and external threats to its security. Prolonged political conflict affects both its counter-insurgency capabilities, needed to address the terrorist threat in the South of the country, and its ability to stabilize relations with neighboring states (particularly Cambodia and Myanmar). At present, Bangkok views Beijing less as a revisionist threat and more as a status quo partner and a mediator that can help Thailand pursue its interests (Murphy 2010). The two countries are actively discussing expanding military cooperation, not in the least because elites see partnership with China as less costly than the high-maintenance relationship with the US (Parameswaran 2015). Nevertheless, considering Beijing's proximity and uncertainty about its future intentions, Thai leaders would feel most secure if the alliance with America remains strong. It is up to Washington to make sure that divergence in economic interests does not create new alliance tensions with unwanted consequences.

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<국문초록>

## 아시아 금융위기 이후의 태-미 동맹: 대외경제정책의 안보적 의의

Iordanka Alexandrova  
(고려대 평화와 민주주의 연구소)

본 논문은 1997-98 아시아 금융위기 이후 태국의 대미동맹에 대한 헌신(commitment)이 약화된 이유가 무엇인지 분석하는 것을 목적으로 한다. 태국의 대미 정책 변화를 가져온 가장 중요한 요인으로 본 논문이 제시하는 것은 미국의 경제적 압박이다. 아시아 금융위기 직후에 미국은 태국에 경제 구조조정 및 경제 자유화를 강요하여 이로 인해 태국 정부의 지지 세력이었던 기업과 금융 엘리트 집단과 그들이 고용한 노동자들이 경제적 피해를 보았다. 미래의 손실을 우려하는 이 사회적 행위자들은 정부를 압박하여 외부적 간섭 방지 및 자신들의 경제적 이익의 보호를 요구하였다. 하지만, 태국 정부는 대미 안보의존으로 인하여 대미 교섭력이 매우 취약하여 지지 세력들의 요구를 만족시키기 어려운 상황이었다. 정책결정 자주성을 되찾기 위하여 추안 리크파이와 탁신 친나왓 행정부는 대미 안보의존을 낮추고 태국의 자체 방어능력을 키우기 위하여 노력하였다.

주제어: 안보동맹, 동맹정치, 태국 외교정책