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A Historical Study of Thai Business Conglomerates and Their Business Strategy

By

Oranuch Pipatpokaisri

Abstract

Most of the past and present scholars conclude that the Bowring Treaty and government supports are the key factors of the Chinese success. However, after studying the history of Thai business environment, economy and government policies, it is hard to explain the successfulness of the Chinese business by the above key factors. Therefore, this research aims to explain why the above reasons are not enough to explain the success of Chinese business in Thai history, and to understand and make a clearer reason of what behinds the success of Chinese business in Thai economy from the past until present.

Key Words

Business Conglomerates, Chinese Business¹, the Bowring Treaty, the 1958 revolution, Government Acts, Assimilation, Business Connection, Marketing Mix

1. Introduction

The major interest of this research is directed mainly toward the study of the development of the success of Chinese business in relation to the growth of Thai economy. In order to understand the factors of their success, it is necessary to study in depth its economic problems, which includes such aspects as domestic and international trade, capitalists, government policies, business development and general relations between Thai and Chinese people.

In the process of dynamic economic growth in the past few decades, large business groups emerged in Thailand, but little is known of the indigenous people and organizations responsible for this economic transformation. However, in recent studies, a scholar who seeking to understand the economic history, current economic development or future prospects of Thailand cannot ignore the role of the Chinese who have dominated economic life for centuries. Skinner, Kirsch, Phipatseritham, and Suehiro

¹It should be noted here that all the Chinese business discussed in this paper means the Chinese who were born in China or in Thailand or those who have ancestors who were immigrants from China in the past few generations and who have retained Chinese culture and who have Thai citizenship.

suggest that the Bowring Treaty (1855) was the key factor that generated opportunities for the immigrant Chinese to be dominants in most of the businesses in Thailand². According to the above suggestion, this research will illuminate the history of the Bowring Treaty and government policies toward business in Thailand and analyze whether these 2 factors are the key factors of the success of Chinese business or whether there are any other key factors that are more important and more reasonable to explain. This research will also analyze whether there is a common strategy or tactic of doing business for the ethnic Chinese in Thailand.

Since there are a large number of business groups as can be seen in Table 1, it is unable to explain each business group in this research, therefore, hereby, the case study of the Bangkok Bank, the largest and successful bank in Thailand will be given as representatives of Chinese big business groups.

In relation to these questions, the principle task in this research is to explain and answer the above questions and the below hypotheses will also be provided to get closer to the answer.

- 1) The Bowring Treaty has supported the Chinese to run their businesses.
- 2) Thai government policies have supported Chinese to raise their businesses.
- 3) Marketing factor has involved in the success of Chinese business.

If these hypotheses can be confirmed in the subsequent researches, we will be able to explain the reasons of the success of Chinese business, and the results will help us develop a model of the Chinese success and contribute as a new suggestion or guidance of business success to investors in Thailand.

This research depends heavily on historical analysis. The general framework uses the "Situational Logic" approach, which is explained by Karl Popper. This method of analysis helps us to explain a problem by way of a conjectural reconstruction of the problem situation. Given this analysis of the social situation, we may be able to explain, or to predict the further movement.

2. The Bowring Treaty and the Emergence of Chinese Business

In discussing the rise of Chinese business groups, it is not only appropriate to study the period from the 1960s, when industrial development actually started, but it is also necessary to trace back to the year 1855 when Thailand concluded a commercial treaty, the Bowring Treaty, with Great Britain and was thus integrated into the worldwide trade.

As mentioned above, Skinner, Kirsch, Phipatseritham, and Suehiro conclude that the Bowring Treaty was the key factor that generated opportunities for the immigrant Chinese to be dominants in most of the businesses in Thailand. They give the reason that the Thai were rarely attracted to the roles of businessman or merchant, therefore, the chance had gone to the Chinese.

According to the study of the above scholars about the Bowring Treaty, it can be

²see Skinner (1957, 1958), Kirsch and Skinner (1975), Phipatseritham (1983), Suehiro (1989).

Table 1. Classifying of Thai Business Conglomerates (By 1979)

Financial Conglomerates			
Family Name	Business Group	Type of Business Involved	No. of affiliated & (involved) company
Crown Property Bureau*	Siam Commercial Bank Siam Cement	Banking, finance, cement	19 (44)
Sophonpanich	Bangkok Bank	Banking, finance, insurance	26 (72)
Lamsam	Thai Farmers Bank	Banking, finance, insurance, trading	25 (52)
Ratanarak	Bank of Ayudhya	Banking, finance, flour mill	13 (30)
Tejapaibul	Bangkok Metropolitan	Banking, finance, liquor	47 (83)
Industrial and Agribusiness Groups			
Crown Property Bureau	Siam Cement, Siam Commercial Bank	Banking, Finance, Cement	19 (44)
Phornprapha	Siam Motors	Automobiles (Nissan)	37 (42)
Chiarawanon	CP Group	Feed milling, livestock	33 (35)
Kamol Sukosol	Kamol Sukosol Group	Automobiles (Mazda), finance, trading hotel	22 (25)
Phothirattanangkun	Sukree Group	Textiles	8 (11)
Osathanukhro	Osothsapha	Pharmaceuticals, trading	17 (22)
Wanglee	Wang Lee Group	Finance, insurance, trading	17 (21)
Laohathai	Metro	Fertilizer, flour mill, trading	10 (17)
Asadathon	Thai Roong Ruang	Sugar	11 (12)
Chintammit	Kwang Soon Lee	Sugar	13 (17)
Darakanon	Saha Union Group	Textiles, apparel, trading	26 (30)
Liaophairat	Hong Yiah Seng	Textiles, feed milling, trading	17 (22)
Chawkwanyu	TORC	Petroleum, transportation	10 (12)
Khanathanawanit	Laem Thong	Feed milling, trading	12 (16)
Chokewattana	Saha Group	Detergent (Lion), Waco	33 (38)
Srifuengfung	Srifuengfung	Glass, textiles	13 (23)
Viriyapraphaikit	Sahaviriya	Steel, Metals	13 (14)
Karnasuta*	Ital-Thai group	Construction, hotel, tourism	9 (10)
Phiromphakdi*	Boon Rawd Brewery	Beer	1 (5)
Karnchanachari	Siew Group	Electrical	4 (5)

*Ethnic Thai family

Sources: Suehiro (1989), Phipatseritham (1984-1985), and survey by the author.

said that following the treaty, Thailand abolished the government's total control on commodity and trading to allow foreign traders direct access to the market. At the same time, there had been a shortage of manpower for the production of agricultural commodities, especially in exports and rapid expansion of the Thai economy. Therefore the scholars say the large numbers of Chinese arrival in Thailand at that time conveniently reinforced the labor force.

With the development of an exchange economy, important new economic functions had to be performed—namely, the functions of taking the farmer's product from him, transporting to the seaports, selling it to foreign buyers, and then buying other goods to take back to the farmers. The above scholars conclude that these middleman functions were performed by the Chinese, not the Thais. They say Thais have low levels of sociability and social capital while the Chinese have higher levels of both. The Thai were not actively discouraged from taking advantage of the new economic opportunities, which caused the foreign, indeed Chinese involvement in the Thai economy. The Chinese have high level of sociability and social capital through their Chinese clans and business linkages and participated in all of business activities but the Thai participated hardly at all.

Analyzing the Environment

According to the above sequences, it seems that business growth of Chinese merchants have started after the Bowring Treaty was launched because Thailand abolished the government's total control on commodity and trading to allow foreign traders direct access to the market. However, the above sequences have not been shown that the Bowring Treaty has brought up the opportunities of starting business just only for the ethnic Chinese. On the other hand, it has been shown that other aliens or foreign businesses could also have the opportunities as same as the ethnic Chinese. Also the important matter is that this treaty was signed between King Mongkut (Rama IV) and the Great Britain, therefore, it is hard to be explained that the Bowring Treaty has supported the Chinese businesses, instead of that, it should be the British businesses that were supported by the treaty.

As the above scholars say, the large numbers of Chinese arrival in Thailand at that time conveniently reinforced the labor force. This means the Chinese came to Thailand and worked in the labor force level, not in the business owner level. Therefore, it is hard to accept the above sequences as the 【hypothesis 1】 assuming that the Bowring Treaty has supported the Chinese to run their businesses. But it can be said that the Bowring Treaty has supported all other nations who came to trade and do business in Thailand at the time of the treaty.

3. Government Policies and the Correspondences of Chinese Business Groups

3.1 Before 1958 Revolution

An early move by Chinese business leaders to band together in business association, in 1908, the first business association, the Chinese Chamber of Commerce was founded. It was organized by Chinese immigrants to regulate intra-community economic competition and to counter the influence of organized Western traders. How-

ever, business associations of Chinese immigrants were of concern to the Thai monarchy. The royal government always suspected the associations of being involved in underground and political activities. Thus, the Association Act was introduced in 1914, which empowered the government to intervene and even disband any association. The position of the Chinese business class was not improved with the overthrow of the monarchy. The government sought to break the Chinese domination of business activities by encouraging indigenous Thai enterprises. This, of course, meant that Chinese businesses were forced out of business and industries.

However, the Chinese business groups have found ways to be surviving in their businesses and tried to assimilate to Thai citizen. Intermarriage is common, so the distinction between Thais and Chinese is blurring, especially in Bangkok. Sometimes we could not tell who is Chinese or Thai. Many Chinese have made their surnames sound Thai so they could be thought as a Thai. Moreover, during 1930s the Chinese merchants joined the Thai Chamber of Commerce and the Board of Trade; these associations emerged as the peak business organizations, and were joined by other associations such as the Association of Thai Industries and the Thai Bankers' Association. With the rise of these newer national organizations, the older and explicitly Chinese business associations began to decline.

Nevertheless, the National Economic Plan before World War II, under General Phibun government (1938~57) was emphasized the nationalism and the government had already began to tighten restrictions on alien people and government's attention was directed toward immigrant Chinese, especially Chinese business activities. The control of Chinese business had been inaugurated in a cautious way in the Business Registration Act of November 19, 1936, which provided for the registration of commercial undertakings. Furthermore, precisely because the business community was overwhelmingly Chinese, anti-Chinese under Phibun government feeling led to various forms of official harassment and intimidation of Chinese firms and even led to the introduction of an emergency law in 1952 under which the government was empowered to prevent aliens from conducting business. The combination of communal and governmental hostility towards the Chinese placed the business community in a precarious position. At times, persecution and harassment were real concerns.

Even though there were a number of business associations in existence by this time, the idea of using them to protect, or perhaps, to advance collective business interests by lobbying policy-makers was simply unthinkable. Rather than collective action via business associations, attempts to protect business interests typically took place in a covert and individualized fashion. Individual companies pursued their interests independently by seeking to cultivate favorable links with key officials in the bureaucracy. Payment of bribes to a patron within the bureaucracy was seen as the most effective means for securing sympathetic treatment. The largest companies were able to develop more rewarding client links by inviting senior military and civilian officials to become shareholders and sit on their boards of directors. Trying to be "Thai" of the Chinese system company was made into the excuse, and there was the purpose of mitigating a risk called intervention of the government, by making a relation with organization close for the company. By this means some firms were able to derive great benefits. During the period of Phibun government, raising capital for banking and business has been less of a political issue. Most of Chinese commercial bank and business firms are private owned capitals and off-shore borrowing capitals.

3.2 After 1958 Revolution

After the 1958 revolution which led by Marshall Sarit, the industrial promotion policies were adopted by a new government. This revolution was a milestone in Thailand's democratic system. In terms of the financial business, as a result of government promoting a new comer into commercial banking, given a predominantly rural economy, and given a long-established Chinese custom of operating from their urban bases into the countryside as itinerant rice brokers and wholesalers, it should not be surprising that the Chinese would gravitate over time into the field of banking, and especially the kind of banking which has small business and agriculture as its domain. Allied to this natural outcome of steady economic progress was the government policy of limiting the introduction of foreign banks and preventing those already there from building branch networks. In consequence, domestic banking which owns by Chinese has flourished, and grew fifty times between 1960 and 1982.

During 1960s, banking ownership tended to concentrate in the hands of the main Chinese families identified with each individual institution. As well as a state-owned bank, there are five other major banks in Thailand, and they control more than 65% of total banking asset. Of these, one is associated with Crown Property Bureau, the remaining four are all Chinese-Thai businessmen.

Moreover, after the 1958 revolution, when Sarit came to power, interventionist policies were largely abandoned, and a more market-oriented approach to economic management was adopted. Fundamental changes followed: private sector growth was encouraged, a number of state enterprises were sold-off, which were mostly bought by Chinese merchants, trade restrictions were reduced and foreign investment was welcomed. The government's role was reduced to the provision of economic infrastructure and to the establishment of a legal and political order favorable to the growth of private enterprise, which was now regarded as the engine of development.

The National Economic and Social Development Plan and Acts after 1958 provide for the granting of a wide range of incentive benefits and promotional privileges to industrial investors. It includes not only guarantees that the government will not nationalize any private industrial activity that has been granted promotional privileges or itself undertake any new enterprise in competition, but also exemption from import duties and business tax on machinery, component parts and accessories, reduction of import duties and business tax up to 5 years.

It is quite common among the developing countries to promote the investment with a tax-incentive system. Same as Thailand, such promotional privileges are undoubtedly effective in both lessening the financial requirement and reducing costs, thereby enlarging the prospective rate of return on investment, which has been an important advantage for Chinese business groups for many decades. Moreover, unlike those Chinese in Indonesia or Malaysia, Chinese in Thailand have assimilated very well to Thai, both in culture and religion. Therefore, Chinese have very few conflicts with Thai and their businesses have been less interrupted.

Chinese business groups in agribusiness have achieved in many forms of diversifications, so that it made Thailand could free itself from being too dependent on a few primary commodities, such as, rice, rubber and tin as foreign exchange earner as before. And Thailand has been able to produce and, therefore, export many other diversifications of agricultural products to increase number of countries throughout the world. During this period, according to the incentives from the protection of local

private industries, which ensure the lower tariff cost in comparing to the foreign competitors', the Chinese business groups have expanded their businesses and played an important role and became to dominate commercial activity of Thailand's economy.

Analyzing the Environment

Here, it is clear that before the 1958 revolution, the government policies have not supported Chinese businesses, by contrast, anti-Chinese feeling led to various forms of official harassment and intimidation of Chinese firms while the Chinese business has been growing up continuously. According to the government policies before the 1958 revolution, we can say that the [hypothesis 2] which assuming that Thai government policies have supported Chinese to raise their businesses should be revised since even before the 1958 revolution, the Chinese has already owned important businesses as estimating by Dixon (1999) that by the late of 1930s, 70 percent of the ethnic Chinese in Thailand were engaged in business or trade, and they controlled 80 percent of the domestic trade, including complete control of the rice sector. However, after the 1958 revolution, anti-Chinese feeling was fading away little by little, the government interventionist policies were largely abandoned and at the same time, Chinese have been assimilating to Thai culture very well and up until now it is hard to separate who is Thai and who is Chinese. And this was a chance for the Chinese business families to make connections with powerful political officials by intermarriage, inviting them to become one of shareholders and lobbying through government cabinet.

At this time, we can say clearer that the government has no intention to support just only Chinese business. The Chinese business has already been dominant in Thai business before 1958 (indeed, Chinese business had been established largely before World War II), the time when government had been trying to intervene their businesses. However, the government policy after 1958 which has many policies that support all kinds of private businesses for the economic growth of Thailand has naturally reinforced and strengthened the growth of the existing Chinese businesses.

4. Background of Thai Business Conglomerates

Two distinct groups of business conglomerates can be defined, as can be seen in Table 1. First is the Financial Business Conglomerates, another is the Industrial and Agribusiness Groups. However, the financial business conglomerates will be deeply analyzed in this research.

These two groups quickly grew into a leading business community through the government's promotion policies after 1958, domestic capital, foreign capital, as well as their own entrepreneurial skills. Most of these domestic capitalists have enjoyed an "*oligopoly*" status in Thai business and industry. Excepting for the Crown Property Bureau and some few families, most of business conglomerates originally came from Chinese families. According to industrial and agribusiness groups, in general, their business activities widely ranged from manufacturing through international trading, local distributing, and transporting to financing.

Dated back to the past, the first in time consisted of a handful of Chinese merchants, rice millers, and tin and rubber interests who had been established largely

before World War II. Drawing on the capital of a wide circle of Chinese business families, these Chinese merchants within the community had created about a dozen commercial banks, mostly in the 1940s. The banks were initially intended to accumulate deposits that could be used by the promoters of the banks to finance their own rice and other trading activities.

The traditional commodity trading of these promoters faded into relative insignificance as their banking enterprises grew in importance. The establishment of these banks was not only encouraged by the government's postwar policy of developing domestic banks to supplant the dominant position of the foreign banks, but in some cases was assisted with capital infusions from the Ministry of Finance. Prior to the 1932, Thailand had had only a single domestic bank, the Siam Commercial Bank (SCB), established in 1906 with Crown capital. The first private domestic bank was set up only in 1933, by the Wang Lee family, the Chinese-Thai family. By 1960, there were fifteen private domestic commercial banks.³

Among the large businesses in Thailand, non-Chinese ones are mostly government-related, such as the government-owned public utility companies like Thai Airways International. There is also a government bank (Krung Thai Bank and Thai Military bank) and government bodies such as the petroleum Authority of Thailand, which owns petrol stations and oil refineries. In addition, there are two major companies controlled by the Crown Property Bureau: Siam Commercial Bank and Siam Cement. There are a few of large Thai entrepreneurs among the large businesses. One is the Phromphakdi family, which owns Boon Rawd Brewery, known for its Singha beer, the most popular brew in Thailand. Another Thai entrepreneur is Chaijdh Karnasuta, who controls Italian-Thai Development Corp. (or as known as Ital-Thai), a major construction company set up jointly with Giorgio Berlingieri, an Italian.⁴

As mentioned above, it can be indicated that except for the government-owned and the Crown Property Bureau-owned businesses and above two large families, almost of the large businesses in Thailand have been controlled by the Chinese-Thai businessmen.

5. Financial Business Conglomerates

The historical background of commercial banking in Thailand began in 1888. Although Western banks started to make inroads into Thailand as early as 1860 and the first Western bank branch was established in 1888, most people outside the foreign trade business hardly knew about banking. A branch of the British-owned Hong Kong & Shanghai Banking Corporation was the first bank in Thailand. Up to World War II, commercial banks in Thailand were dominated by branches of large foreign banks engaged mainly in financing export and import bills in the European trade, which itself was largely controlled by British, Danish, French and German firms operating out of Bangkok.

As the first and oldest Thai commercial bank, the Siam Commercial Bank has a history dated back as early as the reign of King Rama V.⁵ Siam Commercial Bank was

³Muscat, Robert J., *The Fifth Tiger: A Study of Thai Development Policy*, United Nations University Press, Tokyo, New York, Paris, 1994, p.114.

⁴Yoshihara, Kunio, *The Nation and Economic Growth: Philippines and Thailand*, Oxford UP, 1994, p.21.

⁵Data from the Siam Commercial Bank.

Table 2. Domestic Commercial Banks: Controlling Families and Market Shares, 1988

	Bank	Family Group	Shares of Total Credits (%)
1	Bangkok Bank	Sophonpanich*	30.1
2	Thai Farmers Bank	Lamsam*	12.4
3	Krung Thai Bank	Ministry of Finance***	12.2
4	Siam Commercial Bank	Crown Property Bureau**	11.1
5	Bank of Ayudhya	Ratanarak*	6.1
6	Thai Military Bank	Military***	5.4
7	First Bangkok City Bank	Srifuengfung*	3.7
8	Siam City Bank	Mahadumrongkul*	3.7
9	Bangkok Metropolitan Bank	Tejapaibul*	3.6
10	Bangkok Bank of Commerce	Phinitchonkadi*	3.0
11	Bank of Asia	Euachukiati*	2.6
12	Union Bank of Bangkok	Cholvicharn*	1.5
13	Thai Danu Bank	Tuchinda*	1.2
14	Nakornthon Bank	Wang Lee*	0.9
15	Laem Thong Bank	Nandhabiwat*	0.4
16	Other Foreign Banks	—	2.1
	Total		100

*= Chinese-Thai Family, **= Royal Family, ***= Government.

Sources: Bank of Thailand, Akira Suehiro, and Robert J. Muscat.

deeply committed to remain a Thai bank. As a precaution to prevent foreign take-over, the Royal Charter had specified since the bank's incorporation that foreign nationals would not be allowed to own over one-third of the bank's capital. After this period, most local banks were Chinese and their primary business was to transmit remittances to the Mainland China.

Originally, Chinese-controlled commercial banks in the prewar period were mostly promoted as a form of family-operated bank by the rice exporters, who aimed at internally financing their own businesses. However, the Chinese remittance banks were joined by banks established by local entrepreneurs, very frequently Chinese merchants, traders, and exporters who were introduced into the banking business by the large profits to be made in financing the booming post war export trade. The foreign trade shifted away from Europe to neighboring countries, such as China and Japan. While at the same time, during the World War II, the Thai branches of the large European banks were shutdown. To encourage new investors to entry into commercial banking, the Bank of Thailand, the central bank, guaranteed their customers conformance with the law, which enabled the small and in-experienced bankers to grow and expand by being able to charge a handsome commission on the export proceeds. The Thai local bankers began to establish numerous branches in the country and to expand their activities beyond making remittances and financing foreign trade. Most important, they started to be integrated into the monetary system of the country, principally

through a series of regulatory measures, which culminated in the Commercial Banking Act of 1962.⁶

As a result of government promoting a new comer into commercial banking, given a predominantly rural economy, and given a long-established Chinese custom of operating from their urban bases into the countryside as itinerant rice brokers and wholesalers, it should not be surprising that the Chinese would gravitate over time into the field of banking, and especially the kind of banking which has small business and agriculture as its domain.

As mentioned before, during 1960s, banking ownership concentrated in the hands of Chinese families. The largest institution was the Bangkok Bank, controlled by the Sophonpanich family. The three others were the Lamsam family (Thai Farmers Bank), Tejapaibul (Bangkok Metropolitan Bank, Thai Development Bank [later, First Bangkok City] and Bank of Asia), and Ratanarak (Bank of Ayudhya and Siam City Bank). Most of the remaining banks were also Chinese-Thai family enterprises. They served as bases for these groups to invest in other types of financial enterprise (insurance, investment finance, consumer finance, etc.) and in non-financial activities.⁷

Analyzing the Environment

From the above sequences, we have found another key factor of the emerging of Chinese financial business. That factor should be the change after World War II. As we known, up to World War II, commercial banks in Thailand were dominated by branches of British, Danish, French and German banks, which mainly engaged in financing export and import bills in the European trade. However, European banks lost their chance in doing business in Thailand by shutting down their branches after WWII, at the same time; this has made a chance for businessmen in Thailand by the encouraging of Thai government. And undoubtedly, the Chinese businessmen have taken this chance.

5.1 Analysis of Chinese Business Success through the Bangkok Bank's Case Study

Bangkok Bank was founded in 1944 by Sophonpanich family, the most successful Chinese family in Thailand and it has built up strong and enduring relationships with all the leading companies in Thailand as well as the small and medium sized enterprises, which form the backbone of the Thai economy. Bangkok Bank is the largest commercial bank in Thailand, and is one of the largest regional banks in South East Asia, with total assets of approximately USD 30.5 billion. At the present, it has a broad customer base of more than 10 million account holders, with a local network of nearly 600 branches and 20 overseas branches and two representative offices. The Bank also has the largest ATM network in Thailand with nearly 1,500 ATMs nationwide.⁸

The above explanation is the result of Bangkok Bank's success. Here, the analysis of its success will be provided. There are many reasons put forward to account for the remarkable growth of Bangkok Bank. Here, four factors will be focused as following.

⁶Rozental, Alek A., *Finance and Development in Thailand*, PRAEGER Publishers, New York, Washington, London, 1970, p.105.

⁷Muscat, Robert J., *The Fifth Tiger: A Study of Thai Development Policy*, United Nations University Press, Tokyo, New York, Paris, 1994, p.115.

⁸Data from Bangkok Bank.

Table 3. The Growth of Bangkok Bank from 1945–1986

(Unit: million baht)

Year	Registered Capital	Total Assets	Deposits	% to total deposit	No. of empl oyees	No. of branches
1945	4	20	18	—	30	—
1950	4	60	52	5.2%	61	2
1955	50	363	214	9.4%	403	10
1960	50	1,352	996	17.2%	839	25
1965	200	4,200	3,189	21.1%	2,473	58
1970	400	11,896	10,062	27.4%	5,050	98
1975	1,050	46,393	34,314	33.8%	11,165	148
1980	1,800	121,100	82,637	34.0%	15,870	259
1983	3,000	217,648	159,968	34.9%	18,289	288
1986	5,000	266,767	200,303	29.3%	19,947	345

Source: Suehiro, Akira, 1989.

Focus on Political Factor

– **Inviting Powerful Generals to Invest in Its Private Capital:** As seen in Table 3, at the beginning of bank's operation, the growth rate was very low. Until Chin Sophonpanich had been the president of Bangkok Bank and was one of the major shareholders in 1952, he changed and developed bank policy, which emphasized in remittance business and loan for supporting export business. To avoid conflict as a result of anti-Chinese and to increase bank's capital, in 1953, Chin persuaded the Thai powerful generals to invest their private capital into Bangkok Bank. The general transferred thirty million baht to the bank's capital account right after that. And Chin put the generals on the boards of directors.

– **Close Relationships with Political Officials:** Without the supporting of the political patronage from those powerful positions, Bangkok Bank would hardly been well started and be the number one of all banks in Thailand since the military leaders, powerful politicians, traditional bureaucrats and aristocrats had much more power and money before the 1958 revolution. Especially, the first Phibun government (1938–44), this government caused serious economic difficulties for Chinese capitalists, therefore the Chinese capitalist like Chin and others have had to depend on the social prestige of traditional bureaucrats and aristocrats.

Focus on Management Factor

– **Increasing Number of Employees:** To be a leader in a competitive environment among other banks, around the 1960's the Bangkok Bank increased its number of employees. At the same time, its profitability also rose. Between 1963 and 1983, employment grew ten times and profit per employee expanded eight times. While it is generally accepted that a firm's profitability was enhanced as it increased in **size**, it is also clear that the Bangkok Bank's rate of profit increased significantly as employment expanded (see Table 4). In addition, it is apparent that the move away from family control and towards a corporate structure — particularly apparent in the seventies and the eighties — has coincided with increased profitability.

Table 4. Shareholders, Employees, and Profits of the Bangkok Bank during 1963-1983

Year	No. of Shareholders	No. of Employees	Profit per Employee (Baht)
1963	260	1,872	9,268
1966	482	2,744	16,060
1969	1,988	4,291	19,128
1973	5,030	7,979	36,161
1976	8,416	12,747	44,200
1980	13,721	15,870	55,496
1983	19,592	18,842	74,182

Sources: Bangkok Bank, Annual Report, various years.

- **Management Innovation** is also a key word of its success. Most of the local commercial banks depended for their operation on family members or their association. However, Bangkok Bank was very active in recruiting younger able businessmen or the professional managers from the outside. Those people promoted the modernization of management (cash management, fund management, risk management and etc.) in the banking business by attempting to improve traditional practices and also introducing new banking systems. Most of them have studied abroad or experienced in international financial firms. They have brought back and have introduced business theories and new management styles which they have learned from international business to improve an old family business management.

Focus on Investment Factor

- **Investment in Overseas:** While domestic expansion continued rapidly, international opportunities were not neglected. Investment in overseas has become an important task of Bangkok Bank. In 1954, the Bangkok Bank established its first overseas branch in Hong Kong, followed by a Tokyo branch in 1955.⁹ By the early eighties, the bank had seventeen branches and offices overseas: in Western Europe, North America, Japan, Taiwan, Hong Kong, and all ASEAN nations, except the Philippines and Brunei. Roughly 40 percent of the bank's profits were derived from its foreign operations.¹⁰ In addition to the overseas branches and offices of the Bangkok Bank, the Sophonpanich family had an interest in dozens of overseas ventures, focused on Hong Kong. These interests revealed a network of links between the Sophonpanich family and other overseas Chinese business people in East and Southeast Asia. Not only expansion of branches in overseas, but the family has also had important connections with the big banks in overseas.

- **Connection with International Firms:** These relationships have been of prime importance in the internationalization of the Sophonpanich family and Bangkok Bank business group, providing local knowledge, useful services and capital. Bangkok Bank's developing business relationship with Japanese and US capital has also been important. These connections with large-scale foreign finance capital have obviously

⁹Phipatseritham, Krirkkiat, "The Largest Business Groups, Part 1," *Matuphoom Thurakij, Special ed.*, 1984-1985, p.24.

¹⁰Hewison, Kevin, *Bankers and Bureaucrats: Capital and the Role of the State in Thailand*, Yale University Southeast Asia Studies, 1989, p.198.

been useful to the Bangkok Bank, not only in facilitating the bank's overseas borrowing, but also in providing the bank with the contacts necessary for major international financial transactions. For example, between 1977 and 1981 the Bangkok Bank was involved in the syndication of loans totaling 455 million dollar of which 310 million dollar was raised for Thai government to expand as the industrial infrastructure projects.¹¹

– **Connection with Domestic Financial Firms:** Not only the connection with international financial big firms, but the connection with domestic financial big firms is also one of the important keys of success in their business. As Hewison (1989) notes that the big capital groups' linkage is the most important strategy to compete with rivals. They observe that to maintain their power and control, big banking capitalists have been prepared to band together to crush upstart financial groups. In addition, a more marked development of interrelation between banking corporations and manufacturers occurred at the growing to other area business groups.¹² Of the sixteen Thai commercial banks in operation in 1972, seven were controlled by four biggest financial conglomerates, including Sophonpanich family.¹³

– **Investment in Agri-business Field:** For several decades, rice is the most important exporting goods of Thailand. Knowing this fact, the management of Bangkok Bank was exploring their channels by financially supporting Thai major rice exporters. Furthermore, Bangkok Bank was also a representative of the banks to give the financial supporting to textile business, which is also important not less than the rice business, and also supporting to program of industrial financing. It has invested directly in about twenty industrial projects, seven of which were textiles, and provided financing for thousands of others.

– **Investment in Other Financial Institutes:** Since 1971, commercial banks increased investment in finance, securities, and trust companies. Although commercial banks still controlled the bulk of savings, finance companies, which also owned by the commercial banks, have been able to increase the saving market share gradually from 1971 up to 1977, as was shown in Table 5.

Therefore, the Sophonpanich family, through the Bangkok Bank, is firmly established in this sector. It controlled Asia Credit, Thailand's largest finance company, as well as many others. The expansion of Sophonpanich family and Bangkok Bank into this field enabled the group to mobilize capital it may not otherwise be able to attract, and to become involved in activities in which a bank may not be the appropriate springboard, such as securities trading. In addition, merchant banking activities by the Bangkok Bank and Asia Credit have allowed for further overseas expansion.

The above factors can explain how Bangkok Bank has grown and operated its business successfully. However, we will also focus on its marketing strategy to learn how the bank has managed its strategy.

Focus on Marketing Factor through 5 P's of Marketing Mix

– **Product** is, of course, the thing or service that the firms have to offer to the

¹¹Roy, Barun, "Chin Sophonpanich: People's Banker," *Asian Finance*, January 1982, p.43.

¹²Hewison, Kevin, *Bankers and Bureaucrats: Capital and the Role of the State in Thailand*, Yale University Southeast Asia Studies, 1989, p.204, and also refer to Figure 2.1 in Chapter 2: Suehiro, Akira, *Capital Accumulation in Thailand 1855-1985*, The Centre for East Asian Cultural Studies, Tokyo, 1989, p.265.

¹³Muscat, Robert J., *The Fifth Tiger: A Study of Thai Development Policy*, United Nations University Press, Tokyo, New York, Paris, 1994, pp.115-116.

Table 5. Percentage Shares of Household Savings Mobilized by Financial Institutions, selected years 1971-1977

Institution	1971	1973	1975	1977
Commercial banks	74.6	72.8	74.2	73.7
Finance companies	1.9	5.5	8.2	10.8
Insurance companies	2.8	2.4	2.1	2.2
State banks	17.7	16.8	13.1	11.0
Co-operatives	3.0	2.5	2.4	2.3
Total	100.0	100.0	100.0	100.0

Source: Hewison, Kevin, 1989, Table 19.

customers. Many of the Bank's Commercial customers are in the import-export business and rely on Bangkok Bank's highly competitive trade finance services and products. Bangkok Bank's letters of credit have worldwide recognition and are a preferred instrument of payment among traders in Asian countries, whether they are trading within Asia, Europe, America or Africa. In 1962, the market share of Bangkok Bank's deposit and loan were 18.7% and 18% respectively but in 1975, its market shares rose up to 33.8% and 36.1% respectively. At the present, Bangkok Bank has eight key business units to ensure its customers' satisfaction. These unit products are Corporate, Commercial, Business, Consumer, International Banking, Treasury, SAM (Special Asset Management Unit)/Recovery and Investment Banking. These products are designed to compete against other financial institutes. Bangkok Bank was the first bank in Thailand to set up a SAM unit and since then it has been the leader in the field with a high rate of successful restructurings.¹⁴ As the result, Bangkok Bank is still a largest bank in Thailand and received many prizes as the best bank in Thailand for several years and also the year of 2002 and 2003.

- **Positioning** is how target market defines Bangkok Bank in relation to its competitors. Positioning is important because Bangkok Bank is competing with all the banks in Thailand competing for its potential customers' attention. If the bank can stand out with a unique benefit, it has a chance at getting their attention. In Thailand, we could be able to say that very few people that have not known Bangkok Bank. Its positioning has always been at the first rank of Thai financial institutes or even in the first row of financial institutes in Asia.

- **Place**, or distribution channel, is the method for making a product available to the consumer. To take a chance from government promoting toward the bank expanding after World War II, Chin set up the strategy of the *expansion of branch banking*, which has allowed the bank to move into every corner of Thailand and to attract ever-increasing deposits. As seen in Table 3, the number of branch increasing has been growing together with the increasing of bank deposits and bank assets. Also the state policy encouraged branch banking since the early sixties, and major branch expansion took place in the sixties and the seventies.

The marketing strategy to increase branch also enhanced profit to the bank because the branch can be able to lend to local enterprises more frequently and also

¹⁴Data from Bangkok Bank.

utilize local resources more productively. Since the Bangkok Bank was managed by Chin and was fully supported by the powerful generals, Bangkok Bank was growing rapidly after those big changes. In 1988, it accounted for 30.1 percent of market share in commercial banking in Thailand and became the nation's largest bank and never looked back.

- **Price** is the amount of money charged for a product or service or the value exchanged for the benefits of the product or service. And low price must help keep out the competition. As seen in Table 3, a large market share of Bangkok Bank's deposit can provide a low cost because of its large source of money. As a result, the bank always has a competitive price and service charges for its customers. As mentioned before, many of the Bank's Commercial customers are in the import-export business and rely on Bangkok Bank's highly competitive trade finance services and products and of course, including price competition. The Bank's letters of credit have worldwide recognition and are a preferred instrument of payment among traders in Asia and Europe. This can be proved that the bank's service charge has a competitive price and customers can ensure that they get the lowest cost.

- **Promotion** is the specific mix of advertising, personal selling, sales promotion, and public relations a company uses to pursue its advertising and marketing objectives. However, the most effective promotion that Bangkok Bank has applied should be the public relations and the bank image. Bangkok Bank has a longstanding commitment to the community. They play an active role in society and support a wide range of activities including community development programs, the traditional performing arts, civic education and sports sponsorship. Bangkok Bank must concern not only expansion of their business, but also the expansion of their public relations campaigns since the image of the financial institute influences toward consumers' trust.

With the aim of *improving their image*, the focus of these campaigns has been charitable works and other ideological projects, particularly those associated with the royal family. Since 1981, the bank has made charity available to the poor for education and welfare projects. More significantly, the Bangkok Bank Foundation, the Sophonpanich foundation, and the bank itself have financed not only the publication of books on Thai culture, literature, language, and history, but also a film on the king and radio series on language and literature. They have also funded toward the construction of the Air Force Cadet School, which was donated in honor of a royal birthday.¹⁵

These activities are designed to link the image of the bank to national symbols: nation, monarchy, and religion. A separate motivation for these activities apparently was a fear among its principals that the bank's size might make it an easy political target for those opposed to big capitalist enterprise. As a result, the bank has decided to slow growth and improved its public image.

The above analysis of Bangkok Bank's marketing factor through the 5 P's of Marketing Mix can explain clearer that the bank has not used just the outside supports from powerful officers or the inside management and investment strategy but also has its own unique marketing strategy to reach the aim to be number one of the banker in Thailand. As can be seen in Table 6, even though Thailand has faced the financial crisis in 1997, today Bangkok Bank is still Thailand's leading bank. However, unavoidably, the bank also faced a big damage. In 1998, a bad debt rate rose up to 48% and

¹⁵Bangkok Bank, Annual Report, 1981-83.

Table 6. Changes in Ownership of Commercial Banking System in Thailand after 1997 Financial Crisis

Before the Crisis (Before June 1997)	During the Crisis (July 1997–December 1998)	After the Crisis (After January 1999)
Private-owned	Private-owned	Private-owned
Bangkok Bank	Bangkok Bank	Bangkok Bank
Thai Farmers Bank	Thai Farmers Bank	Thai Farmers Bank
Siam Commercial Bank	Bank of Ayudhaya	Bank of Ayudhaya
Bank of Ayudhaya	Government-owned	Thanachart Bank
Bank of Asia		Siam Commercial Bank
Thaidanu Bank	Krung Thai Bank	Government-owned
Nakornthon Bank	Siam Commercial Bank	
Siam City Bank	Thai Military Bank	Krung Thai Bank
Bangkok Metropolitan Bank	Nakornthon Bank	Thai Military Bank
Union Bank	Siam City Bank	Foreign-owned
Leam Thong Bank	Bangkok Metropolitan Bank	
Bangkok Bank of Commerce	Bank Thai (Union Bank)	Nakornthon Bank
First Bangkok City Bank	Radanasin Bank (Leam Thong Bank)	Siam City Bank
Government-owned	Foreign-owned	Bangkok Metropolitan Bank
Krung Thai Bank		Bank Thai (Union Bank)
Thai Military Bank	ABN Amro-Bank of Asia	UOB Radanasin Bank (Leam Thong)
	DBS-Thaidanu Bank	ABN Amro-Bank of Asia
		DBS-Thaidanu Bank

Source: Bank of Thailand and research by the author.

Notes: DBS Thai Danu Bank Plc. is owned by The Development Bank of Singapore Ltd.

BankThai was established in 1998 as a government-operated commercial bank with the Financial Institutions Development Fund (FIDF) as majority shareholder.

UOB Radanasin Bank is a member of the United Overseas Bank (UOB) Group, one of the leading banking groups in Singapore with 285 branches and offices worldwide.

the bank had loss about 49 billion baht. The bank had to disposal its loss by selling its financial subsidiaries to foreign investors. And by 2001, the bank has recovered and gained its profit again. The bank has never changed its position and never been owned by the government. Its stability, innovation and strong customer base means it is at the forefront of change in the Thai banking arena. When the business structure was changed, Bangkok Bank turned its eye to the agro-industry and financially promoted giant projects undertaken by such major agribusiness groups as the CP group and the Metro group. Such adaptation to a changing industrial structure no doubt contributed

to the rapid growth of Bangkok Bank. It is constantly building on its reputation for strength and reliability and at the same time introducing products and new services that will ensure it retains its leadership position well into the future.

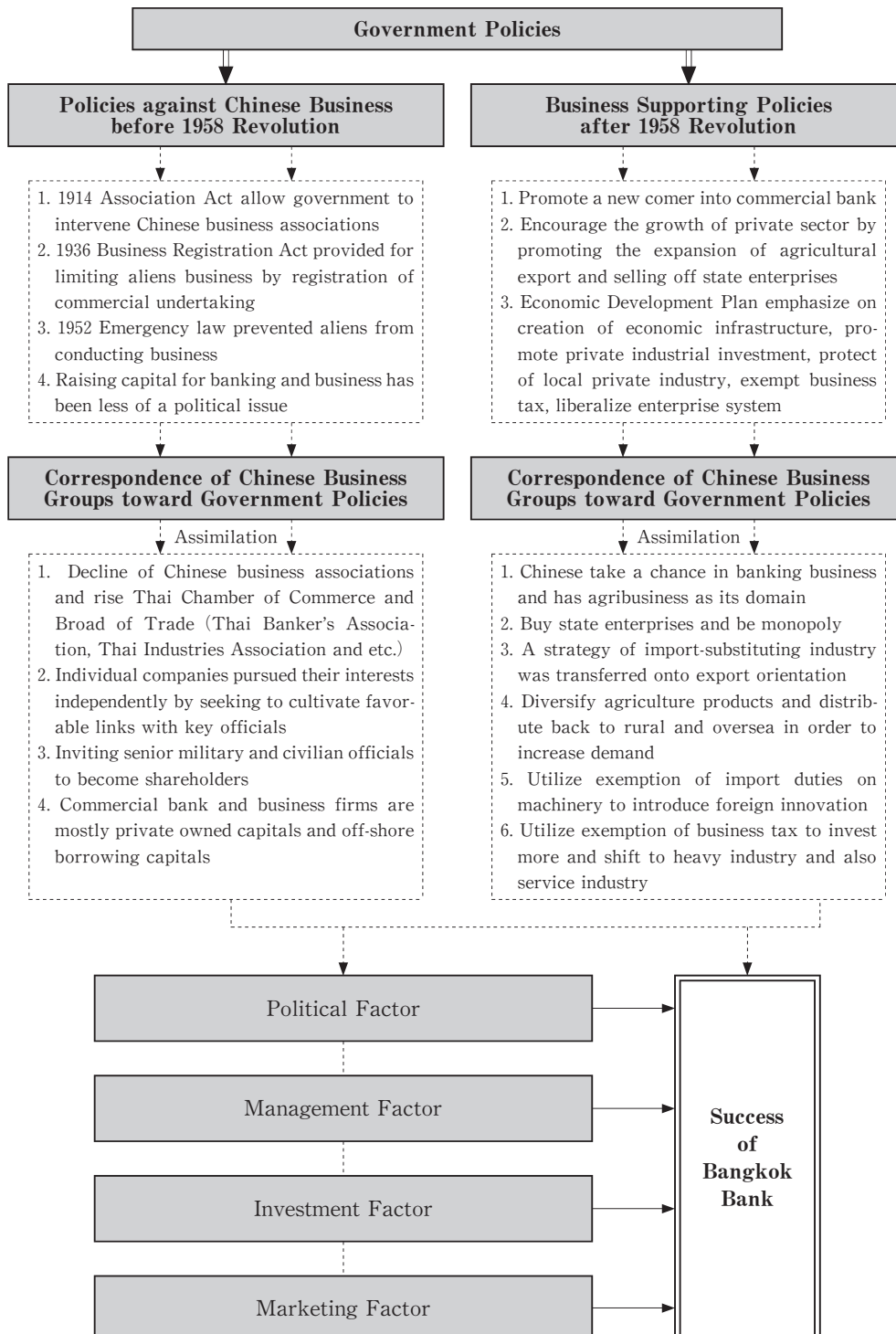
6. Summary and Results

As the result of this research, it is hard to accept the [hypothesis 1] assuming that the Bowring Treaty has supported the Chinese to run their businesses. But it can be said that the Bowring Treaty has supported all other nations who came to trade and do business in Thailand at the time of the treaty. And the Chinese businessmen have been the ones who utilized the free trade chance to start their business and kept growing by using their business strategy and tactic as mentioned above and also concluded at below section.

According to the above government policies before the 1958 revolution, we can say that the [hypothesis 2] which assuming that Thai government policies have supported Chinese to raise their businesses should be revised. It is clear that before the 1958 revolution, the government policies have not supported Chinese businesses, by contrast, anti-Chinese feeling led to various forms of official harassment and intimidation of Chinese firms while the Chinese business has been growing up continuously. It can be explained that the government has no intention to support just only Chinese business.

Both conclusions of hypothesis 1 and 2 showing that the factors of Chinese success are not the only Bowring Treaty and Government support, but there are other factors that we can draw a clearer picture through the case study of Bangkok Bank. As in the case study and the Figure 1 show, the change in the domestic and international environment has automatically forced the Chinese business groups to adjust and develop their business strategies. As a result, their unique business strategies lead to the growth and achievement of their business conglomerates. According to the Bangkok Bank case, the remarkable growth seems to be the result of the following factors.

- 1) Political Factor
 - 1.1) Inviting powerful generals to invest in its private capital
 - 1.2) Close relationships with political officials
- 2) Management Factor
 - 2.1) Increasing number of employees
 - 2.2) Management innovation
- 3) Investment Factor
 - 3.1) Investment in overseas
 - 3.2) Connection with international firms
 - 3.3) Connection with domestic financial firms
 - 3.4) Investment in agribusiness field
 - 3.5) Investment in other financial institutes
- 4) Marketing Factor
 - 4.1) Product
 - 4.2) Positioning
 - 4.3) Place
 - 4.4) Price
 - 4.5) Promotion

Figure 1. Analysis of Chinese Business Strategy and their Correspondence toward Government Policies

Based on the above analysis, we can say that the [hypothesis 3] which assuming that marketing factor has involved in the success of Chinese business is proper. However, it is important to emphasize that from the past up until the present, in the expansion of Chinese business empires, they have to rely on the Thai government and political structure. Concentration of economic power eventually leads to an attempt on the part of business leaders to seek more and more political power for their own as they become increasingly free from depending on the ruling elite for protection of their economic interests. On the other hand, business leaders who are able to concentrate political power in their hands, directly or indirectly, will surely strengthen their economic interests.

Therefore, through the case study of Bangkok Bank, we might say that not only marketing factor that has involved to the success of Chinese business but other factors, such as political factor, management factor and investment factor have also been important as same as the marketing factor.

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