Thailand fights back vs. hedge fund speculators

by Michael O. Billington

Two rounds of speculative attack on the Thai currency, the baht, since February have heightened concerns that the collapse of the Thai financial bubble is imminent, and could be the spark that ignites a global financial explosion. Thailand escaped both attacks—the first, by adopting the International Monetary Fund's (IMF) demands for looting of their development plans and their labor force; the second, on May 15-16, by a most unexpected defiance of the speculators, by shutting off foreign exchange to offshore operators. This uncharacteristic display of nationalist sentiment was backed up by Thailand's Asian neighbors, sending a shock through the City of London.

Thailand's "Asian Tiger" economic miracle is and always has been a fraud, based on the looting of Thailand's resources and labor force through "globalization" (see *EIR,* Feb. 7, 1997). While foreign processing industries swept into Thailand in the 1980s and 1990s to exploit cheap labor, there were no significant investments in national infrastructure or education. The London-centered speculators had a field day in Thailand, thriving on a flow of dirty money mostly from drugs, prostitution, and gambling, laundered through the unregulated offshore banking facility set up in 1992, the Bangkok International Banking Facility (BIBF). With the physical "looting limit" having been reached several years ago, the bubble was ready to burst. As one senior European banker told *EIR,* "It was totally predictable that it would crack, only not when."

Chavalit breaks profile

The timing is most instructive, because Thailand, while following IMF orders on financial policy, has been less willing, recently, to obey political dictates from London's "world government" apparatus. Two political initiatives by the government of Prime Minister Chavalit Yongchaiyudh have earned the ire of London. First, Chavalit took a delegation of 120 military, business, and government officials to Beijing for four days in April. Numerous trade and military deals were signed, including collaboration on extensive road, rail, and infrastructure projects, involving Myanmar (formerly Burma) and the countries along the Mekong River. These projects are part of the Chinese diplomatic offensive to unite the nations of Europe and Asia around the Eurasian Land-Bridge project—rail-centered development corridors connecting the nations of Eurasia. The Land-Bridge is viewed by London as the greatest threat to their scramble to prop up the financial bubble, by austerity, speculation, and a raw materials grab.

The second, related policy initiative by Chavalit, regards a raw material which has enjoyed a sustained historical interest in London: opium. For the first time in its history, Thailand's western neighbor, Myanmar, is establishing the central government's control over its entire geographic area. Although independent from Britain since 1946, British intelligence operations have maintained control over the world's largest source of opium in Myanmar's Golden Triangle, through various ethnic "drug lord" armies. Over the past six years, Myanmar's ruling military junta, the State Law and Order Restoration Council (SLORC), has either defeated or pacified all but one of 16 such insurgent armies. It is only because of this military success that Myanmar, with help from China and Thailand, has begun the process of building the transportation, communications, and energy infrastructure in the Golden Triangle, that, eventually, can wipe out drugs. This, the British, as chairmen of the board of Dope, Inc., will not tolerate. That is the source of the furor against Myanmar's "human rights violations," as evidenced by the fact that the entire human rights campaign against Myanmar is financed by the infamous sponsor of drug legalization, speculator George Soros.

This is also the key to the timing of the speculative attacks on the Thai baht. In early February, the Thai military modified its "neutral" stance toward the last remaining ethnic army fighting against the Myanmar government, the Karen National Union. Rather than continuing to give the KNU unlimited protection on the Thai side of the border, Thailand closed the border to all except disarmed refugees, in coordination with a Myanmar Army sweep to mop up the KNU. The Karenni camps have served as base camps for insurgency operations, directed by Soros, George Bush's friends at the International Republican Institute, and others. Under British colonial rule, the Karen served as the officer corps of the British Burma Army, and were the first ethnic group to break away from the central government after independence.

'Robber' Soros strikes back

Within days of the SLORC offensive, Soros led an assault on the Thai baht on the Singapore futures exchange, which was described by Dawai Institute of Research Director Peter Schiefelbein: "Foreign hedge funds are going after the baht with a zeal I haven't seen since the successful assault on several European currencies around three years ago." The immediate object was to force a devaluation, which would result in a windfall for the speculators, and a disaster for Thailand. But there can be no question that Soros was attempting to punish Thailand for its role in undermining his Myanmar operation, which provides the political instability in the border areas needed to keep the drug trade going.

Bangkok was not pleased by Soros's colonial tricks. One Thailand-based newspaper quoted Deputy Prime Minister Samak Sundaravei calling Soros a "robber," who should stay out of Thailand.

Unfortunately, Thailand's economic response to its financial bubble was to further loot the real economy, in order to bail out the speculators. Following the February attack on the baht, former Bangkok Bank chief, Finance Minister and Deputy Prime Minister Amnuay Viravan, pushed through $4 billion in budget cuts over two years, gutting essential infrastructure plans and services. Government workers' pensions were diverted to bail out the bankrupt financial institutions, to the tune of $3 billion. Various speculative tricks were adopted, including legalizing short selling on the stock market. All of this digs a deeper financial hole.

But, Chavalit did pursue a diplomatic offensive aimed at integrating Thailand into China's Land-Bridge plan, while helping to stabilize his troubled neighbors, Myanmar and Cambodia. It is only this approach that could potentially provide a real alternative to the looting.

On May 11, Chavalit unexpectedly announced that he was taking personal responsibility for the economy. This was widely perceived to be a move against monetarist Finance Minister Amnuay Viravan, although Chavalit officially denied it. The stock market plunged the next day to a six-year low, and the British press declared a collapse to be inevitable. By May 15, a second round of attacks on the baht hit the Singapore markets, again led by foreign hedge funds. This occurred only two days before a planned visit by Chavalit to Myanmar, to solidify bilateral relations, trade deals, and Land-Bridge-related projects, while preparing for Myanmar's entry into the Association of Southeast Asian Nations (ASEAN) this year.

The expectation in London was that the new speculative attack would be the last straw for Chavalit, who would devalue the baht and cancel his trip to Myanmar. The *Financial Times* of London drooled over the prospects: "In the bloody aftermath of a devaluation, there should be considerable value within the stock market, from exporters to companies with hedged dollar liabilities." Commentators acknowledged, however, that devaluation would devastate the Thai economy, especially since 87% of Thailand's estimated $90 billion in foreign debt is held by private corporations, which could not sustain the strain of paying in a devalued currency.

But Chavalit did not respond according to profile. Thailand not only defended the baht with its foreign reserves, but, unofficially, ordered the banks and financial institutions to refuse to sell baht to any foreign or offshore traders, with the intention of leaving the speculators with no way to meet short-term obligations after dumping their baht. Dealers in Malaysia and Indonesia reported that their governments had asked them to stop lending to foreigners temporarily, although the governments officially denied this. The Singapore and Hongkong monetary authorities intervened to defend the baht, a first for such collaboration. Although both Singapore and Hongkong have extensive investments in Thailand, and thus have their own interests to protect, it is highly unusual to see these British colonial outposts act against London's designs. It is possible that policymaking in Hongkong may already reflect China's sovereignty over the Crown Colony, which becomes official on July 1.

However, Thailand is stuck with its financial bubble. The collapse of the Bank of Thailand-backed merger of the bankrupt Finance One company with the Thai Danu Bank, the 11th largest commercial bank, on May 23, signals that nothing is settled. This merger was a key confidence-building move, which has fallen flat. No tricks will make the problem go away; no additional short-term bailout, such as the 50 billion baht ($1.9 billion) additional "support" fund that the Thai Bankers Association pledged on May 19, can patch the leaks. It is the price they will have to pay for buying into the hot-money antics of "globalization," while allowing the expansion of drugs, prostitution, and gambling, which a 1996 Chulalongkorn University study reported equalled up to 58% of annual GDP—greater than the total annual budget. But, to the extent that Thailand pushes forward to integrate the nation into the Land-Bridge and related "great projects" to transform the physical economy of the region, and continues to break the rules of London's financial roulette, Thailand will find plenty of allies to create a pathway toward survival.