Thailand rethinks IMF, looks to great projects to end depression

by Michael O. Billington

One year ago, on July 2, 1997, Thailand succumbed to a sustained, multibillion-dollar assault from the world's leading hedge fund speculators, announcing a float of the Thai baht, and setting off what became known as the "Asian contagion." On the first anniversary of that black day, Thai Deputy Prime Minister and Commerce Minister Supachai Panitchpakdi, the closest adviser to Thai Prime Minister Chuan Leekpai, pronounced bluntly: "The IMF [International Monetary Fund] was wrong. They did not expect the crisis to spread out to other countries in the region—we had to warn them that we would face a severe recession."

Supachai should know. Not only was Thailand the first of the financial explosions, now erupting around the world at an accelerating rate, but it was also the first nation in the current crisis to be subjected to the IMF's "cure"—a medicine that has proven to be far worse than the disease. Although Thailand rigorously implemented the draconian austerity measures demanded by the IMF in exchange for a few billion dollars of (primarily) debt relief, the promised recovery at the end of the road has never emerged, while the Thai economy and its citizens have been battered. Even the IMF has been forced to acknowledge that an economic recovery in 1998 was pure fantasy. Most analysts predict continuing decline through at least late 1999.

However, the reality is far worse, and many Thai leaders see the real danger ahead. Deputy Prime Minister Supachai, two weeks before his swipe at the IMF, used "depression" to describe situation. "The second Asian crisis," he said, referring to the stock market and currency collapse, led by the fall of the Japanese yen, "would mean the first worldwide depression. Asia's second crisis . . . would pull the whole world into it. It would be like a black hole."

EIR Founder Lyndon LaRouche has warned repeatedly that the so-called Asian crisis is, in fact, a systemic crisis of the world financial system, and can only be solved through the replacement of the bankrupt IMF-centered monetary system. Telling the truth about the IMF and about the systemic nature of the crisis, as Supachai has done, is a crucial first step in rallying the Thais, and patriots of other nations, to take the emergency measures required to prevent the descent into chaos.

Dr. Mahathir bin Mohamad, Prime Minister of Malaysia, Thailand's neighbor, has been the most outspoken national leader over the past year to identify the crimes of the speculators and the IMF, as *EIR* has documented. His unwillingness to bend to the new colonialism has provided leaders around the world with the courage to speak out—and nowhere more so than in Thailand. Although many Thai leaders at first distanced themselves from the outspoken Malaysian Prime Minister, Dr. Mahathir has now become a major topic of debate in the country. Bangkok's *The Nation* editorialized on June 12 that "perhaps Dr. Mahathir will have the last laugh." Mahathir, they write, "is no communist" when he lambasts globalization and speculation. "In that, he is almost alone. The media ceaselessly lampooned him when he blamed the likes of billionaire George Soros for the collapse of the Asian currencies. Perhaps Mahathir will be proven right after all." Pointing to the growing expectation of a collapse of the bubble economies of Europe and the United States, *The Nation* continues: "Should that be the case—and it is more a question of when—perhaps the West would be forced to recognize the danger of a global economy running wild, and the enormous power wielded by Mahathir's bugbear, the global investors and currency speculators."

The breakdown

The rate of collapse is escalating. With IMF-dictated interest rates and budget restraints draining credit out of the economy, Thai manufacturing has fallen 16% over the year. Thai exports, which the IMF promised would boom with the nearly 40% devaluation of the currency, have grown at a slower pace than the decline in export prices due to global price depression, leaving a trade surplus dwindling toward zero. State railway employees are facing payless paydays, adding to the fear of labor unrest. A mass march on Bangkok by destitute farmers was narrowly avoided by a one-year debt moratorium to one group of farmers, a partial measure that is unlikely to relieve the pressure from the rural area.

The government plans to sell $10 billion in government bonds, half foreign, half domestic, to bail out the burgeoning bad loans of the banks and financial institutions (now over 30% and growing), and to provide some credit. The plan was subjected to stiff opposition in the Parliament, since it will effectively transfer private debt to taxpayers. However, the bonds are facing another problem: They can't be sold, except at usurious rates. The government postponed the issuance of the foreign bonds, perhaps with an eye on the Russian fiasco, where foreign bonds are being offered at interest rates above 100%. As to the domestic bonds, the first offering of 5 billion baht (about $120 million) on June 22, sold only 90% of the offering at the maximum allowed yield of 15%. Most of the sale went to offshore banks at the Bangkok International Banking Facility, taking advantage of a desperate move by the government, which allowed the banks to substitute these bonds for one-third of their currency reserves! This kind of "creative accounting" courts disaster.

The Thai banking system is also well on its way to becoming a *foreign* banking system. Booz-Allen and Hamilton's senior vice president for Asia, Ronald Stride, has predicted that only four Thai banks will remain under Thai ownership when the smoke clears. This was the subject of an *EIR* warning in 1997, based on an analysis of the takeover of a majority of Ibero-American banks, by primarily British Commonwealth interests, after the 1994 Mexican crisis. The only reason most Thai banks have not already been gobbled up at severely depressed stock values is that the vultures are waiting for dead meat, knowing that prices are still far from hitting bottom.

Saving industry

But the Thais have taken some constructive measures to circumvent the IMF-imposed strangulation of their economy. The Chuan government believes, not without reason, that simply lowering interest rates, while speculators still abound, could provoke another run on the baht. It is estimated that every baht devaluation (the currency is now hovering around 41 to the dollar) translates into a $2 billion increase in the nation's foreign debt service. Prime Minister Chuan, therefore, took another approach. In a project called "debt compromise," the Finance Ministry has set up a special "Joint Public and Private Consultative Committee," chaired by Prime Minister Chuan, which will work out arrangements directly between major industries and their bankers to roll over existing debt, while also "lending into arrears," i.e., extending new loans to indebted firms in order to enhance production. Banks and industries will be given significant tax breaks in return for their participation. Small and medium-sized businesses, and their banks, will be offered the same tax breaks for reaching agreements on their own, as will banks which extend home mortgages to help struggling homeowners.

Neighboring Malaysia, which has not subjected itself to an IMF diet, has established a more direct route to achieve a similar result. An "Asset Management Company" (AMC) was established by the government to lend selectively, but directly to firms suffering from forced devaluation and the depressed regional economy, but which firms are viable and crucial industries for the nation. Such dirigistic measures, similar to the methods of Alexander Hamilton and Franklin Delano Roosevelt, are ridiculed as "corruption" and "cronyism" by the IMF.

At a special meeting of Thailand's leading economic ministers with Prime Minister Chuan on July 6, it was determined that Thailand, too, must have a government institution capable of lending to the real economy in addition to their "debt compromise." Explaining that they understand the real situation better than the foreign (and IMF) experts, the ministers announced that they would insist on adjustments when an IMF team arrives at the end of July.

The Kra Canal

Most indicative of the emerging resistance to the IMF stranglehold on the Thai economy came at a July 4-5 forum, sponsored by the English-language *The Nation* newspaper, titled "Can Thailand Be Saved?" Fifty of the country's top economists, business leaders, and academics, including former ministers and advisers to the Chuan administration, heard Vichai Panphoka, Bangkok-based general manager of Germany's Dresdner Bank, call for reviving "great projects" to defeat the depression, including construction of a canal and industrial development zone across the Isthmus of Kra in southern Thailand. The Kra Canal was the focus of international interest and extensive planning in the 1970s and 1980s as one of the global "great projects" required to reverse the decline into "post-industrial society," and to pave the way for the full-fledged industrialization of Southeast Asia. *EIR* and Japan's Global Infrastructure Fund played key roles, working with leading Thai business, academic, and military circles, in building support for the project through a series of seminars, the last in 1988.

At *The Nation*'s forum, three professors from Chulalongkorn University's Economics Faculty eloquently situated Thailand's crisis, not as an isolated phenomenon, but as part of a regional and global crisis. Prof. Pairoj Wongvipanonda called for a global solution, requiring U.S. support, saying, "We need a Marshall Plan to stimulate the region so it does not collapse." His colleague Somkiat Osathanugrah situated the Kra Canal in Thailand's role as a link, north-south, between continental Asia and the Southeast Asian archipelago, and east-west between South Asia and China. On the relation between interest rates and exchange rates, Somkiat said, "This is a global issue. The U.S. must take a lead in this new world economic order."

Dr. Pasuk Pongpaichit went further, urging leaders of crisis-wracked Thailand, Indonesia, Malaysia, and Korea to seize the opportunity to increase their collective bargaining power, globally, on several issues, including debt restructuring—an idea clearly in line with Helga Zepp-LaRouche's recent call in *EIR* for creation of a new Non-Aligned Movement committed to fostering the equal right of all nations to scientific and technological development.

Only a return to such technological optimism, under a new, just world financial system, can end the looming global depression.