Thailand challenges IMF's so-called 'success'

by Michael O. Billington

"Can I ask you how the IMF [International Monetary Fund] can be accountable to the Thai people for the pain and suffering caused by their apparent policy error? . . . I fear that if we don't quickly do something, the situation here in Thailand will deteriorate to the level of Indonesia." So said Prof. Dr. Pasuk Pongpaichit, a noted economic historian at Chulalongkorn University, a member of a panel confronting IMF Deputy Director Stanley Fischer at a March conference in Bangkok sponsored by *The Nation* newspaper. Joining Dr. Pasuk in roasting Fischer were several of the nation's leading economists, bankers, and business leaders, nearly all with similar warnings.

Dr. Virabongsa Ramangkura, who was Thailand's Finance Minister at the time of the initial speculative assault on the Thai currency, which triggered the global crisis in 1997, told Fischer that the IMF has done "nothing to strengthen the real sectors of the economy. . . . Non-performing loans from banks alone have reached 54%. There are reasons to believe the economy hasn't reached bottom yet. . . . When industries operate at 50% capacity, common sense tells us that these industries can't service their debt. . . . I'm worried that our economic problems will quickly transform into social problems."

The battle lines are drawn

With both the economy and the conditions of life continuing to collapse, there is mounting resistance to the conditionalities of the IMF coming from every level of society—including even the King. Many prominent voices have pointed to the sovereign measures taken by neighboring Malaysia, which refused to make any deals with the IMF and imposed selective currency controls to stop the speculation—measures which have saved that country from the mass unemployment, hunger, disease, and social chaos which have become the hallmark of the IMF-dictated austerity policies across Asia. Dr. Pasuk told Fischer that "the IMF policies have squeezed the real sector to death. Thailand . . . should go back to a fixed exchange rate. Think back to the debate after World War II. Why did the world go to fixed exchange rates?" Dr. Ammar Siamwalla of the Thailand Development Research Institute agreed, and challenged Fischer's defense of IMF policies: "What was not said here today? Capital controls. We need advice. A country with continuing capital outflows needs advice on appropriate control mechanisms."

In contrast, Fischer's colonialist demeanor at the conference exposed the actual intent of the IMF's programs. Fischer assured the incredulous panel that the reform was "going rather fast," and insisted that more of the same was required. As to currency controls, as in Malaysia, Fischer denounced them as "a bad way of dealing with the crisis," insisting on "market-based controls," such as hedging all capital flows—i.e., plunging deeper into the Casino Mondiale of the global derivatives bubble, which caused the crisis in the first place. Fischer's primary advice was that the government must use its dwindling resources to bail out the banks; but, he insisted, in the interest of "social justice," the *previous* owners of the banks (who are Thai) must receive nothing, since they (not the IMF or the speculators) are to blame for the bank failures.

Instead, the money should go to the *new* owners, i.e., the foreigners who are looking to buy the banks for a song when they hit bottom.

However, on April 2, Chirayu Issarangkura Na Ayutthaya, the director general of the Crown Property Bureau (which runs the royal family's business interests) and chairman of the Siam Commercial Bank, made a startling announcement which could slow the rush toward foreign takeover of the banking system: "The Siam Commercial Bank is the inherited asset of His Majesty King Rama V. The Crown Property Bureau will do everything it can to maintain it." He said that the Crown Property Bureau would even sell its noncore business interests in order to maintain a majority stake for Thai nationals in the bank, adding: "Although eventually all other banks would be taken over by foreigners, Siam Commercial Bank would remain the only Thai bank in this country even if it costs us everything."

Such a rallying cry coming from the representative of the much-revered King Bhumiphol Adulyadej, Rama IX, could provide a new spark to the already significant nationalist ferment in Thailand. The King has often intervened in political and economic affairs when a crisis threatens to destroy social peace and welfare, while both he and Queen Sirikit have consistently acted on behalf of the poorest layers of society. That category has been rapidly increasing since July 1997.

A March survey estimated that the average income of the poor in Thailand has fallen by 25% since 1997, while the cost of living has risen by 40%. Official unemployment has doubled in the past year to 2.68 million, but, considering those who have returned from the cities to marginal employment in the countryside, the number is far bigger. Hundreds of thousands of students have dropped out of school due to the crisis, including nearly a half-million primary school students. Secondary school attendance has fallen to 37.5% (compared to 70% in China). Girls, especially, are affected, since they are barred from attendance at the hundreds of Buddhist temple schools, which subsidize their students' expenses. Many youth are driven into prostitution, drugs, and other criminal activity.

One horrifying result is that HIV infection rates in Thailand (and across much of Asia) have skyrocketted, and could soon surpass even those in sub-Saharan Africa. A quarter of a million Thais have already died of AIDS.

Seventh letter of intent

On March 30, the Thai government of Prime Minister Chuan Leekpai announced a new stimulus package of $3.5 billion, as part of the seventh letter of intent with the IMF. The plan will draw on funds from Japan, as part of that country's Miyazawa Plan of $30 billion in assistance for Southeast Asia, and from the World Bank, while also cutting taxes on primarily the working poor and small and medium-size businesses. The IMF is graciously allowing the budget to run an 8% deficit to cover the tax cuts. The stimulus package will create more than 400,000 new jobs in the rural sector.

While such relief is desperately needed, it is clearly not adequate to reverse the collapse, anymore than similar stimulus packages in Japan have reversed the crisis there. Without reversing the global collapse, no such bandaids will have any lasting effect. The Research Center for the Thai Farmers Bank, one of the nation's largest, pointed out that "the package will not be enough, given this year's export earnings decline of 11.3% in baht terms, or a loss of 240 billion baht [$6.4 billion], which is larger than the value of the stimulus package." The enormity of the problem is indicated by the rate of capital flight: It is estimated that the net outflow of foreign funds in the last two years exceeds the total investment inflow since 1988!

Nor are foreign funds coming back into Thailand, despite the blood-letting of the IMF conditionalities. New capital investment is virtually nonexistent. The government tried to auction off the viable assets of the 56 finance companies closed down in 1997 on orders of the IMF, hoping to pay off the investors in those firms, but received almost no foreign purchases, even with the assets discounted to an average 18% of their value.

With such bleak prospects for the economy, waiting for foreign assistance is increasingly recognized as a fool's dream. Dr. Virabongsa concluded the conference with the following dose of reality: "We need not only debt restructuring, but corporate recapitalization," he said. "Regional and international efforts have to be established. If the whole region doesn't recover together, this country will not recover," he said. An editorial in *The Nation,* which sponsored the conference, showed that the scope of the global crisis is well understood: "As the crisis has rippled through Asia, Russia, and Latin America, there has been a net flow of capital from Europe, Japan, and the world as a whole to the U.S. This tidal wave has pumped up a bubble economy in the U.S., which is every bit as distorted as Thailand was in mid-1997. The stock market index has lost contact with reality. As many American analysts lectured Thailand two years ago, the first reaction to a crisis is always denial. The same is now true in the U.S. From the President downwards, people are talking about a new miraculous stage in American capitalism. But it's a bubble, and bubbles burst."

U.S.A.: Friend or foe?

The government of Prime Minister Chuan Leekpai is itself divided and may soon be forced to call new elections. The recent IMF letter of intent, and the "more of the same" policy promoted by Finance Minister Tarrin Nimmanahaeminda, has been publicly criticized by Deputy Prime Minister and Commerce Minister Supachai Panitchpakdi, who has consistently argued that saving the real productive economy is the first necessity, before bailing out banks and foreign creditors.

Supachai has called for lower interest rates, even if the value of the currency were to fall as a result, in order to enhance industrial production and exports. He also called for the government to take over some of the banks' non-performing loans, rather than push the banks to foreclose on the indebted companies.

A new bankruptcy bill rammed through the Senate at the end of March by Finance Minister Tarrin and the IMF, against vociferous opposition, allowed banks to foreclose on debtor companies and strip their assets to collect their debt payments. There were efforts to exclude those companies that were otherwise viable, but had been caught by the collapse of the baht, with extensive foreign debts. This was rejected by Tarrin in order to please the IMF.

International ramifications

The conflict between Ministers Tarrin and Supachai has important international implications, in that Supachai is one of the two final candidates to become the new head of the World Trade Organization (WTO). A meeting on March 31 to make the final selection between Supachai and New Zealand's former Premier Mike Moore ended in a deadlock, and the decision was postponed to the week of April 12. Thailand, sensing that the United States was planning to strongarm other nations to go with the more IMF-compatible New Zealander, extracted a pledge from U.S. Secretary of State Madeleine Albright during her recent Asian tour that the United States would not block a consensus in support of Supachai.

Supachai has expressed support for Malaysia's imposition of selective capital controls, and is less sympathetic than Moore to slapping sanctions on countries over sovereign questions such as labor policy and the environment. These facts force one to consider whether Vice President Al Gore and his Principals' Committee, which is functioning within the U.S. administration to subvert President Clinton's policy of strengthening ties with Russia, China, and the rest of Asia, is also behind the effort to prevent Supachai's appointment (see *EIR,* April 9, pp. 58-62). Vice President Gore's infamous and disgraceful antics last November in Kuala Lumpur, where he declared support for anarchist riots against the Malaysian government taking place in the nation's capital, and Albright's equally insulting pandering to deposed Malaysian Deputy Prime Minister and Finance Minister Anwar Ibrahim, indicate that the Principals' Committee could be, once again, up to no good.

The decision on the WTO chief could also influence the crucial negotiations between President Clinton and China's leaders over China's entry into the WTO—another target of the Principals' Committee and their anti-China allies in the Republican Congress. President Clinton would do well to back Thailand's candidate over that of the British Commonwealth, and further his strategically crucial ties with Asia.

LaRouche in Russian press, urges decisive action on economy

Kommersant-daily, the leading Russian business newspaper, has featured Lyndon LaRouche's call for joint action by the United States, Russia, China, and India to solve the world economic crisis. In February, the same paper had interviewed LaRouche on the prospects for Russian economic science, and on Jan. 26 its sister weekly, *Kommersant-Vlast,* carried a commentary by LaRouche under the headline, "Scrap the Foolish Policies of the International Monetary Fund."

In its April 13 issue, *Kommersant-daily* published answers from notables, to the question, "Can the ruble be stabilized with respect to the U.S. dollar?" The reply, provided by LaRouche to *Kommersant* on April 12, appears here in full:

LaRouche's reply

"The question can be read in two ways: Is there a way in which the ruble's value can be defended against rapid erosion during the short term? The answer is that there are available emergency measures, including strict capital, exchange, and financial controls, which can minimize the undermining of the ruble during the short term. These kinds of measures are within the competence of Prime Minister Ye. Primakov and his distinguished advisers. For the medium to long term, more drastic measures would be required, which I, were I a Russian official, would be prepared and committed to taking as necessary.

"The long-term solution for Russia's present difficulties lies in the mobilization of the resources of the former Soviet scientific-military-industrial complex as the basis for a greatly expanded machine-tool industry. The new trends in cooperation among China, Russia, India, and others, point toward the possibility of the kind of revival of Russia's economy which is needed for a strong ruble during the medium to long term.

"My hope, is that President Clinton will refresh his options for cooperation with Russia. The world is in a crisis, which can not be overcome without cooperation among a leading group of nations including the U.S.A., Russia, China, India, and at least one or two nations of western continental Europe. Under those conditions, the vital interests of the planet as a whole can be defined in ways indispensable for solving the world's present economic crisis and avoiding the growing danger of a global spread of warfare. An agreement