

Thailand Stands Up, With Chinese Help

by Ron Castonguay

Chinese Premier Zhu Rongji ended his mid-May trip to four of China's southern neighbors with a four-day stay in Thailand. He came bearing gifts. Most spectacular is a reported agreement to underwrite a \$4 billion high-speed rail connection between Bangkok and Kunming in southern China.

Combined with other rail lines either existing, under construction, or in the planning stage, this link will create a major southern trunk of the Eurasian Land-Bridge, stretching from north China to the Straits of Malacca (and, potentially, via a bridge to Sumatra and then to Java). Work is currently under way on a Bangkok-Kunming highway, and to make the Mekong River navigable, from its outlet in the South China Sea in Vietnam, through Cambodia, along the Laos/Thailand border, and into southern China. Meanwhile, India has been making deals with Myanmar to cut roads eastward from India into and across Myanmar to the northern Thai border (see "India, Malasia Pledge Broader Cooperation," in this issue).

Such huge infrastructure projects are only possible because of the concerted effort over the past decade by the Southeast Asian and East Asian nations to overcome a history of divisions and internal warfare induced by the colonial powers, and continued in the post-colonial era under the rubric of the "Cold War." With the Bush Administration madly pursuing a "new Cold War" confrontation with China, and the International Monetary Fund continuing to demand the same conditionalities which have proven to be so disastrous across Asia since the 1997 financial crisis hit the region, this grand vision for integrating and developing the region is crucial for countering the ongoing breakdown of the IMF-centered financial system.

The Chinese premier also offered to provide needed help for Bangkok's miserable infrastructure. China will finance and construct an extension of the city's only mass transit facility, the short, underutilized Skytrain, and participate in an 80 km light electric rail system to circle the city and tie in with the Skytrain.

At the conclusion of Zhu Rongji's trip, Thai Prime Minister Thaksin Shinawatra announced that a China-Thai currency swap agreement, in line with last year's Chiang Mai Initiative, was agreed to, with details to be worked out over the weeks ahead. Press reports indicate the Thais are proposing the sum of \$4 billion.

Other agreements were announced during the visit. Zhu

himself will host an anti-drug summit in Kunming with Thailand, Laos, and Myanmar. Significant trade agreements were also concluded. Thai-Chinese trade has been growing at a rapid rate, up 51% last year, to the point that China is now Thailand's fourth-largest trading partner. With exports dropping to Thailand's traditional export markets, the United States, Japan, and continental Europe, increasing trade with China is increasingly attractive to the Thai business community.

Thaksin's New Approach

All this is rare good news to embattled Prime Minister Thaksin Shinawatra. (Thaksin, a telecommunications billionaire, is of Chinese heritage, as is much of the Thai business elite.) He took office just over 100 days ago, after his self-created party Thai Rak Thai ("Thai Loves Thai") won an un-precedented outright majority in the January elections on a frankly populist program. While able to govern in its own stead, Thaksin chose to ally his Thai Rak Thai party with the "New Aspiration" party led by Chavalit Yongchaiyudh, a former top general and Prime Minister (now Defense Minister and Vice Premier), and another smaller party, to obtain a challenge-proof two-thirds majority in Parliament.

Thaksin has moved rather rapidly to implement parts of his populist program; a three-year debt moratorium for farmers, a million baht (\$25,000) outright grant to each of Thailand's approximately 60,000 villages, and reduction of the cost of a hospital visit to 30 baht (\$.65). Problems in the implementation of the program have brought some grumbles and frowns, where there were initially just bright Thai smiles for Thaksin, but his popular support continues.

Thaksin's campaign garnered support from the other end of the economic spectrum by his advocacy of an Asset Management Corp. to take non-performing loans (over \$30 billion in total) off the books of the crippled Thai banks so that they could again lend to industry. All efforts to stimulate the economy have thus far failed to generate new lending into a business structure straddled by this massive unpaid debt, primarily the legacy of the speculative attack in 1997 and the subsequent devaluations. Thaksin's group put together a reasonable outline for such a plan (it received favorable nods from Malaysia as resembling its own such plan), but it has made little progress towards implementation.

The immediate problem is the collapse of the export markets in the West. Thaksin and his government were assured



Thaksin Shinawatra

by the IMF that there would be a continuing boom in the United States, and slow but steady growth in Japan and Europe as the backdrop for adopting the IMF's export-oriented economic proposals. They have been rudely awakened. In January, and again in April, Thailand recorded the rare and unpleasant phenomena of foreign trade deficits.

As the economy has weakened (including an increase in the percentage of loans classified as non-performing), the baht has also weakened to about 45 to the dollar, down from 35 last year (although still above the lows reached during the heights of the 1998 crisis). Numerous defensive measures have been put into place to restrain speculation and defend the baht with only some slight success; altogether the Thai measures do not approach the successful defense of Malaysia's currency, the ringgit, through exchange controls enjoyed by neighboring Malaysia.

Thaksin vs. the IMF

The baht problem brought Thaksin into direct conflict with Bank of Thailand Governor M.R. Chatumongkol Sonakul, and the IMF itself. Since the height of the crisis in August 1998, the central bank has kept Thai interest rates very low. Thaksin has argued, even demanded that the rates be increased by a minimum of 1.5% to 5%.

The Nation of Bangkok, on May 28, reported the argument thusly: "Thaksin's view [is] that fiscal stimulus, the only tool left to salvage the weak economy, would be useless if capital were pouring out of the country, no matter how much money the government pumped into the economy. He . . . believe[s] that the low baht interest rate, even lower than U.S. dollar rates, were the primary cause of the outflow, now at a rate of \$1 billion a month. Not only are foreign investors unwilling to hold the baht, but Thais are also selling the baht if they can. . . . For every baht pumped into the economy by the government, there would be upward pressure on imports. At a time when exports are weak and the trade balance is already deteriorating, fiscal stimulus would add pressure to the current account. Any current-account deterioration ultimately leads to exchange-rate weakness and the end of the economic recovery."

Thaksin's approach mirrors Lyndon LaRouche's recent call to dump the desperate and insane hyperinflationary policies of U.S. Federal Reserve Chairman Alan Greenspan, and, instead, *raise* short-term interest rates to dry up the destructive speculative bubble, while reorganizing the productive sectors of the economy.

The "experts," including the IMF's Asia and Pacific department director, Yusuke Horiguchi, forcefully supported Bank of Thailand chief Chatumongkol in defense of the low-interest-rate regime. After one session in which the IMF representative passed on the Fund's dictates to the Prime Minister, Horiguchi told the press that Thaksin had assured him that the central bank would have the last say on interest rates, and that "the central bank's independence would be honored."

However, the IMF and its sponsors were given a rude awakening on May 29, when Prime Minister Thaksin announced the dismissal of Chatumongkol as Governor of the Bank of Thailand, and his replacement by the current head of the Thai Export-Import Bank, Pridiyathorn Devakula. Pridiyathorn is a close ally of Thaksin, who also recently appointed him to be head of the new Thai Asset Management Corporation. Such willingness to stand up to the IMF will be closely watched around the world, and especially in beleaguered Indonesia, where on May 24, the chief Economics Minister, Rizal Ramli, castigated the IMF representative in that country, John Dodsworth, as a liar and a blackmailer, primarily over the IMF attempt to dictate that the government must not be allowed to replace the head of its own central bank.

Thailand is also facing mounting pressure from certain U.S. military and diplomatic figures, moving to the Bush agenda, who have been attempting to rope Thailand and the rest of Southeast Asia into a de facto, implicit anti-China alliance. While this overture has not met with outstanding success, and is meeting resistance within the U.S. military itself, it is not forgotten that Thailand has long and deep military ties with the United States, including the fact that Thailand served as the primary airbase for the U.S. bombing of Vietnam, Cambodia, and Laos during the Indochina War.

Legal Problems

Thaksin's stronghold in Parliament would apparently ensure a full, four-year Constitutional term in office. But such is not the case. He is currently undergoing a trial on the basis of a financial report submitted some years ago when he was briefly a junior minister in another administration. Were Thaksin to be convicted of this offense, he would be barred from all political office for five years, and thus lose the prime ministership.

The actions which led to the charges, brought by the National Counter Corruption Commission before the election, are admittedly true. Some assets, held by nominees (a large amount, but only a tiny fraction of his overall assets), were clearly not reported. The issues at trial are whether he had a criminal purpose in mind for hiding these assets, such as tax evasion, or stock manipulation, and whether he was directly, criminally responsible for the concealment (an assistant to his wife prepared the submission). To date, legally, Thaksin appears to be clear on the first point, but the second is undecided.

Although Thaksin's fate may be decided in a Thai courthouse, probably some time in late June, his legacy and his administration's future will be decided elsewhere. If Thaksin can retain the faith of the Thai people and the Thai elites that he can bring Thailand through the current, worsening crisis, he will most likely be retained in office. Zhu Rongji's stay in Thailand, and Thaksin's defiance of at least some of the IMF dictates, has moved the country further toward collaboration with the nations of Eurasia.