

Will currency devaluation take Thai economy into Soviet trade orbit?

by Sophie Tanapura from Bangkok

On the night of Nov. 1, 1984, Thai Finance Minister Sommai Hoontrakul called an emergency meeting with senior officials of the Bank of Thailand. A 17.3% devaluation of the Thai currency, the baht, was announced the next day, bringing the baht from 23 to the U.S. dollar to 27.

Various forces were clearly involved in the action from outside Thailand, including the U.S. Export-Import Bank, the World Bank, the International Monetary Fund—and perhaps the Soviet Union.

Traditionally pegged to the U.S. dollar, the Thai currency will now float against a basket of currencies comprised of the U.S. dollar, Deutschmark, pound sterling, yen, the Malaysian ringgit, the Singapore dollar, and the Hong Kong dollar.

Finance Minister Sommai has already pulled the same policy stunt twice before, in May and July of 1981 under the Prem government, lowering the value of the baht from 21 to 23 to the dollar. The official reason was to boost exports, to thus improve the balance of trade. The same official reason is being given today.

Few observers accept that explanation. President Chak Panyarachun of the association of members of the securities exchange of Thailand said the government always uses the exports issue as the cause for each devaluation, maintaining that a cheaper baht would spur exports and generate more foreign exchange. "But it has never worked. . . . The fact is we do not have enough markets for our products," he told the press. On the other hand, talks were recently held regarding the possibility that the Soviet Union will be willing to purchase the vastly cheapened Thai products.

Removing obstacles to the IMF

The announcement of the devaluation came rather suddenly for many. The debate on whether or not to devalue which occurred about a month before had subsided and everyone thought that the anti-devaluation crowd had won out. However, during that same period, Finance Minister Sommai ousted Bank of Thailand Governor Nukul Proach-uabmoh in an almost scandalous way. Dr. Kamchorn Sathirakul was nominated by minister Sommai to replace him. At

the time, the suspected reason for the purge was strong disagreement between the two on monetary matters and perhaps even on policies toward the International Monetary Fund and the World Bank.

Time confirmed the suspicion. Former Governor Nukul was most probably a rather annoying obstacle to Minister Sommai's intention to devalue the baht. Mr. Nukul had to be eliminated. The question now is whether Mr. Nukul will be the last Bank of Thailand governor to stand in the way of the IMF and the World Bank.

Needless to say, even though World Bank officials when questioned denied they were directly involved in the devaluation, many of their reports have stated that the baht as tied to the dollar was artificially overvalued. And, World Bank officials visiting Bangkok during the first week of November were gloating over the successful implementation of their policy. Wherever they went, whether to meet with government officials or executives in the private sector, they had only one piece of advice: devalue.

In fact, following the devaluation, World Bank officials were heard to comment: The new situation has cleared the atmosphere for further discussions between Thailand and the World Bank.

In mid-November, William Draper III, president of the U.S. Export-Import Bank (Eximbank) arrived in Thailand, and in a meeting that included U.S. Ambassador John Gunther Dean, reportedly told Prime Minister Prem Tinsulanonda that the U.S. government and international financial institutions support the latest policy of the Thai government to devalue and float the baht.

William Draper also met with the secretary-general of the national economic and social development board, Dr. Snoh Unakul, and the new governor of the Bank of Thailand Kamchorn Sathirakul. The president of the American Eximbank attacked Japanese and French policies of offering softer loans, i.e., lower than the 10% proposed by his institution. The Eximbank plans to increase its activities in Thailand, he announced, by making loans available to small and medium-size projects.

The insiders

No matter how much outside pressure was applied or advice given, the devaluation policy could not have come about had there not been some key supporters of that idea on the inside.

Consider the official up-front initiator of the devaluation policy, Finance Minister Sommai Hoontrakul. Armed with a masters degree in economics from Keio University in Japan, Sommai joined the Bank of Thailand in 1943. He held several important positions including director of the domestic banking division and assistant governor of the bank.

In 1970, he became general manager of the Industrial Finance Corporation of Thailand (IFCT), a financial institution which often takes World Bank loans and then sublends to small and medium enterprises. Two years later, Sommai left both the Bank of Thailand and the IFCT to head the Siam Commercial Bank. Sommai was also finance minister under the Sanya Dharmasakti and Thrid Kriangsak governments in the '70s.

However, the man said to be more important in pushing the devaluation policy through does not appear so prominently in the limelight. This is Dr. Virabongsa Ramangkura, presently economic adviser to the prime minister and to the National Economic and Social Development Board (NESDB), and dean of the faculty of economics of Chulalongkorn University. Dr. Virabongsa, a graduate of the Wharton School of Finance and Commerce of the University of Pennsylvania, apparently functions as an economic czar for the country, as the policies he suggests are never questioned by Prime Minister Prem.

One of the harshest affects of the devaluation is a sharp rise in the price of crude oil. This will hurt every man, woman, and child in the country, no matter how much the government may explain that this was all done for the people, for the exporting rice grower. Thailand will have to pay an additional ten billion baht annually, bringing its yearly oil bill to over 70 billion baht as a result of the devaluation.

Oil has become very much a part of everyday life. Oil makes up about 30% of Thailand's total imports. Even the Thai farmer now uses diesel engines, small farm machinery, motorized vehicles to take his produce to the market, etc. All these have an oil content. The question is: Will the extra devalued bahts for the farmers offset the increases in the cost of living from the oil price increase? The government promised that there will be no rise in the oil price. But for how long?

A political measure?

One cannot help wondering if the devaluation in itself was intended not so much as an economic measure, but as a political act designed to make the country more vulnerable to future political destabilization. Around mid-November, for a brief period, there was a real danger of a military coup.

Former Finance Minister Boonchu Rojanastien, in statements to the *Bangkok Post*, warned that the baht devaluation may turn Thailand into "another Philippines" in the near future, as far as the economy is concerned.

To correct the economic decline, Mr. Boonchu told the *Post*, the causes of the decline have to be analyzed. Agricultural production has increased on a national scale, but prices have fallen. Production costs are high. The yield per rai (about 6.25 rai equal 1 hectare) of rice and other commodities has dropped, despite the general agricultural production increase, causing lower income for farmers and lower purchasing power for families and individuals generally. Nothing has been done to improve the agricultural processing industry, Mr. Boonchu said.

In order to sell more, Thailand's exports must be cheaper, argued Minister Sommai and his associates. But where can Thailand expand her markets?

In mid-November the United Nations conference of trade and development (UNCTAD) funded a two-day brainstorming session between the Thai government and the Soviet Union and five other Comecon countries, with the hope of promoting expanded trade relations between Thailand and the East bloc countries. Will Thailand now be forced to sell her goods cheaply to the East bloc countries?

Ironically, he was introduced to the Prime Minister only four years ago by Gen. Santa Chitpatima, who was involved in a failed coup attempt against the Prem I government in 1981.

The Wharton School of Finance and Commerce, many of whose leading professors were founding members of the Club of Rome, amounts to a transplant of the British Tavistock Institute to the United States, which occurred in the 1971-73 period, when numerous British intelligence specialists took up residence in Philadelphia. The Wharton School defines its goal: to "take over the institutions" of countries and transform them appropriately for the "post-industrial society."

In the case of developing nations like Thailand, the policy is to force them to go straight to the "post-industrial" stage without ever going through the industrial stage.

The devaluation's impact

Infrastructure and industrial projects in general are going to be delayed as a result of the devaluation. Thai Industry Minister Ob Vasuratna, who among cabinet members made the strongest attacks on Sommai, said that not only will the private sector be hit hard, but the government, too, will feel the pinch because various national projects, such as the Eastern Seaboard development plan, have to be financed through foreign loans.

The minister also told media representatives that most of private business establishments had been expecting to make a profit during the last two months of this year after weath-

ering several crises during the first ten months. The devaluation makes that most unlikely. "We should not have blocked these golden opportunities," Mr. Ob said.

At the announcement of the devaluation, the electricity generating authority of Thailand (EGAT) shouldered an immediate loss of eight billion baht, declared EGAT's general manager Kasem Chatikavanij, known to be fervently in favor of Thailand pursuing nuclear power, but who is lately despairing as a result of repeated obstacles created by the Malthusian lobby in Thailand. EGAT alone bears a total of \$2 billion in foreign debt, a third of which is in U.S. dollars.

Because of the devaluation, EGAT will be forced to curb its expansion plans. The intended annual investment of one billion baht to boost power supplies will have to be curtailed. Among other key development projects, Kaeng Krung Dam and Saiburi Dam in the South, both requiring expenditure of about 5 billion baht, may be delayed. The Nam Choan Dam, long the target of the zero-growth faction, will most likely suffer the same fate.

Environmentalists in Thailand don't look like they do in the United States or Europe. You won't find "friends of the earth" youngsters demonstrating. But like the United States or Europe, you will find the more dangerous Malthusians, those sitting right in the building of the NESDB itself. There is a faction here that hates dams with a passion, and although EGAT deputy general manager Kamthon Snithawanond warned that the south would face a power shortage if the project were not implemented, they managed to veto an EGAT project to build a hydroelectric power dam at Surat Thani which would have been able to generate 300,000 kilowatts. The economic planning institution said the dam was unnecessary, since the petroleum authority of Thailand had already planned to pipe natural gas to EGAT's power plant in Nakhon Si Thammarat.

Interview: Boonchu Rojanstien

'A medicine issued only to the dying'

The following is an interview with Mr. Boonchu Rojanstien, president of the Siam City Bank of Thailand, and a former deputy prime minister for economic affairs, conducted for EIR on Nov. 9 by Sophie Tanapura.

EIR: The International Monetary Fund (IMF) and the World Bank are known to favor devaluation as a solution to all economic ills, and they have been repeatedly advocating the

line that the baht is overvalued. Do you think they are involved in this decision?

Boonchu: I am not sure they are involved [in the] to devalue the bhat. In any case, even if they were, we don't have to follow the instructions of the IMF and the World Bank. Their comments are only suggestions.

EIR: Do you agree with the present bhat devaluation policy as an attempt to solve the balance of trade deficit?

Boonchu: We have always tried to improve our foreign earnings from sales of merchandise, services, and capital flow. I frankly do not perceive any need to revert to a purely monetary policy when other measures taken to improve our foreign earnings position already registered success. [Thailand's record 3.87 billion dollar balance of trade deficit of last year is expected to decline to an estimated figure of about 3.5 billion dollars this year—ed.]

To resort to a monetary measure is always easy. It is like using penicillin and antibiotics indiscriminately. It is resorting to an all-purpose medicine without caring much about the side effects on the ordinary men and women in the street. . . . One of these side-effects is a rise in prices, which, in turn, forces us to practice price controls, something we have always tried to avoid. State intervention through price controls is going to destroy economic competition. . . .

We have had bad experiences once with such policies and we seem not to have learned our lesson.

EIR: How do you evaluate the way in which the government is dealing with the side-effects of the bhat devaluation?

Boonchu: That is precisely the point. Had the government prepared the devaluation policy in a responsible fashion, they should have immediately announced a set of measures together with the devaluation policy, measures designed to deal precisely with pretty predictable side effects. But, as you can observe, the government was not prepared to handle the ensuing consequences. The fact that they were not prepared will lead to an unending series of problems. For example, let's look at the problems that are likely to follow price-control policies. There will be disruption of production capabilities, creation of conditions for a black market. . . .

Had the government really prepared such a devaluation in advance, they should have already weighed both the advantages and disadvantages. In such a case, advantages should outweigh the disadvantages. It is not enough for the government to keep repeating that the measure was necessary. The fact that it did not have a set of measures ready to offset the negative side effects of the policy shows that the government acted irresponsibly, causing hardships for others.

As you know, a monetary measure is one to be implemented only when others have failed. It is like a medicine one administers to the dying. If one is already supposedly on the death bed, then the real reasons for the devaluation, this bitter medicine, should be at least disclosed.