EIR Economics

Thailand financial collapse may spark broader crisis

by Michael O. Billington

There is a sense of panic in official places, concerning the banking crisis sweeping across East and Southeast Asia. The economy of Thailand, the pre-eminent "Southeast Asian Tiger," held up to the world as a model for the supposed success of "globalization," is collapsing at a pace which *already* compares with the 1994 Mexican disaster—and the worst is yet to come. With the continuing crisis in Japan and the recent chaos in South Korea, the Thailand collapse is viewed as a potential detonator of a larger crisis—not only in Asia, but for the entire global speculative bubble. This is due in part to the fact that the Asian economies have purchased the bulk of U.S. debt issues over the past years, propping up the decrepit U.S. economy. Continuing financial breakdown in Asia threatens to cause a "run on the bank" in the United States, as Asians cash in their U.S. Treasury bills to cover their own losses.

One sign of the seriousness of the crisis, as viewed by the international financial oligarchy, was the presence of International Monetary Fund (IMF) Managing Director Michel Camdessus in Asia for a week of meetings and damage control. Camdessus met with finance ministers from the Association of Southeast Asian Nations (ASEAN) in Thailand over the weekend of March 1-2, pleading with ASEAN nations to formalize a regional emergency fund to meet the expected new "Mexico" crisis in Thailand, and perhaps elsewhere. Camdessus knows it is unlikely that the United States will move in to bail out an Asian crash, as they did in Mexico. Better, he insisted, that ASEAN bail out the international speculators themselves!

The day after Camdessus left Thailand, the Thai government declared emergency measures to save the (in fact) bankrupt banks and financial institutions in Thailand. Halting trade in all bank and financial institution stock on the Stock Exchange of Thailand on Monday, March 3, Finance Minister Amnuay Viravan and Bank of Thailand (the central bank) Gov. Rerngchai Marakanonda announced that the country's largest and most prestigious finance company, Finance One Plc., had gone bottom-up. The $3.8 billion company was merged with the country's twelfth-largest commercial bank, Thai Danu bank, with an undisclosed government bailout of Finance One's debt. The government also imposed higher reserve and bad-loan provisions on banks and finance companies, and even more stringent measures on the ten most-exposed institutions.

The intended boost in the "confidence of the markets" failed to materialize—over $700 million was withdrawn from the finance companies over the next three days, and the stock market (nearly half of whose trade is in bank and finance company stock) continued its collapse, falling to one-half of its 1996 peak.

Camdessus moved on to Hongkong for an IMF-Hongkong Monetary Authority conference on financial integration in Asia. On Friday, March 7, he praised the Thai bailout. "What you are doing is exactly what you must do to avoid the recurrence of a Mexico-like crisis," he told the conference. Whistling past the graveyard, he added: "We are ready to continue assisting them in this effort and don't see any particular reason for this crisis to develop further."

On that same day, the Bank of Thailand displayed its servility to the IMF by proposing to guarantee repayment of all finance company promissory notes. The Thai cabinet approved the proposal the following Tuesday, March 11. The money for this bailout (of primarily international speculators) will supposedly come from new government bonds to be sold to the banks (!), thus further draining available credit away from any real productive investment.

As documented in the Feb. 7 *EIR,* "London Sells a Killer 'Tiger' Tonic to Southeast Asia," the myth of the Southeast Asian tigers had been artificially created, especially since

1993, and peddled to other Third World nations in Africa and Ibero-America as "proof" of the success of the globalization process: forgoing investment in heavy industry, infrastructure, education, and similar measures to improve the productivity and standard of living of the nation's workforce, in favor of the unregulated, free flow of hot money, seeking quick profits in low-technology process industries, real estate and portfolio speculation, or other more overtly illegal operations. Just as 19th-century colonialists stole raw materials and agricultural products through "free trade" between the mother country and the foreign-owned mines and plantations in the colonies, so today the new colonialism of globalization provides for the utilization of cheap labor in foreign sweatshops, exporting the consumer goods and the profits back to the West, functioning as a net drain on the developing nations.

Primary globalization targets

The Southeast Asian nations, and Thailand, in particular, were primary targets for the globalization process begun in the 1980s under Margaret Thatcher and her fawning partner, *Sir* George Bush. Virtually every Southeast Asian port city has for centuries served as British, French, Dutch, and Portuguese colonial hot-money centers. The British banking operations in colonial Hongkong and semi-colonial Singapore have laundered the bulk of the world's drug money since the 19th-century British Opium Wars against China, and this continues still today. With Hongkong soon to be returned to Chinese sovereignty, Bangkok and other Southeast Asian cities were bribed to compete through financial deregulation for the "honor" of replacing Hongkong as the filthiest financial center in the world.

Thailand leapt at the chance. In 1992, it set up the first Asian offshore banking operation, the Bangkok International Banking Facility (BIBF). During 1993-96, some $86 billion in hot money flowed into Thailand through the BIBF—no questions asked. More than half of the money had a term of less than one year. Most of the loans went to the private sector, and most of that into real estate speculation, such that today Thailand is the *world's biggest bank debtor,* with 82% of Thailand's over $100 billion in foreign debt held by the private sector. Rather than shaping investments according to the already mild restrictions of the Thai regulatory agencies, private interests, both foreign and domestic, took the unregulated "easy" money from the offshore facility to rush into speculative schemes of every variety. There are now over 360,000 luxury houses, which remain empty, on the market, with 100,000 more coming on line this year, while Thai farmers are camped out in the capital, demanding the right to survive, and some Thai workers in the export industry sweatshops even burned down their factories to protest poor working conditions.

The BIBF provided an even safer means to launder funds from the black economy in Thailand into the international financial system. A report issued by Bangkok's Chulalongkorn University in 1996 revealed that the Thai black economy—mostly from prostitution, gambling, and drugs—is larger than the national budget. The BIBF facilitated the spread of "financial AIDS" in the financial system, with one result being the further spread of drugs and the disease AIDS throughout the region.

Bush, Soros, and the British

Although the current crisis is the necessary result of the globalization process, Thailand has also been helped along its disastrous course by a series of scams and speculative attacks by the global, criminal apparatus directed by George Bush and his British allies. In early 1996, one of Thailand's leading banks, the Bangkok Bank of Commerce, suddenly collapsed, dumping $3.2 billion in questionable debt on the government. The bank's lending had been guided by Saxena Rakesh, an intimate of Bush's buddy Adnan Khashoggi of Iran-Contra fame. Saxena fled to Canada, while the Bank of Thailand stalled providing the evidence needed in the criminal investigation, forcing the government to drop charges because the statute of limitations ran out. Three Bank of Thailand officials were fired over this default, during the same week that the Bank of Thailand announced the financial sector bailout.

Throughout 1996, as the decline in exports further threatened the Thai bubble, speculation against the Thai currency, the baht, began in earnest in Britain, Hongkong, and Singapore derivatives markets. Desperate to keep the foreign hot-money flowing into their fragile economy, Thailand chose to follow the doubly suicidal demands of the IMF: Keep interest rates high, squeezing out growth, while drawing in hot money, and defend the baht against devaluation. The defense of the baht has cost the government billions of dollars in foreign exchange, but a devaluation would drastically increase their $100 billion foreign debt at the stroke of a pen, as in Mexico.

The government of former Prime Minister Banharn Silapacha pumped money into the failing stock market and into defending the baht, but the dam had already broken. His government fell in the fall of 1996. The new government, under Prime Minister Chavalit Yongchaiyudh, appointed the same economics strongman from the Banharn cabinet, ex-Bangkok Bank Executive Chairman Amnuay Viravan, as economics czar, assuring the continuation of IMF control over the nation's economy. Moody's Investors Services joined in the fray, downgrading Thailand's short-term debt last October, and then, in February, threatened to downgrade the ratings on the banks and finance companies, increasing further the cost of foreign borrowing.

In January, the government agreed to a $2 billion bailout of the bad property loans. It proposed a budget with $4 billion in cuts in crucial infrastructure projects, and the privatization of strategic industries in power and communications. The IMF was not satisfied. In February, yet *another* company connected to Saxena Rakesh, Samprasong Land, failed to meet payments on a Eurobond loan, sending panic throughout the financial community.

Reports then emerged in the Bangkok press that speculator George Soros had launched an assault on the baht on the

Singapore derivatives market. It is no coincidence that during the same week, Thailand significantly aided the government of Myanmar (Burma) in its military mop-up of the Karen National Union (KNU), the only ethnic army in Myanmar which had persistently refused to make peace with Yangon. Thailand last month prevented KNU soldiers from crossing the border for refuge without first being disarmed, leading to an hysterical outcry from the Bush-linked networks running the destabilization of Myanmar. Not only have the Karen historically been tools of the British (even fighting with the British against the Burmese independence forces), but their bases now serve as headquarters of the opposition groups associated with British puppet Aung San Suu Kyi. These opposition operations, both within Myanmar and abroad, are financed primarily by Soros personally and the International Republican Institute, connected to Bush. Soros, the world's leading sponsor of legalized drugs, is desperate to prevent the Myanmar government from uniting the country and cutting off the world's largest source of opium and heroin.

Thailand's refusal over the last year to carry out Western demands to cut relations with Myanmar have provoked threats against Thailand in the West. Thai help to Myanmar's army in wiping out the Soros-funded insurgent base camps could well have provoked Soros's special targeting of Thailand's already faltering currency.

Target: the Eurasian Land-Bridge

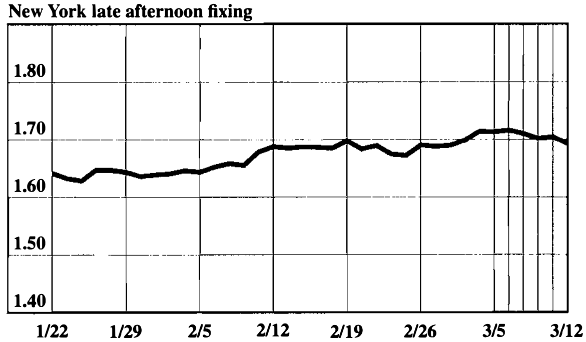
The British hand is thus visible in every manipulation and dirty trick against Thailand over the past year, leading up to the March trip of the IMF's Camdessus and the massive bailout in Bangkok. This must be seen in the context of Britain's primary objective in Asia: the breakup of the extraordinary momentum for the construction of transportation and development corridors, connecting Asia with Europe and Africa, called by the Chinese, "the Land-Bridge." There is considerable support within Thailand and in other ASEAN nations to link Southeast Asia with the various Land-Bridge routes, opening up the Mekong region of northern Thailand, northern Myanmar, Laos, Cambodia, and Vietnam for development. However, if both public and private credit within the ASEAN nations are under the control of British or British-linked foreign interests, the investments needed for the Land-Bridge development will be sabotaged.

On the other hand, such foreign control is running up against the reality of the ongoing global economic breakdown and the pending financial collapse. It is in such moments of crisis that people and nations—as in Thailand—can break from the deeply entrenched assumptions and political arrangements, which have brought on the crisis. The Land-Bridge project provides an orientation through which Thailand, in league with China and other nations, can begin the process of real development of its nation, while breaking the century-long stranglehold of the "Dope, Inc." apparatus of British finance.

Currency Rates

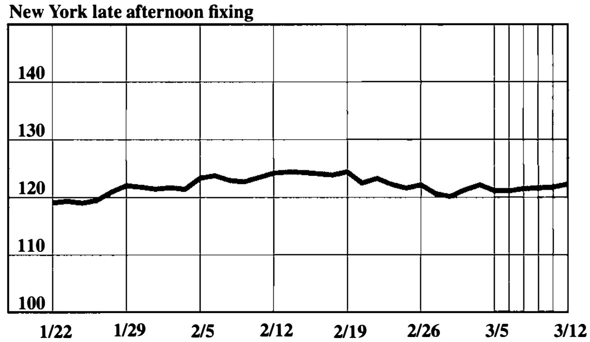
The dollar in deutschemarks

New York late afternoon fixing



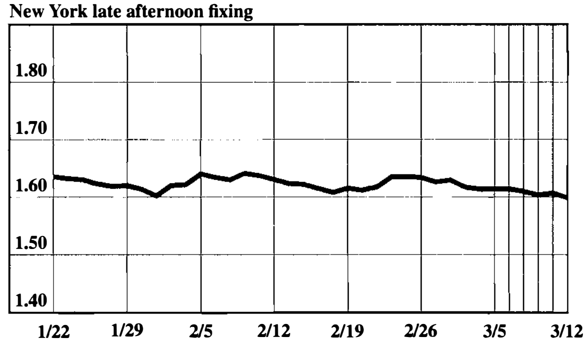
The dollar in yen

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing