

# Thailand's Thaksin Draws Wall Street Fire

by Michael Billington

The Dec. 13 issue of the *Far Eastern Economic Review* (*FEER*) attacked with unusual force, the policies being pursued by Thailand's Prime Minister, Thaksin Shinawatra. *FEER* is the Dow Jones-owned sister publication of the *Wall Street Journal* in Asia. Its coverage, "The Risk Of Directed Credit," by Shawn W. Crispin, posed the core question facing every nation on Earth today: How can a sovereign nation defend its national sovereignty and protect the general welfare of its citizens in the face of the onrushing global depression? Dow Jones, of course, insists that such "old-fashioned" concepts as sovereignty and general welfare should be dispensed with altogether, and that Thailand, like all developing nations, should submit to the austerity dictates and conditionalities of the International Monetary Fund (IMF)—in *FEER*'s words: "heaps of non-performing assets need to be liquidated, over-supplies consolidated, and, in many places, managements purged."

However, the new Thaksin government in Thailand has increasingly been resisting the mantras of globalization and free trade, and, to the discomfort of *FEER* and its Wall Street sponsors, is searching elsewhere for ideas to preserve sovereignty and rebuild the economy. Furthermore, with the economies of the two economic superpowers, the United States and Japan, now sliding into economic free-fall, Thailand recognizes that it can not depend on the false hope of a return of the recently collapsed Western import markets.

It is revealing that Dow Jones chose the week of Dec. 13 to unload both barrels at Thaksin's leadership, since the Thai Prime Minister was travelling to the United States Dec. 13-19 to meet President George W. Bush and others. Bush is currently under assault himself, from those (including the Dow Jones *Wall Street Journal*!) pushing him to launch a religious war in the Middle East—its real purpose being to break up the potential international alliance forming across Eurasia.

The Dow Jones/*Wall St. Journal* message to Bush: no concessions to countries that won't play by "our" rules, either on war, on terrorism, or on the economy. President Bush, and his Secretary of State Colin Powell, have thus far resisted these fanatics, both those in the press and those within his own administration. The Thaksin trip will thus be an important indication of the direction of this fight within the United States.

## Thaksin's Nationalist Turn

Dow Jones particularly targets Thaksin's creation of the Thai Asset Management Corporation (TAMC), and related policies in regard to the leading state bank, Krung Thai Bank. The TAMC, which was created by decree by Thaksin, fulfilling part of his electoral campaign package, is taking over the non-performing loans (NPLs) of the nation's banking system, with the intention that the banks will be enabled to begin lending to the industrial and business sectors again. To facilitate that process, Thaksin also instructed Krung Thai Bank to set a goal of approximately \$5 billion in new lending to the real economy, with perhaps three times that amount to be lent by all the state financial institutions altogether.

*FEER* complains that these institutions are not following the magical rules of the free market, but are "reverting to a state-led economic-development model." What *FEER* fears is the idea of "directed credit," or "policy lending," whereby the government makes sovereign decisions as to how the nation's sovereign credit is best allocated, in order to assure economic development and the well-being of the population. These ideas—identified historically with America's Founding Fathers George Washington and Alexander Hamilton, and formerly known as the American System of political-economy—are the cause of what *FEER* describes as the IMF's "concerns about Thaksin's move towards policy-directed lending, fretting that credits will be disbursed on less-than-prudential guidelines."

It is now self-evident to all but the blind that the only use of credit that has been considered "prudential" by the IMF or Wall Street over the past four years—since the financial crisis of 1997—has been to pay off the foreign debt, and let the economy and the population be damned. Chulalongkorn University Prof. Pasuk Phongpaichit told a seminar in Washington in November, that the drastic devaluation of the baht during the speculative raid on the nation's currency in 1997-98, had approximately doubled the effective foreign debt (when measured in baht rather than dollars). Meeting that debt payment has come at the expense of essential maintenance of the economy, and the growing poverty of the population. Meanwhile, said Pasuk, foreign capital flooded the Thai economy, buying up the wreckage. "More foreign direct investment came into Thailand in the two and a half years after the crash," said Professor Pasuk, "than in all the 12 years of the 1986-97 boom. Almost all this inflow went into buying up distressed companies."

A calculation of the underlying reality of that debt payment over the past years is most revealing (see **Table 1**). Between 1997 and 2000, Thailand paid over \$53 billion in foreign debt service, all paid in highly devalued baht. But the real value of the Thai commodities, such as rice and textiles, did not change, just because they became cheaper to foreigners, nor did the real value of Thai labor somehow change due to devaluation of the currency. If we measure that \$53 billion debt service in baht, at the devalued rates,

TABLE 1

**Thailand's Inflated Debt Payments**

(Millions)

Year	Debt Service In \$	Exchange Rate In Baht Per \$	Debt Service In Baht	\$ Value of Debt Service In 1996 Baht
1996	—	24.9		
1997	11,778	31.4	369,829	14,853
1998	13,261	41.4	549,005	22,048
1999	16,380	37.8	619,164	24,866
2000	11,948	40.1	479,115	19,242
<b>Total</b>	<b>\$53,367</b>		<b>B2,017,113</b>	<b>\$81,009</b>

it comes to over 2 trillion baht. But it can be calculated how much that 2 trillion baht would have been worth, in dollars, before the currency was destroyed by George Soros and his fellow hedge-fund bandits. This is done by calculating its value in dollars at the 1996 exchange rate, before the speculative assault.

It is clear that the equivalent of \$81 billion has actually been paid in foreign debt! Because of devaluation, the nation was credited with only \$53 billion paid. Some \$27 billion more in real value was extracted from the Thai economy, but hidden from accountants' books.

Nor is this all; the collapse of the terms of trade make this reality even worse for Thailand. Two of the primary agricultural commodities it depends upon for export income—rice and rubber—have been subjected to speculative manipulation, having nothing to do with “supply and demand,” and totally out of the control of the government of Thailand (even though Thailand is by far the largest exporter of rice in the world). The resulting world market prices of both have literally been cut in half since 1997. Factor this into the equation, and it becomes even more apparent that Thailand is being told to sacrifice its wealth in *multiples* of the originally contracted quantities of international lending, in order to meet the debt demands of the IMF-centered institutions.

**New Agreements Spreading In Asia**

The Thai Prime Minister has also initiated nationalist measures to deal with the collapse of the rice and rubber prices. Thailand is participating in new cartel agreements (although avoiding the politically incorrect term) to protect national economies, working with other leading producers in the developing sector. The rice agreement between Thailand, Vietnam, China, Pakistan, India and Myanmar, represents 70% of the world rice trade. Among leading exporters of rice, only the United States is not involved. But a leading Thai official involved in trade issues confirmed to *EIR* that the purpose is not to undermine U.S. exports, but to revive

world rice prices against the speculators.

Similarly with rubber. Thailand, Malaysia, and Indonesia have formed the International Tripartite Rubber Organization to combat speculation—although in this case, they also plan a coordinated reduction in production, due to declining demand in the global depression.

Thailand's actions must be seen in the context of the rapidly developing cooperation across Eurasia, coordinating defense against the global financial collapse, while orienting toward internal and regional development. Neither these regional policies, nor Thailand's national policies, are detrimental to the real interests of the United States.

**'Chapter 11' Idea Used**

Those aspects of the Thai Asset Management Corporation (TAMC) which *FEER* finds so objectionable are actually derived from the American System idea expressed in the U.S. “Chapter 11” bankruptcy code. The concept is that a company which is suffering from debt problems should not be allowed to collapse, as *FEER* demands, if the productive capacity of that company is important to the economy and general welfare of the nation as a whole. Instead, the debt should be put aside temporarily (and, when appropriate, portions written off), while using the sovereign powers of the nation-state to generate new credits—not to retire debt, but to renew production and to make technological improvements. Thus, the general welfare takes precedent over the “bottom line” of the accountants' books. That portion of the debt which represents legitimate investment can be retired over time through production, rather than through stripping down production, or selling off national interests to foreign speculators.

Prime Minister Thaksin worked closely with the Malaysian government of Dr. Mahathir bin Mohamad in setting up the TAMC, based on the Malaysian AMC, called Danaharta, set up in 1998. Prime Minister Mahathir insisted that the underlying industries and businesses in Malaysia were sound, despite the debt crisis brought on by the speculative attack, and that the national government was the only power capable of defending the real economy. That structure has proven itself effective, while Malaysia's neighbors were subjected to economic and social disruption by the IMF-run “free-market” approach. The TAMC went into effect in October, and will absorb up to \$25 billion in NPLs from the banking system, nearly all left over from the 1997-98 crisis.

Unlike Malaysia in 1998, however, Asia now faces a global crash. While these measures are indispensable as a defense against further speculative raids on the economy, the ability to salvage the underlying productive capacities of these loans will depend on the success of the effort to create a new world financial system.

President Bush would do well to ignore his critics at Dow Jones, and work with Prime Minister Thaksin, and other world leaders, in reviving the physical economy, rather than defending the collapsing debt bubble.