Thailand faces major capital flight by London banks

by Kathy Wolfe

Thailand may face a purely politically motivated Ibero-American-style bankruptcy, begun by flight capital, such as that which London and New York banks used against Argentina and Mexico after Great Britain's April 1982 Malvinas War against Argentina, a British government official told *EIR* on June 1.

"It's impossible to rule out completely major capital flight" by foreign banks and local Anglo-Chinese drug money, despite Thailand's "economic and financial health," said the source, who spoke on condition of anonymity. It is likely that all the media are now receiving this as the word from London.

In Bangkok, financiers close to London and the Anglo-Chinese Hong Kong market have already begun to feed a panic. "It's a nightmare," Dr. Nimit Nontapantawat, chief economist of Bangkok Bank, told British wire services May 29. The Chinese Sophonpanich family which owns the bank is heavily invested in Hong Kong.

"Plunging tourist revenue and investment in the wake of the bloodshed in Bangkok" could produce Thailand's first foreign deficit since 1984, Nimit said, "as foreign direct and equity investment dries up." Nimit said that foreign capital flight had already hit the Thai stock market, 10% owned by foreign investors.

Ten years ago, the same pattern of outside political manipulation wrecked the economies of Ibero-America. In 1982, Mexico was a major oil producer, Argentina a leading food producer, and great infrastructure development projects were being built in these countries, Brazil, and elsewhere on the continent. Suddenly, Argentina's military action to regain the Malvinas Islands from Britain, which Britain holds as the "Falklands," became the excuse for financial war on the continent.

Ibero-American foreign reserves in London and New York were frozen, billion-dollar bank loans were suddenly called in, and Argentina, Mexico, and Brazil were pushed to the edge of bankruptcy by the International Monetary Fund (IMF).

Today, a long-term national industrial development plan by the Thai crown and military, backed by $8 billion in productive plant put in by Japanese industry, has made Thailand one of the only growing economies in the world. Openly admitting that there is no economic reason for flight capital out of Thailand, the British banks are promoting it, as a political attack.

Care and feeding of a panic

The British official we spoke with admitted that there is no economic reason to expect a panic. "Yes, the Thai economy is famously resilient in these situations," he said. "It has survived 17 military coups since 1932. And Thailand's industrial economy has been growing fast, fueled by investment from Japan." Thailand, he admitted, is a magnet for foreign investment.

"But I would *not* say that everything is fine," he continued. "Now we're seeing the friction which has been caused by Thailand's spectacular excess growth in the last 10 years, and all the political blow-backs which arise. . . . One cannot say that if hundreds are shot by the military, and almost 1,000 reported missing, which is what we have now, and that if it continues this way, then foreign businessmen will continue to put all that money in Thailand. They might start to take it out."

More candid market-watchers in New York, asked to estimate the capital flight described by Dr. Nimit of the Bangkok Bank, said they had seen none. "After the demonstrations began," one New York bank economist admitted to *EIR* on May 29, "we did *not* see large capital outflows, period. Foreign exchange reserves at the end of March were very high, the equivalent of six months of imports, almost $15-16 billion.

"The proof is that nothing has happened to the Thai currency, the baht," he said. Flight capital occurs when investors dump a domestic currency to buy dollars to ship abroad, causing the local currency to drop sharply.

The British official, however, dismissed this reasoning. "At the moment, it's too early to say whether there really was no capital flight—and if there will be a lot more," he said. "I'm *not* sanguine, it remains to be seen. First of all, the baht foreign exchange rate tells you nothing. Because it is a fixed currency, the baht is *not* going to respond to capital flight like a free-floating currency. The Thai central bank may have paid out dollars to keep the baht steady. Thailand could be bleeding reserves and we'd not know yet. The stock exchange has been very, very jittery."

Rumors and horror stories

The British news agency Reuters, however, has been issuing alarming wires, warning foreign investors to get out, and playing up the statements of Dr. Nimit about a looming balance of payments deficit. According to a wire on May 29: "The Bank of Thailand said Thailand posted a balance of payments deficit of 700 million baht ($27.45 million) in April, its first monthly deficit in 17 months.

"Finance Ministry sources said the figure for May would be far worse as a result of the Bangkok bloodshed caused when troops opened fire on unarmed Thais protesting the appointment of a non-elected military premier.

"Chalongphob Sussangkarn, of the private think tank, Thailand Development Research Institute (TDRI), said Thailand's easing of foreign exchange controls since 1990 had made it difficult for it to stem private capital outflows. 'I've just heard horror stories of some recently completed hotels now operating at 10% occupancy,' he said. 'Most new luxury condominiums are desperate to find buyers.'

"Chalongphob said the next several weeks would be crucial. Any coup or further anti-military protests could turn the present steady capital outflow into a torrent."

Reached for comment, Citibank's chief Asia economist in New York, obviously not "in the loop," responded: "Bull, bull, bull! We haven't seen any indications of real capital flight. Sure, the Bangkok stock market *did* get killed; it fell almost 100 points to 689 on May 29. But the stock market was overinflated anyway.

"The Thai currency is closely managed by the central bank. The fact that the baht is managed, and not in some free float, means people will trust the currency, so investors are *less* likely to dump baht. Are foreign corporations getting out? No! U.S. and Japanese companies in Thailand are in for the long haul. Thailand has had numerous opportunities to go off the rails, and somehow it never has. I just don't see it."

Stopping the 'Japan model'

London has a strong resentment against Thailand's nationalist military and the Thai crown, who have kept Thailand from becoming a British colony for 200 years. King Rama V sponsored creation of Thailand's first bank in 1906, and Rama VI founded huge industrial firms to build up the country, such as Siam Cement, National Petrochemical Corp., Thai Oil, and Siam Pulp and Paper, all of which are still managed today by the Crown Property Bureau.

Today Siam Cement, for example, is Southeast Asia's largest producer of construction materials, and is a force for the industrialization of the entire region. It has also opened up plants to produce petrochemicals, automobile engines, tires, glass, and other industrial goods in joint ventures with Japanese companies. London financial analysts and environmentalists often complain that Siam Cement continues to build new plants every year, and is implementing a three-year plan to build $1.3 billion more in new plants by 1993, to expand production in all its industries by 30% to 100%.

British free market dogmatists are also furious at Japan's success in exporting the "Japanese model" of dirigist industrial development to Southeast Asia, a model happily adopted by the Thai crown, which has invited the Japanese in for dozens of joint ventures.

"If you think the Soviet empire in Europe is collapsing, wait until you see what happens to the American empire in the Pacific," University of California Prof. Chalmers Johnson said in a Washington speech last year. Johnson is the top "Japanologist" at the New York Council on Foreign Relations, the American arm of Britain's Royal Institute of International Affairs.

"Americans, British, French all make a lot of noise. But the Japanese are the real power in Asia," complained K.C. Kwok, economist at Britain's Hongkong and Shanghai Bank in Hong Kong, in an interview last year.

Japan's cumulative financial flows to Asia are nearing $100 billion, between $8-10 billion of which has gone to Thailand. Japan's first investments in Thailand and Asia were to secure supplies of raw materials. Since 1985, however, the Japanese have begun a major buildup of industrial plant and equipment in Thailand, South Korea, Taiwan, Indonesia, and Malaysia. At first this relocation admittedly took advantage of cheap Asian wages, which are often 10% of wages in Japan.

Today, however, Japanese economists say that per capita incomes in Asia have risen to the point that the new Japanese investment is going into higher-wage high technology industries, for sales to the local population. "Up to now, most Japanese investments in Asia were relocation of plants to produce for export [to the United States and Europe], but that's over now," says Kayoko Kitamura at the Tokyo Institute for Developing Economies. "The ASEAN market is growing rapidly and now Japanese investment will be for the local markets."

More than half of Japanese auto production in Thailand is now bought by the Thai public itself, as Thai living standards have dramatically improved. Sales of cars and trucks in Thailand have tripped from 100,000 a year in 1987 to over 300,000 a year. Japan's Ministry of International Trade and Industry estimates that in Thailand, 300,000 workers or 15% of the work force will be employed by Japanese firms by the end of 1992.

The Anglo-Americans are also worried that if Japan succeeds in creating this new Asian market, Japan will be less dependent on the United States and less manipulable on the world stage by London and Washington. Japan has been importing more from Asia than from the United States since 1989, when Japan imported $88 billion from Asia. Japan now takes more than 25% of ASEAN's exports, according to Nomura Research Institute in Tokyo. Japanese companies surveyed by the Japan Export Import Bank recently said that from 1991 to 1993, Asia will be the location for 44% of their new investment projects, with only 19% of Japanese foreign investment going to the United States.