Thailand

Thai markets rout

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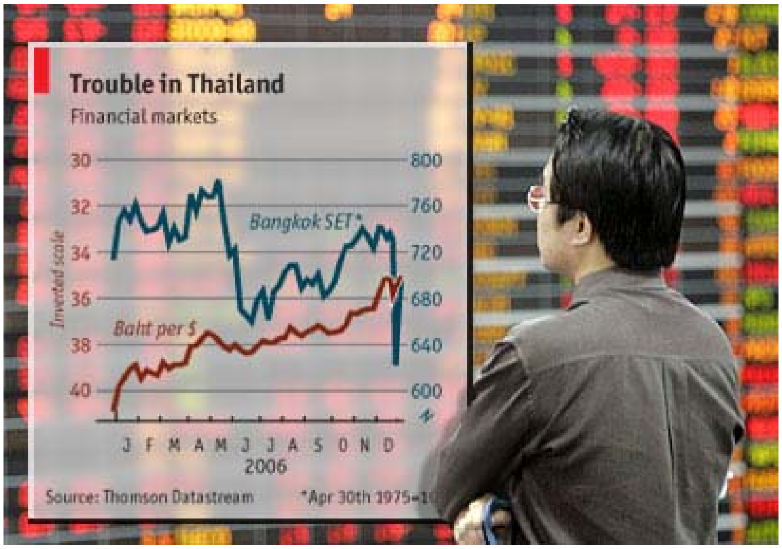
Thailand reverses clumsy efforts to curb speculators



FOR most of this year, South-East Asian countries have worried that the strength of their currencies is making their exports pricey at a time when the economy of America, their biggest trading partner, is looking weak. The dollar's recent fall has only made things worse. Thailand's baht has been especially strong of late, and its central bank has twice—in early November and early December—introduced measures to discourage speculation. They did not work so, on Monday December 18th, as the baht briefly touched its highest level in over nine years, the central bank announced draconian restrictions on currency trading. However, on Tuesday the authorities were forced to beat an embarrassing retreat after their measures triggered a rout on the Bangkok stockmarket and sent shockwaves across Asia.

Under the first version of the rules, anyone selling more than $20,000-worth of foreign currency, other than for the purposes of trade, would have had to deposit 30% of it with the central bank—at zero interest—for one year, or forfeit one-third of the deposit. They certainly had the desired effect on the baht, which dropped around 2% on Tuesday. But the panic they caused among stockmarket investors was surely unintended. The resulting plunge in share prices was worse even than anything seen in the 1997 Asian economic crisis. At one point, Bangkok's SET index had lost almost one-fifth of its value. It closed almost 15% down, at its lowest level in two years. On Tuesday evening, the government, heeding the stockmarket's squeals, backed off and said that stockmarket investments would be exempted from the currency controls, though not other non-trade investment.

The Bangkok market's fall prompted selling in other emerging markets, especially in Asia: Indian and Indonesian shares fell by almost 3%, the Singaporean and Malaysian markets lost around 2% and ripples were also felt in the Philippines and Hong Kong. Though there was no indication that other countries intended to follow Thailand's lead, its move was bound to provoke worries that the trend towards market liberalisation, seen since the 1997 crisis, could go into reverse. The military-appointed interim government that has been running Thailand since September's coup has pledged to maintain free-market policies but the currency restrictions, whatever the justification for them, run counter to such promises.

Only a few hours before announcing the climbdown, the finance minister, Pridiyathorn Devakula, predicted that shares would quickly rebound. Some analysts were, however, forecasting that the stockmarket would fall further. On Wednesday, shares recouped some of their losses but the reputation of the interim government was left in tatters by the fiasco.

The confusion over the currency restrictions is not the only thing to give potential investors in Thailand pause for thought. An investigation into Shin Corp, the telecoms business sold to a Singaporean government agency by the deposed prime minister, Thaksin Shinawatra, has raised doubts about the legal status of many foreign-owned firms in Thailand. Tesco, a British retailer, has been pressured to slow its Thai expansion drive, following protests by small shopkeepers. Above all, it is still unclear how stable and how market-friendly a government will emerge once elections are held, around a year from now.

It is ironic that Thailand has felt obliged to punish currency speculators just a few days after Malaysia's former prime minister, Mahathir Mohamad, met and publicly forgave George Soros, the currency trader he had personally blamed for the ringgit's collapse in the wake of the 1997 crisis. Mr Mahathir responded to that collapse by pegging the currency to the dollar (a measure which was only lifted last year) and introducing strict capital controls—measures seen as unorthodox at the time but since credited with helping Malaysia recover.

The tenth anniversary of the Asian crisis is approaching but, despite the jitters caused by Thailand's currency restrictions, there are also plenty of reasons for investors to feel reassured that a similar regionwide meltdown is unlikely. Thailand and its neighbours are these days running strong current-account surpluses, their public finances are mostly in good order and they have hefty foreign-exchange reserves with which to defend themselves from speculative attacks. Their banking systems—one of the main concerns in 1997—have since been largely cleaned up.

Even so, ill-chosen or poorly explained policies can do damage—especially if the authorities lose further credibility by being forced to backtrack on them. The aim of the Thai central bank's new controls was to ease exporters' discomfort and preserve the country's attractions to export-oriented industries. But they seem, so far at least, to have created uncertainty and fear, and thus risk undermining investment at a time when the competition from China, India and an also-rising Vietnam, is getting stronger.