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Asian Crisis–Blood in the Shark Tank*

The Asian crisis began with the attack on the Thai Baht, one of the most successful currency speculations of all time. US money managers made billions. "The attack was unfair," the former head of the Thai central bank recalled bitterly. It was one of those spring evenings in Bangkok when the air conditioner in the Thai central bank simply could not cope with the sultry air and the late-day smog that hung over the urban sprawl. On the fourth floor of the gray concrete building, a nondescript man in a dark suit sat at his desk, sweating. Rerngchai Marakanond, chief custodian of Thailand's currency, struggled through the last file he wanted to finish up that day. At this hour, there could not be any threatening surprises from the Asian money markets whose nervous dealers had caused him so many sleepless nights in recent months.

Most of the traders in the glass towers of Hongkong and Singapore had already shut off their monitors for the day. The market for the Thai Baht, whose exchange rate Rerngchai supervised, seemed to be as stable as a battleship. Shortly, he would pack up for the day, get into his silver Mercedes and drive home. His wife was waiting with dinner. She waited in vain. Her husband had an important task before him—the defense of the national currency. During that night, he would stare for the first time into the center of the currency typhoon that, months later, would plunge the entire region into the abyss.

Since then, stock prices and currencies in South Korea and Indonesia, in Malaysia and Thailand have crashed, once-thriving Asian firms are fighting for survival, and human beings in the former boom region are struggling desperately to preserve their future. In Indonesia, a state of civil war prevailed—poverty and rage drove people onto the streets, shops were set ablaze, department stores were plundered. President Suharto, who had been in power for 32 years, was forced to resign. The worse the Asian crisis and its consequences have become, the more puzzling this has seemed even to experts trying to fathom how it could have come to this. Why is the entire national economy of Thailand now worth less than the Siemens Corporation? Why did it take experts so long to recognize that the economic systems of Asia were in deep trouble? Thailand's former central bank chief Rerngchai felt the initial tremors of the shock perhaps more clearly than anyone, and he says that he can identify those who caused it: European and American banks.

On that spring evening last year, he got a phone call from the central bank's chief currency dealer. What the man hurriedly reported to him sent a shiver down Rerngchai's spine. For the last few minutes, American and British banks in London and New York had been attacking the Thai currency. The dealers were dumping hundreds of millions of Bahts onto the market like worthless straw and demanding Dollars for them, his colleague gasped. The computers were totally flooded with sell orders, but virtually no one wanted to buy the stuff. The central bank would have to intervene and buy Bahts in order to prevent a sharp drop.

It was clear to the central bank chief, he said later, that he then stood at the beginning of what would surely be his most difficult fight. These were no normal transactions in which investors or firms exchanged a couple of million Bahts for Dollars. His opponents were powerful currency market players headquartered on the other side of the globe. They sit in front of their computer terminals in London's financial district and in the skyscrapers of Manhattan. They enter their bids and offers into the data network and, in a matter of seconds, send enormous sums of money shooting around the world. On that evening, they called up their colleagues at

other banks: today we're putting the squeeze on the Thais, are you guys in or not? These men have the mentality of poker players with billions of Dollars of speculative funds at their disposal. Their target was the accounts of Rerngchai's central bank in which approximately \$38 billion in reserves were on deposit. "Here we go," the central bank chief said, recalling his impressions. "Now they want to kill us."

So began the Battle of the Baht on May 13, 1997. What initially appeared to be minor turbulence in the most remote corner of the financial jungle developed within a few weeks into a storm—and ultimately into the worst financial crisis of the postwar era, which not only spelled disaster for the Thai economy but also caused considerable damage to all of the other Asian tiger states. In a desperate defensive struggle that far exceeded in pure drama the financial battle of the British Pound in 1992, Thailand blew nearly all of its Dollar reserves. Only the International Currency Fund rescued the land from bankruptcy, as it also did later for South Korea and Indonesia. The world had experienced nothing comparable to this since the Great Crash of 1929.

The Battle of the Baht is a textbook lesson about modern financial markets, in which enterprising central bankers and sluggish political officials often go into battle against fleet swarms of speculators. The Thai people paid the price in the form of social decline; the speculators were rewarded with billions. For them, it was one of the most successful currency plays in history.

The Bank of Thailand lost a total of about \$30 billion in its defensive battle, a commission of inquiry in Thailand has subsequently determined. According to the figures put out by the heads of American and German financial institutions in Bangkok, about \$8 billion of this was earned by so-called hedge funds and powerful investment banks in the US and England. And contrary to what is widely assumed, it was not Asian financial artists but exchange pros from New York and London who set the crash in motion.

So then, had it actually been a conspiracy of western speculators that had plunged the lands of Southeast Asia into the abyss, just as Malaysian Premier Mahathir Mohamad has maintained? Does US capitalism want to force its system onto the Asiatic parvenus, as many believe? Or have the financial adventurers of the currency markets simply become too powerful?

The former head of Thailand's central bank gently shakes his head; he rejects all simplistic explanations. Rerngchai knows that speculators played the starring role in this drama, but he is also aware of the fact that his own country was not entirely innocent in its decline and fall. Bangkok—"city of angels" in Thai—had already been a sick metropolis. When the head of the central bank looked out of his apartment window, he could see the construction ruins protruding across Bangkok's skyline like chipped teeth. On his way to work, he passed empty factories and vacated offices. The glittering economic upturn of recent years had largely been a boom financed on credit, and things had now gotten shaky. Firms ran short of cash, they had their hands full coping with the rising Dollar, their ability to compete was on the skids. Most of them were deeply in debt—primarily in Dollars and Japanese Yen because interest rates were lower in those currencies. If the Baht would become a little weaker, the level of debt would automatically rise. A painful pincer movement went into effect: in order to pay off their Dollar-denominated debts, Thai firms needed more Bahts. But where could they get them? On the international markets where they purchase their raw materials for Dollars, the prices in Bahts would rise and their profit margins would shrink accordingly. Central bankers know the cruel effects of a devaluation. Therefore, they take great pains to avoid one. Fourteen years previously, Rerngchai's predecessor had tied the Baht to the Dollar and he

industriously defended that linkage ever since—although an ever-growing number of experts considered the currency to be overvalued. So, by the end, Thailand's economy resembled a house of cards—even a stiff gust of wind might make it collapse. The pros at the investment banks got the scent of opportunity. "We're the wolves stalking the mountain ridge, laying in wait for a herd of elk," said one money manager who took part in the Thailand raid. On that evening in May, the time had come; the wolf pack advanced toward its prey. As soon as the initial reports of the attack reached Rerngchai, he summoned his board of directors for an emergency meeting to deal with the crisis. The mood was tense; the experts stared helplessly at one another. "What should we do?" the chief asked. Should they stake their Dollar reserves and buy the Baht to lessen the pressure on the currency? Or should they give in to the speculators and let the exchange rate float? Then it would be the general public and businesses who would pay. Their Baht accounts would be devalued overnight. The central bankers did not even want to think about this option. Floating the currency would amount to treason. Had Rerngchai and his predecessor not continually assured the Thai people that the Baht was solid, whereupon half the population had gone into debt up to their ears? And what would become of him? He had spent 25 years working his way up to the top at the bank. He had seen governments come and go, survived military coups, and served under a succession of finance ministers. The bank was the fixed point in his life; he had even met his wife there. And he should now endanger everything?



As night settled in over Bangkok and most bankers had long since gone home for the day, "there was only one question on all of our minds," Vice-governor Siri Ganjarerndee reported about the emergency meeting. "How can we defend the Baht?" The reports from the currency department became increasingly alarming. In London, it was said, traders were offering large quantities of Bahts for sale: for "10 Dollars," "20 Dollars" or even "50 Dollars"—their abbreviated terminology for \$10 million, \$20 million or \$50 million. Confidential sources in the currency market—a kind of central bank secret service—reported in to the Bangkok headquarters, their mood highly perturbed: a number of dealers were said to be circulating rumors that Thailand was about to give up, and would shortly abandon the Dollar-linkage. An old trick, Rerngchai thought, one that speculators use to whip up the mood against the Baht. But under these circumstances, the rumor was dangerous. It was still primarily British and US banks that were active in the market, as far as the central bankers could tell from their computers: for instance, the National Westminster Bank in London, or the English bank Standard Chartered. But what would happen when the first traders switched on their terminals in Tokyo? Could there still be a way to turn the tide? Would it not be possible for friendly central bankers in America and Europe to also step in and buy the Baht and thus prevent the currency's crash? Perhaps the mere announcement of an international support action would be enough to do the trick.

Tauschgeschäft

Wie Spekulanten mit Devisen Käufe machen

1 Ein Spekulant kauft sich
eine Menge alter Währungen,
falls die abspulen will.



2 Um Geld zu tauschen, muss
jede Währung in eine stabile
Währung – in diesem Fall US-
Dollar – umgetauscht werden. Speku-
lanten verkaufen die alte Wäh-
rung, um den Dollar zu kaufen.
Es bleibt der Dollar der
stärkste Wert.



3 Der Spekulant muss später
für ein Teil seiner Währung
zusätzliche Dollar für die Rück-
führung seiner Währung kaufen.
Der Rest bleibt ihm als
Spekulationsgewinn.



On that same evening, almost 1,500 kilometers to the south in Harry's Bar on the harbor quay in Singapore, the prevailing atmosphere was like that on the front lines in battle. The metropolis on the South China Sea is the most important marketplace outside of Bangkok for trading in the Baht; the splendid cocktail lounge has long been a favorite watering hole of the city's biggest financial players. This is where securities pro Nick Leeson once sipped his Bloody Marys, before he pissed away \$1.3 billion and was finally jailed. According to an eyewitness, the fellows at the bar painted a grim picture of the events that would transpire the next week. One trader wanted to "bombard" the Thais "in preparation for a major assault"; another predicted a "tremendous battle." Speculators and investment bankers would attack as long as it took for the Thais to run out of their "damned Dollars." Many traders here had gotten the word during the last few months that powerful New York money managers like Goldman Sachs chief Jon Corzine had their sights set on the Baht. Thailand seemed to the Americans to be the weakest of the Tigers, a balloon that would soon be ready to burst. As early as August 1996, economist Jeph Gudznik, advisor to a number of big US speculators, had predicted in a confidential report to his clients that the Thai central bank would not be able to support its currency much longer. In February, Bangkok's finest hotels were teeming with envoys from the New York and London money markets—major players had sent their agents to get an on-the-scene look and to size up the adversary. On February 14th—Valentine's Day in the US, a celebration of love—American investment banks had already launched a first assault by selling small batches of the Thai currency. The central bank then had to put up approximately \$2 billion to defend the rate. In the currency departments of the most powerful banks, managers were gradually getting into the spirit of the hunt. But it still seemed to be somewhat premature for a full-scale offensive, recalled a currency specialist at a major US bank in Hongkong: "To bring an institution like the Bank of Thailand to its knees, you have to hit it really hard." In order to do just that, the dealers first started a sort of propaganda offensive. Investment banks and fund managers circulated reports in which they painted a gloomy picture of Thailand's future. They lowered their ratings of Thai stocks. They referred to the corruption and incompetence of Thai politicians. And with each new report from the analysts, the contempt grew for the "boys in Bangkok," as Rerngchai's staff was referred to by insiders.

This was a clash of unequal opponents. The Bank of Thailand is a sanctuary of Buddhist peaceableness. The country's supreme currency authority has about 5,000 employees. It is

considered a state within the state, enjoying virtually unlimited power. The government and the people placed blind trust in these guardians of the currency. With their war chest of almost \$40 billion, it was believed that they would be capable of fending off any attack. This estimation would prove to be false. The opponents were simply too powerful. These men run so-called hedge funds, bastions of pure individualism seeking opportunities to make big bucks. "Being a hedge fund manager is better than being a rock star or a professional athlete," says Byron Wien, economist at the US investment bank Morgan Stanley. "It's almost too good to be true." These are elite clubs of a few hundred rich private investors, banks and insurance companies; often, each of them must put up at least five to 10 million Dollars to be allowed to participate in the fund. They are the most powerful, but also the most secretive, players in the money business, and no agency can really exert much control over them. Their offices are located in London, New York, or on the shores of the Long Island Sound, but most of their financial power is hidden away on exotic islands like the Caymans, Antigua or Jersey. Their targets are often stocks or currencies whose prices are expected to drop; to make money on such a situation, they sell "short" before the plunge. Although hedge fund managers are individualists, managers of German, British, and American banks in Bangkok all agree that—at least during the initial phase of the attack on the Baht—there was something like a secret agreement among the key players. One Bangkok broker with good connections on Wall Street said that he received calls from New York immediately prior to the first wave of selling. US investment banks and leading hedge funds were planning to attack the Thai currency. They were ready to go at any time. And then all hell broke loose. As early as May 8th, there had already been some light selling; after May 13th, the alliance of speculators grew with sudden swiftness. "It was as if someone poured blood into a shark tank," said one London currency dealer. Bangkok's police chief dispatched his troops to foreign brokerage houses suspected of spreading rumors to fan the flames of speculation. Financial regulators put pressure on banks to reveal the names of those behind the massive selling of the Baht. When that did no good, central banker Rerngchai deployed his ultimate weapon: on May 15th, he forced the financial institutions in Bangkok to cease paying out Thai currency to foreigners. This order created rage and panic among the speculators. Attracted by the flood of selling and the prospect of a quick profit, many big players had sold the Baht short—contracting to deliver Thai currency that they did not then possess. A few days later, when it was time to make good on their obligations, they suddenly discovered that there were no Bahts to be had. Interest rates for the Baht shot up to over 1,000 percent; the exchange rate skyrocketed instead of falling. Whoever had speculated for the short term lost a bundle. On the trading floors of Singapore banks, department heads were enraged that their money managers had taken an ill-considered plunge on the Baht. Stanley Druckenmiller, dispatched to the front by big-time speculator George Soros, cursed: "They're kicking our ass." A few particularly clever speculators saw the chance to exploit their friends in need. Since they had covered their Baht obligations in a timely manner, they had millions of the scarce currency to lend to players in a jam—and to earn interest thereby.

During the weeks that followed, speculators tried all conceivable ways of getting around the blockade. Thai customs agents apprehended couriers attempting to smuggle suitcases full of Bahts abroad. Some businesses got involved in arranged bogus transactions, paying out Bahts to cover phony invoices. US investment banks went about it in a particularly tricky way: they began to funnel money through the stock exchange. The plan took advantage of a loophole in Rerngchai's defense strategy. Purchasers of Thai stocks in Bangkok could pay for them in Dollars; when the shares were subsequently sold, the proceeds could be paid out in Bahts—the stock exchange as *bureau de change*. On June 10th, Bangkok's stock exchange trading volume was three times normal. Brokers had received orders from abroad to buy stocks and to resell them immediately. Millions of Dollars were converted into Bahts in this way. Shortly

thereafter, the central bankers plugged this loophole as well. From outside, it seemed as though Rerngchai had gotten the upper hand, but the banker himself knew that his days were numbered.

This financial warfare had long since begun to make the Thai populace edgy, and a mass flight from the Baht began. There was no one left to stop the sell-out of the country's own currency. Banks, firms, and private individuals scampered to rescue their assets by converting them into Dollars or Yen. The central bank was losing up to a half billion Dollars a day. By the end of June, their reserves were almost exhausted. "We will never devalue our currency," Thai Premier Chavalit Yongchaiyudh proclaimed defiantly as late as the last weekend in June. A few days later on July 2nd, central bank chief Rerngchai was forced to let the currency float. Many Thais now regard their central bank as a loser, and its currency traders as criminals. "They should be executed," the enraged editor-in-chief of "The Nation" wrote. "They should never have been permitted to squander all that money." Rerngchai was forced to resign shortly after the floating of the Baht. "It was a terrible misfortune for our land that Rerngchai was governor," the investigating commission concluded. Since his firing, he uses his time to pursue Buddhist studies and to visit his daughter in Australia. He prefers not to think back to that fateful evening when it all began. "This attack was unfair," Rerngchai says bitterly and peers out from his terrace down to the river where, on the opposite bank, the silhouette of the Bank of Thailand protrudes above the mist. "They were just too strong for us."

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