

THAMMASAT UNIVERSITY

Faculty of Economics

EE360: THAI ECONOMY

Semester 1/2016

August 16-December 1, 2016

Number of credits 3 credits

Lecture Time **Tuesday and Thursday, 9:30-11:00**

Lecture Room: **304**

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Office hours: Tuesday and Thursday: 13:00 – 15.00

Course Description

Thailand's economic structure has changed considerably since the 1960s through rapid economic development and income growth. However, Thailand continues experiencing external and internal shocks. The economic growth has slowed down after the upheaval in political situation and global growth slowdown. The intricate relationships between poverty, income distribution, and globalization will be discussed in this class with references to situations around the world. Formulation and implementation of monetary, exchange rate, and fiscal policies are reviewed. The course examines economic policies that may enhance or hinder sustainable economic and social development, particularly the rise and fall of industry and agriculture. The course focuses on the nexus between the Thailand and the world economy.

Prerequisites: *EE 211 and EE 212*

Course Objectives

The objective of this course is to provide students the understanding of the Thai economy through utilizing economic theories, based on lessons learned from the past. It is expected that students would be able to analyze controversial issues relating to the Thai economy.

Course Evaluation

Grading is based on midterm exam (20 %), an analytical essay (15 %), homework (15 %) and final exam (50 %). Class attendance is a necessary condition for sitting for the final exam. Students must not miss the class more than 6 times from the total of 30 lectures.

Lecture 1: Historical Perspective

Why did Siam and Japan experience diversion in economic development despite the fact that the two countries open their trade more or less at the same period? What are fundamental determinants of long-term growth?. Do good institutions matter for rapid development?

J.C. Ingram (1971) *Economic Change in Thailand, 1850-1970*, Stanford University Press Chapters 1-2.

Yasuba, Yasukichi and Likhit Dhiravekin (1985) "Initial conditions, institutional changes, Policy, and their consequences: Siam and Japan, 1850-1914." Chapter 2, *Japan and the Developing Countries*, Kzuzshi Ohkawa and Gustav Ranis, Oxford: Basil Blackwell

Lecture 2: Rethinking Growth Strategy

McCleary, William (2013) Book Reviews "Why Nations Fail" by Daron Acemonglu and James A. Robinson, *Thammasat Economic Journal*, 31(1) 109-117.

Lecture 3: Early Economic Development--The first three decades: 1961-1990

What can we learn from the historical path of Thailand's economic development? What were factors contributing to the rapid growth in the first three decades of Thailand's development planning?

"Thailand" in *Asia Rising*, Hal Hill and Maria Socorro Gochoco-Bautista (eds.) Cheltenham: Edward Elgar and ADB, pp. 345-384. 2013.

Lecture 4: Resilience of the Thai economy: 1991-2005

There appears to be some structural mechanisms that would lessen the impact of economic crisis, whether shocks are internal or external. It is impossible to rule out various future shocks such as oil price hikes, realignments of major currency values, or crisis contagion. Is the Thai economy resilient enough to regain its pre-shock growth path in a V-shaped recovery?

"Resilience of the Thai economy" in *Thailand's Economic recovery*, Cavan Hogue (ed.), Institute of South East Asian Studies, Singapore, 2006.

Lecture 5

Coping with the Asian Financial Crisis (AFC) in 1997/98

We examine the consequences of capital inflows and outline Thailand's macroeconomic management and sustainable growth. The roots of the 1997 financial crisis are exposed. The V-shaped recovery was evident. We examine whether Thailand has learned any lessons from the 1998 crisis. Debt deflation episode is explained.

“Economic crises and debt-deflation episode in Thailand, *Asian Economic Bulletin*, December. 1998.

Lecture 6

Thailand's macroeconomic policy after July 1997

We analyze premature liberalization of the capital account and explain the underlying Thailand's political economy of liberalization. Macroeconomic development after 1997 is discussed in light of the monetary policy under the “new” exchange rate regime, where foreign exchange market intervention is still the order of the day.

“Thailand's macroeconomic policy after July 1997,” *Asian Economic Papers*, Vol.2, no.1, 2003.

Lecture 7

Unholy trinity and the coup

We outline the consequences of the Avian Influenza (AI), the 2005 Asian tsunami, and the oil price shock in 2005. We examine the impact of the 2006 military coup and capital controls in December 2006. A shift in fiscal spending pattern took place after the coup. In 2007, Thai economy grew at the lowest pace among countries in the region. How has the 2006 coup changed the Thai economy?

“The Thai economy after the coup”, in John Funston (ed.) *Divided over Thaksin*, Institute of Southeast Asian Studies. 2009

“The buffeting of Thailand by the unholy trinity of Avian Influenza, tsunami, and the oil price shock” *Asian Economic Papers*, Vol. 5, no.2, 2006.

Lecture 8

The Global Financial Crisis

We examine the development of the Global Financial Crisis (GFC) in 2008 and discuss its impact of the Thai economy. The V-shaped recovery in Asia and Thailand provide valuable lessons for Thailand. We raise the question whether Thailand is heading for the Minsky moment

Lecture 9

The Hard Road Ahead for Economic Recovery

The effectiveness of policy responses to external shocks depends on the government's ability to maintain the rule of law, accountability, human rights, and effective legal infrastructure. Maintaining the rule of law implies predictable outcomes from court ruling of legal disputes. Investors can proceed with less concern about risk and uncertainty that may arise from policy inconsistency. Fiscal and monetary policies would be more powerful with accompanying measures to boost consumer confidence and business sentiment to nourish the animal spirits of investors.

“The hard road ahead for Thailand's economic recovery,” *Asian Economic Papers* 8(3), 113-137. 2009

Lecture 10

Structural Changes in the Thai Economy

The stylized fact about economic development is showed by Thailand's changing economic structure: output, employment, and exports. The focus is on the comparison between Thailand and other advanced and developing countries. The pessimistic view on the Thai agriculture is examined in light of agricultural productivity development.

Lecture 11

Resilience of Thailand's agriculture

The trend of Thailand's agricultural exports and the Baumal-Bowen Hypothesis are explained. Comparative advantage of Thai agriculture is measured. Learning curve effect and Agricultural Export diversification are examined.

“Dynamism of the Thai Agriculture” *East Asian Economic Perspectives*, Vol. 12, No. 2, August. 2005

Lecture 12

Issues in Thailand's Agriculture

The detrimental effect of Thailand's declining terms of trade is explained. Agricultural growth and its volatility are discussed. Chemical farming, food security and grain dependency are examined. International competitiveness of Thai agricultural exports are evaluated. Criticism of the rice-pledging scheme is discussed from the basis of costs and benefits.

Lecture 13

Industrial Competitiveness

This lecture provides an overview of the industry via the discussion on the global competitiveness positioning of Thai manufacturing exports. We discuss Thailand's diversification of exports, competitive wages and exchange rates. R&D spending is analyzed.

Lecture 14-17

The rise and fall of Thailand's export oriented industries

We explore four major industries: processed food, electronic and electrical equipment, textile, and automobile. While facing non-tariff barriers imposed by developed countries, some of these industries are still leading exporters of Thailand. Does the success of some of these industries bode well for the resilience and dynamism of the Thai manufacturing sector?

Lecture 18

Trade sector

How important is the export sector as an engine of growth? What are factors contributing to high degree of trade openness? The globalization process has been ongoing for the last three decades. The relationship between trade and economic growth is established. FDI and its impact on network trade are examined. Trade structure is shaped by the role of FDI in various industrial sectors. The impact of the GFC on Thailand's exports is analyzed.

Lecture 19

Tourism industry: vulnerable but resilient

A background of tourism industry in Thailand is presented. We investigate how the industry was adversely affected by shocks such as the tsunami and political unrest. The tourism industry, which accounts for 6 percent of GDP, is quite vulnerable to all types of shocks. The tourism industry is resilient, as it has undergone various external shocks in the past. What factors were responsible for the fast recovery after the airport shutdown in 2007 and the riots in May 2010? How did the coups and recent terrorist attacks affect the industry?

Lecture 20

Trade integration

ASEAN integration is evaluated from the level of intraregional trade, investment, and capital flows. We discuss new economic geography and explain how the gravity model can be applied to Thailand's rising degree of trade exposure. The new regionalism is explained by exploring multiple free trade agreements. Mega Trade Blocs such as ASEAN plus 6, RCEP, and TPP are discussed. The chapter reviews AEC's progress and challenges by examining the ASEAN Blueprint 2025.

Lecture 21

External Influences and Adjustments of external imbalances

We discuss the determinants of current account, which is intricately related to internal imbalances. There are various channels of disequilibrium adjustment. Adjustments in output, prices, interest rates, and exchange rates would restore the equilibrium in the long run.

“The ASEAN business cycle and China’s slowdown” *The Philippine Review of Economics*, Vol. LII no.2 December 2015, 203-221.

“The global financial crisis and macroeconomic policy in Southeast Asia” In *Hand Book of Southeast Asian Economies*, edited by Ian Coxhead, Routledge, 2015.

Lecture 22

Exchange rate policy, capital controls, and the stock market

To what extent does export growth depend on weak currency? Intervention in the foreign exchange markets is ineffective, because the baht/dollar exchange rate is dictated by the weakening dollar and short-term capital flows into asset markets. What were consequences of the capital controls imposed in 2006?

“ Macroeconomic consequences of Thailand’s exchange rate policy” in *Macroeconomic Policy Strategies for Growth and Stability in Cambodia, Lao PDR, Vietnam, and Thailand*, Bhanupong Nidhiprabha (ed.) Bangkok: Parbpim Printing 2013.

Lecture 23

Financial Sector

Performance of financial institutions is examined. Thai financial sector has emerged from the 1998 crisis become stronger and resilient, thanks to foreign capital injection, good governance, and strengthened financial regulations. What are consequences of banking consolidation and penetration of foreign banks? What factors are responsible for the resilience of Thai banks during the subprime mortgage crisis and the subsequent global recession?

“The Global Financial Crisis and Resilience of the Thai Banking Sector” *Asian Development Review*, vol. 28, no. 2, 110–132, 2011.

Lecture 24

Monetary policy strategy

We outline the role of monetary policy in stabilizing growth and price stability. The trade-off between inflation and output is discussed. Monetary policy response of the Bank of Thailand is analyzed in relation to inflation target, changes in the federal funds rate, and asset price bubbles. Should the Bank of Thailand tighten its credit policy? Did monetary expansion stimulate growth in Thailand during the global recession 2007-2009? How should monetary policy be conducted during the debt crisis in Europe? How does monetary policy affect productive employment?

“Impacts of quantitative monetary easing Policy in the united states and Japan on the Thai economy” *The Developing Economies* 54, no. 1, March 2016.

Lecture 25-26

Fiscal policy, fiscal sustainability, and Military Business cycle

The role of fiscal policy as a tool for stabilization is discussed. Can fiscal expansion leads to sustainable growth? How sustainable is Thailand’s fiscal deficit? What is the role of institutions in shaping the country’s financial stability? What would be the consequences of fiscal populism policy? What is the appropriate level of public debt? How is the long-term growth path affected by fiscal structure and fiscal space?

“Lessons from Thailand’s Fiscal Policy” *Asian Economic Papers* Vol.14, no.3. 2015.

Lecture 27-28

Poverty and Income distribution

The nexus between income distribution, growth, and poverty are discussed. How was income distribution and external liberalization connected? What is the impact of social policy on poverty and distribution? How do productivity differentials among sectors lead to wage differentials and income inequality? What is the trend of income disparity between urban and rural areas? How did agricultural pricing and income policies affect poverty? What are likely consequences of raising the minimum wage to 300 baht per day?

P.G. Warr, (2004) “Globalization, growth, and poverty reduction in Thailand,” *ASEAN Economic Bulletin* Vol. 21(1) April, 1-18.

Lecture 29-30

Urbanization and sustainability

What is the relationship between urbanization and output growth in Thailand? We discuss the declining primacy of Bangkok and the importance of its satellite cities. Negative consequences of urbanization are explored. Does Thailand provide a good example of sustainable urbanization? Does rapid economic growth imply unsustainable urbanization?

Important Dates

First class:	16 August, 2016
Adding and Dropping Course	17-24 August
Midterm Exam Period	2-13 August
Midterm Exam EE360	October 6
Course Withdrawal with "W"	17-24 October
Last class:	December 1, 2016
Final Exam	December 7, 2016