B.E. International Program

Faculty of Economics, Thammasat University

Course Outline

EE460 THAI ECONOMY

Semester 1/2013 (August 13 – November 30, 2013)

Number of credits 3 credits

Lecture Time Tuesdays and Thursdays, 9.30 – 11.00 PM

Lecture Venue Room 202, 2nd floor, Faculty of Economics,

Thammasat University, Tha Prachan campus

Instructor Bhanupong Nidhiprabha, Faculty of Economics

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Office hours: Tuesday and Thursday: 11.00 – 1.00 PM

And by appointment

Course Description

Thailand's economic structure has changedsince the 1960s in terms of economic development and growth. The intricate relationships between poverty, income distribution, and globalization are discussed. The process of economic policies formulation, implementation of monetary, exchange rate, and fiscal policies are reviewed.The course analytically reviews strategic policies reinforcing economic and social development, especially development of industrial and agricultural sectors, as well as the complex relationship between the Thai economy and the World economy.

Prerequisites: *EE 311 and EE 312*

Course Objectives

The objective of this course is to provide students deep understanding of the Thai economy through utilizing economic theories, based on lessons learned from the past. Market mechanism and government intervention will be examined to highlight policy issues relating to efficiency and socio-economic impacts. It is expected that students would be able to analyze controversial issues relating to the Thai economy.

Course Evaluation

Grading is based on homework and class participation (10%), midterm exam (30%), and final exam (60%). Class attendance will count at the margin to help those who are on the border of two grades. Plagiarism and dishonesty will not be tolerated.

Lecture 1: Historical Perspective

What make Siam and Japan experienced diversion in economic development pattern despite sharing the same time of trade opening. What are fundamental determinants of 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, Kzzushi Ohkawa and Gustav Ranis, Oxford: Basil Blackwell

Lecture 2: Rethinking Growth Strategy

Rodrik, Dani (2004) "What do we learn from countries narratives?" In search of Prosperity www.pupress.princeton.edu/chapters/s7518.pdf

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?

P.G. Warr (1993) The Thai Economy in Transition, Cambridge University Press

"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

Adjustment through various shocks

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?

P. G. Warr (2005) "Boom, bust and beyond" in *Thailand Beyond the Crisis*, Chapter 1, London: RouthledgeCurzon

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

Lecture 5-6

The Thai economy after the coup: 2006-2009

In 2007, Thai economy grew at the lowest pace among countries in the region. How has the 2006 coup changed the Thai economy?

Nidhiprabha, B. (2009) "The Thai economy after the coup", in John Funston (ed.) Divided over Thaksin, Institute of Southeast Asian Studies.

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

Lecture7-9

Dynamism of Thai Agriculture

What are factors contributing to Thailand's agricultural productivity over the past four decades? Can dynamism of the Thai agriculture enable Thailand to cope with new challenges? How did the agricultural sector cope with external shocks and fluctuations in the terms of trade?

Siamwalla, Ammar (1996) "Thai Agriculture: From engine of growth to sunset status" *TDRI Quarterly Review,* Vol. 11, no. 4, December, 3-10.

Coxhead, Ian and JirapornPlangprapha (1999) "Economic boom, financial burst, and the decline of Thai agriculture: Was growth in the 1990s too fast?" Chulalongkorn Journal of Economics, Vol. 11, January.

Nidhiprabha, B. (2005) "Dynamism of the Thai Agriculture" *East Asian Economic Perspectives*, Vol. 12, No. 2, August.

P.G. Warr (2007) "Trade policy and the structure of incentives in Thai agriculture*" ASEAN Economic Bulletin*, 25(3), 249-70.

Lecture 10-14

Challenges of the manufacturing sector

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

Nidhiprabha, B. and Chalermpol Chamchan (2005) "SPS and Thailand's Exports of Processed Food" in *Food Safety Regulation Concerns" The Developing Country Perspective*, in Rajesh Mehtha and J George (eds.) Delhi: Macmillan India.

Archanun Kohpaiboon (2006) "A cross-industry analysis of Thai manufactures" *World Development*, Vol. 34, no.3, 541-556.

Lecture 15-16

Export growth engine and new regionalism

How important is the export sector as an engine of growth? What are factors contributing to high degree of trade openness? The globalization process in Thailand has been ongoing for the last three decades. What are prospects and problems of Thailand's attempt to comply with the globalization trend via regional and cross-regional free trade agreements?

Nidhiprabha, B. (2007)"Thailand and New Regionalism" in Regional Integration in East Asia, Masahisa Fujita (ed.) New York: Palgrave Macmillan,

Lecture 17

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?

Nidhiprabha, B. (2010) "Thailand" in The Asian Tsunami: Aid and Reconstruction after a disaster, Jayasuriya, Sisira and Peter McCawley (eds.) Cheltenham: Edward Elgar, 2010.

Available on the web at www.adbi.org/discussion paper/2007/08/02/2344.thailand.tsunami.adjustment.recovery

Lecture 18

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 equilibriumin the long run. The speed of the adjustment depends on how quickly those equilibrating variables are allowed to freely adjust. If some variables are not permitted to perform its equilibrating role, the burden of the adjustment would fall on other uncontrolled variables. What would happen if fundamental adjustments are prolonged?

Nidhiprabha, B.(1998) “Adverse consequences of capital flows and Thailand’s optimum policy mix” in *Capital Flows in Asian Countries*, Kwan, C.H., Donna Vandenbrink, and Chia SiowYue (eds.), Nomura Research Institute and Institute of Southeast Asian Studies.

Nidhiprabha, B. (2010) “Effectiveness of Thailand’s macroeconomic policy response to the global financial crisis,” ASEAN Economic Bulletin, 27(1) 121-135.

Lecture 19-20

Exchange rate policy, capital controls, and the stock market

To what extent that growth of exports depends 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 control imposed in 2006?

Nidhiprabha, B. (2005) “Implication of a flexible exchange rate” in Peter G. Warr, *Thailand boom, bust, and beyond*. London: Routledge.

Nidhiprabha, B. (2008) “Contractionary devaluation revisited” Can appreciation be expansionary?” in Chapter 10, East Asian Economies and New Regionalism, Abe Shigeyuki and Bhanupong Nidhiprabha (eds.) Kyoto University, Press.

Lecture 21-22

Resilience of the banking 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 Thaibanks during the subprime mortgage crisis and the subsequent global recession?

Nidhiprabha, B. (2003) “Premature liberalization and economic crisis in Thailand” in *Financial liberalization and the economic crisis in Asia* edited by Chung Lee, London: RoutledgeCurzon.

Nidhiprabha, B. (2002) "Risks of financial liberalization and reform for financial stability" Chapter 9 in Kyung Tae Lee, Globalization and the Asian Pacific Economy, London: Routledge

Okuda, Hidenobu and Fumiharu Mieno (1999) "What happened to Thai commercial banks in the pre-Asian Crisis period: Microeconomic analysis of Thai banking industry" Hitosubashi Journal of Economics, 40, 97-121.

Nidhiprabha, B. (2006) "Good Governance in the Thai banking System" in *Corporate Governance in Thailand*, Sukulrat Montreevat (ed.) Institute of Southeast Asian Studies, Singapore, 2006.

Nidhiprabha, B. (2006) "The Thai financial sector in transition: Can the bond market prevent a future currency crisis?" *in A New Financial Market Structure for East Asia,* Yung Chul Park, Takatoshi Ito, and Yunjong Wang (eds.) Cheltenham: Edward Elgar, 2006.

Nidhiprabha, B. (2007)"Asian Bond Markets: Development and Implications in Emerging Developments" in *East Asia FTA/EPAs*, Shigeyuki, Abe and Bhanupong Nidhiprabha (eds.) Kyoto University, Center for South East Asian Studies

Lecture 23-24

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 to cool down inflation? 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 and USA? How does monetary policy affect productive employment?

Nidhiprabha, B. (2006) "The buffeting of Thailand by the unholy trinity of Avian Influenza, tsunami, and the oil price shock" *Asian Economic Papers*, Vol. 5, no.2,

Nidhiprabha, B. (1998) "Economic crises and debt-deflation episode in Thailand, *Asian Economic Bulletin***,** December.

Nidhiprabha, B. (1999) "Cyclical excess and financial instability in Thailand" *Thammasat Review*, Vol. 4, December, 89-113

Lecture 25-26

Fiscal policy and fiscal sustainability

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 in 2011? What is the appropriate level of public debt? How is the long-term growth path affected by fiscal structure and fiscal space?

P.G. Warr and B. Nidhiprabha (1996) "The role of fiscal policy" in *Thailand's Macroeconomics Miracle: Stable and Sustained Growth* Washington D.C: The World Bank and Oxford University Press.

Nidhiprabha, B. (2003) "Thailand's macroeconomic policy after July 1997" *Asian Economic Papers,* Vol.2, no.1

Lecture 27-28

Income distribution and poverty

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.

Nidhiprabha, B. (2006) "The Distributive and Macroeconomic Impact of Liberalization in Thailand" in Taylor, Lance (ed.) *External Liberalization In Asia, Post-Socialist Europe, and Brazil*, New York: Oxford University Press

Lecture 29-30

Urbanization and environment

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. Is Thailand a good example of sustainable urbanization? Does rapid economic growth imply unsustainable urbanization?

C.J. Dixon (1999) The *Thai economy: Uneven development and internationalization* Routledge.

Webster, Douglas (2005) "Urbanization: new drivers, new outcomes" in *Thailand*

Mingsarn Kaosa-ard (2005) "Natural resources and the environment" in *Thailand Beyond the crisis, Chapter 11*

Important Dates

Class Begins	August 13, 2012
Adding and Dropping Course	August 13 – 27, 2013
Midterm Exam Period	September 30 - October 5, 2013 (No Lectures)
Midterm Exam	**October 3, 2013 ; 9.30 – 11.00 AM**
Course Withdrawal with "W"	October 16 – 21, 2013
Class Ends	November 30, 2013
Final Exam	**December 18, 2013 ; 9.00 AM - noon**