

# EE460: Resilience of the Thai Economy

1991-2005

Bhanupong

Lecture 4

# Outline

- Social and macroeconomic indicators
- Fiscal balance and external debt
- Monetary sector and capital inflows
- Asset bubbles and irrationality
- External influences

# Recap: Economic and social development plans

6<sup>th</sup> plan (1987-1991)

Maintain economic growth

Upgrade quality of life

7<sup>th</sup> plan (1992-1996)

**income distribution**

improve quality of life and **environment**

# Recap: Economic and social development plans

## 8<sup>th</sup> plan (1997-2001)

Human-centered development

Public participation

Sustainable development

## 9<sup>th</sup> plan (2002-2006)

Competitiveness

Financial immune system

Self-reliant and resilient society

# Social indicators: 1990

	<b>Per capita GNP 1990 (USD)</b>	<b>Life expectancy at birth (years)</b>
China	370	70
India	350	59
Indonesia	570	62
Malaysia	2,320	70
Thailand	1,420	69

# Income distribution in the 1980s

**The poorest 20 percent ( share of their income )**      ***Gini Coefficient***

India (1983)	8.1	0.42
Indonesia (1985)	8.8	0.31
Malaysia (1985)	4.6	0.48
Philippines (1985)	5.5	0.45
Thailand (1988)	4.0	0.47

# Gini in high income countries

- UK, Italy 0.34
- Portugal 0.36
- Netherlands 0.31
- Germany 0.32
- France 0.33
- Sweden, Austria 0.26
- USA 0.45
- Singapore 0.48

## Percentage of population living below the poverty line

	Total	Rural
India (1983)	48	51
Indonesia (1985)	39	44
Malaysia (1985)	27	38
Philippines (1985)	58	64
Thailand (1988)	30	34

# Inclusive vs. Exclusive growth

Vinod Thomas (ADB)

- Overall growth has failed to translate into similar improvements in living standards.
- One indication that growth is not reaching a broad enough segment of the population is relatively weak household consumption.
- Estimates suggest this grew only 5.7 per cent annually in the 1990s and 5.5 per cent in the 2000s in the region, even as gross domestic product surged 9 per cent and 8.2 per cent respectively in the two decades.
- This is particularly troublesome for countries attempting to expand domestic consumption and bring the benefits of growth to more people, such as in China.

# Exclusive growth

**Vinod Thomas (ADB) says poor must have a stake to sustain economic success**

- As a measure of rising inequality, China's Gini coefficient has gone up from below 0.3 in the 1970s to above 0.47 in recent years. China faces a yawning income divide, separating richer urban areas in the eastern coastal regions from western inland areas.
- Another part of the problem is that many lower-income groups have inadequate access to basic services in health care, education, or safe drinking water and sanitation, leaving them ill-equipped to participate in economic advancements. This is evident in case studies from Pakistan, the Philippines and Vietnam.

# Human capital investment

	Public Expenditure on education (%GNP) 1989	Secondary school enrolment (1988-89)
China	2.4	44
India	3.2	43
Indonesia	0.9	47
Korea	3.6	87
Malaysia	5.6	87
Thailand	3.2	28

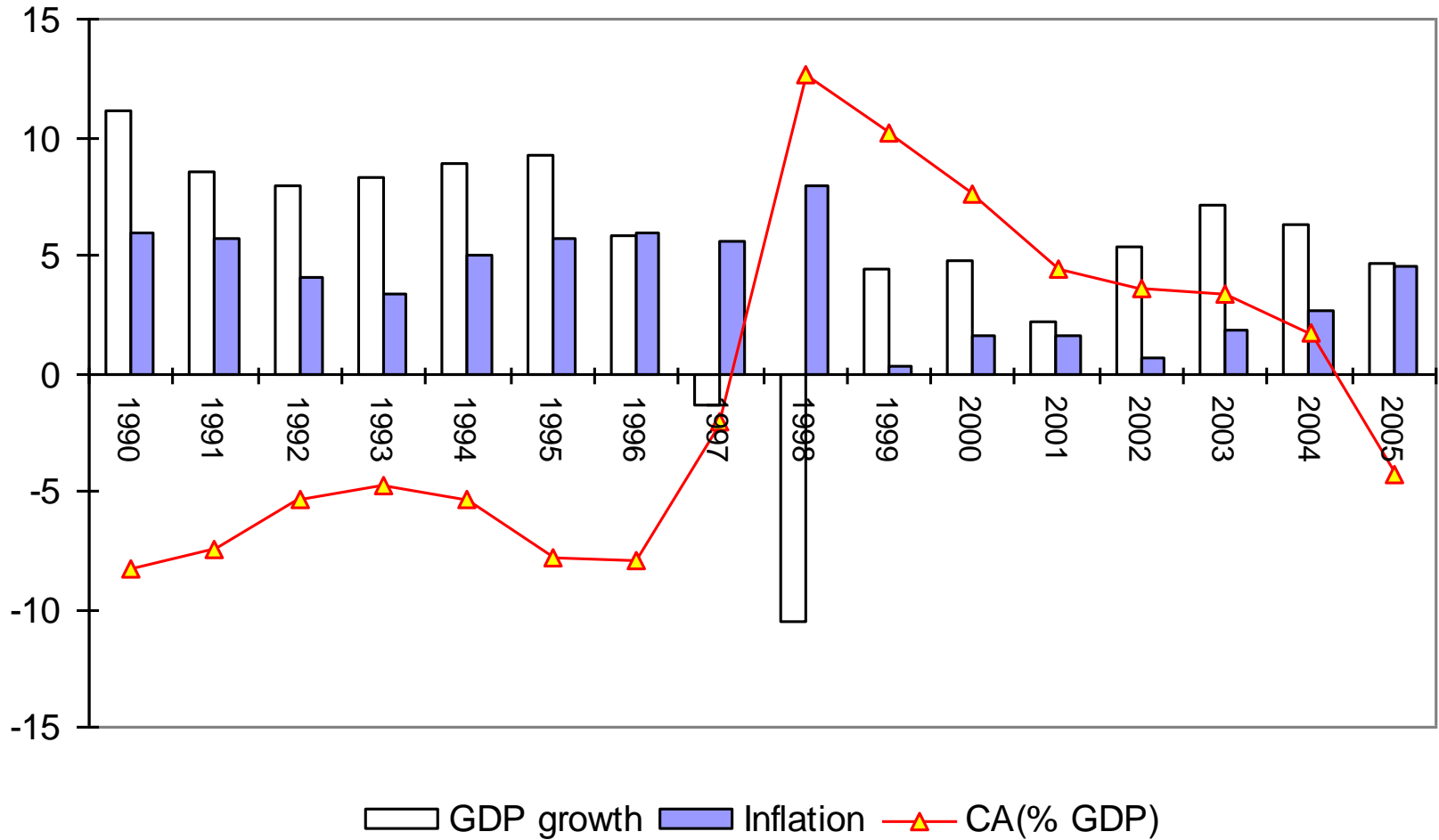
# Theodore Schultz: The role of human capital in economic development

- Schultz first wrote about the connections between education and productivity. At the time, other economists were having trouble explaining how the economies of such nations as Germany and Japan grew so quickly after World War II.
- Some economists attributed the improvements in those nations and others to "technical change," but Schultz identified people as the source of the economic growth.
- Schultz was the first economist to systematize "how investments in education can affect productivity in agriculture as well as the economy as a whole," according to his 1979 Nobel citation.

# Theodore Schultz

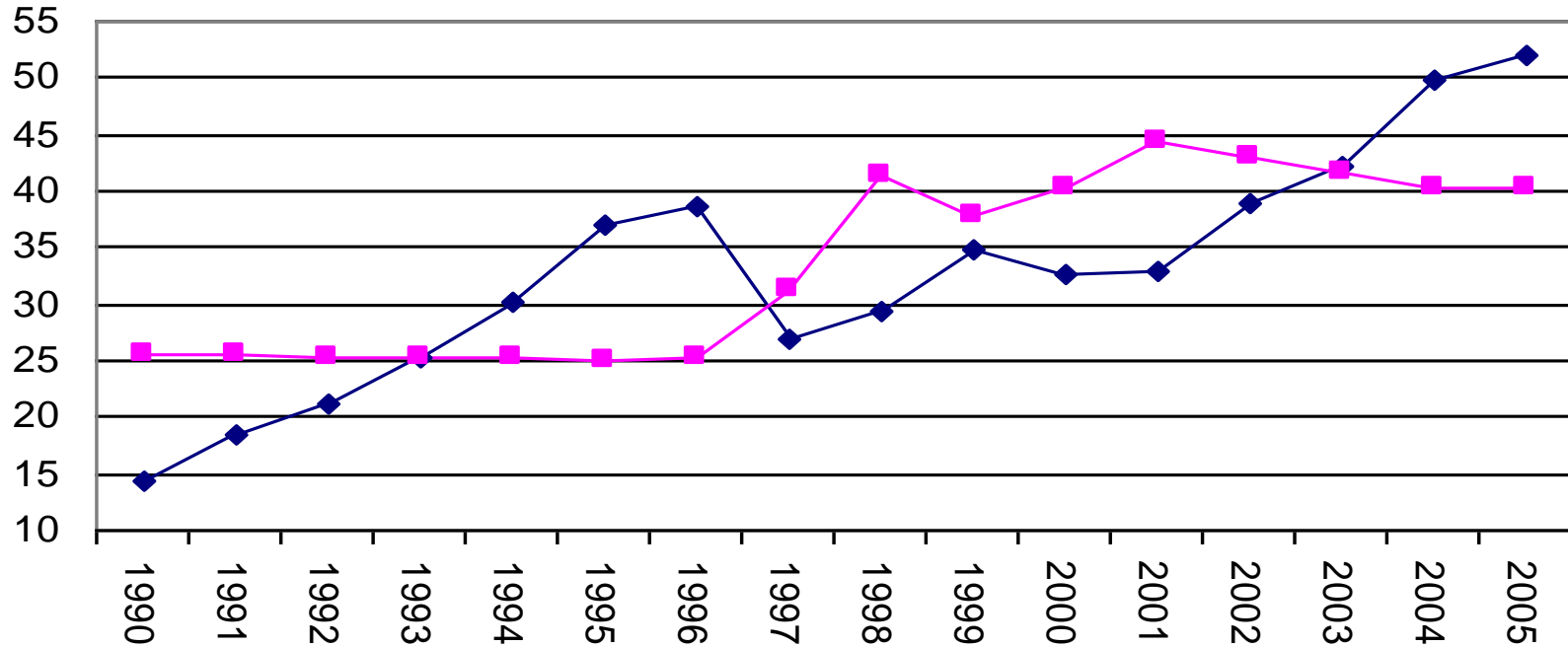
- He was often a critic of developing nations' efforts to expand industrialization at the neglect of agriculture development.
- By being able to show that economic growth depended on "human capital," Schultz opened a whole new area of research and paved the way for work by other economists.

# The three economic vital signs



# Rising international reserves

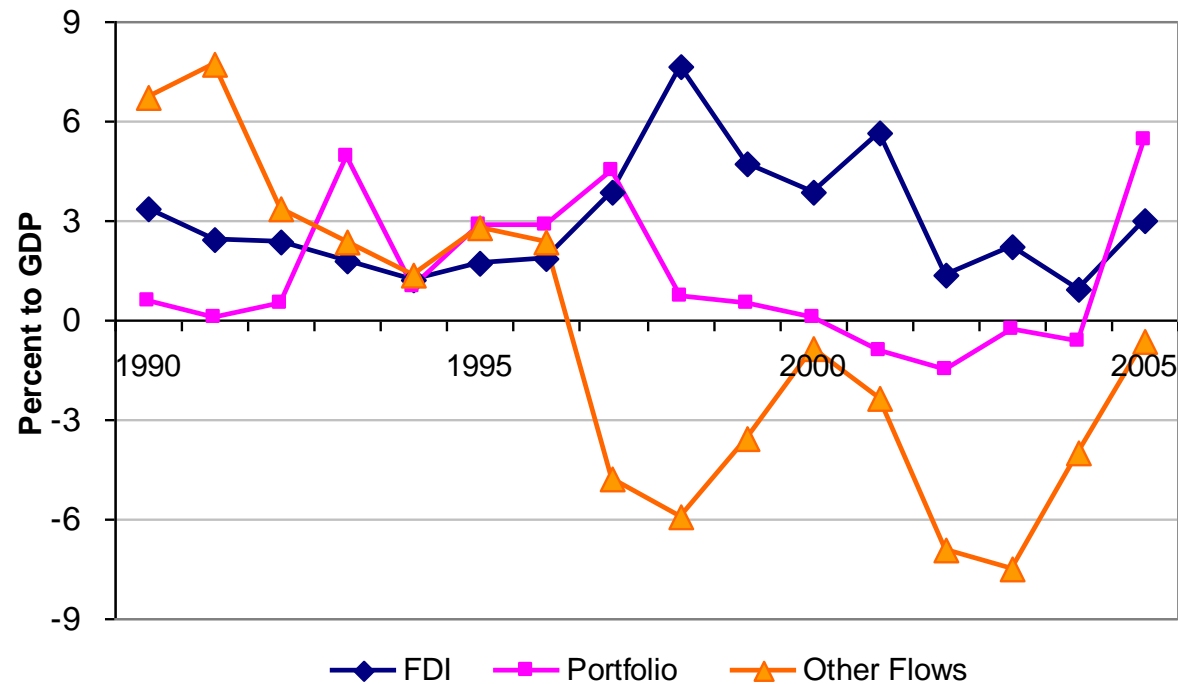
## What was the main reason?



Source: Bank of Thailand

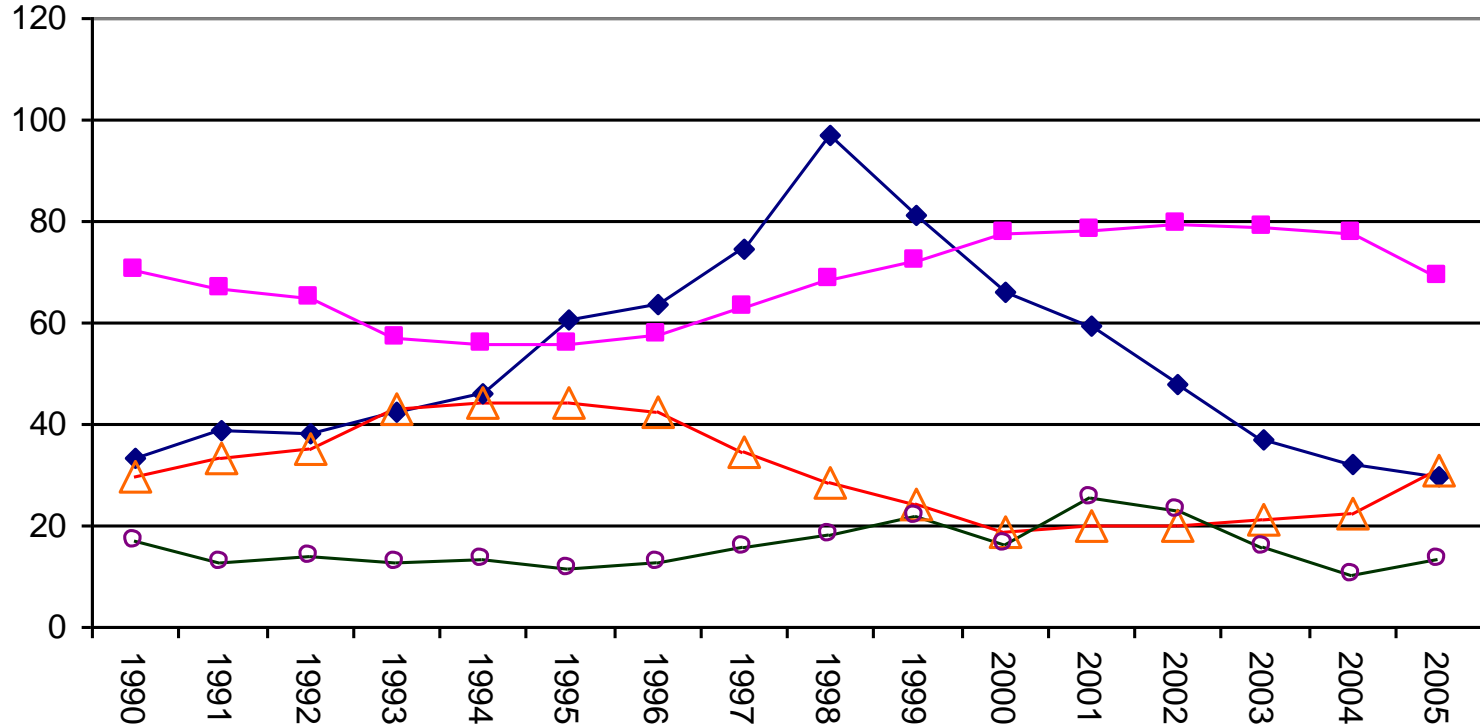
—◆— Int. reserves (bil USD) —■— Baht/USD

# Hot and cold capital flows



Source: Bank of Thailand

# External debt structure

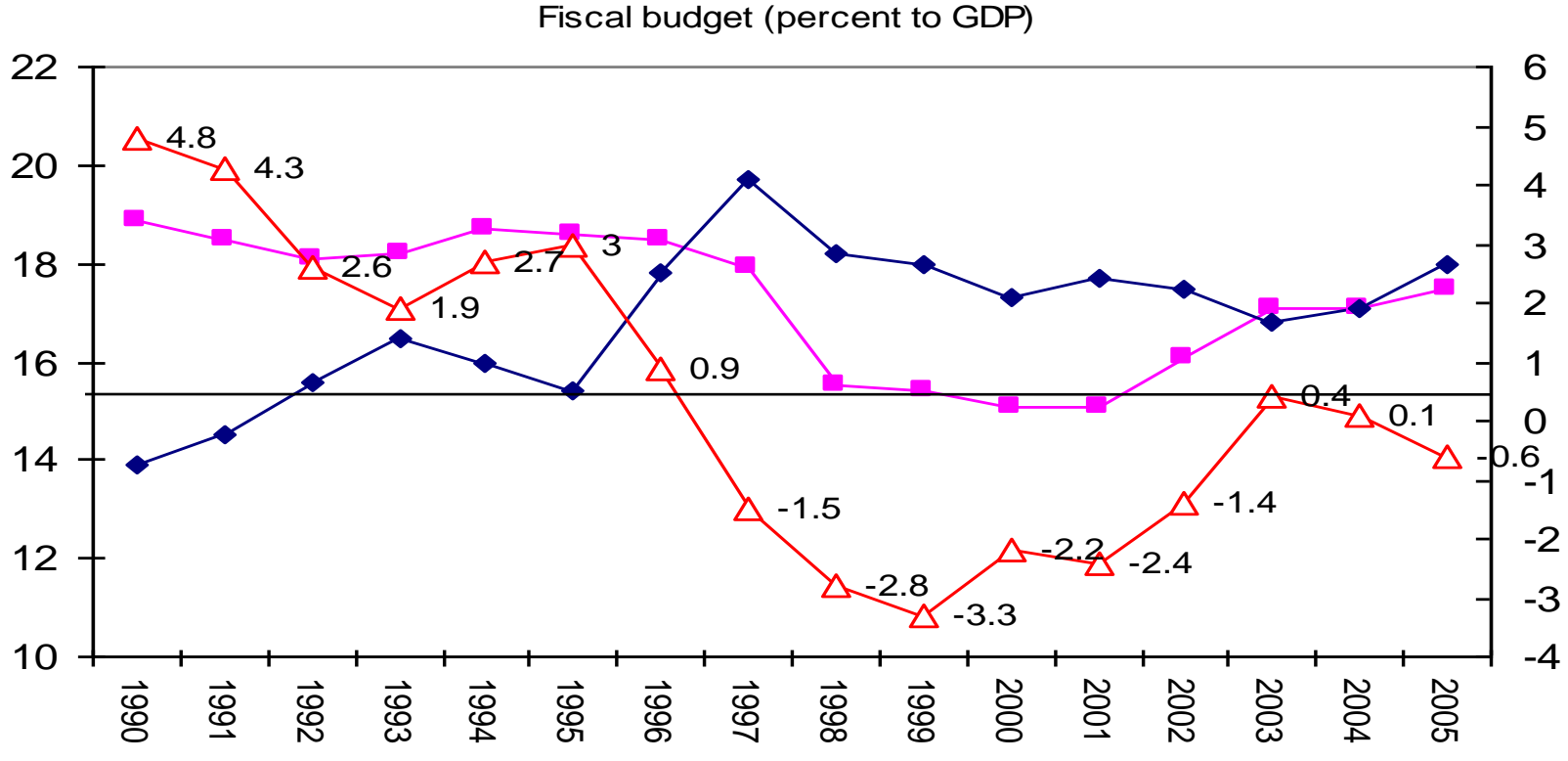


Source: Bank of Thailand

- ◆ External debt (%Gross National Income)
- Long-term Debt (%total debt)
- ▲ Short-term debt (%)
- Debt service ratio

# Fiscal discipline and self discipline

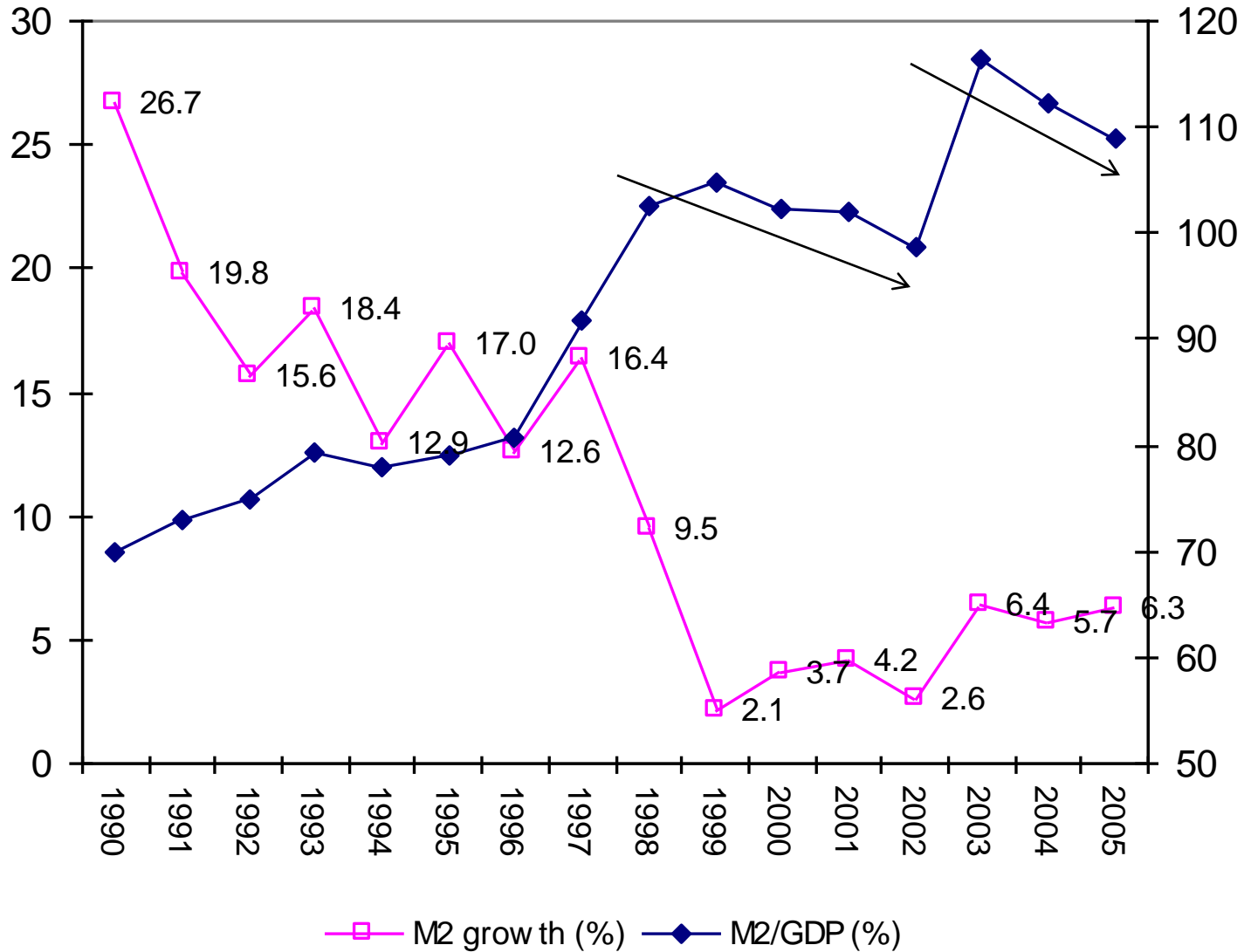
**Self discipline** is when one uses *reason* to determine the best course of action that *opposes* one's desires. It is the ability to motivate oneself in spite of *a negative emotional state*.  
Using *willpower* routinely and even automatically.



Source: Bank of Thailand

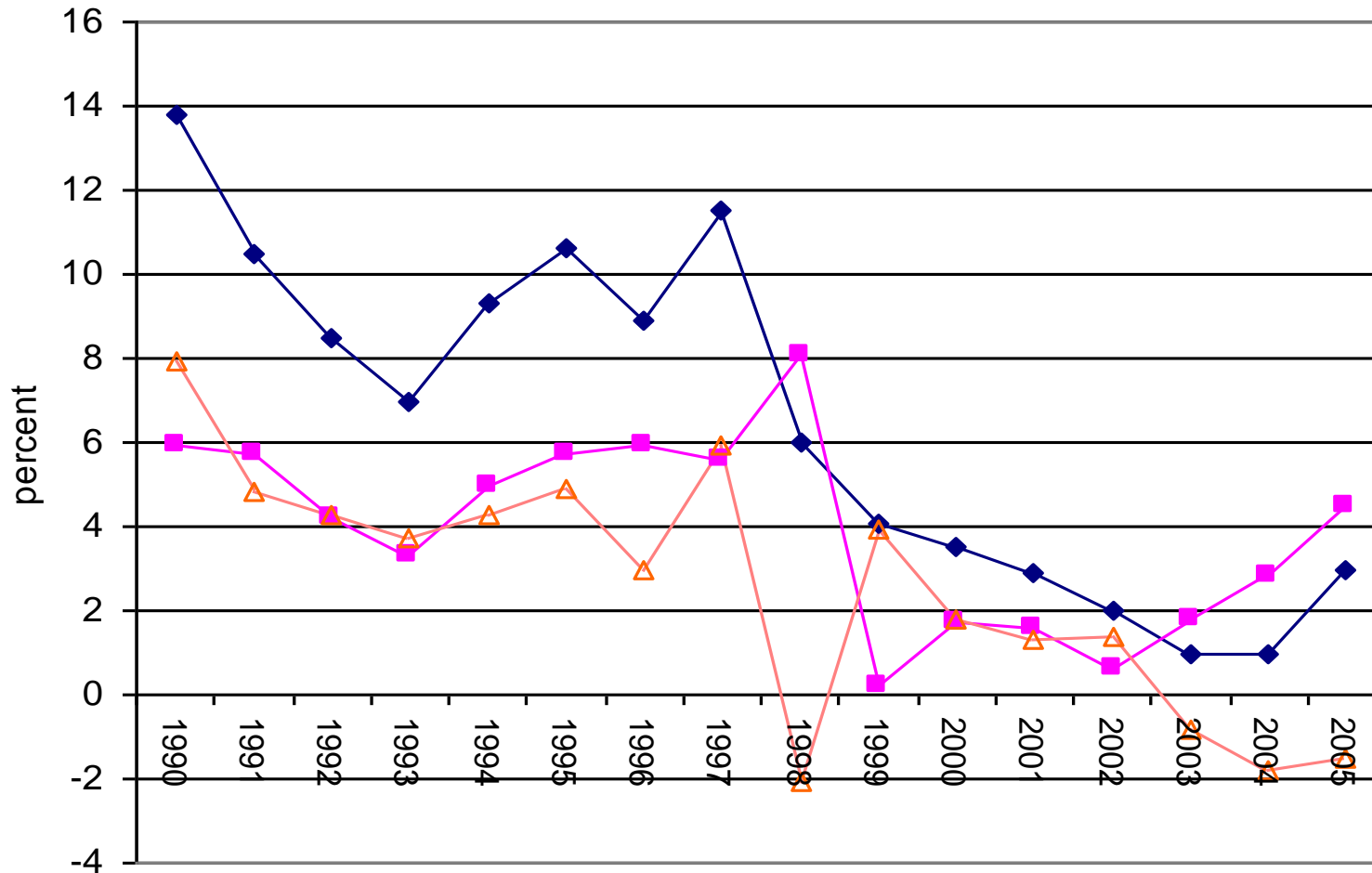
—■— Revenue —◆— Expenditure —△— Surplus/deficit (RHS)

# Monetary growth slowdown



# Incentive for financial savings

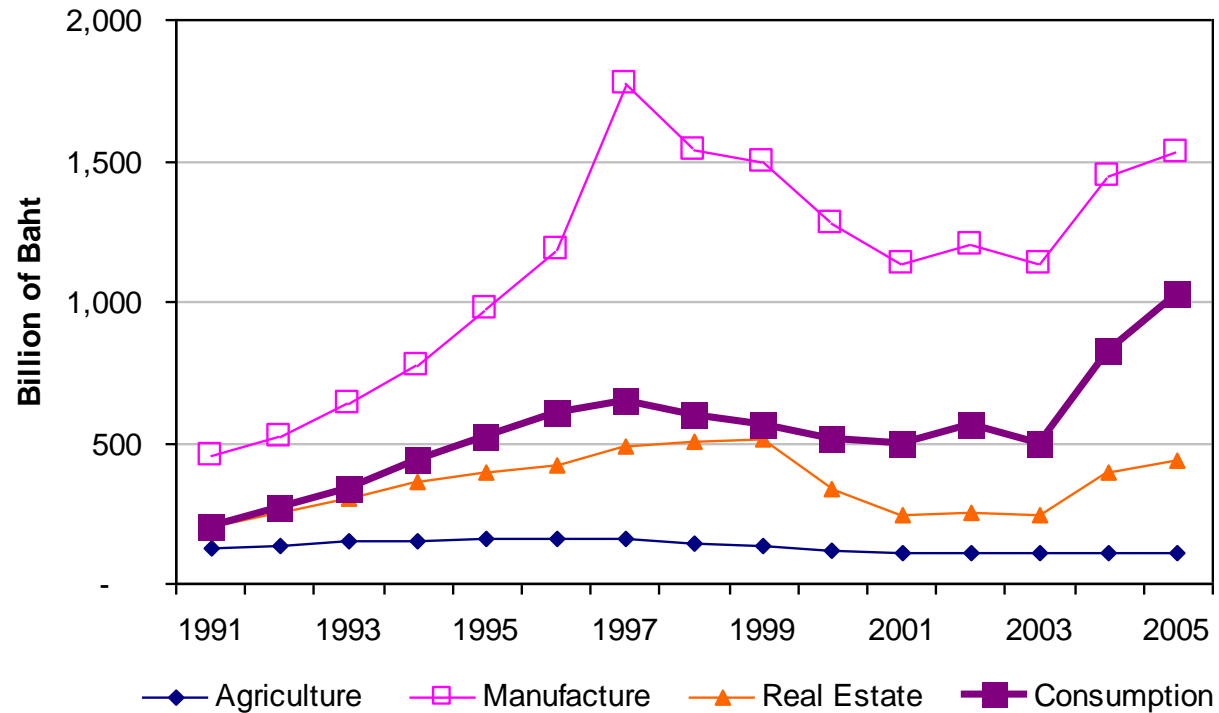
Fisher Effect?



Source: ADB

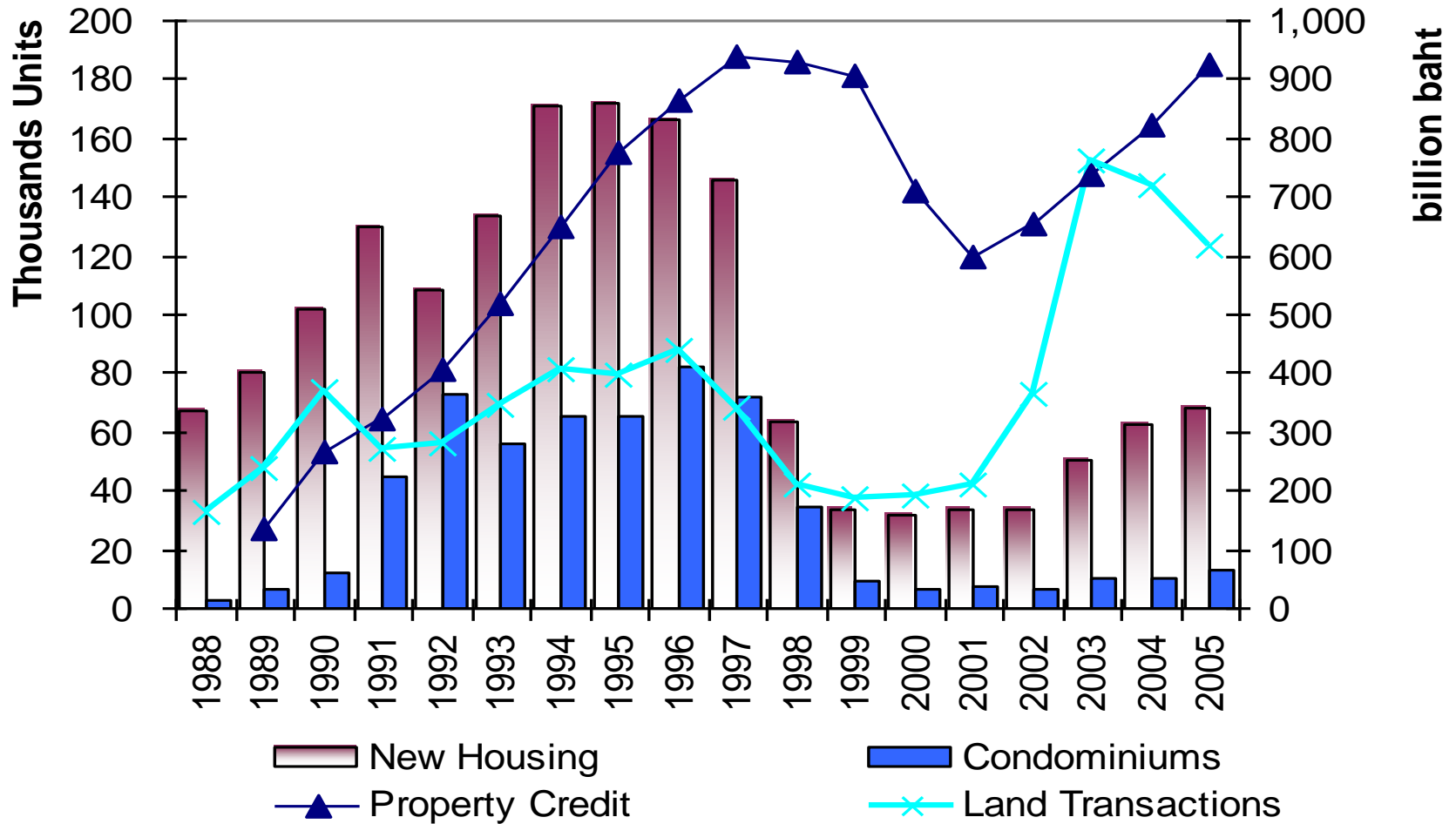
◆ Deposit Interest rate (12 months)    ■ CPI    ▲ Real interest

# Bank loan extension



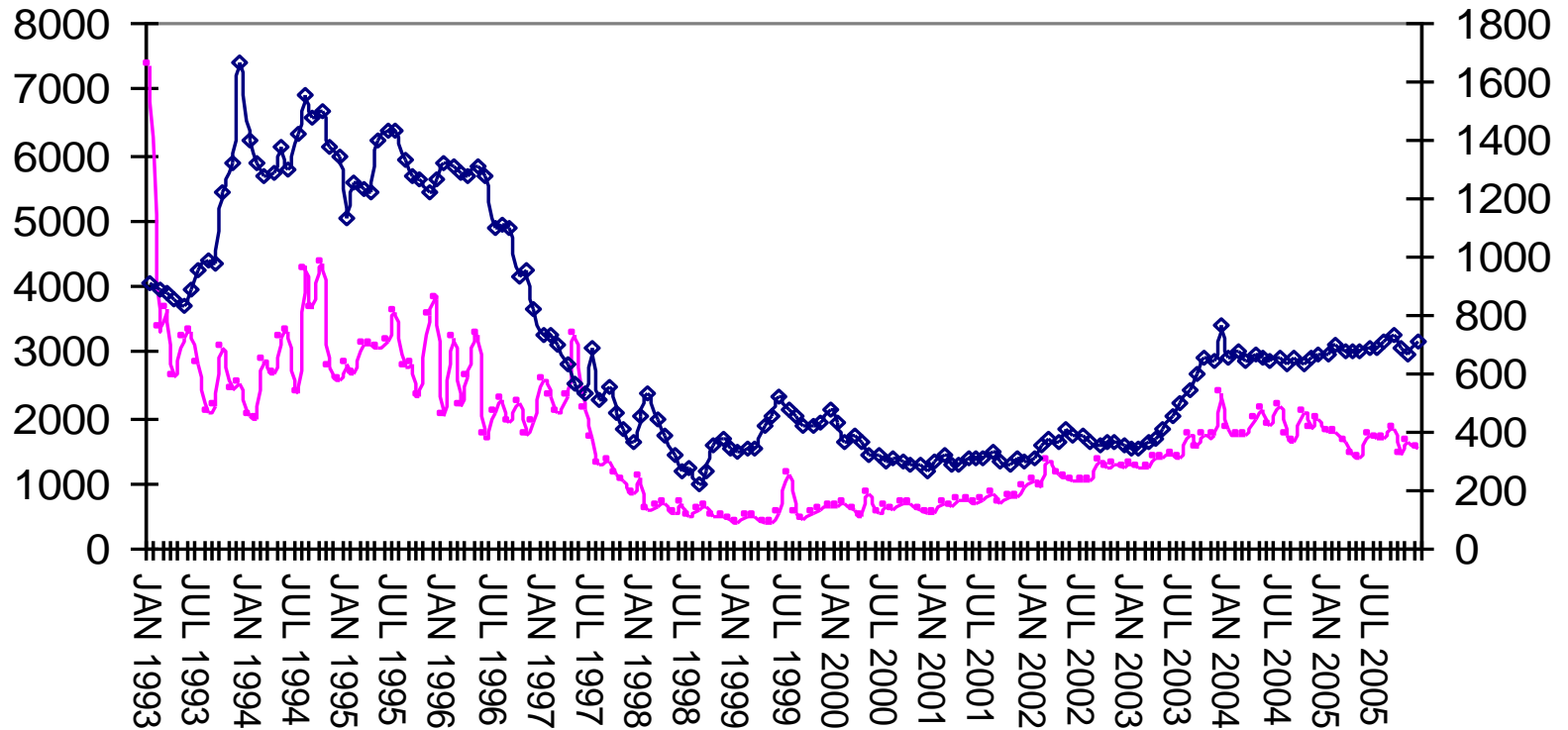
Source: Bank of Thailand

# Property bubble



Source: Bank of Thailand

# Property and stock bubbles



Source: Bank of Thailand

— Construction Areas Permitted in Municipal Zone (1,000 sq.m) — SET Index (RHS)

# Blackie Sherrod

- “If you bet on a horse, that’s gambling.
- If you can make three spades, that’s entertainment.
- If you bet cotton will go up three points, that’s business.
- See the difference?”

# Irrational Exuberance

Robert J. Shiller

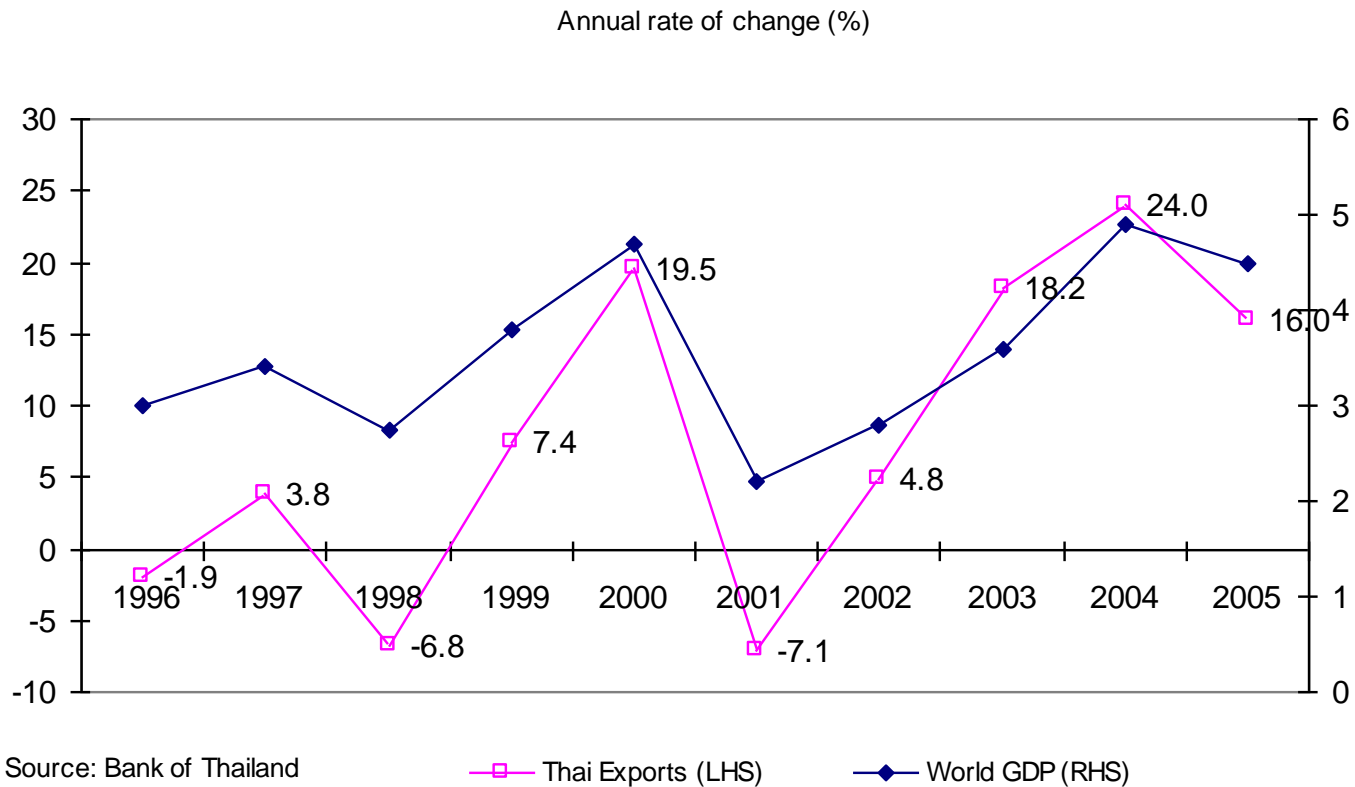
- **The Stock Market Level in Historical Perspective**
- **Precipitating factors: The Internet, the baby boom, and other events**
- **Amplification Mechanisms: Naturally Occurring Ponzi Processes**

# Irrational Exuberance

Robert J. Shiller

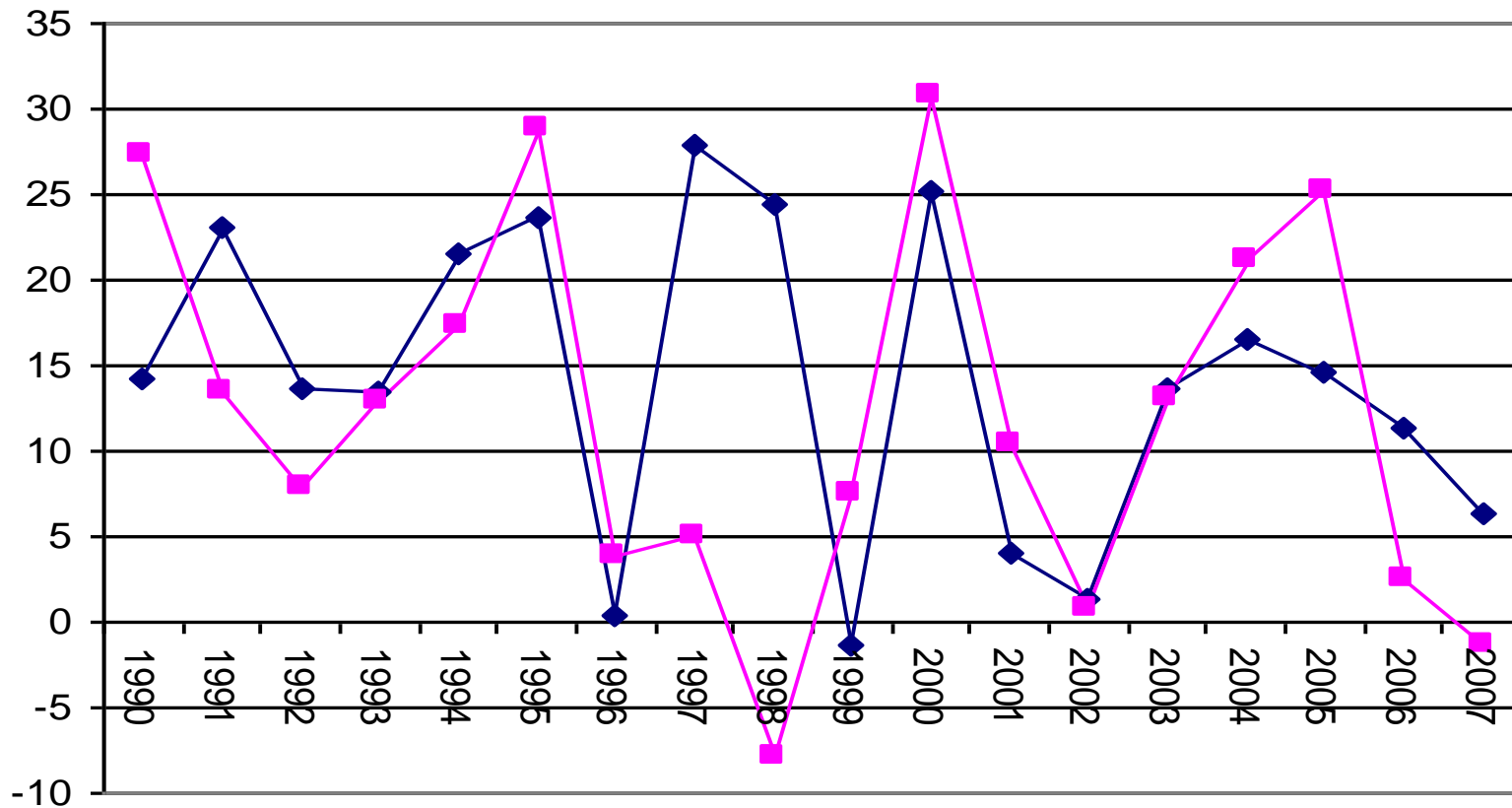
- **Psychological Factors**
- **Herd Behavior and Epidemics**
- **Attempts to Rationalize Exuberance**
- **Efficient markets, Random walks, and bubbles**

# Impact of world business cycle: exports fluctuations: 1990-1995



# Co-movements: long-term relationship--not spurious

## Exports and Imports (% change)



Source: Bank of Thailand — Exports — Imports

# Conclusions

- Resilience of the Thai economy had been demonstrated after the financial and exchange rate crises in the period 1997-98.
- Realistic exchange rates are the key for successful external imbalance adjustments.
- Fiscal balances and external debts depend on fiscal discipline.

# Conclusions

- Capital flows are related to exchange rate movements.
- Asset bubbles are associated with expectations and monetary expansion.
- External influences on the Thai economy increase with higher degree of globalization.

# Review Questions

- Has the Thai economy become less resilient since 2006?
- Are we experiencing a property bubble? If so, explain why. If not, why not? Should the Central Bank prick asset bubbles?
- How far can a country rely on domestic demand stimulus?