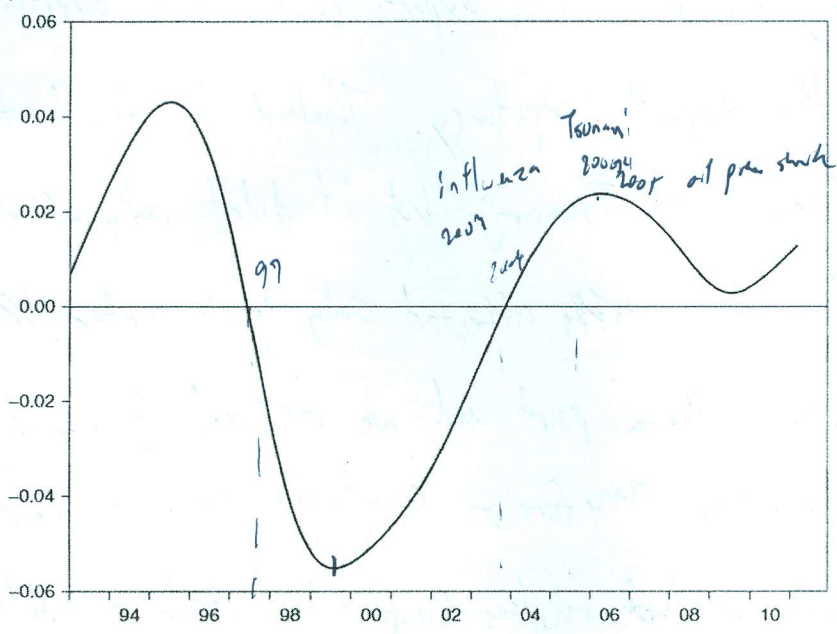


5. Thailand's Growth Collapses

Assess the role of internal and external shocks on the Thai economy.



Note: Standardized deviation of actual level of output from its trend level.

Source: Calculation based on data in Figure 12.9.

Figure 12.10 Climbing hills and falling off cliffs

Before 1990, it is stable growth path. Thailand developed infrastructure and Investment per GDP is increased. Inflation rate is about 2.2%. Real return is also positive. The Thai economy is very good in this stage. In the Beginning of 1990, Thailand has trade liberalization and they also want to be financial liberalization so Thailand reduce the regulation of capital inflow. with very high interest rate at that time compared to other countries interest rate and fix exchange rate, there are excess capital inflows come to Thailand. Private Investor and some financial institution borrow money from foreign and invest with high interest rate in Thailand. Plus, there is fixed exchange rate at that time so there is no exchange rate risk. People believe that Thai economy at that time (Before 1996) was very good so they invest a lot and current asset was deficit. In 1996, Baht currency was faceded speculation attack. ~~George Soros~~ George Soros sell baht and buy dollar in large amount. BOT use the Thai reserve to protect baht currency, but it was too late Thai reserve was not enough so the baht currency is floating. Driven the

baht currency from 25 baht / US Dollar to 50 baht / US Dollar - Baht currency was shocked in depreciation - Thai Economy was shocked, many financial institutions and firms were closed and Thai productivity was dropped sharply. After that it could recover as V-shaped or very fast recovery - Since, Thailand was export country and depreciation in Baht could support the export competency. Thailand also faced to many shocks such as influenza and Tsunami but it didn't really affect to Thai productivity. For influenza, it ~~also~~ affected only specific sector. ~~And~~ And Tsunami, it affected only southern part and we received 0% tariff from Japan that can help our economy - Many foreign countries came to help Thailand at that time. In 2004, we had military Coup and political instability.

Foreign Investors lacked of confidence to invest in Thailand. In 2005, The oil price shocked Thai economy, since the increase of oil price will increase the inflation and cost of production. But Thailand ^{is} are the country that use oil as the intensive goods in the production. Therefore after 2005 the level of output is declined. The political instability also affected to the fluctuation in economy until nowadays. Last, to the internal shocks, Thai people have the animal spirit. They also over panic to the shock of the market and they also had Minsky Moment - They always invested and acted as the trend. And these can cause severe shock since the past in 1997.