B.E. International Program

Faculty of Economics, Thammasat University

Semester: 1/2020 (August 10 – November 28, 2020)

Number of credits: 3 credits (3-0-6)

Lecture Time: Wednesday and Friday, 09.30 – 11.00

Lecture Venue: Room 304

Instructor: Professor Bhanupong Nidhiprabha

Office hours: Wednesday and Friday 11:00-14:00 Room 517

Email: bhanupong.460@gmail.com

Textbook: ***Macroeconomic Policy for Emerging Economies: Lessons from Thailand***

Bhanupong Nidhiprabha. 2019. Routledge: London and New York

Course Description

Thailand's economic structure has substantially changed since the 1960s in rapid economic development and growth. However, Thailand regularly experienced external and internal shocks. The economic growth has slowed down after the upheaval in the political situation and global growth slowdown. The intricate relationships between poverty, income distribution, and globalization will be discussed with references to conditions worldwide. The process of economic policy formulation, 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 some industrial and agricultural sectors. The course focuses on the complicated relationship between the Thai economy and the world economy, particularly the new normal after experiencing the Covid-19 led-recession. In all lectures, there are special references to the impact of the coronavirus.

Prerequisites: *EE 311 and EE 312*

Course Objectives

This course's objective is to provide students with a deep understanding of the Thai economy by 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. The students must learn to observe class rules and discipline: Dress respectfully and attend class punctually.

Course Evaluation

Grading is based on a midterm exam (30 %), homework, class attendance, and quiz (10 %), and final exam (60 %). Class attendance is a necessary condition for passing the exam--“No class, no pass.” To qualify for sitting for the final exam, students must not miss the class more than six from a total of 30 lectures.

Lecture 1: Historical Perspective

We explore why Siam and Japan experienced a diversion in economic development patterns despite sharing the same time of trade opening. What are the fundamental determinants of growth? Do charitable 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, Kazushi Ohkawa and Gustav Ranis, Oxford: Basil Blackwell

Lecture 2: Rethinking Growth Strategy

Rodrik, Dani, (ed.) In search of Prosperity: analytic narratives on economic growth. Princeton University Press, 2003.
Rodrik, Dani. 2004. “What do we learn from countries' narratives?” In search of Prosperity

Easterly, William. "The lost decades: developing countries' stagnation despite policy reform 1980–1998." Journal of Economic Growth 6.2 (2001): 135-157.

McCleary, William. 2013 Book Reviews “Why Nations Fail” by Daron Acemoglu 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 the 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.

Nidhiprabha (2019) Macroeconomic Policy for Emerging Economies: Lessons from Thailand Routledge: London and New York, Chapter 1

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

Structural mechanisms would lessen the impact of the economic crisis, whether external or internal shocks. It is impossible to rule out various future shocks such as oil price hikes, realignments of dominant 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 Southeast Asian Studies, Singapore, 2006.

Nidhiprabha (2019) ***Macroeconomic Policy for Emerging Economies: Lessons from Thailand*** Routledge: London and New York, Chapter 2

Lecture 5

Coping with the 1997/98 crisis

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 and the underground economy are 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 the premature liberalization of the capital account and explain the underlying 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 discuss the consequences of Avian Influenza, the 2005 Asian tsunami, and the oil price shock in 2005. We examine the impact of the 2006 military coup and capital controls initiated by the Bank of Thailand in December 2006. A shift in fiscal spending patterns took place after the coup. In 2007, the Thai economy grew at the slowest pace among countries in the region. How had the coups 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 in 2008 and discuss its impact on the Thai economy. The V-shaped recovery in Asia and Thailand provide valuable lessons for Thailand. We raise the question of whether Thailand is heading for the Minsky moment.

Nidhiprabha (2019) ***Macroeconomic Policy for Emerging Economies: Lessons from Thailand***

Routledge: London and New York, Chapter 4

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 adequate legal infrastructure. Maintaining the rule of law implies predictable outcomes from a 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 potent with accompanying measures to boost consumer confidence and business sentiment to nourish investors' animal spirits.

"The hard road ahead for Thailand's economic recovery," *Asian* ***Economic Papers*** 8(3), 113-137. 2009. "Effectiveness of Thailand's macroeconomic policy response to the global financial crisis," ***ASEAN Economic Bulletin***, 27(1) 121-135. 2010.

Nidhiprabha (2019) ***Macroeconomic Policy for Emerging Economies: Lessons from Thailand***

Routledge: London and New York, Chapter 3

Lecture 10
Structural Changes in the Thai Economy

The stylized facts about economic development are shown 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 Thai agriculture is examined in light of agricultural productivity development.

Lecture 11
The Resilience of Thailand's Agriculture

The trend of Thailand's agricultural exports and Baumal-Bowen Hypothesis are explained. The comparative advantage of Thai agriculture is measured. The 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. We discuss agricultural growth and its volatility, chemical farming, food security, and grain dependency.

We evaluate the international competitiveness of Thai agricultural exports. Criticism of the rice-pledging scheme is analyzed, based on costs and benefits analysis.

Nidhiprabha (2019) “Commodity prices cycles, the agricultural trap, and Thailand’s incessant subsidies” ***Asian Economic Papers*** 18(1)

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 wage, and exchange rates. R&D spending is analyzed.

Lecture 14-17

The rise and fall of Thailand’s export-oriented industries

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

Nidhiprabha (2017) “The Rise and Fall of Thailand's Export-Oriented Industries." ***Asian Economic Papers*** 16.3): 128-150.

Lecture 18
Trade and Foreign Investment

How important is the export sector as an engine of growth? What are the factors contributing to a high degree of trade openness? The globalization process in Thailand has been ongoing for the last three decades. In this lecture, we examine the relationship between trade and economic growth, FDI and its impact on network trade, trade structure and FD's role, and the effect of the GFC and the US-China trade war on Thailand.

Nidhiprabha (2019) “The impacts of the US-China trade war” ***Asian Economic Papers***

Lecture 19

The Toursim industry: vulnerability and recovery.

Background of the tourism industry is presented. We investigate how the industry was adversely affected by shocks, such as the tsunami, political unrest, and the coronavirus spread. 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. What factors were responsible for the fast recovery after the airport shut down in 2007 and the riots in May 2010? How did the coups and terrorist attacks affect the industry? Does China's factor mean a lot to the strength of the Thai economy? How will the sector cope with travel bans and lockdowns?

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

Nidhiprabha (2019) ***Macroeconomic Policy for Emerging Economies: Lessons from Thailand***

Routledge: London and New York, Chapter 10

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. We discuss the new regionalism, multiple free trade agreements, Mega Trade Blocs, such as ASEAN plus 6, RCEP, and TPP. 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 the current account, which is intricately related to internal imbalances. There are various channels of disequilibrium adjustments. Adjustments in output, prices, interest rates, and exchange rates would restore the equilibrium in the long run. The speed of the change depends on how quickly those equilibrating variables are allowed to adjust freely. If some variables are not permitted to perform its equilibrating role, the burden of the adjustment will fall on other uncontrolled variables. What would happen if required fundamental changes are postponed?

Nidhiprabha (2019) ***Macroeconomic Policy for Emerging Economies: Lessons from Thailand*** Routledge: London and New York, Chapter 6

"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 and the stock market

To what extent the growth of exports depends on a weak currency? Intervention in the foreign exchange markets is ineffective because the weakening dollar dictates the baht/dollar exchange rate, and short-term capital flows into asset markets. What were the outcomes of capital control imposed in 2006?

Nidhiprabha (2019) ***Macroeconomic Policy for Emerging Economies: Lessons from Thailand*** Routledge: London and New York, Chapter 7

Lecture 23

Financial Sector

The performance of financial institutions is examined. Thai financial sector has emerged from the 1998 crisis to become stronger and resilient, thanks to the foreign capital injection, good governance, and strengthened financial regulations. What are the 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?

"Premature liberalization and economic crisis in Thailand" in ***Financial liberalization and the economic crisis in Asia*** edited by Chung Lee, London: Routledge Curzon. 2003.

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

Nidhiprabha (2019) ***Macroeconomic Policy for Emerging Economies: Lessons from Thailand*** Routledge: London and New York, Chapters 4 & 5

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, endogenous monetary policy, 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 of 2007-2009? How should monetary policy be conducted during the debt crisis in Europe and the USA? We analyze the impacts of QEs conducted in the US and Japan.

"Impacts of quantitative monetary easing policy in the United States and Japan on the Thai economy**" The *Developing Economies*** 54, no. 1, March 2016.

Nidhiprabha (2019) ***Macroeconomic Policy for Emerging Economies: Lessons from Thailand***
Routledge: London and New York, Chapters 8&9

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 lead to sustainable growth? How durable 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 2018? What is the appropriate level of public debt? How is the long-term growth path affected by the budgetary structure and budgetary space?

"Lessons from Thailand's Fiscal Policy" ***Asian Economic Papers*** Vol.14, no.3. 2015.

Nidhiprabha (2019) ***Macroeconomic Policy for Emerging Economies: Lessons from Thailand***
Routledge: London and New York, Chapter 11

Lecture 27-28

Poverty and Income Distribution

The intricate nexus between income distribution, growth, and poverty are discussed. The topic includes the relationship between income distribution and external liberalization, the impact of social policy on poverty and distribution. Do sectoral productivity differentials lead to wage differences and income inequality? What is the trend of income disparity between urban and rural areas? How did agricultural pricing and income policies affect poverty?

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

"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. 2006.

Nidhiprabha (2019) ***Macroeconomic Policy for Emerging Economies: Lessons from Thailand***

Routledge: London and New York, Chapter 12

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. We examine the negative consequences of urbanization. Does Thailand provide an excellent example of sustainable urbanization? Does rapid economic growth necessarily imply unsustainable urbanization?

Epilog: The Thai Economy in time of the Covid-19

Nidhiprabha (2019) ***Macroeconomic Policy for Emerging Economies: Lessons from Thailand***

Routledge: London and New York, Chapter 13

Remarks:

- **Mid-Term Examination: Saturday, October 3, 2020, 13:00-15:00**
- **Final Examination: Thursday, December 3, 2020, 13:30-16:30**