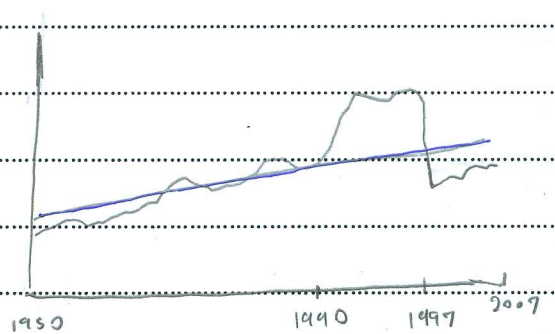


3. "Thailand's experience of currency crisis shows that capital inflows can have positive and negative impacts. Thailand should have allowed the baht to appreciate during the boom years and should have been satisfied with a lower growth rate". Elucidate and comment.

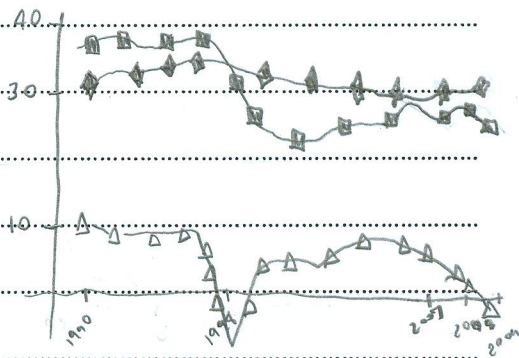
From the experience in the past, Capital inflow can be lead to positive impact and negative impact, in which it effect the ability to generate the growth in Thailand. If the Thailand devalue their currency, the capital inflow will be increase, resulting the growth of the Thailand from the higher in the investment and the export. However, high growth didn't mean good thing. Since what we aimed for is that the country had to grow steadily without being interrupt. But in the 1990-1996, Thailand has much of capital inflow which result in the higher investment in Thailand. However, these investment is far higher than the domestic saving or we can call "Over investment" which was one of the reason why Thailand collapse during 1997.



— Inv/GDP — linear (Inv/GDP)

(P. 360) (Asia rising)

Figure 12.13 Over investment & under investment.



◆ Gross Domestic Saving
■ Gross Domestic Investment
▲ GDP Growth

Figure 12.14 Invested saving gap growth (Asia rising p. 363)

continue

→

We can see from "figure 12.14 Investment-saving gap & growth" the growth rate of GDP drop sharply in 1997 and the overall growth rate is not stable. Since our objective is to grow steadily without being interrupted, therefore, the promotion of higher investment in that period was not the right choice.

The Thailand can let the both appreciated during boom year and result in the lower growth rate, since it was more stable choice of Thailand to have grow steadily. The lower growth rate is far better than hit by crisis. In this way, the Thailand can now go steadily with no interrupt and ready to go to high income country like Denmark.