The Resilience of The Thai Economy: 1991-2005

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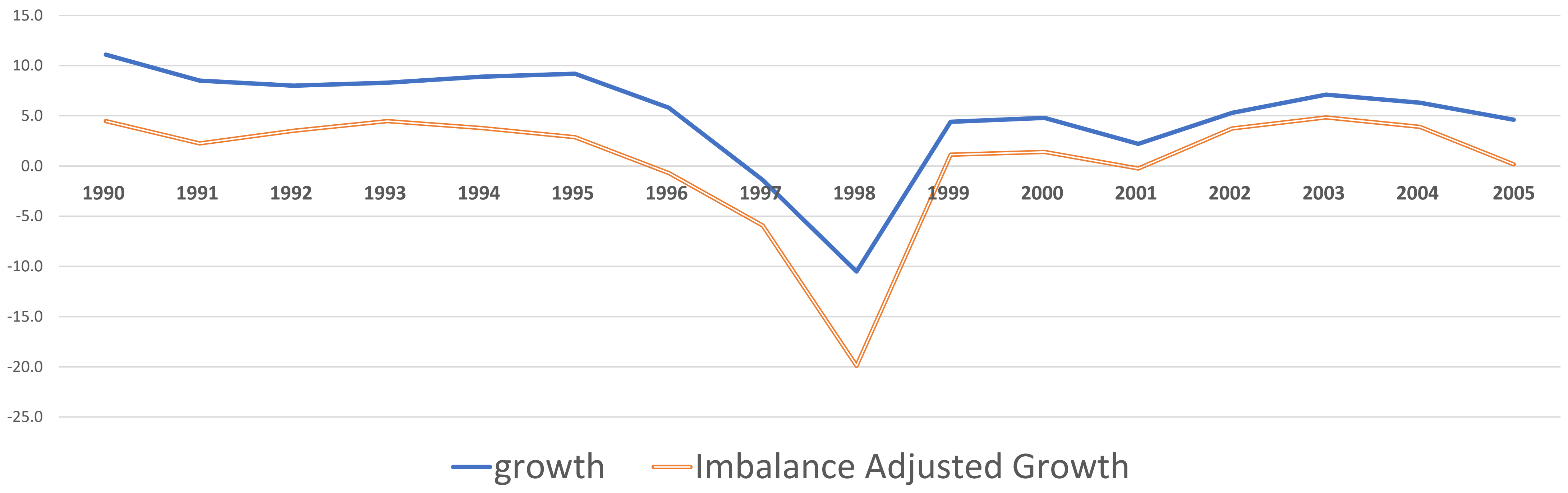
Lecture 4

Main Themes

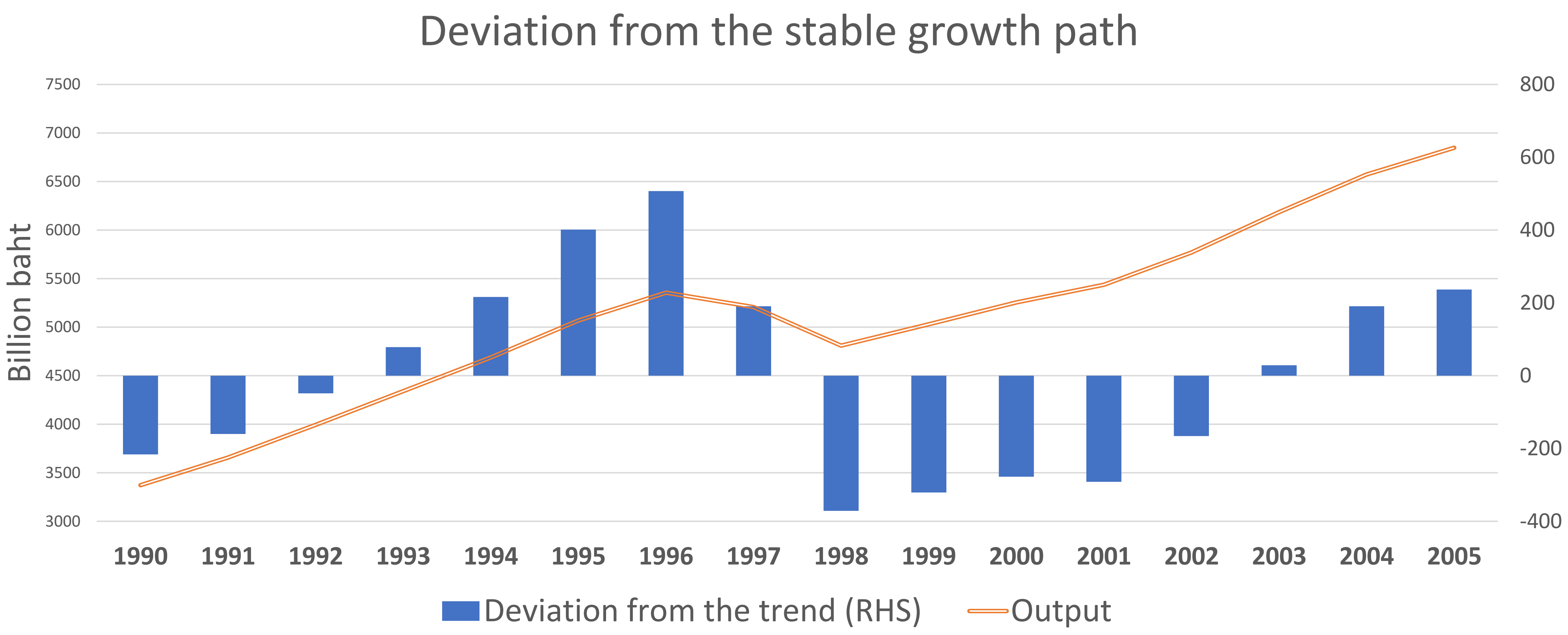
- Growth with Price Stability
- Strengthening Fiscal Position
- Restructuring the Financial Sector
- Dynamism of the Real Sector
- Export-oriented Industries

Internal disequilibrium is reflected by price adjustments (inflation and deflation), while external equilibrium by imbalance current account (surplus or deficit)

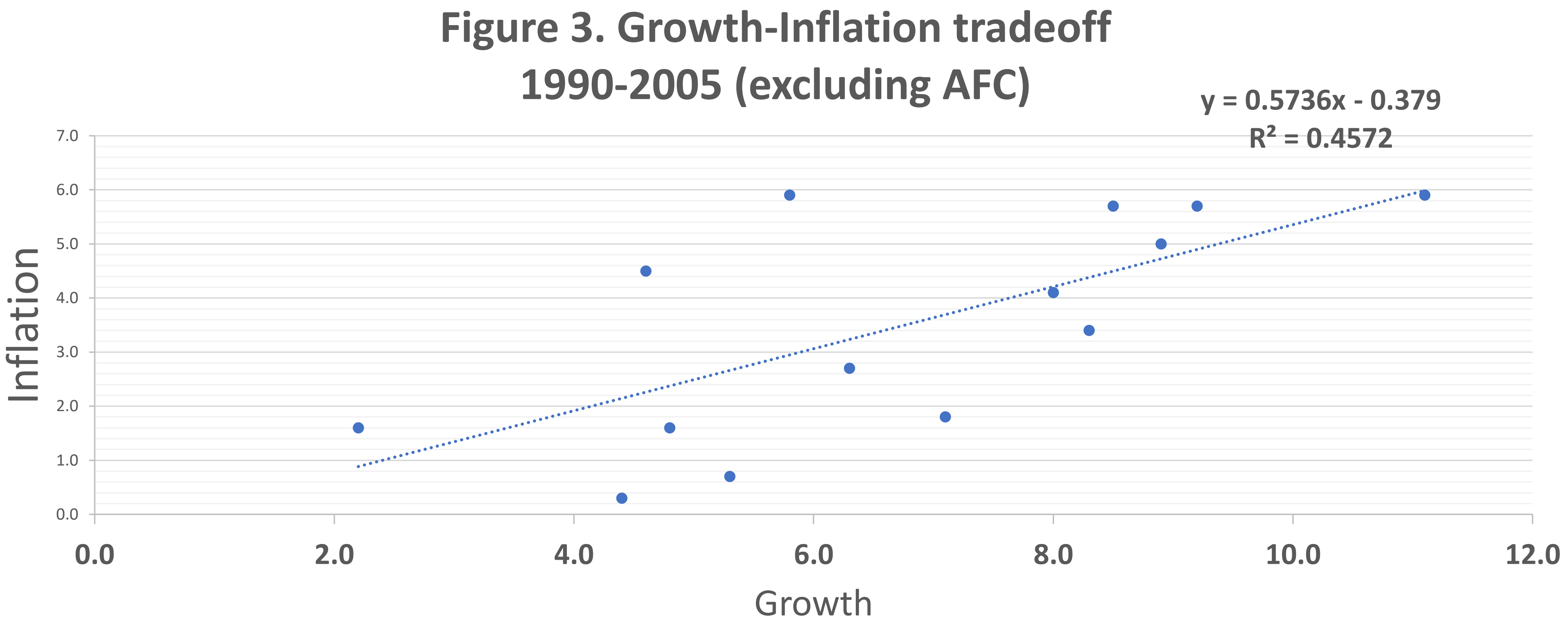
Figure 1. Actual and Imbalance-Adjusted GDP Growth Weighted average of absolute values of price changes and current account (% GDP) disequilibrium: weights are 0.7 and 0.3 respectively



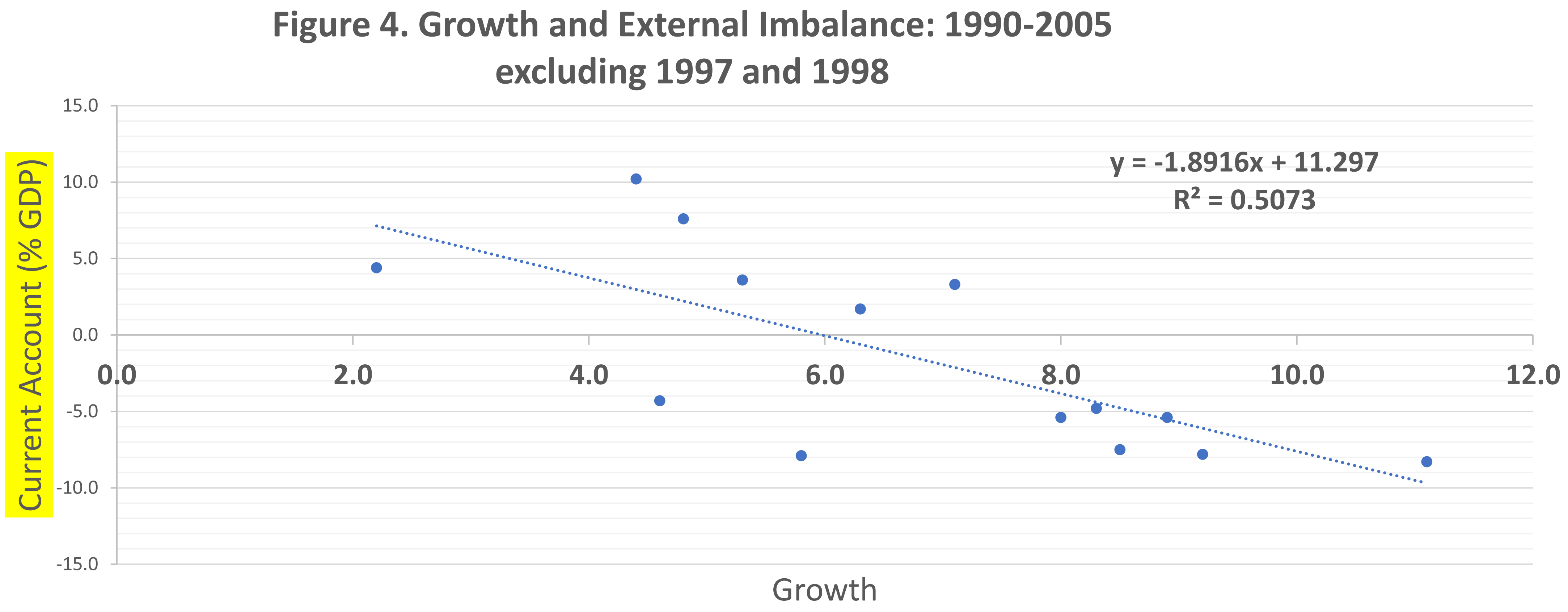
Booms and Busts: AFC



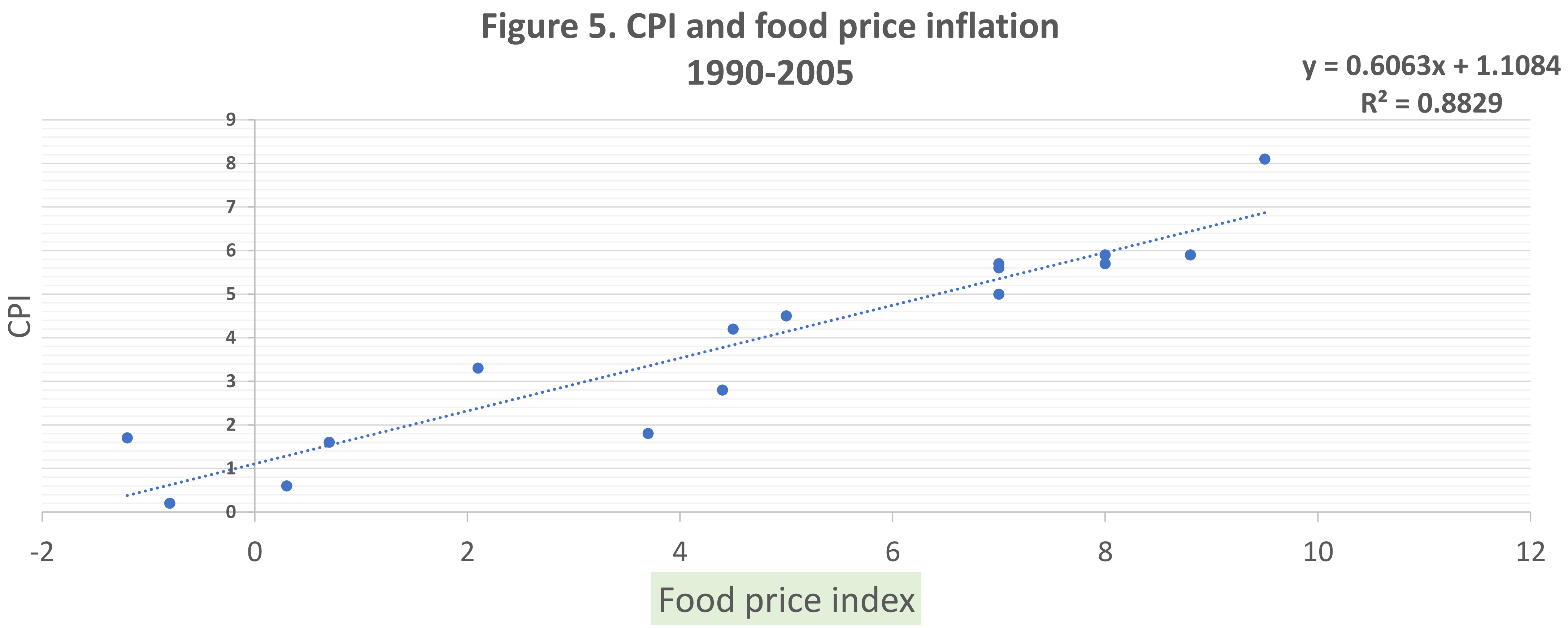
Overheated economy gave rise to high inflation: Demand pressure



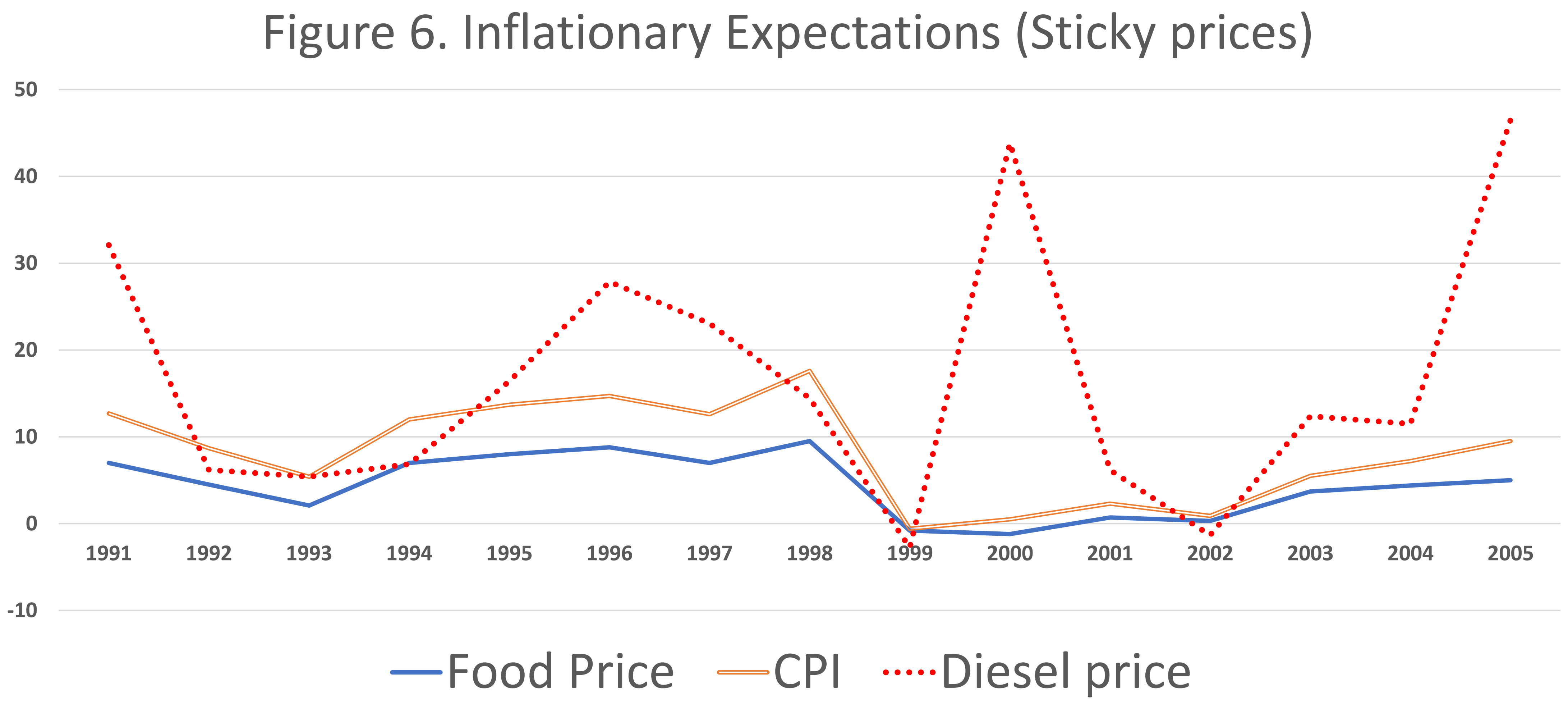
High growth, high CA deficit



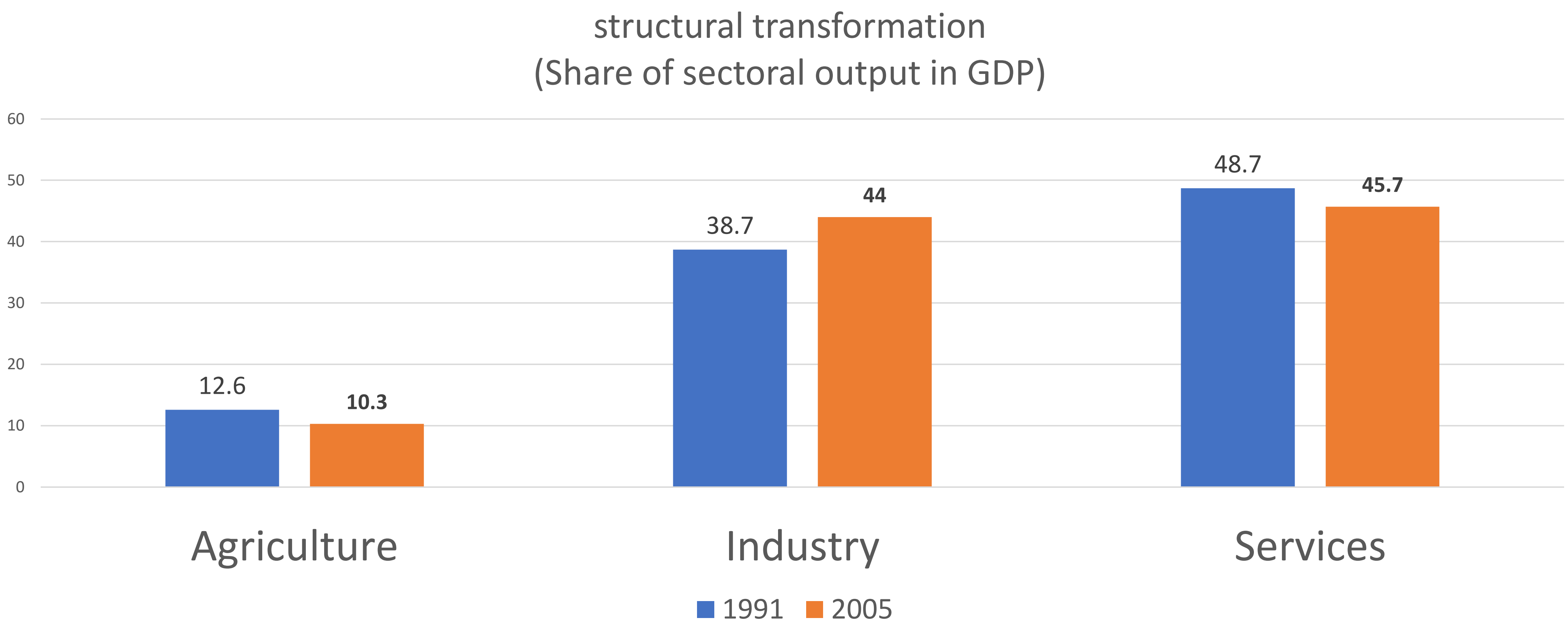
The importance of food prices



Inflation inertia



Gradual transformation



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: Human capital and 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.

The role of human capital in economic development

- 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: Don’t neglect agriculture

- 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.

Putting the boot in: Thailand

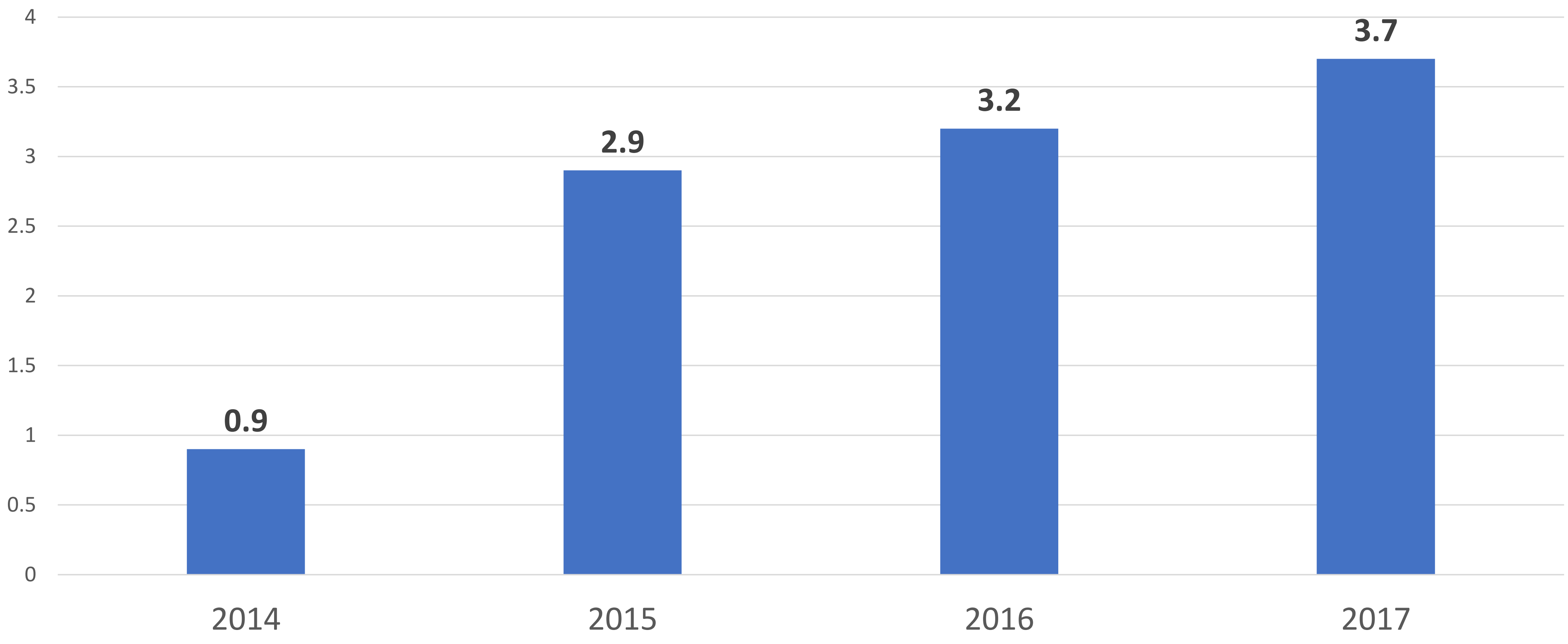
Source: The Economist
August 25 , 2017

- Asia’s only military dictatorship is projecting a moral message: routinely ousted politicians are corrupt, and the democratic norms through which they gain power must be suppressed.
- Today, the Supreme Court will bear this in mind when it decides the fate of Yingluck Shinawatra, a former prime minister, on trial for dereliction of duty in a rice-subsidy scheme.
- Though it boosted the incomes of millions of people, the scheme wasted billions of dollars.

Putting the boot in: Thailand

- Jailing Ms Yingluck would inflame tensions between liberal and reactionary camps that have paralysed Thailand for more than a decade; more likely she'll just be fined.
- Army checkpoints and thousands of police will be deployed to ensure that her red-shirted supporters behave.
- The Shinawatra clan has won every election since 2001, and the generals won't let go of their power easily.
- The army's new constitution, the most regressive yet, restores a political order based on rank and status—and devalues electoral democracy.

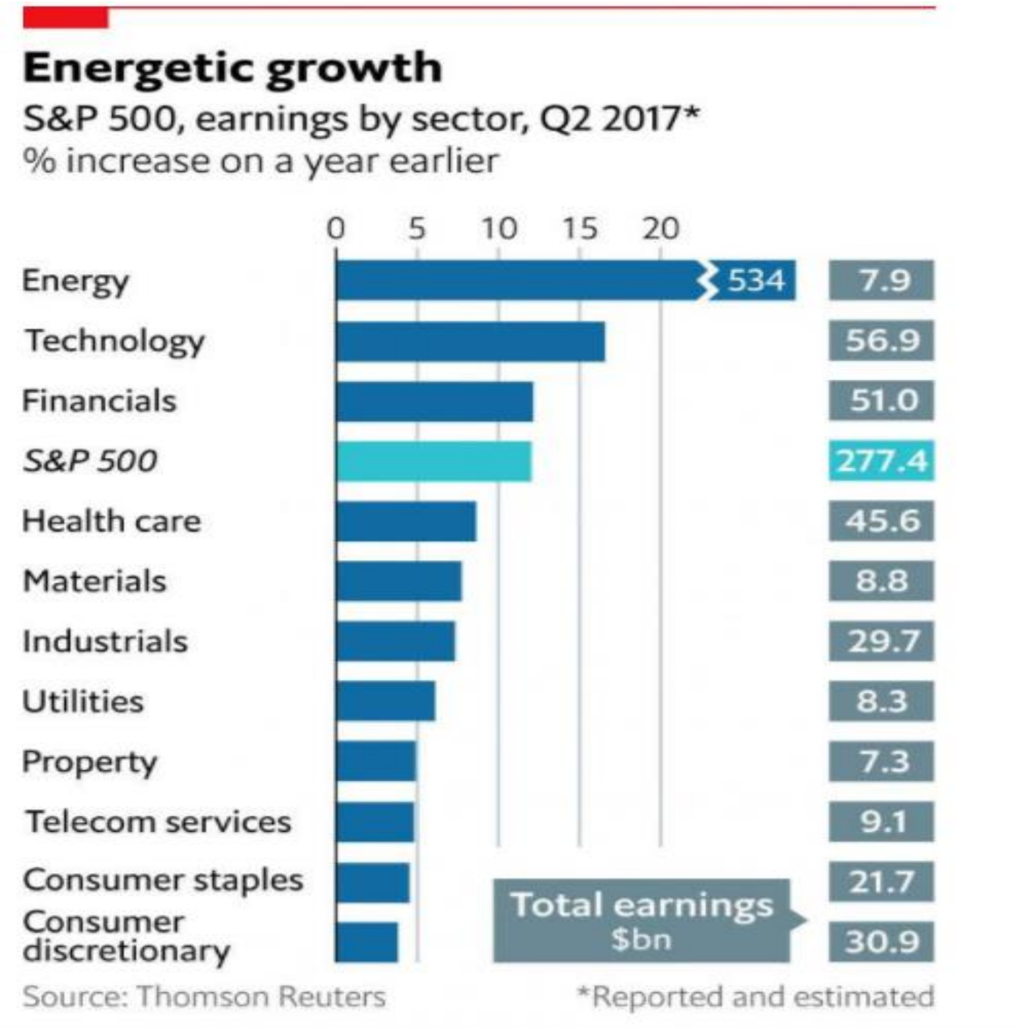
A gradual recovery after the coup: Thailand’s GDP growth rate



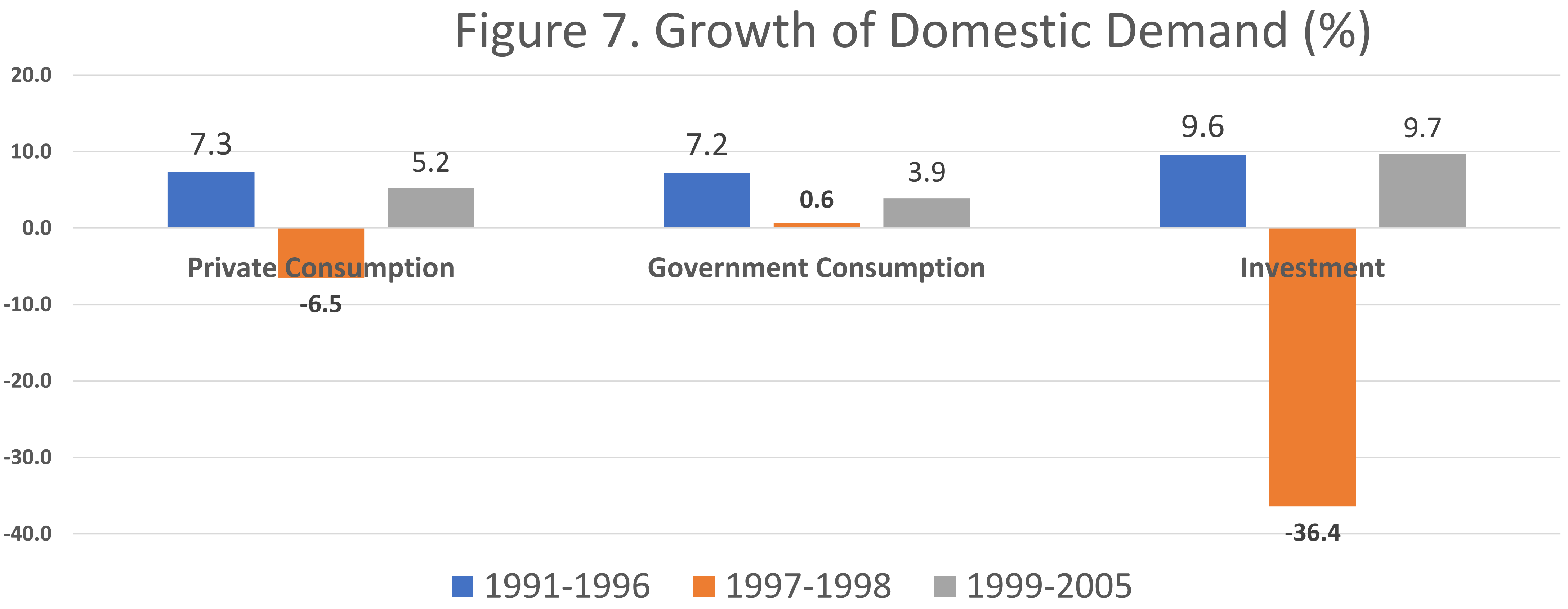
On the up and up: American profits

- It’s been a cheery earnings season for American bosses. When the last firms report, second-quarter profits for S&P 500 companies are expected to be 12% higher than a year earlier.
- Of the firms that report revenue by country, 40% of sales come from abroad; these have been buoyed by improving global growth and a weak dollar.
- The energy sector’s profits have rocketed by 534%, albeit from a low base: second-quarter earnings increased to $7.9bn, up from $1.2bn last year, when profits were hit by low oil prices.
- The consumer discretionary sector may make more in profits overall—$30.9bn in the second quarter—but this is only 3.8% higher than earnings a year ago. That’s partly down to Amazon’s investment in new business areas, which led to lacklustre profits.

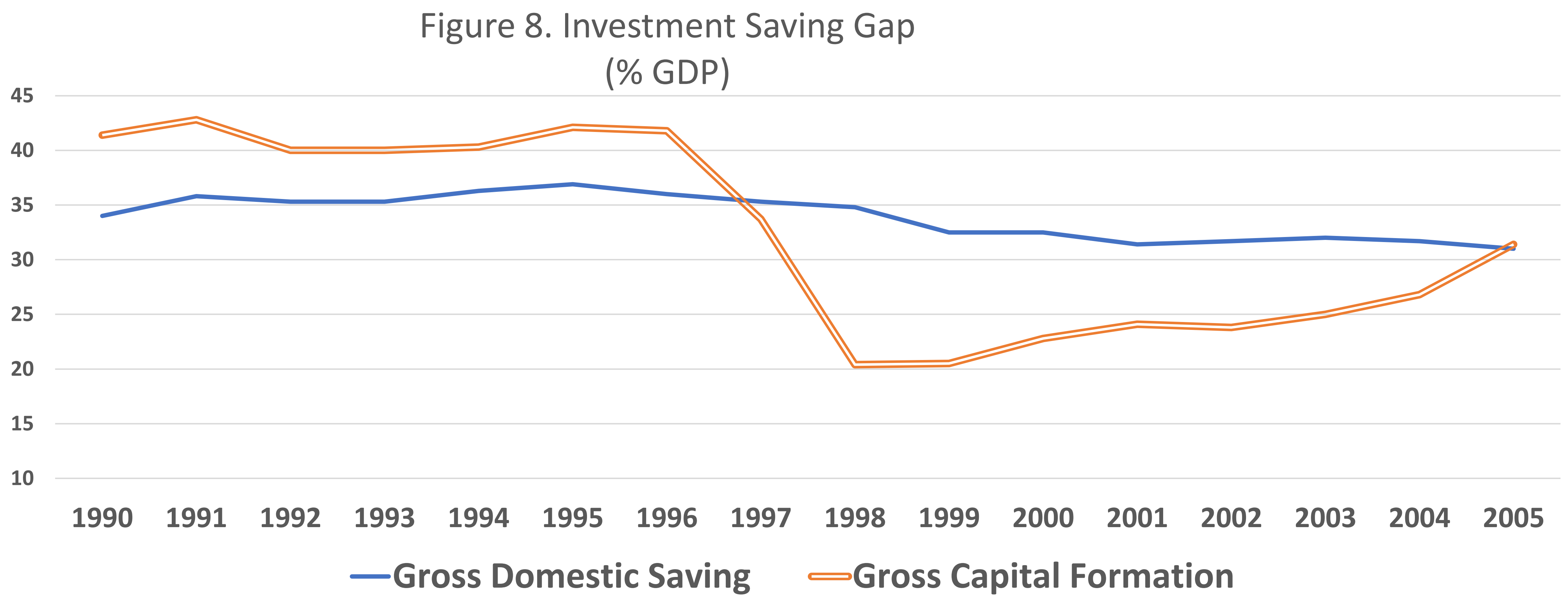
The future looks bright. Profits for the S&P 500 are forecast to jump by another 11% in 2018.



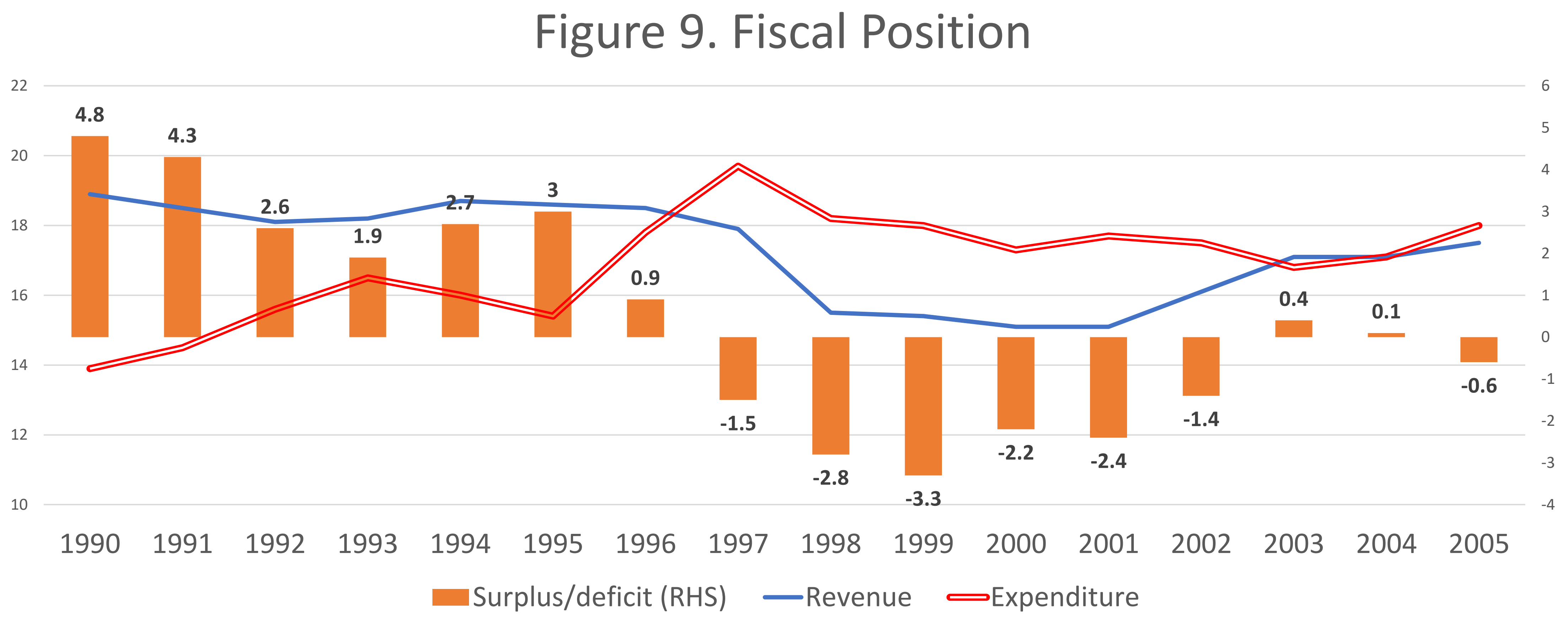
V-shaped recovery



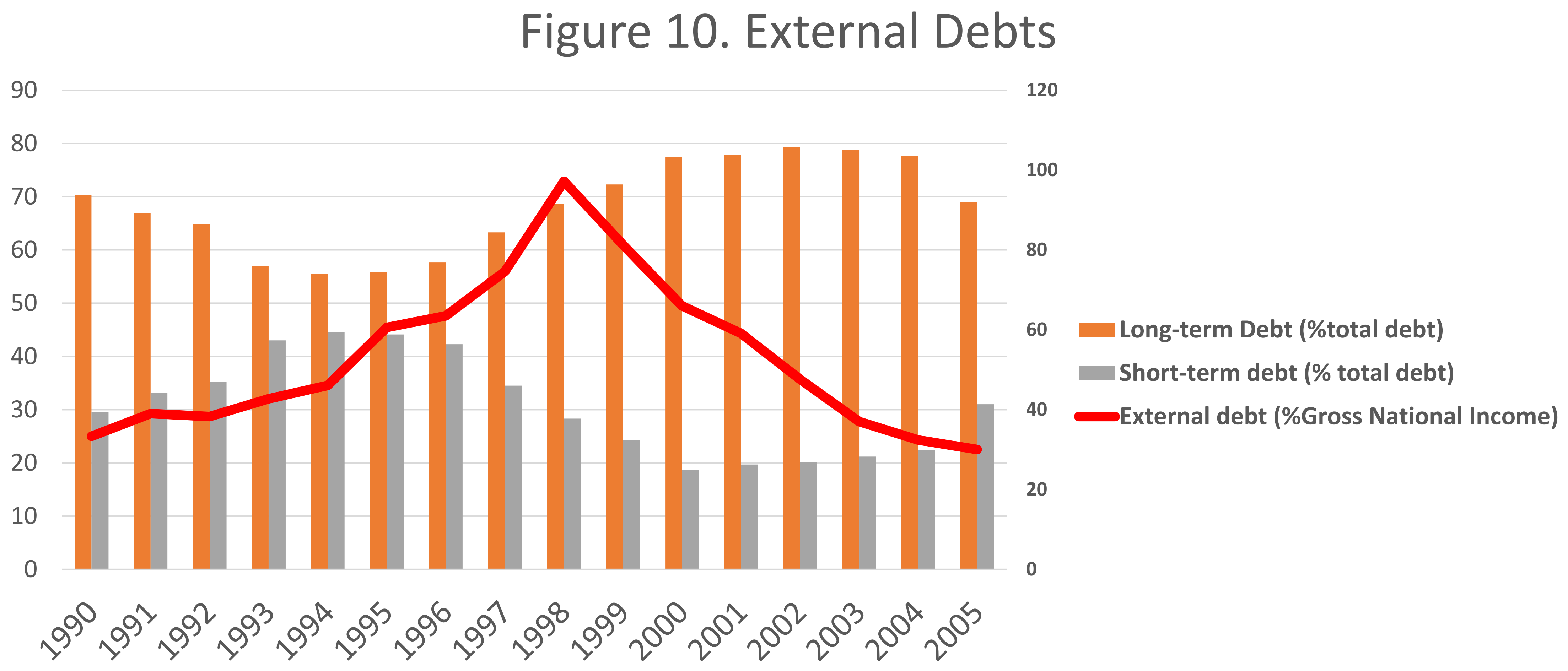
$M - X = (I\text{-}S) + (G\text{-}T)$



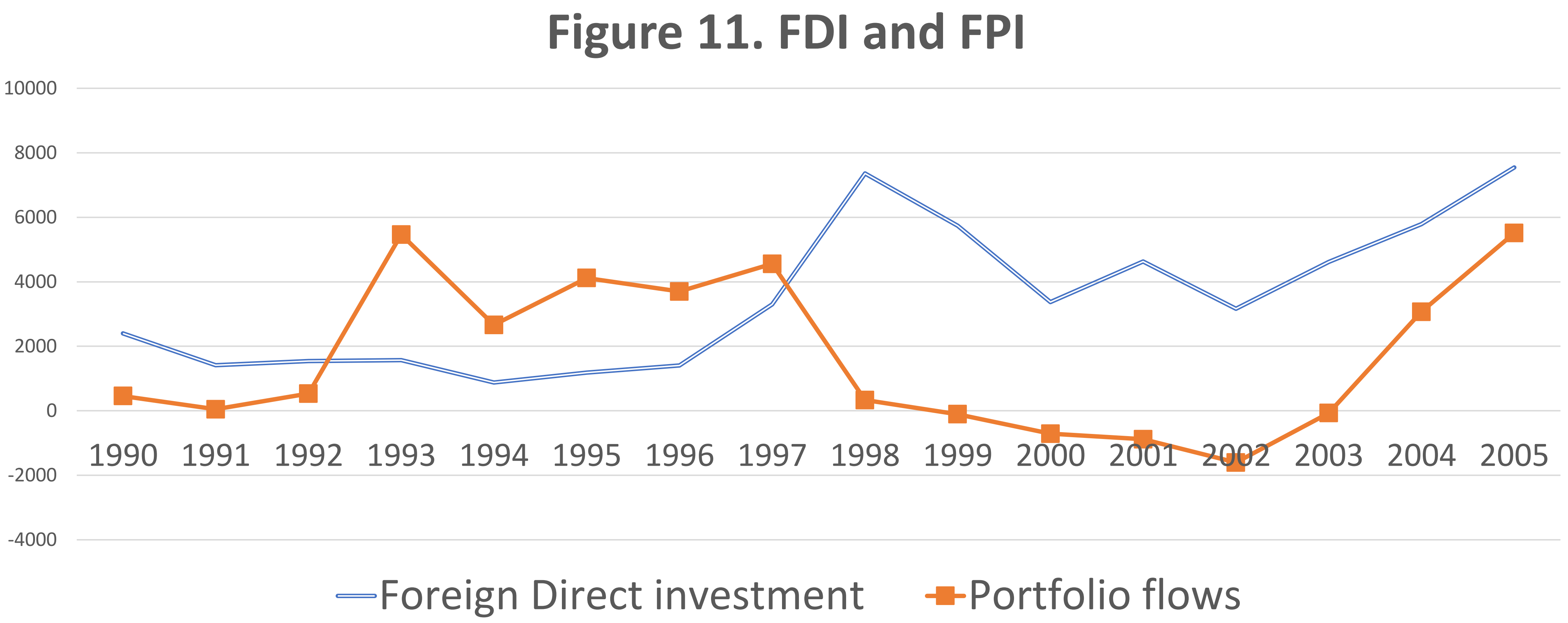
In good shape



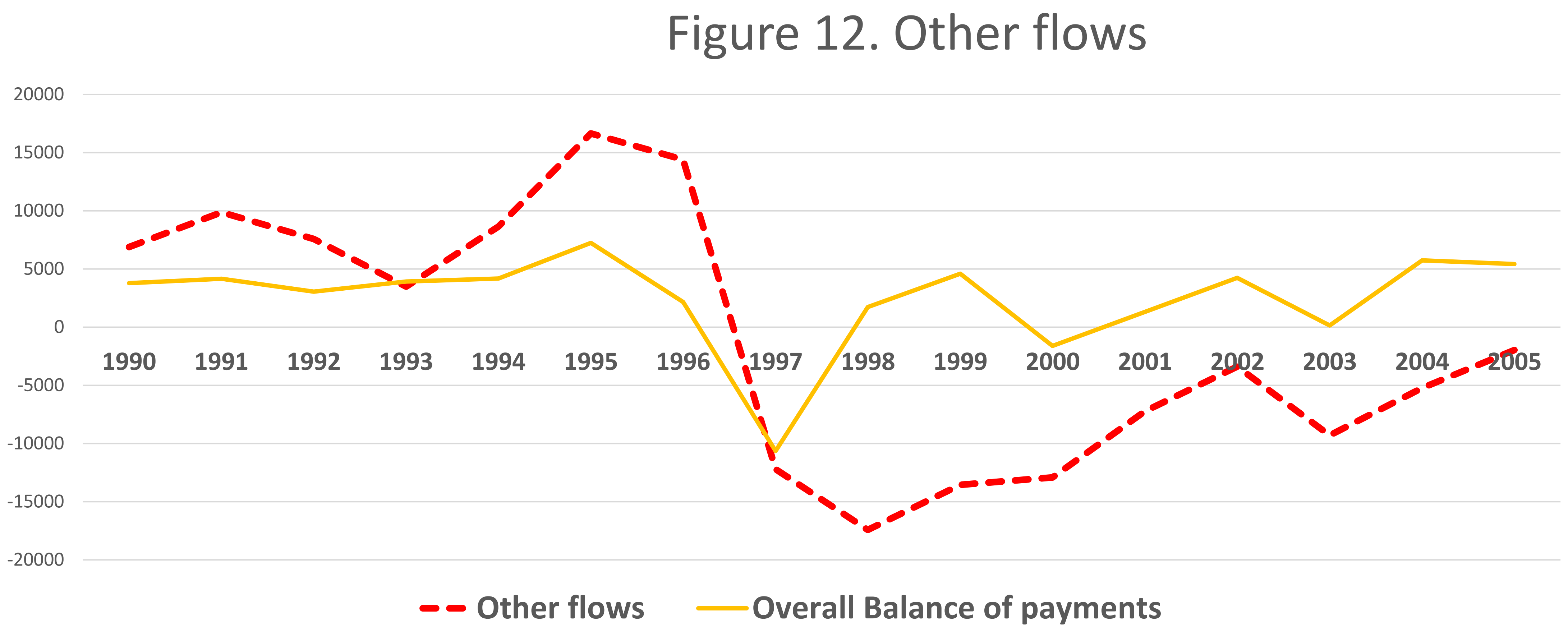
Sustainable external debts



The good old days

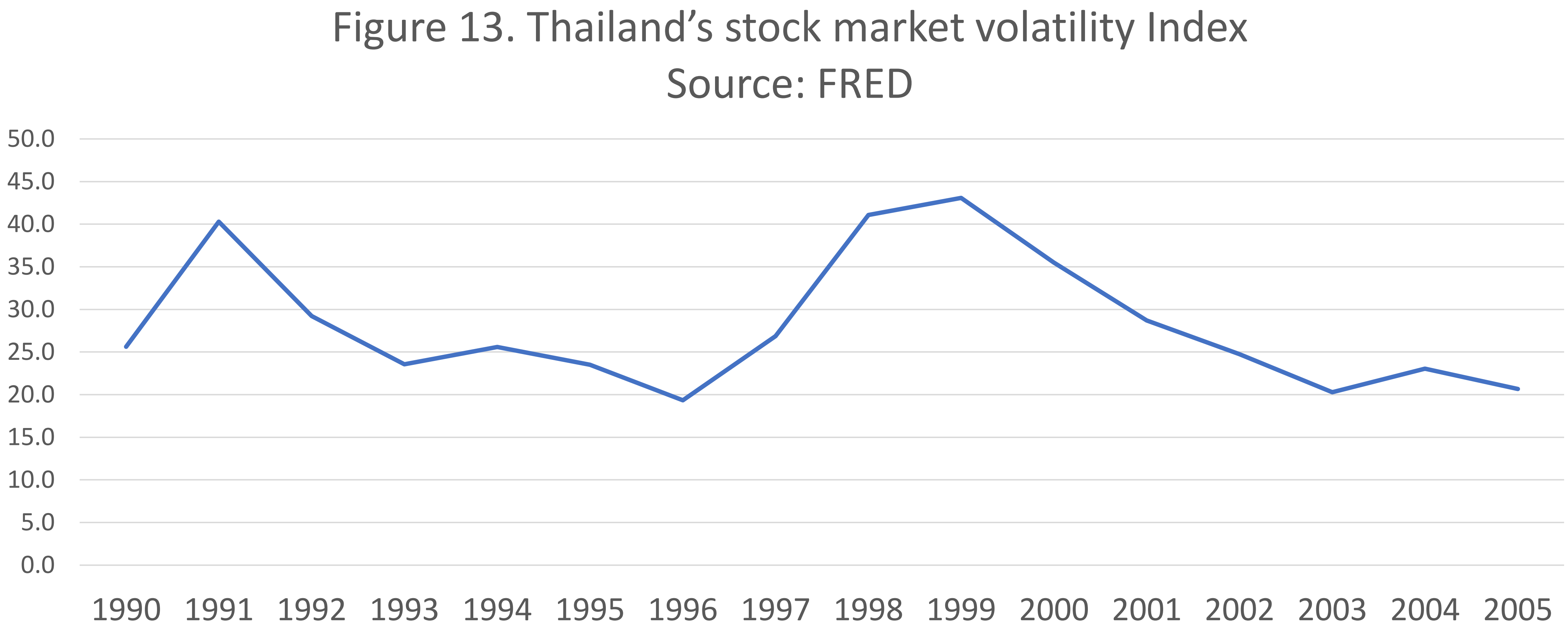


Beware of speculators (Non-resident baht account)



More excitements to come

Check VIX index



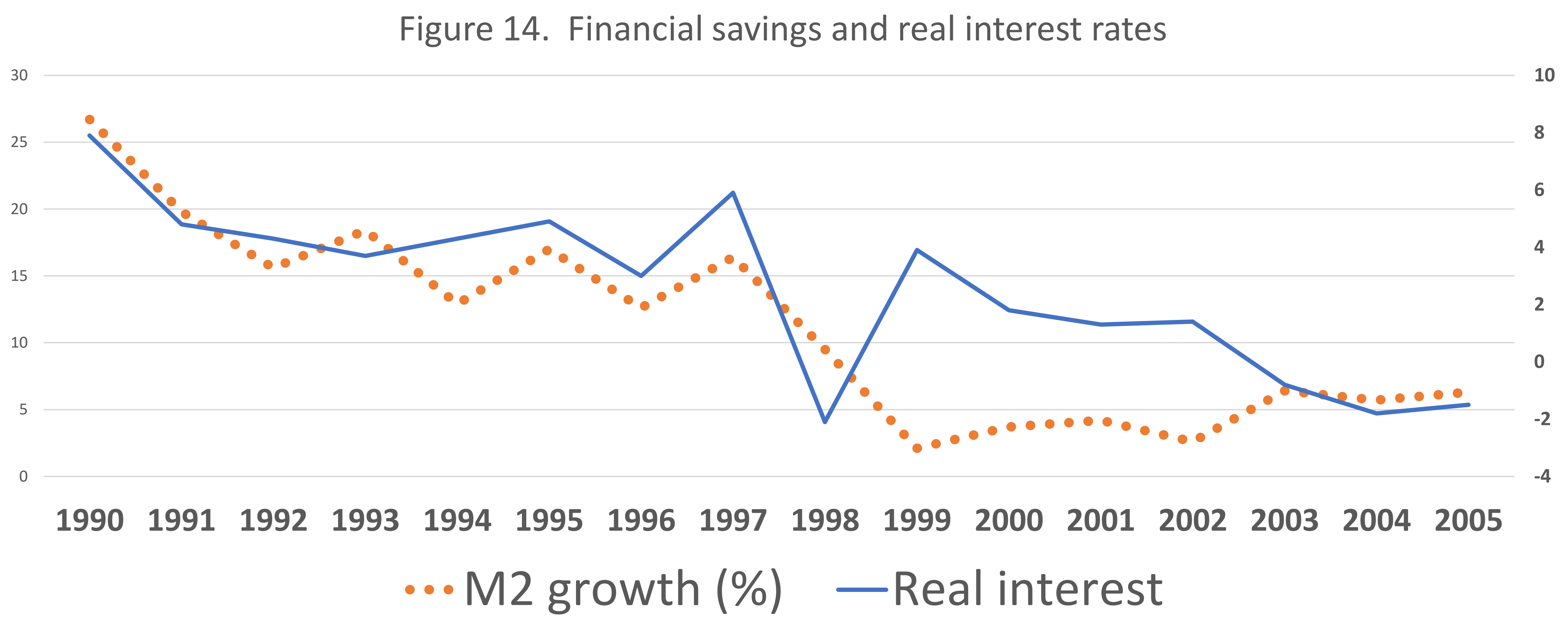
“Irrational Exuberance” by Robert J. Shiller

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

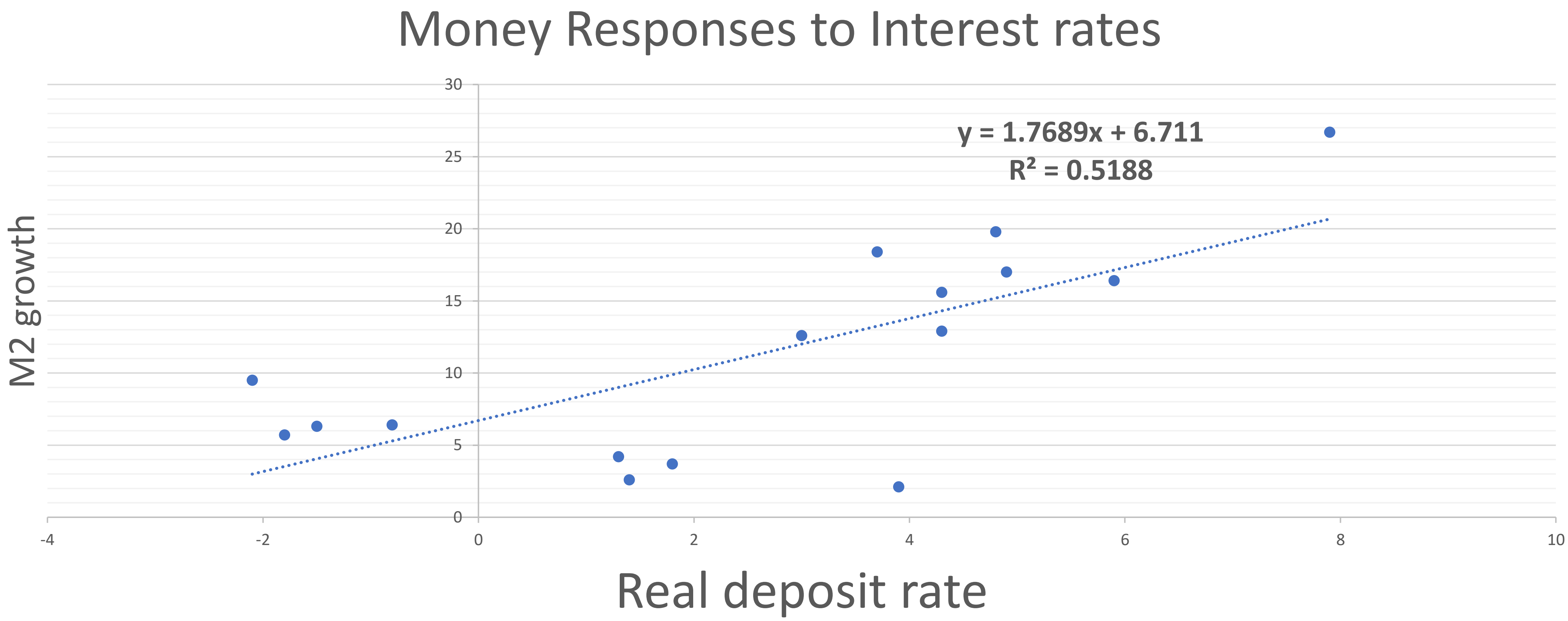
Irrational Exuberance

- Psychological Factors
(e.g. Tulip mania: 1637)
- Herd Behavior and Epidemics
- Attempts to rationalize exuberance
- Efficient markets, Random walks, and bubbles

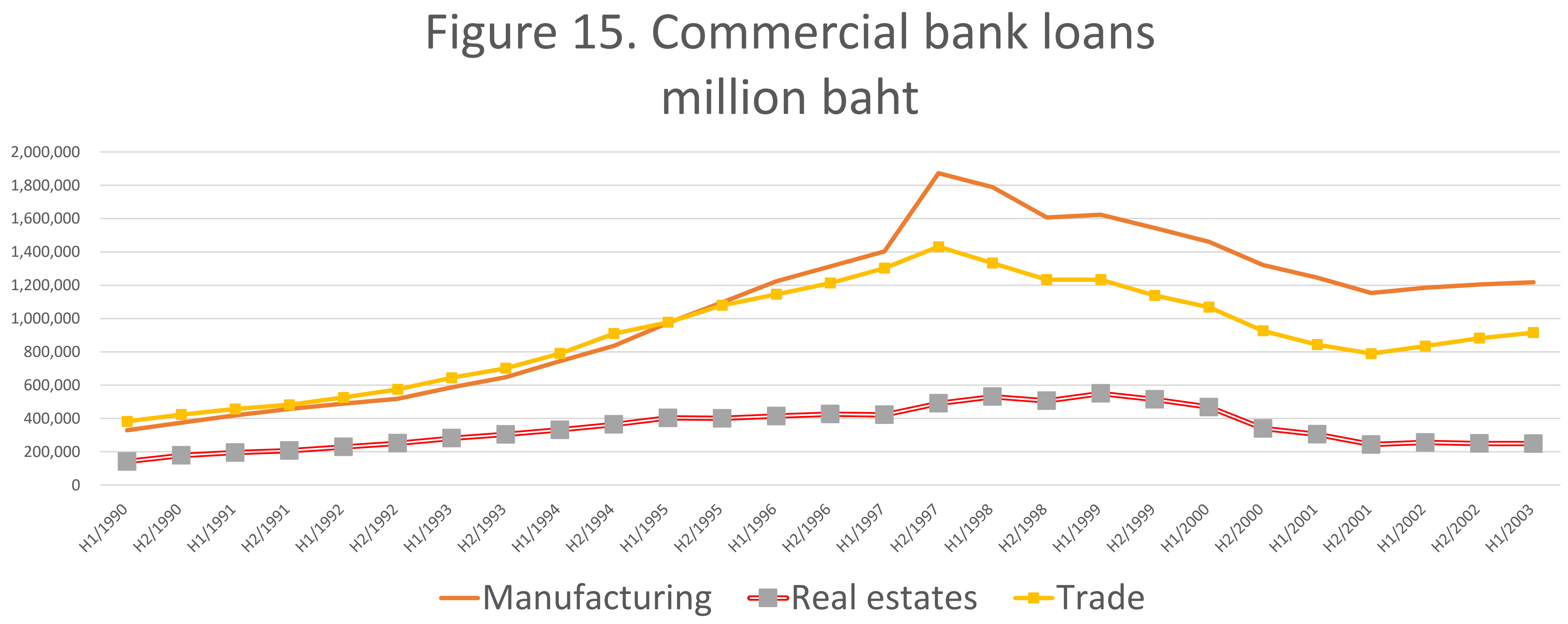
Dwindling incentives to save



Substitution vs Income effect from rising interest rates

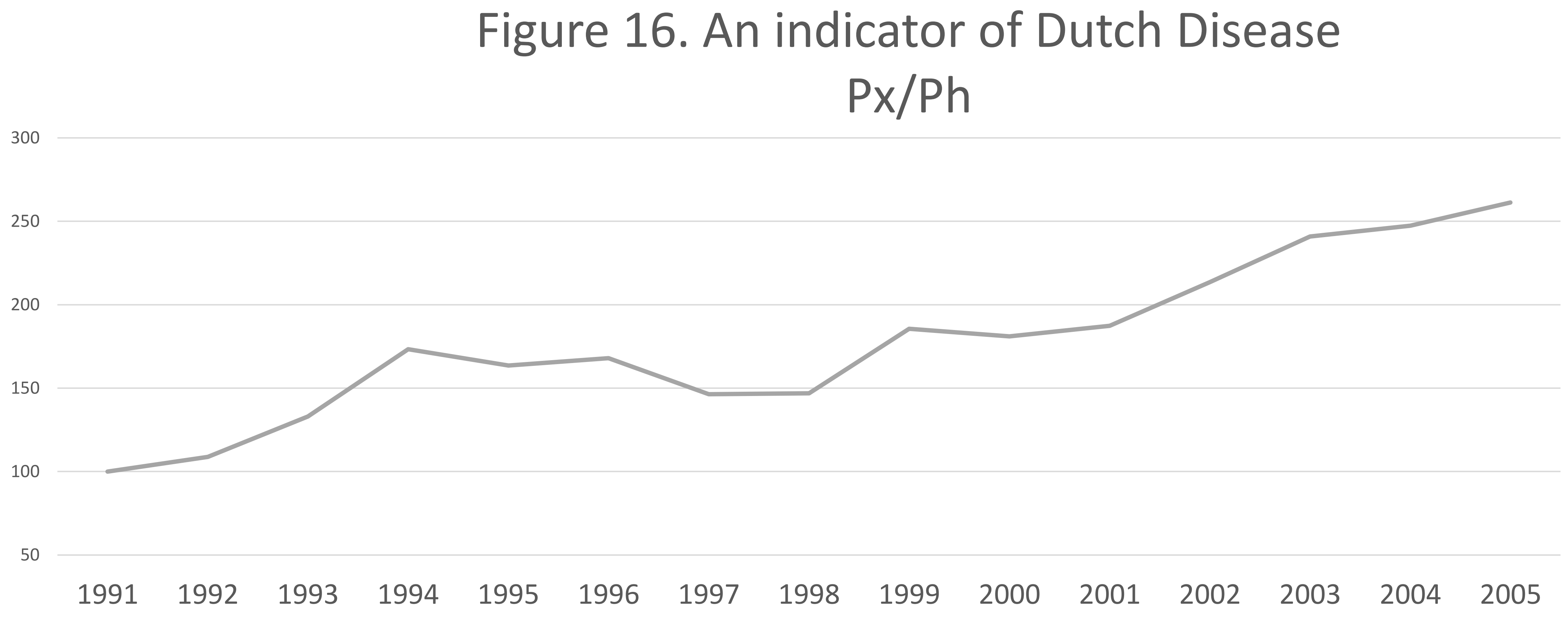


Loanable funds



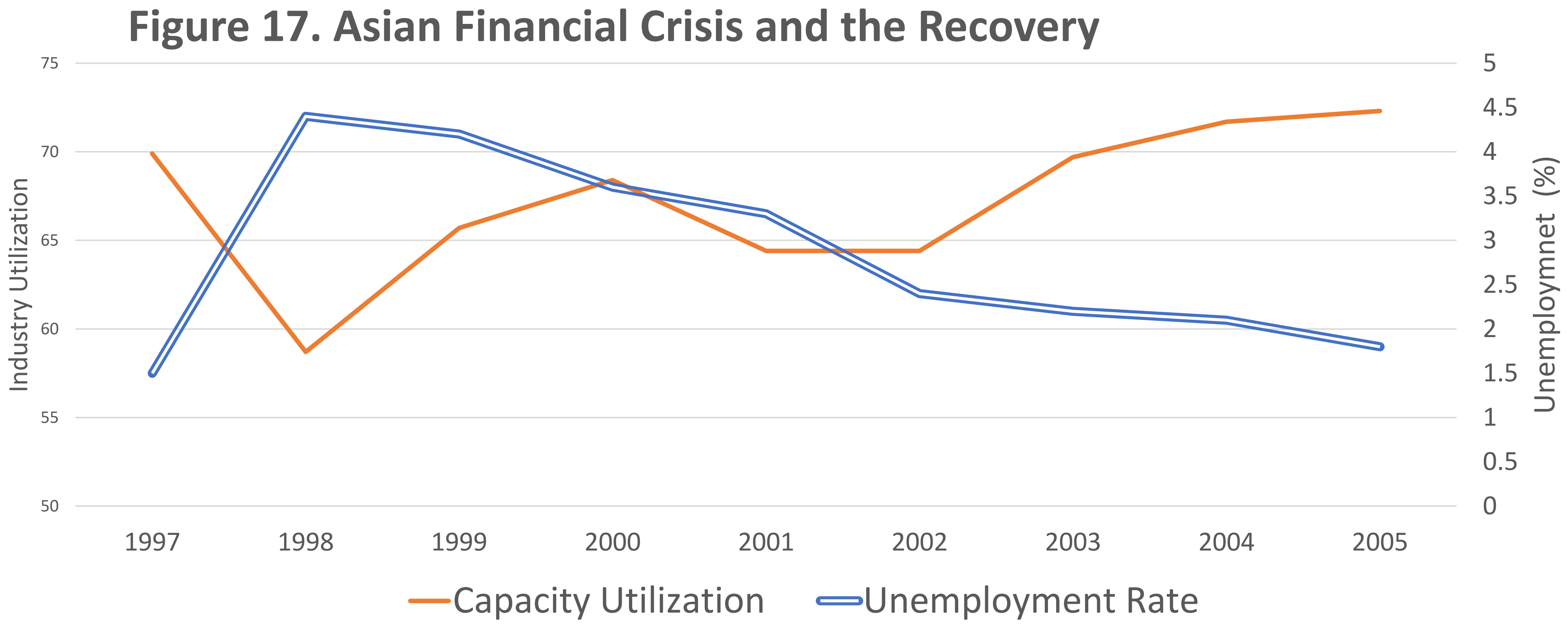
Trade vs Non-traded prices

What is the Dutch disease? Name countries that are suffering from?



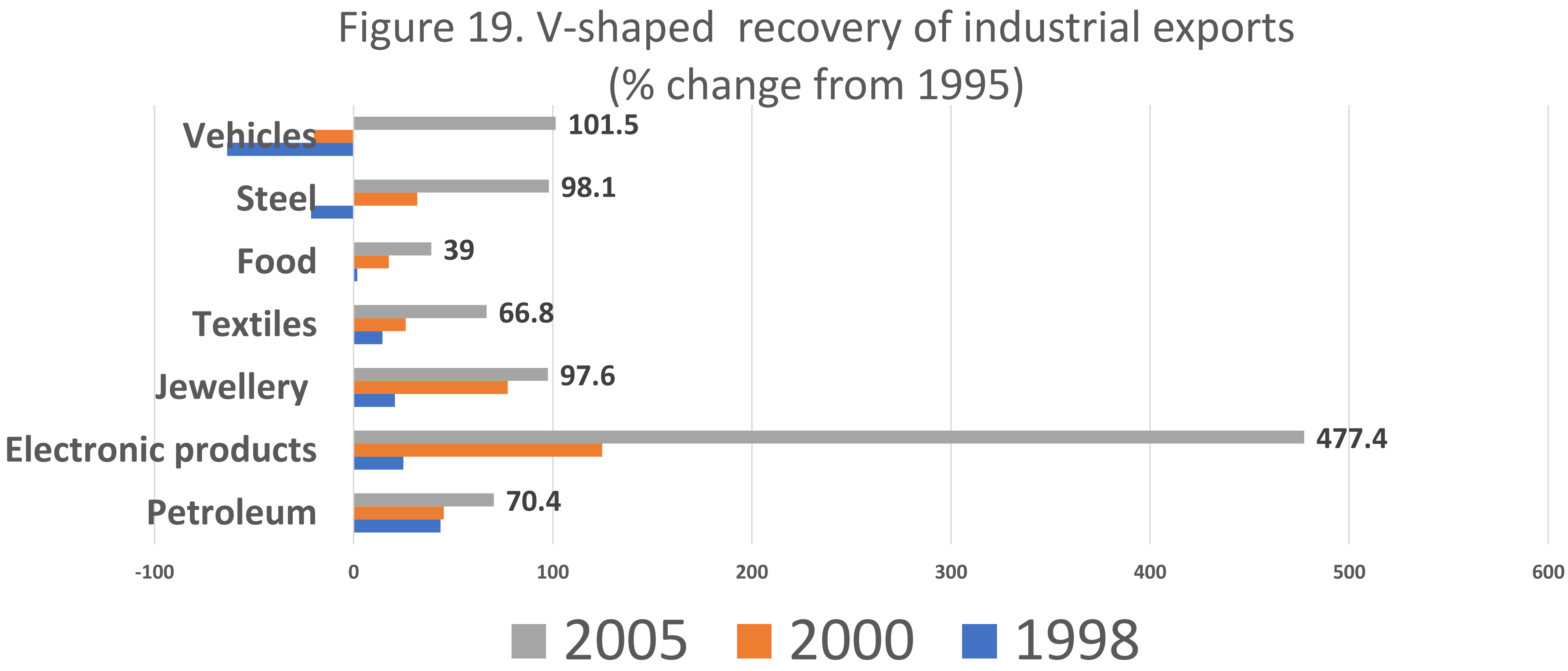
Ridiculously low unemployment rate

Explain why



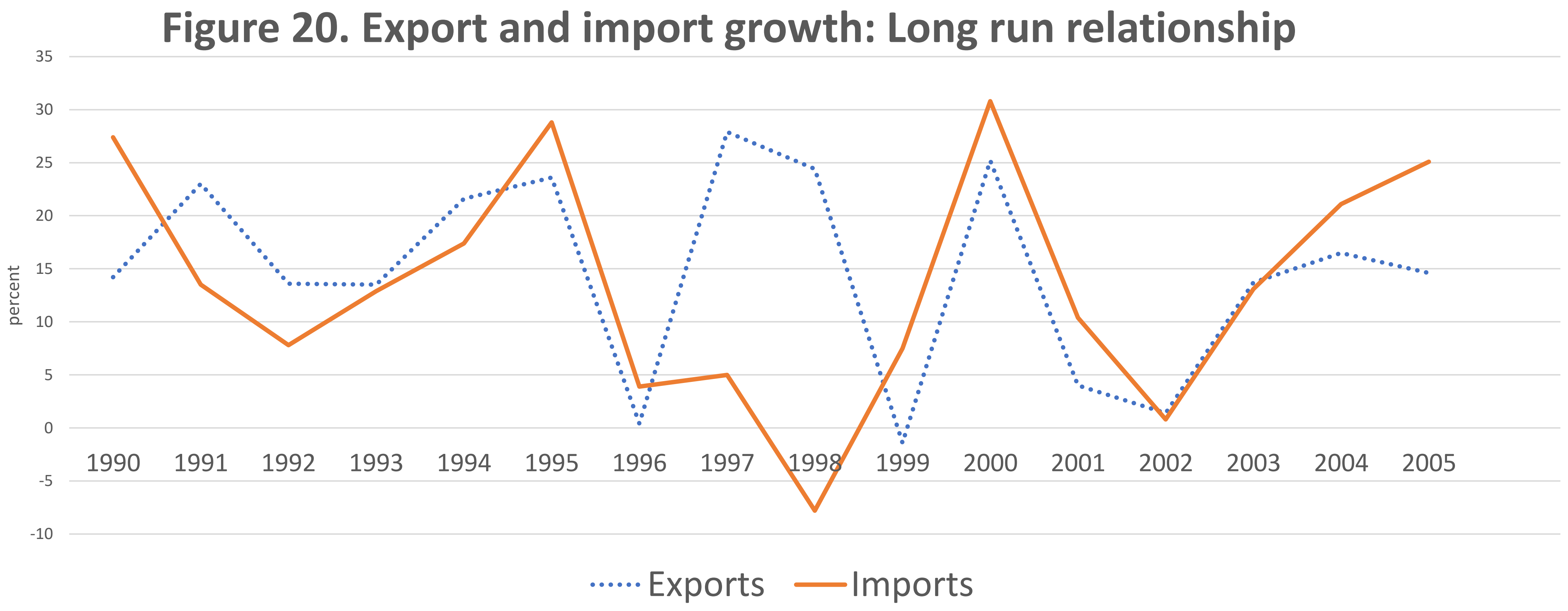
Three types of industry: By market orientation (export-to-output ratio)

Thanks to FDI inflows

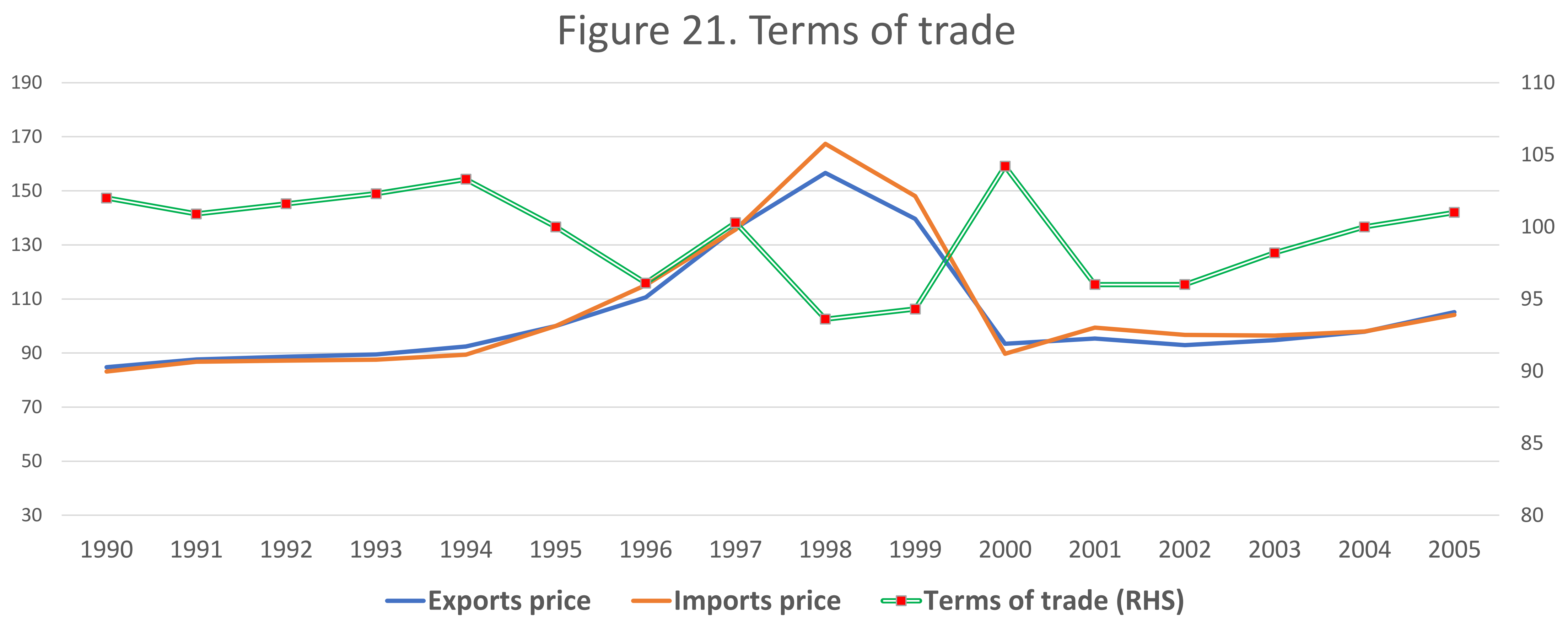


Non-spurious relationship

What is a spurious relationship?

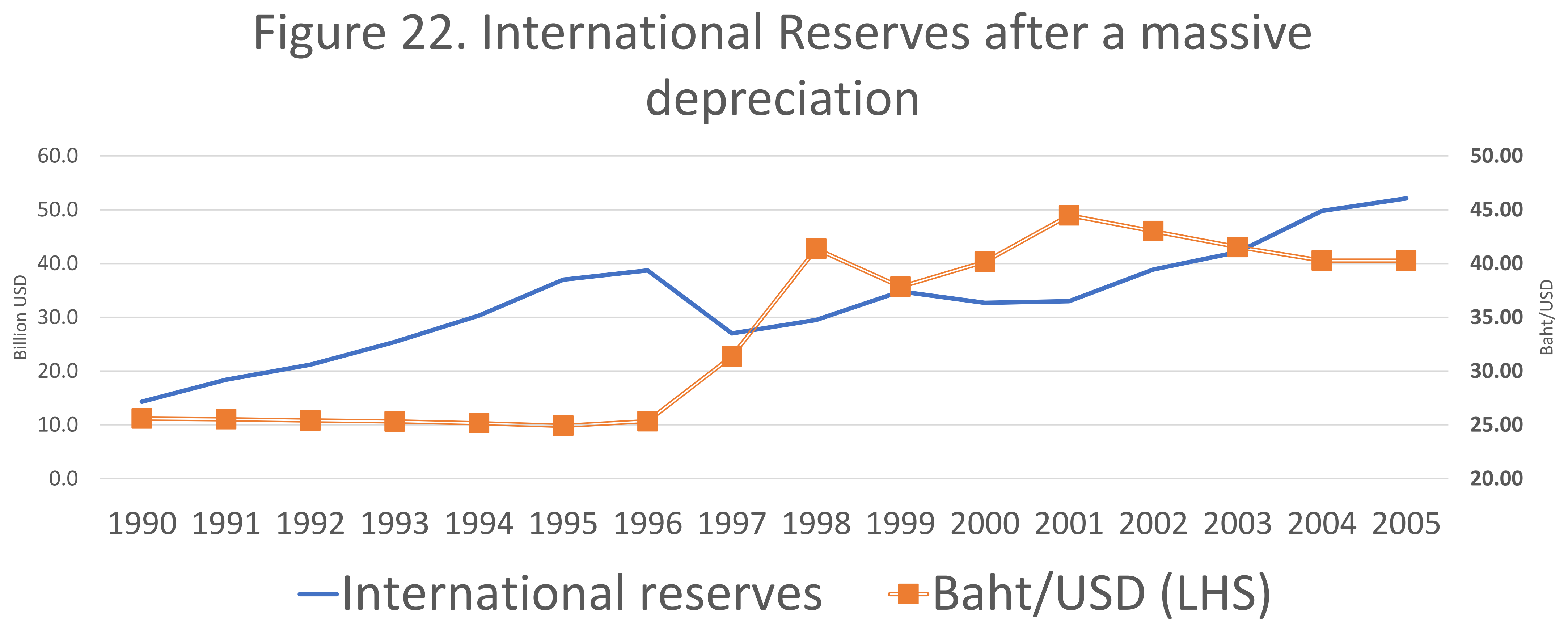


Terms of trade: Cyclical Pattern

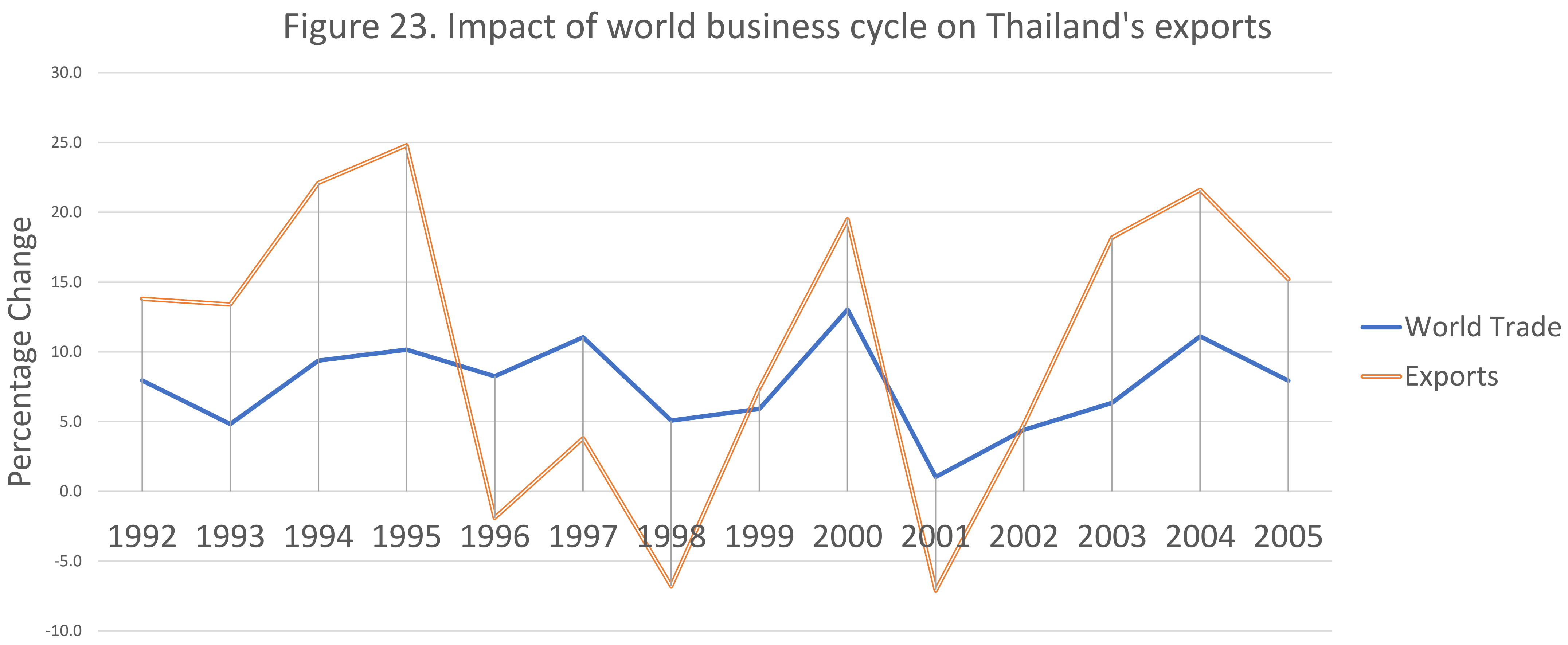


Preferred Stability: Fear of appreciation

Has the BoT fear of floating?

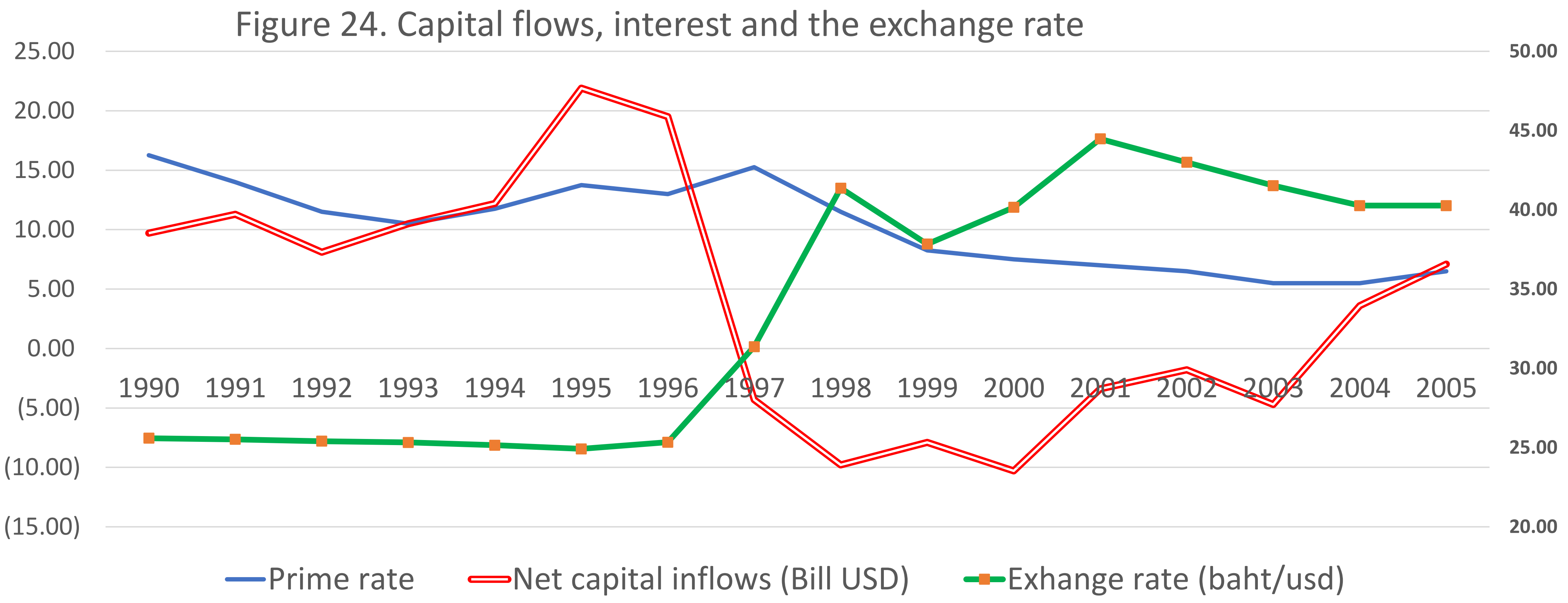


High income elasticity of export demand for Thailand’s exports



How were they related?

Any causal relationship between exchange rate and capital inflows? Any lurking variables or confounding factors?



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 more or less resilient than the period before 2006?
- Is Thailand 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?