EE360: 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^{th} plan (1987-1991)
Maintain economic growth
Upgrade quality of life

7^{th} plan (1992-1996)
income distribution
improve quality of life and **environment**

Recap: Economic and social development plans

8th plan **(1997-2001)**

Human-centered development

Public participation

Sustainable development

9th plan (2002-2006)

Competitiveness

Financial immune system

Self-reliant and resilient society

Social indicators: 1990

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

Income distribution in the 1980s

The lower the coefficient, the more equitable income distribution

	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 coefficient 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

Annual Salary (USD) of the Prime minister/President

Singapore	1.6 million USD
USA	400,000
UK	200,000
China	22,000

Percentage of population living below the poverty line (2 dollars a day)

	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 (Asian Development Bank)

- 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 *low **household consumption.***
- Estimates suggest household consumption 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.
- ***Isn't it because people consume less for addition income earned? Or people are still too poor to save?***

Exclusive growth

- This is particularly troublesome for countries attempting to expand domestic consumption and bring the benefits of growth to more people, such as in China.
- 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.

Exclusive growth: Denied access to public services

- 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

Define education

- “An investment in knowledge pays the best interest.” Benjamin Franklin
- “The roots of education are bitter, but the fruit is sweet.” Aristotle
- “Education is the ability to listen to almost anything without losing your temper or your self-confidence.” Robert Frost

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.

Theodore Schultz: 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.

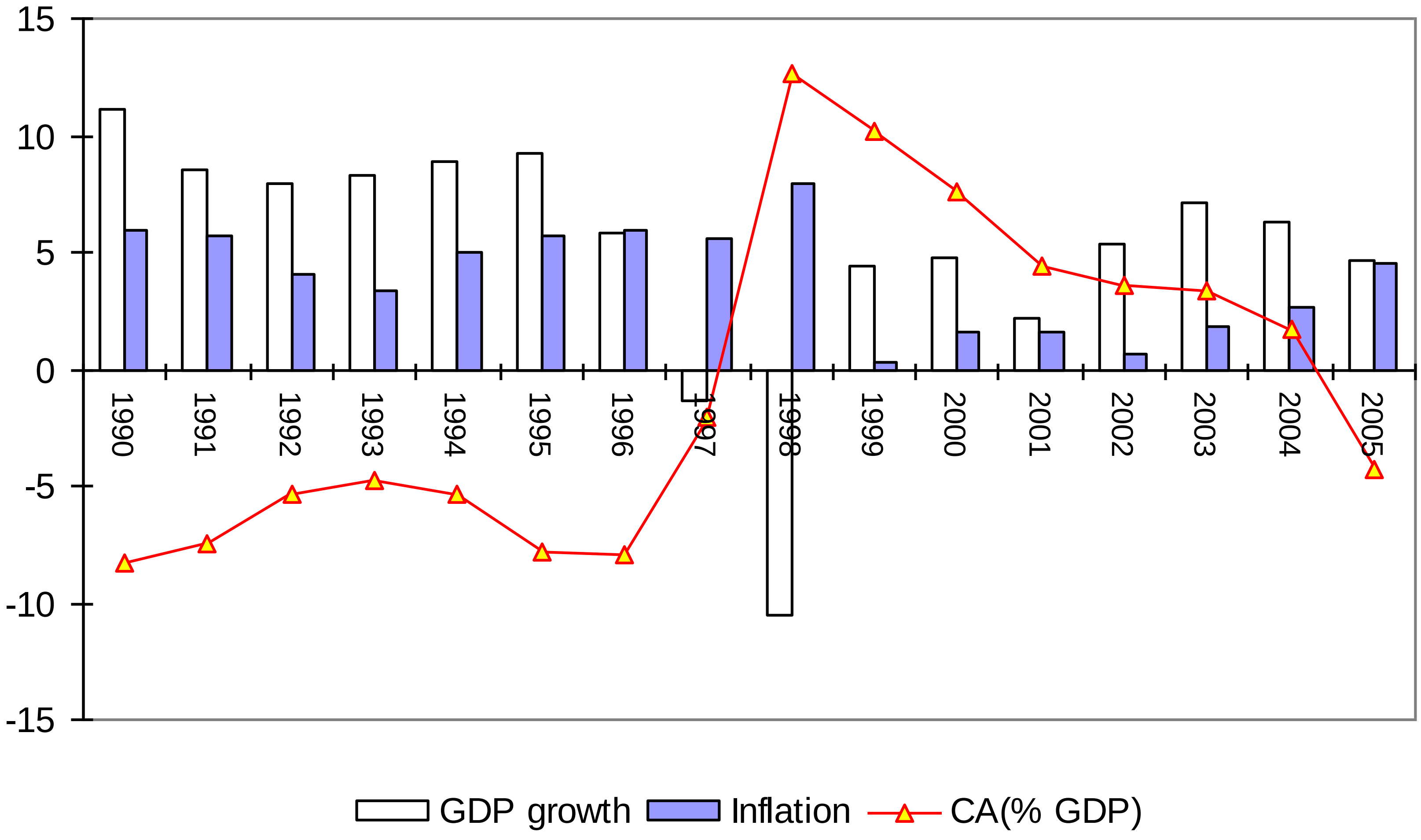
Don’t neglect agriculture

- Schultz 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.

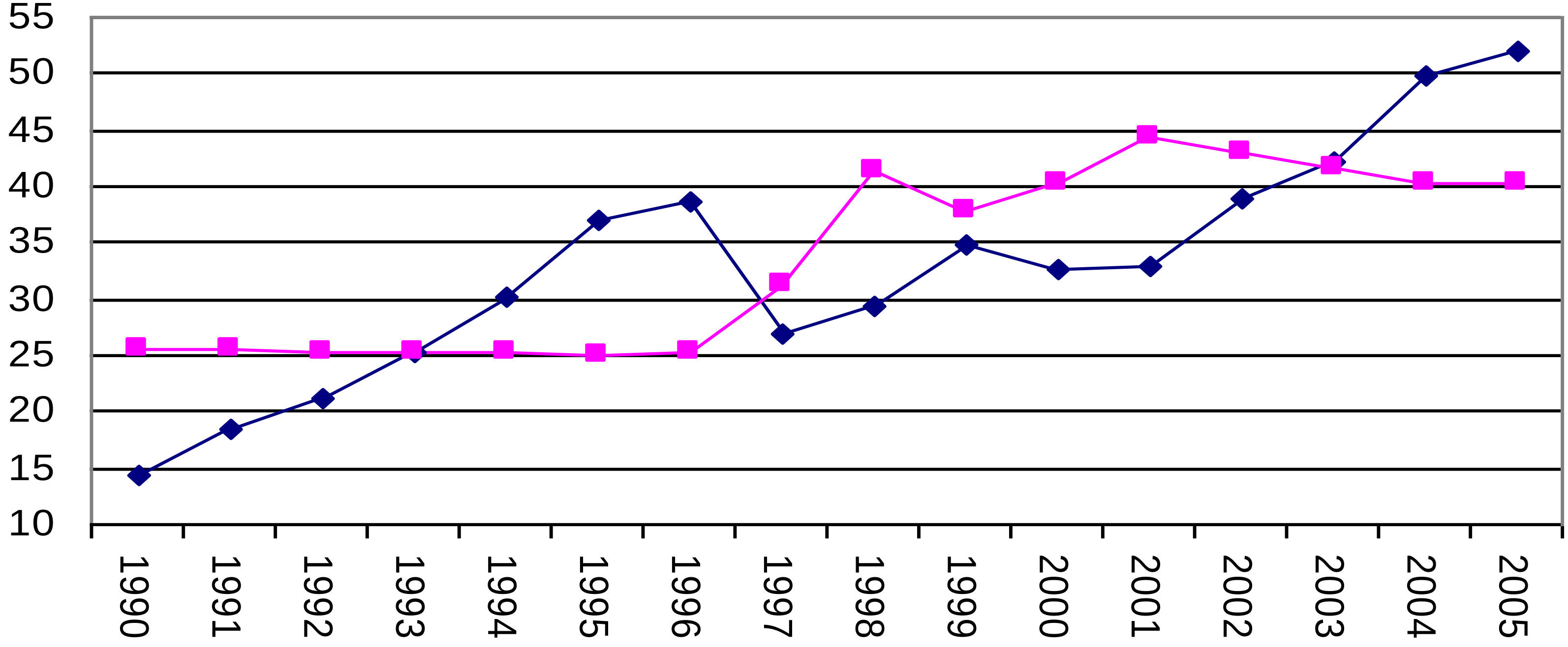
On Macroeconomic Environment

- GDP growth
- Current account
- Inflation

The three economic vital sighs

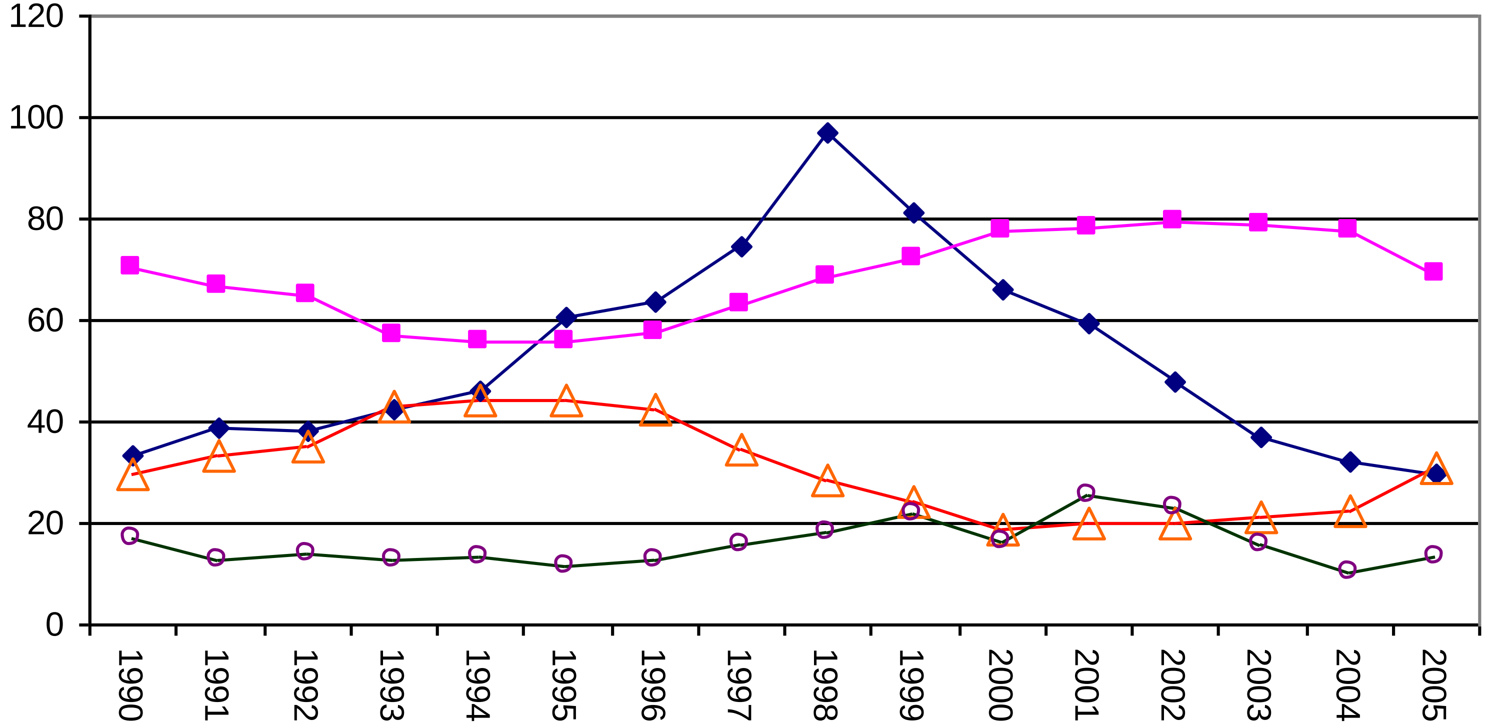


Rising international reserves
What was the main reason?



Source: Bank of Thailand

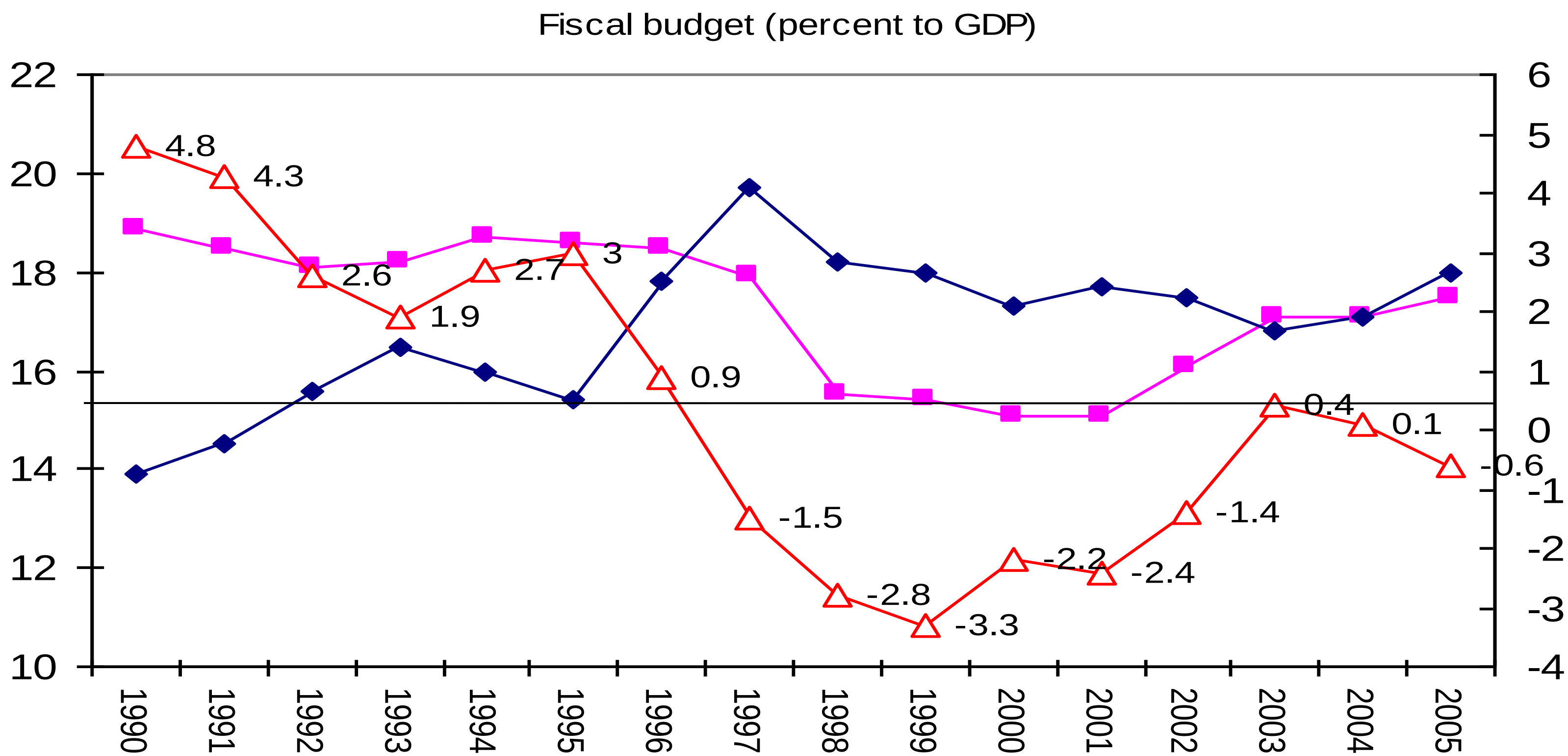
External debt structure



Source: Bank of Thailand

Fiscal discipline and self discipline

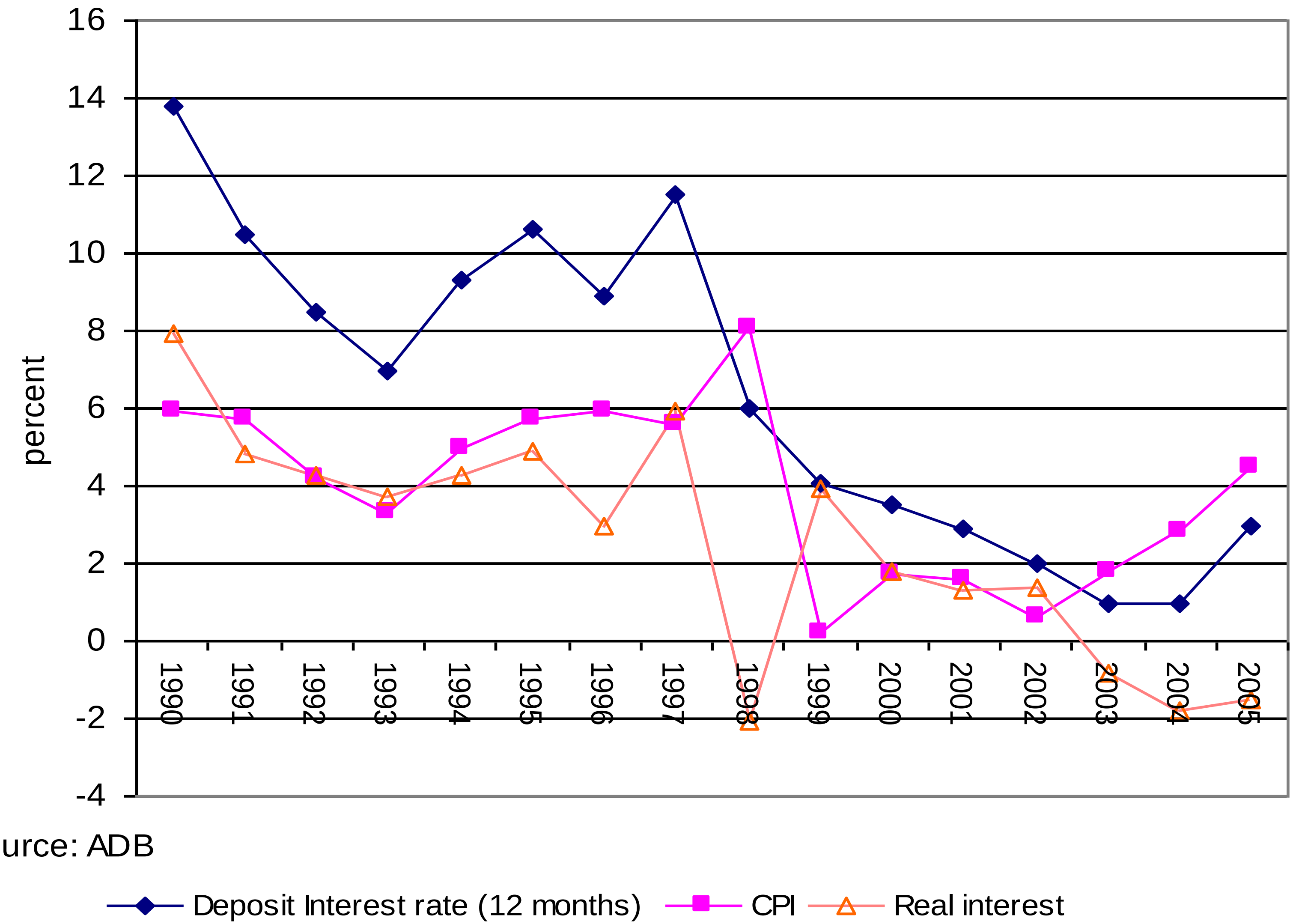
Self discipline is when one uses *reason* to determine the best course of action that *opposes* one's desires.   It is the ability to motivate oneself in spite of *a negative emotional state.*
Using *willpower* routinely and even automatically.



Source: Bank of Thailand

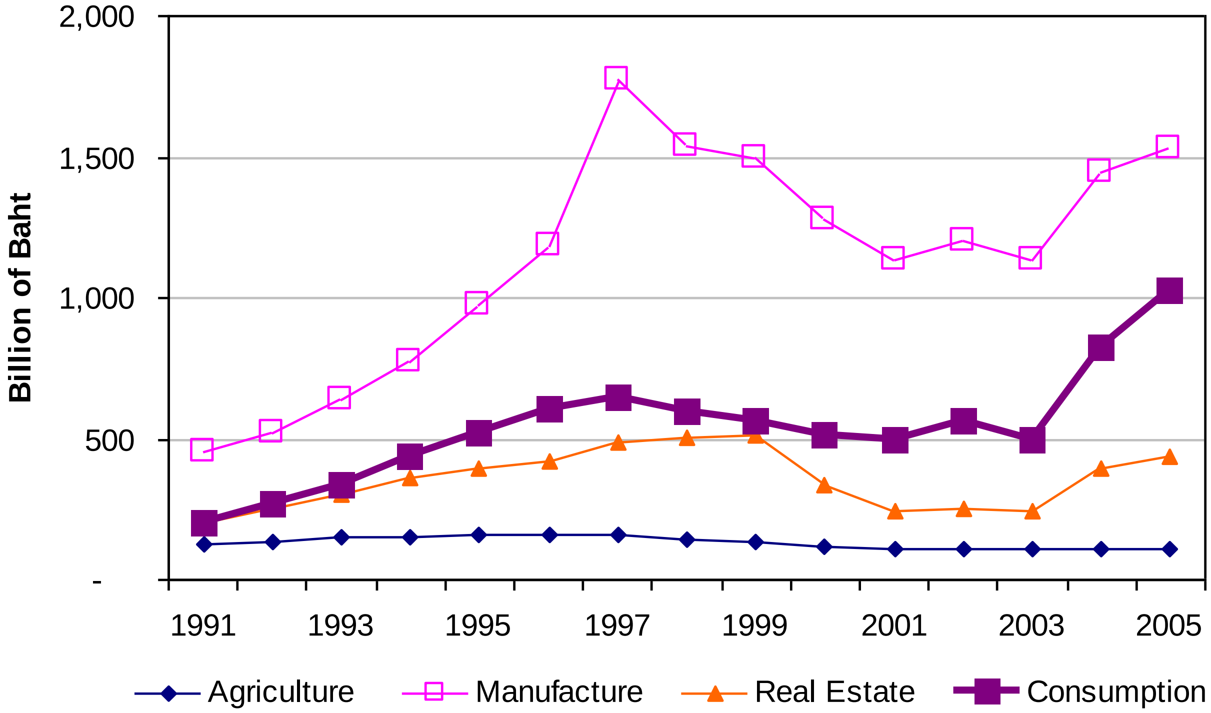
Incentive for financial savings

Fisher Effect?



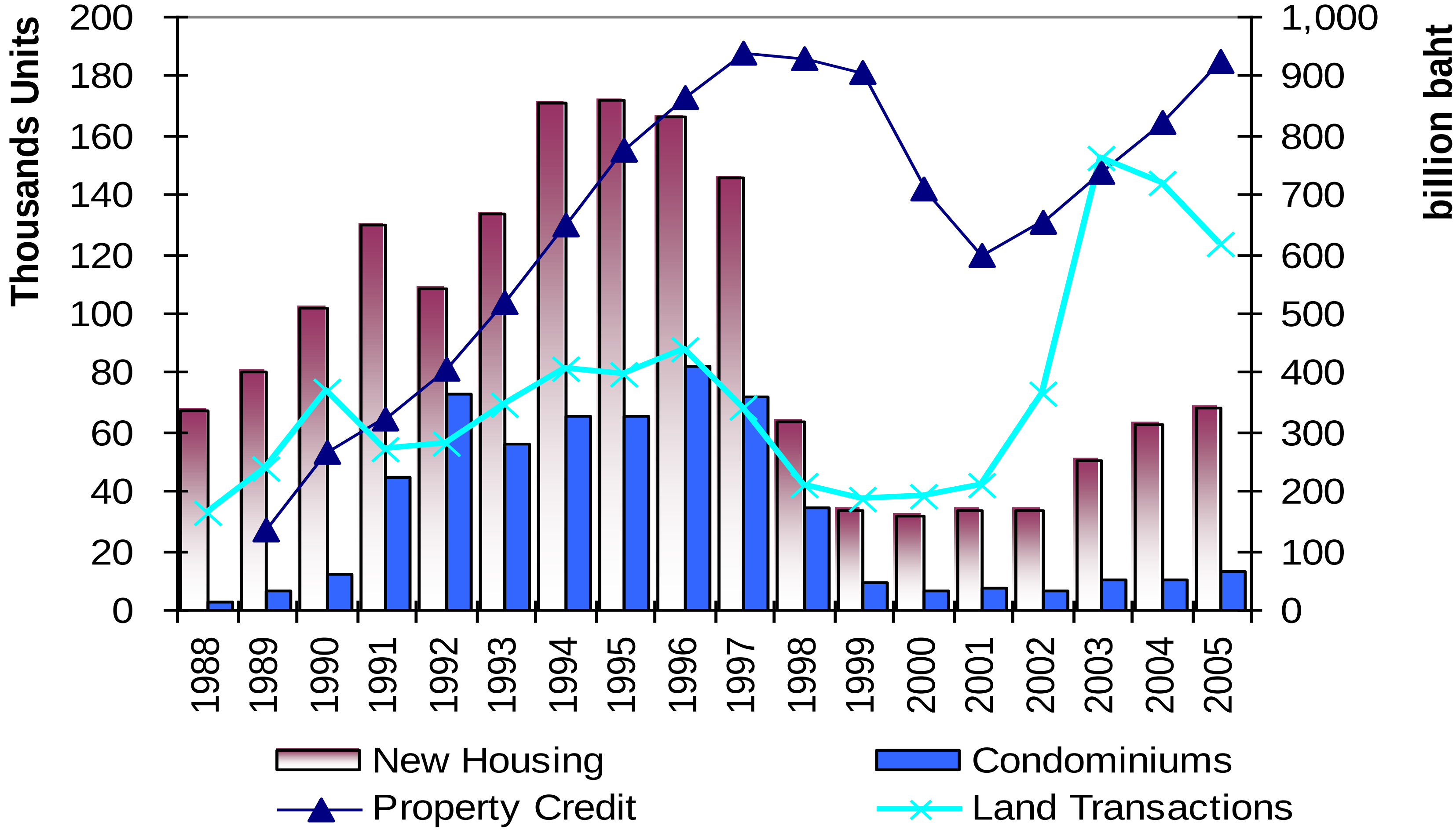
Surce: ADB

Bank loan extension



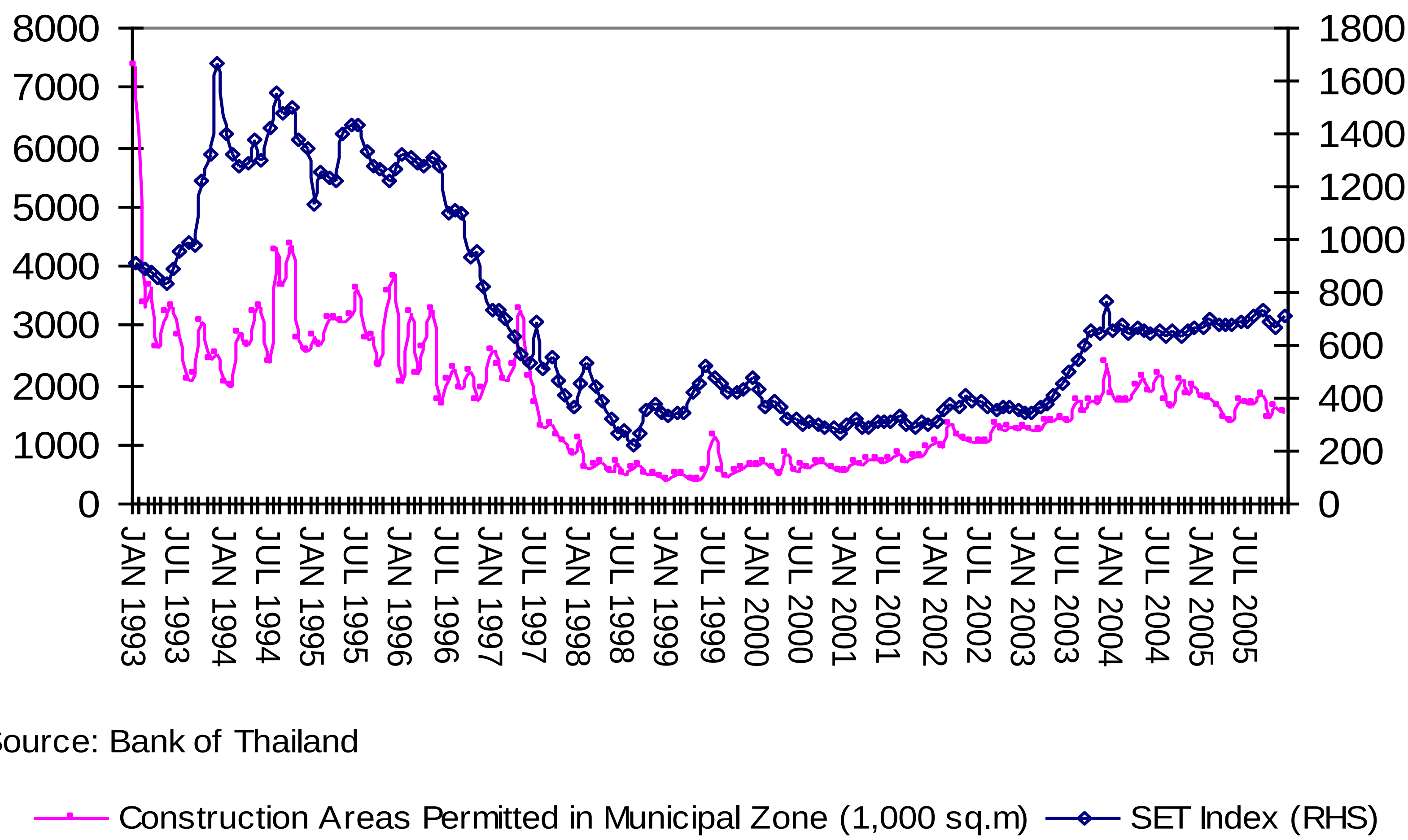
Source: Bank of Thailand

Property bubble



Source: Bank of Thailand

Property and stock bubbles: Strong correlation



Source: Bank of Thailand

Blackie Sherrod

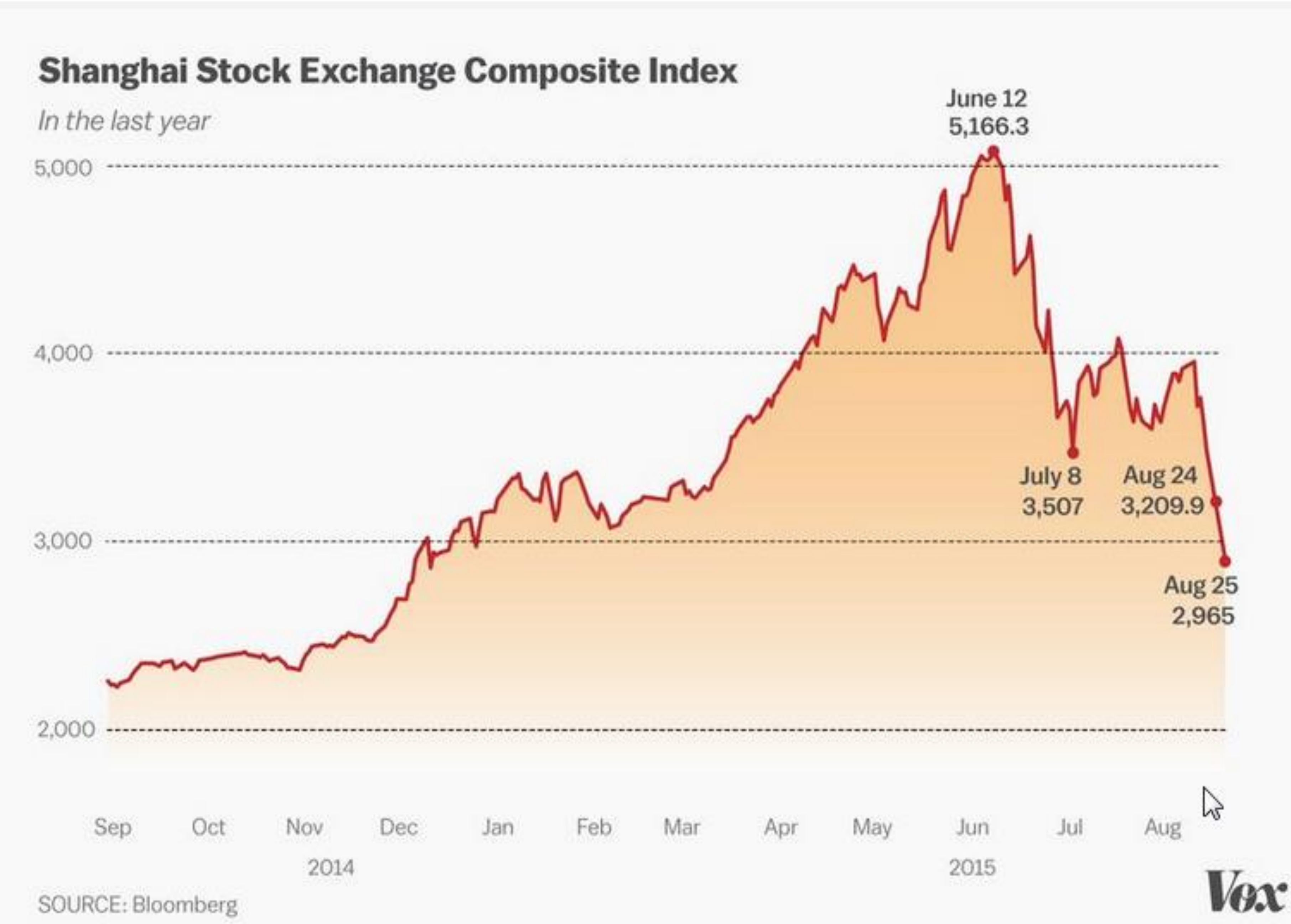
- “If you bet on a horse, that’s gambling.
- If you can make three spades, that’s entertainment.
- If you bet cotton will go up three points, that’s business, see the difference?”

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**

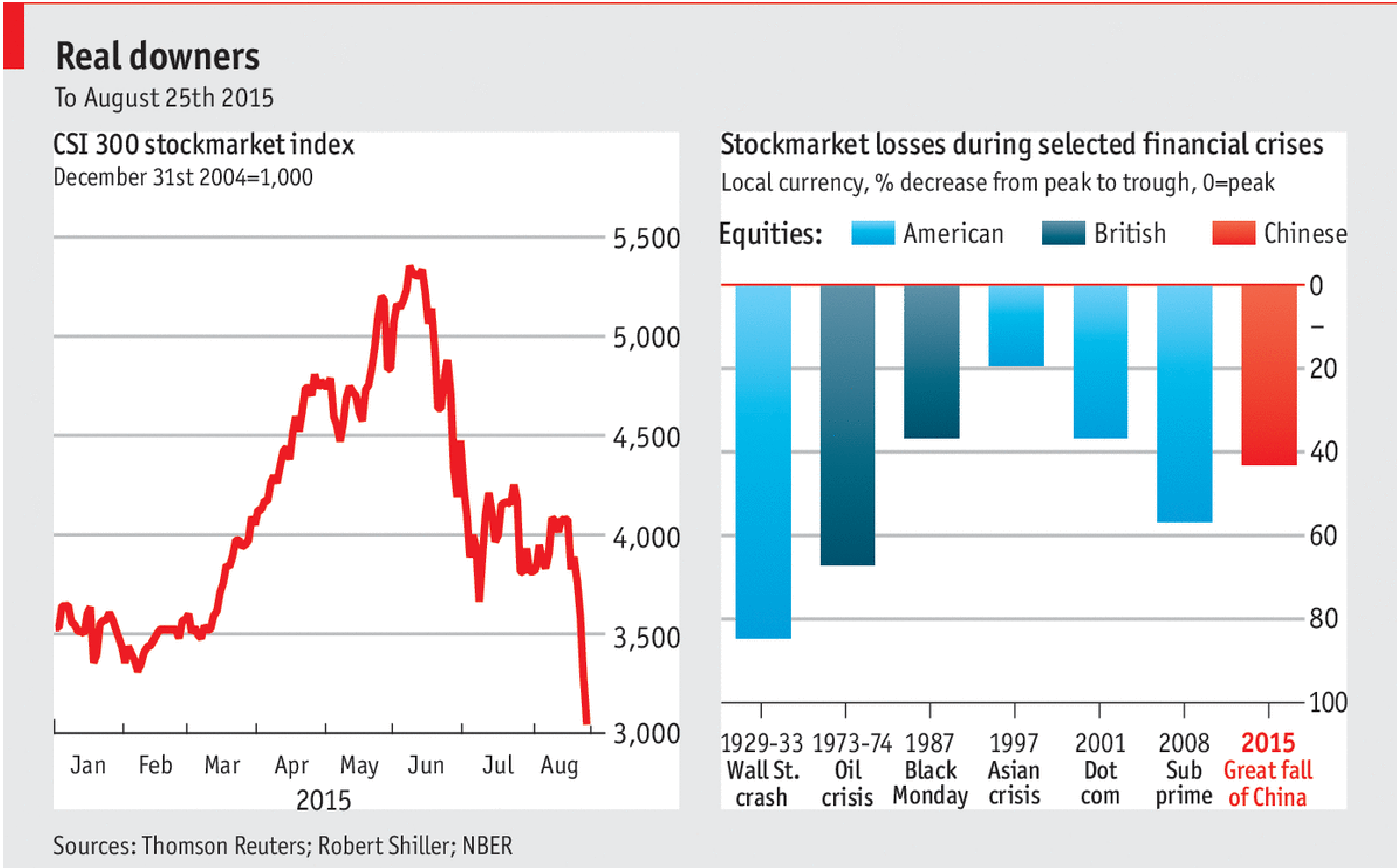
China's stock market had a debt-fueled boom, followed by a crash

- Between June 2014 and June 2015, China's Shanghai Composite index rose by 150 percent.
- A big reason for the stock market rally was that a lot of ordinary Chinese people began investing in the stock market for the first time.
- More than 40 million new stock accounts were opened between June 2014 and May 2015.


Shanghai Stock Exchange Composite Index
In the last year
June 12
5,166.3
5,000
4,000
3,000
2,000
July 8
3,507
Aug 24
3,209.9
Aug 25
2,965
Sep
Oct
Nov
Dec
Jan
Feb
Mar
Apr
May
Jun
Jul
Aug
2014
2015
SOURCE: Bloomberg
Vox

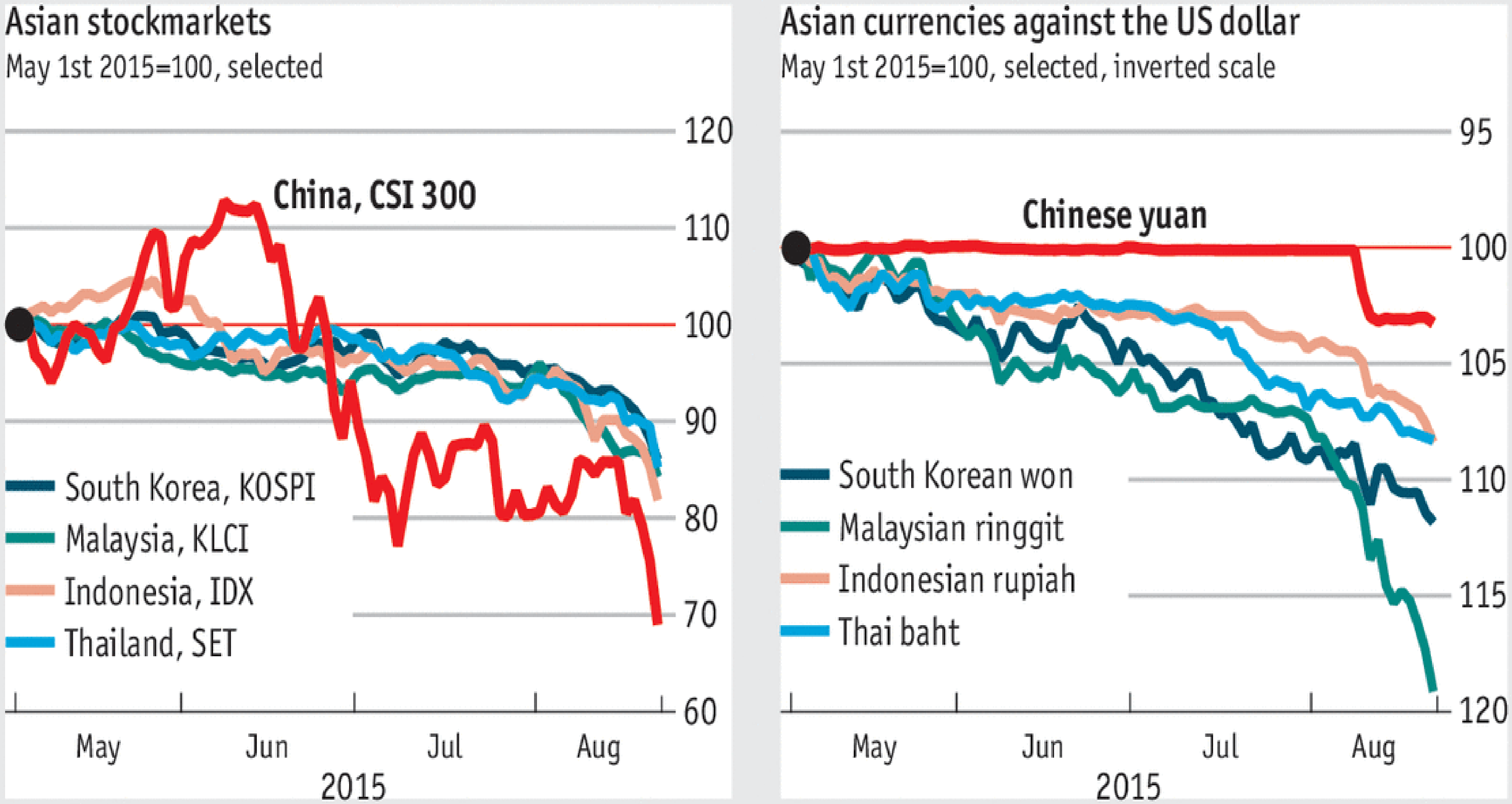
Irrational Exuberance
Robert J. Shiller

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



Economist.com

China's gravitational pull



Source: Thomson Reuters

Economist.com

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.
- Sustainability of fiscal balance and external debts depends on fiscal discipline.

Conclusions

- Capital flows are related to exchange rate movements.
- Asset bubbles are propelled by 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?
- (China saved the world in 2009 after the GDC, by increased public spending).