Investment in Thailand following the global financial crisis and into the future: evidence from cross-country comparisons

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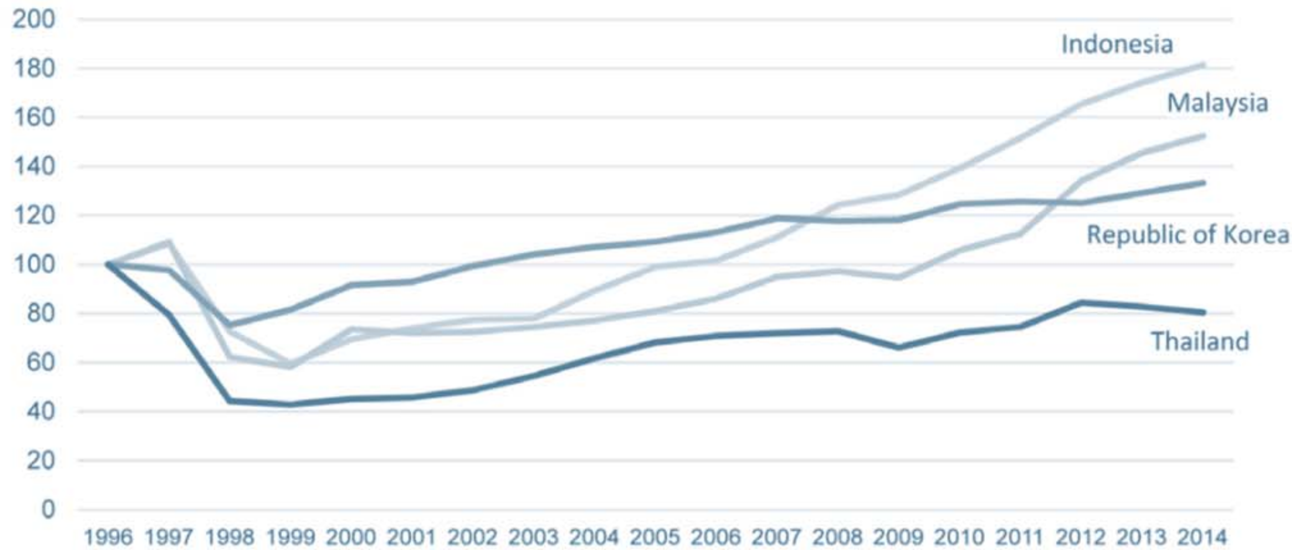
I. Introduction

After the global financial crisis started in September 2008, the Thai economy did not seem to be doing very well in the ensuing years. The average real annual GDP growth rate between 2010 and 2014 was only 3.6 percent, significantly lower than the economy's potential of 4.5 percent per year (Felipe et al., 2012; Nakornthab, 2013).

One of the main contributors to the slowdown in GDP was the drop in the level of investment in Thailand. For example, Thailand Future Foundation (2014) pointed to the fact that the country's real investment in 2013 was still 16 percent below its 1996 peak (Figure 1).

Figure 1 traces the level of real investment using 1996 as a benchmark for four countries, including Thailand. The investment levels of the

Figure 1: Real investment in Thailand between 1996 and 2014 (1996 = 100)



Source: World Bank (various years).

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three other countries, Indonesia, Malaysia and the Republic of Korea, were in surplus over that of the period following the 1997 Asian financial crisis. On the other hand, Thailand's real investment in 2014 was still at about 80 percent of the level it had been after the crisis.

The aims of this article are two-fold: (a) to re-examine whether Thailand's investment after the 2008/09 global financial crisis was an Achilles' heel for Thailand; and (b) to anticipate the role of investment in the future. Cross-country comparisons are performed for the analysis and prediction in this paper.

II. Thailand's investment during the period 2010-2014

A shown in Figure 1, between 2010 and 2014, real investment in Thailand was growing at a slower pace than that of other competitors. However, it should be noted that the level of investment alone without a proper reference cannot provide much information about the state of investment. In fact, to assess whether the low level of investment during that period was truly due to the weakness of the Thai economy, one needs to check whether that low level of investment was a symptom of underinvestment whereby investment was lower than its sustainable level, or that the low level of investment was a downward adjustment toward a sustainable level. While the former possibility, a sign of underinvestment, would indicate that the economy is unhealthy, the latter state would represent a standard economic adjustment toward a more stable investment path.

To answer this question, the investment rate is calculated for selected economies over a long period for cross-country comparisons. Table 1 records the investment rate over five-year spans from 1960 to 2014. The following implications can be drawn:

1. In focusing on the forerunners, Japan, the Republic of Korea and Singapore, it may be seen that investment surges upward, as indicated by a jump in the investment rate; this phenomenon occurred as far back as in the 1970s (and at least in the 1960s for Japan). The investment rates at that time were about 31-35 percent for Japan, 27 percent for the Republic of Korea and 34-35 percent for Singapore.

2. The Latin American countries, Argentina and Brazil, on the contrary, barely had an investment upsurge. Argentina had only one investment upsurge during the period 1975-1979.

3. Malaysia and Thailand shared a similar experience with regard to a strong rise in investment during the period 1980-1999, with a subsequent slowdown thereafter until the present day.

4. China is the only country that has had a continuous rise up in the investment rate, from about 29 percent during the period 1975-1989 to 45 percent during the period 2010-2014.

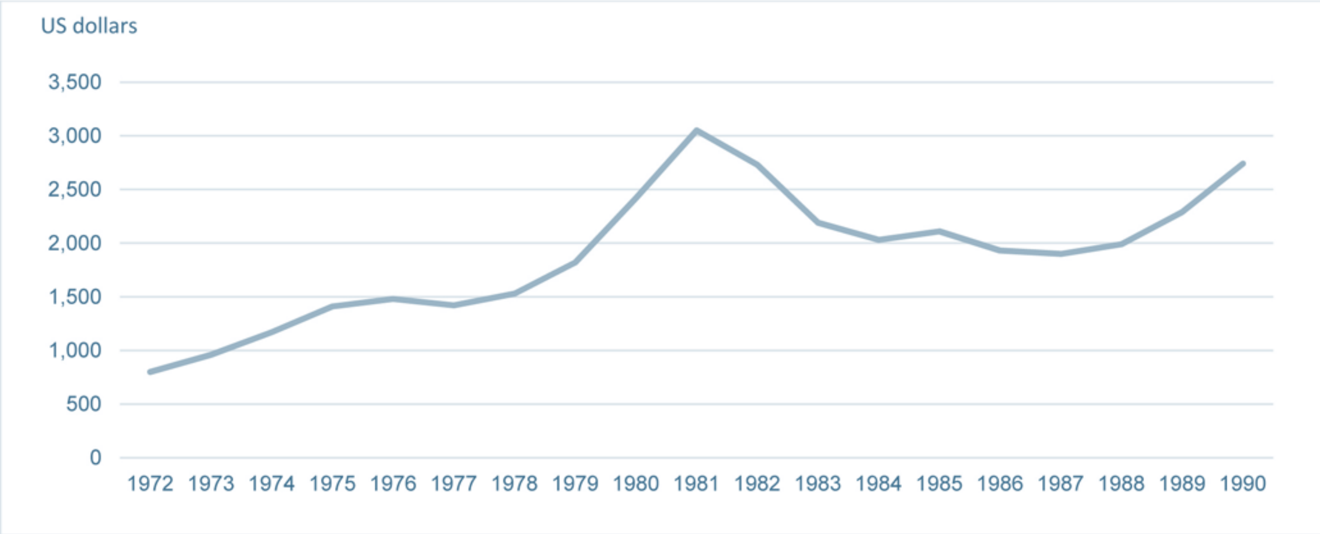
5. Indonesia's investment rate has been gradually increasing over time, except for a one-time drop owing to the 1997 Asian financial crisis.

6. The Philippines experienced a small jump in the investment rate between 1975 and 1984.

As for Thailand, comparison by time-series or cross-country data seems to point to the same conclusion: that Thailand's low level of investment during the period 2010-2014 signifies adjustment toward a sustainable level. For one, the investment rate at around 26-27 percent observed during the

	1960-64	1965-69	1970-74	1975-79	1980-84	1985-89	1990-94	1995-99	2000-04	2005-09	2010-14*
Japan	31.9	32.6	35.0	31.2	29.3	28.9	30.3	27.0	23.4	22.2	20.8
Republic of Korea	12.7	22.4	22.8	27.8	27.6	27.6	34.4	31.4	31.0	31.0	29.7
Singapore	14.5	21.8	35.6	34.6	44.0	34.1	33.6	36.4	28.0	25.6	26.0
Argentina	21.7	21.3	23.1	28.6	22.1	17.8	16.9	18.7	14.9	19.1	17.5
Brazil	-	-	20.6	22.7	20.5	21.6	19.9	18.7	17.8	18.2	20.3
Malaysia	15.7	16.3	22.2	24.2	33.0	26.0	37.0	35.6	23.5	21.8	24.8
China	20.8	19.8	25.0	29.0	28.6	29.7	31.6	33.6	36.8	41.0	45.1
Thailand	16.0	21.7	23.1	24.5	28.0	29.2	40.2	31.8	23.6	27.0	26.4
Indonesia	-	-	-	22.3	23.6	25.1	27.0	26.4	20.2	26.3	31.9
Philippines	17.5	20.0	18.2	25.3	27.1	17.5	22.3	22.8	20.9	19.7	20.0

III. Thailand's investment beyond 2014


US dollars
3,500
3,000
2,500
2,000
1,500
1,000
500
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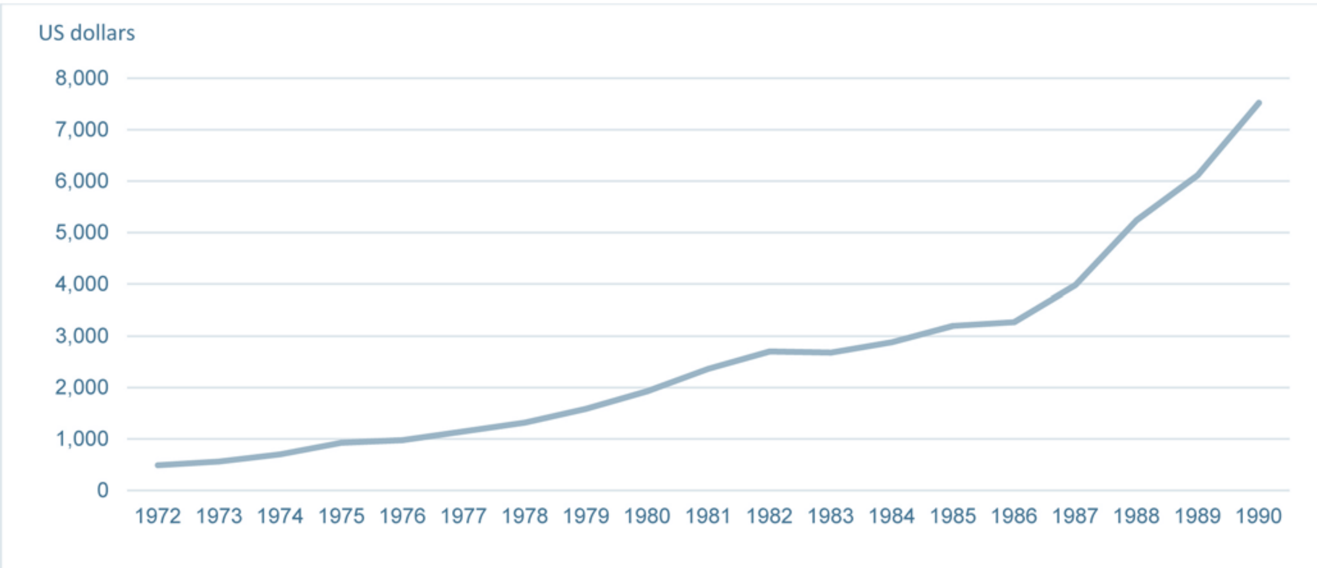
1972 1973 1974 1975 1976 1977 1978 1979 1980 1981 1982 1983 1984 1985 1986 1987 1988 1989 1990


US dollars
8,000
7,000
6,000
5,000
4,000
3,000
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long-lasting effect that pushed the economy further throughout the last two decades of the century.

What are the differences between these two cases that make their results completely different? The answer[1] may lie in the fact that the aim of Taiwan's public investment project was to promote industry. The details of the project are clear in the sense that it served the need for industrial development, which clearly had positive consequences. On the other hand, the goal of Mexico's investment package, which was to promote shared development, is less clear and could be abused by vested interests. For example, in the case of Mexico, there is no clear evidence of a rational decision process for making public investment decisions. Basic data to judge the quality of investments frequently were not available or over optimistic on forecasts. Also, many programs continued on despite their financial problems. Instead of restructuring a program, alternative financing methods were utilized, such as a shift to foreign borrowing or borrowing backed by public guarantees.

Looking back to the case of Thailand's large public infrastructure projects, the implications from the case studies are that, after the implementation of the projects, the Thai economy will surge upward in the short run; however, the prospect for the medium to long run is less certain. If the infrastructure projects truly enhance Thailand's competitiveness, as in the case of Taiwan, they will crowd in private investment, raising the investment rate as well as the sustainable investment rate, and will result in a continuously rising GDP in the medium to long term. On the other hand, if the projects fail to do so, as in the case of Mexico, the economy will likely experience a state of underinvestment that will set back the country's economic growth in the medium to long run.

[1] *For more details, see Warner (2014).*

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