

[Summary]

Macroeconomic Analysis of Thai Economy after Asian Currency Crisis

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Abstract

This article investigates the role of foreign direct investment (FDI) in developing countries. Attracting FDI is a significant component of the development strategy for developing countries of East Asia. Among those countries, Thailand is a good example that experienced the rise and fall of FDI inflow caused by financial crises. Therefore, this article re-examines the FDI-led economic growth through a macroeconomic analysis of the Thai economy.

After briefly reviewing Thailand's economic growth since 1980, section 2 considers the relationship between FDI and domestic capital formation. Section 3 offers the macro-economic model of Thailand with three sectors: agriculture, industry, and services. The model is built as a system dynamics model instead of a macro-econometric model with simultaneous equations. Developing countries have a high-growth sector and a low-growth sector. From the viewpoint of labor productivity, the services sector stagnated after the FDI-led bubble economy (1985-1996). The simulation in section 4 shows that FDI-led industrialization could lead to a higher GDP if Thailand avoided the bubble economy.