

# The Bubble Economy and Industrialization in Thailand

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## **Abstract**

This paper examines the economic consequences of Thailand's bubble economy prior to the 1997 Asian financial crisis, with a particular focus on employment structure and income distribution. While asset bubbles are primarily financial phenomena, their collapse has substantial spillover effects on the real economy, affecting workers' wages and sectoral allocation. To analyze these effects, the study develops a two-sector macroeconomic growth model consisting of manufacturing and non-manufacturing sectors.

The model incorporates capital accumulation, labor migration driven by wage differentials, and foreign direct investment (FDI) inflows, which played a central role in Thailand's export-oriented industrialization strategy. Investment is estimated using capital stock data under the perpetual inventory method, highlighting the role of inward FDI in offsetting domestic savings shortfalls during the boom period. The bubble is modeled as a temporary shock to asset prices and credit creation, generating positive feedback during the expansion phase and negative feedback during the collapse.

Simulation results show that the bubble economy temporarily raises wages, particularly in the non-manufacturing sector, thereby weakening incentives to reallocate labor toward higher-productivity manufacturing. As a consequence, the expansion of manufacturing employment is delayed, hindering industrialization. The findings suggest that bubble-driven growth fails to address fundamental structural issues such as sectoral productivity gaps and wage disparities. They may ultimately impede long-term economic development in emerging economies.