

INVESTMENT HOLDS KEY TO ACHIEVING FUTURE POTENTIAL GROWTH

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Twenty, years ago, the story of Thailand's growth was a remarkable one. Between 1987 and 1995, the lowest GDP growth registered by the Thai economy was 8.1 per cent in 1992 amidst the May 1992 protesters and also a global economic slump. The spectacular growth put Thailand under the global spotlight as the next East Asian Tiger after Hong Kong, Singapore, South Korea and Taiwan.

Fast forward to the present day, when a 6-per-cent annual growth rate is generally considered highly robust for the Thai economy. This stands in sharp contrast to the old days, when the 5.9-per-cent growth rate registered in 1996 was considered dismal. Certainly, these assessments are based on the prevailing domestic and external environment. Still, they also reflect the perceived growth potential of the economy, which in turn are influenced by growth performance during preceding years.

Everyone today recognizes that the Thai economy was growing beyond its potential prior to its crash in 1997 and that it is better for the economy to have sustainable growth than to grow fast but unsustainably. But what is the sustainable growth rate - or the safe "speed limit" - of the Thai economy going forward?

That is one key question in a study I recently conducted with my colleague at the Bank of Thailand. We projected Thailand's future potential GDP growth from 2008 to 2035 using a combination of past and projected economic and population data. Projecting economic growth for periods longer than a couple of years is fraught with uncertainty, but we think some systematic assessment of long-term potential growth is needed for policy areas that require long-term planning.

The paper reported Thailand's future potential growth rates under several different scenarios, but the one we think the most sensible gives Thailand's potential GDP growth between 5.5 and 6.1 per cent for the sub-period 2008-2015. This may appear a far cry from the actual growth rates Thailand has experienced during the boom years. Yet when one takes into account the one-and-a-half-percentage-point differential in the growth rate of the economy's total working

hours during the respected periods due to demographic changes, the projected GDP growth numbers do not appear so bad. Also, the projected GDP growth rates should be thought of as the average levels around which actual GDP growth will fluctuate. Thus in some years, the economy's actual GDP growth may be below its potential and above in others.

An important caveat, however, is that the cited projection assumes the economy's real net capital stock grows on average at the same rate as real GDP, which will require a matching real gross investment rate of 28-30 per cent of GDP, way above the current level of about 22 per cent.

Given Thailand's investment records over the past 40 years, closing this gap is certainly achievable. Yet the current political crisis only makes it less likely to happen.

The peril here is that the failure to resuscitate investment spending in time may put future potential growth permanently lower than our projection.

Source: The Nation