Thailand is becoming a Net-Creditor Nation

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The latest figures for Thailand's net international-investment position (IIP) indicate it is approaching "net creditor" status.

Net IIP is the difference between a country's external assets and liabilities. In fact, IIP is like a balance sheet that shows the combined foreign financial-asset holdings of domestic residents and the combined domestic financial-asset holdings of foreign residents, usually at year-end.

Over the years, like many other emerging-market economies, Thailand has relied not only on foreign capital, but also on outside know-how and technology. As a result, external liabilities have built up faster than external assets.

Indeed, half of Thai liabilities have been foreign direct investment and loans concentrated mostly in the private non-banking sector. Meanwhile, most of Thailand's external assets have been in the public sector, predominantly in terms of foreign-currency reserves.

Recently, Thailand's net IIP showed a significant improvement. It reported a deficit of US$13.9 billion (Bt462 billion) at the end of last year, down markedly from a deficit of $56.1 billion at the end of 2007.

While the value of foreign-owned assets in Thailand exceeded that of Thai-owned assets abroad, the record-low deficit was due mainly to a strengthening external-asset position and a significant decline in external liabilities.

The increase in foreign assets owned by Thais was attributable to the gross reserve, now standing at $135.7 billion, and a sharp surge in Thai direct and portfolio investments abroad in response to more liberalised capital-outflow measures.

On the liability side, last year's significant decline in foreign holdings of domestic financial assets was caused by foreign investors' net selling in the Thai stock market, in line with the stock-market decline and fund withdrawals from Thai money markets on account of liquidity needs during the sub-prime crisis abroad.

High international reserves and acquisition of foreign assets by Thai businesses through direct investment abroad in key strategic industries and through portfolio investment in foreign debt and equity securities will soon turn Thailand into a net-creditor nation.

That said, an improvement in Thailand's overall IIP thus far has been driven mainly by the public sector, while a healthier long-term external position should come more from the private sector.

In the final analysis, one cannot say whether being a net creditor or a net debtor is better. In fact, a country's overall external position must be analysed in the context of the underlying fundamentals of the economy. A wealthy nation - one with tremendous growth prospects, high domestic savings and well-developed financial markets - could either rely on domestic sources of funding, thereby having low external liabilities, or be an attractive destination for foreign investments and end up with high external liabilities.

(The views expressed are the author's own.)

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