

CHAPTER I

INTRODUCTION

1.1 Background

Discover Thailand, the kingdom in Southeast Asia. It is bordered in west and northwest by Myanmar (Burma), in south west by the Andaman Sea, in east and north east by Lao PDR, in south east by Cambodia, in south by the Gulf of Thailand (an inlet of the south China Sea), and by Malaysia.

Adventure Thailand- the Land of smiles this is a virtual guide to “Muang Thai” often translated as the “Land of free”, as this call their country. Despite the fact that Thailand was government by martial law until March 2015, after a military coup in May 2014.

Thailand has long been included with group of economics in End Southeast Asia, who, because of their outstanding growth performance, have been at the center of the research and discussion of determinant of economic growth. Much the debate has revolved around an effort to partition growth between the contrition of increasing factor input (extensive growth) and important in the efficiency with which those factors are employed (intensive growth). This issue is important to resolving questions of the future sustainability of the growth process, and direction that should be taken by government policies. How important are efforts to stimulate innovation and competition, which believed to be linked to gains in the efficiency of resource use, versus expansion of educational opportunities and incentives for greater capital formal.

Thailand began free trade negotiation with Japan in February 2004, and an in-principle agreement was agreed to in September 2005. Negotiations for a US-Thailand free trade agreement have been underway, with a fifth round of meetings held in November 2005. Several industries are restricted to foreign investment by the 1999 Foreign Business Act. These industries include media, agriculture, and distribution of land, professional services, tourism, hotels, and construction. Share ownership of companies engaged in these activities must be limited to a 49% minority stake. The 1966 US-Thailand Treaty of Amity and Economic Relations Provide exemption of these restrictions for shareholders with United States citizenship. The Bangkok area is one of the most prosperous parts of Thailand and heavily dominates the national economy, with the infertile northeast being the poorest. A concern of successive Thai governments, and a focus of the recently ousted *Thaksin* government, has been to reduce the regional disparities which have been exacerbated by rapid economic growth in Bangkok and financial crisis. Although the economy has grown moderately since 1999, future performance depends on continued reform of the financial sector, corporate-debt restructuring, Attracting foreign investment in Thailand is experiencing a growing shortage of engineers and skilled technical personnel.

Thailand is a newly industrialized country. Its economy is heavily export dependent, with export accounting for more than two-thirds of its gross domestic product (GDP). In 2012, according to the office of the National Economic and

Social Development Board, Thailand had a GDP of THB11.375 trillion (US\$366 billion).

Economic growth is one indicator that is very important in the analysis of economic development that occurs in a country. Economic growth shows the extent to which economic activity will generate additional income to the communities in a given period. It is because economic activity is basically a process to produce output, measured with the GDP indicator.

Thailand has made remarkable progress in social and economic issues, moving from a low income country to an upper-income country in less than a generation. As such, Thailand has been one of the widely cited development success stories, with sustained strong growth and impressive poverty reduction, particularly in the 1980s.

Thailand's high economic growth at 8-9 percent per year during the late 1980s and early 1990s was interrupted by the "Asian Crisis" of 1997-1998. Since then, economic growth has been moderate, with period of robust growth, such as at around 5 percent from 2002 to 2007, followed by the fall-out from the global financial crisis of 2008—2009, the flood in 2011, and the impact of political tensions and uncertainty in 2010 and again in 2013-2015. As result, economic growth in Thailand has lagged that in both low and middle income East Asian neighboring countries in recent years. In addition, such comparatively slower growth reflects the decline in global demand for Thailand's key exports because of domestic factor including slowdown in government spending and withdrawal

of consumption stimulus measures. Growth was 0.7 percent in 2014 and is projected to rebound to 3.5 percent in 2015.

The Thai economy collapsed as a result of the 1997 Asian financial crisis. Within a few months, the value of the bath floated from THB25/US\$ (its lowest point) to THB56/US\$. The stock exchange of Thailand (SET) dropped from a peak of 1,753.73 in 1994 to a low of 207.31 in 1998. The country's GDP dropped from THB 3.115 trillion at the end of 1996 to THB 2.749 trillion at the end of 1998. In dollar term, it took Thailand as long as 10 year to regain its 1996 GDP. The unemployment rate went up nearly threefold: from 1.5% of the labor force in 1996 to 4.4% in 1998

Looking over the past 50 years, the Thai economy has undergone drastic economic transformation from a self-sufficient agrarian economy to an industrial-based economy. Pupphavesa (1994) found that FDI has contributed significantly to capital formation and represented an increase of foreign capital inflow into Thailand. Before the economic crisis in 1997, Thailand's economy development was considered as continues success with an average economy growth rate of nearly 8.0% per year from 1960-1996. Despite the world recession of the mid-1080s, Thailand's economy grew at double-digit rates during 1988-1990 and again by over 8.0% per year from 1991-1995.

The crisis impacted Thai politics. One direct effect was that Prime Minister *Chavalit Yongchaiyudh* resigned under pressure on 6 November 1997, succeeded by opposition leader *Chuan Leekpai*. The second *Leekpai* government,

in office from November 1997 to February 2001, tried to implement economic reforms based on IMF-guided neo-liberal capitalism. It pursued strict fiscal policies (keeping interest rate high and cutting government spending) enacting 11 laws it called "bitter medicine" and critics called "the 11 nation-selling laws". The Thai government and its supporters maintained that with these measures, the Thai economy improved.

The Thai economy is heavily based on agriculture, which contributes around 10% of the GDP and employs almost 40% of active population. The country is one of leading producer and export of rice and also has rubber, sugar, corn, jute, cotton and tobacco as its major crops. Fishing is an important activity and Thailand is a major exporter of farmed shrimp. However, agriculture's contribution to GDP has relatively declined, while the export of goods and services have increased.

Looking at the description of issues described above of course back in the end it boils down to one purpose of Thailand's economic growth, which indicates the extent to which economic activity will generate additional income of the people in a given period. It is because economic activity is basically a process of using the factors of production to produce output.

Therefore, the researcher is trying to discuss the extent of the influence of GDP, foreign direct investment, export, and population to economic growth in Thailand's, in a thesis with the title: "Determinant of Economic growth in Thailand an Approach to Error Correction Model (VECM)"

1.2 Research Questions

Based on the background, the researcher needs to formulate the problem as the ultimate goals of this research which includes:

1. How does the influence of Foreign Direct Investment (FDI) to the Thailand economic growth in the short term and long term?
2. How does the influence of Export to Thailand economic growth in the short term and long term?
3. How does the influence of population to the Thailand economic growth in the short term and long term?

1.3 Research Objective

Based on the research questions, thus the objectives of this paper are:

1. To determine the effect of Foreign Direct Investment (FDI) to the Thailand economic in the short term and long term.
2. To determine the effect of Export to the Thailand economic in the short term and long term.
3. To determine the effect Population to the Thailand economic in the short term and long term.

1.4 Research benefit

The benefits expected from this study are:

1. For researchers, this research can become a vehicle of knowledge and experience in understanding one of the economic concepts that has been studied and compared with the real applications in the field.
2. For academicians, this research can be a source of reading material and references for the reader and gives information about Thailand's economic growth and cause factors. Furthermore, it can be used as a comparison for further research in conducting research with similar titles.
3. For related institutions, this research can be information and expected as a material consideration in determining the policies associated with Thailand's economic growth.
4. For the general public, this study can be a source of knowledge about the state of Thailand's economic growth.

1.5 Problem Limitation

1. Given the vastness of the discussion about economic growth and the limited ability of the author.
2. This study is limited only about Thailand's economic growth and the variables studied including Foreign Direct Investment (FDI), Export, and population.
3. The data used are annual time series data from 1985 to 2014

1.6 Research Plan

In order to understand the undergraduate thesis clearly, so the researcher divided the materials into several sub-chapters with systematic writing as follows: Chapter I, Introduction; this chapter describes the general information that the research background, problem formulation, purpose and benefits of the research, the scope of research, time and place of study, research methodology, and systematic research. Chapter II, Literature Review; this chapter contains the theory that some excerpts taken from the book, in the form of understanding and definition. This chapter also explains the basic concepts of Foreign Direct Investment (FDI), Export, and Population and other definitions associated with the macroeconomics variables. Chapter III, Data and Research Methodology; this chapter contains the definition of variables that used in this research, data and the source, the methodology of cointegration test for long-term analysis and Vector Error Correction Model (VECM) for short-term analysis. Chapter IV, Overview; this chapter describes the general overview of macroeconomics condition in Thailand, Foreign Direct Investment (FDI), Export, and Population. Chapter V, Result and Analysis; It also contains the result from the analysis of cointegration test and vector error correction model (VECM), the result table and diagram, the analysis of empirical result with the theoretical framework and previous study. Chapter VI, Conclusions; this chapter contains of

conclusion from the research, recommendation for the policy maker in Indonesia and suggestion for the next research.