February 2023

The Unexpected Case of Thailand

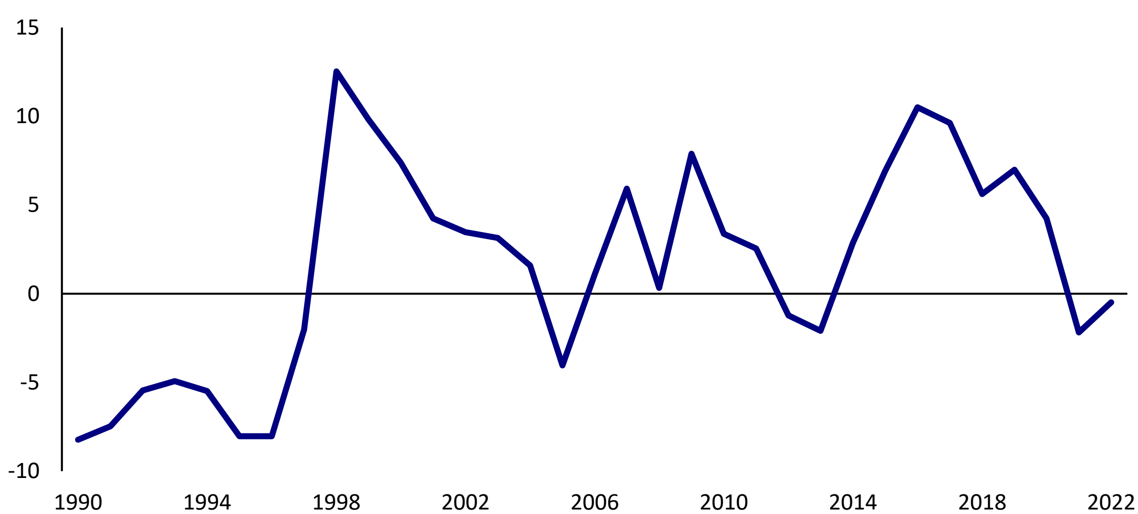
25 Years After the Asian Financial Crisis

Our case for why emerging markets can be expected to deliver strong returns in the coming decade rests in key parts on the fact that many have been undergoing serious reform and getting their financial houses in order, which leaves them poised to take advantage of both a declining dollar and the exodus of factories from China. One country poised to benefit from all the factors above is Thailand, which has largely fallen off the global radar since its infamous role as ground zero of the Asian Financial Crisis 25 years ago. Today, the baht is arguably the most resilient currency in the world. Here is how it happened.

1. A Steady Reformer

After the crisis, many of the hardest hit emerging countries turned financially conservative, but none more clearly or consistently than Thailand. Since the dust of the crisis settled in 1999, Thailand has run an average fiscal deficit barely over 1 percent of GDP, less than half the EM average of 2.7 percent. Thailand has also stopped living beyond its means, turning the large and persistent current account deficits that preceded the crash into consistent and often large surpluses; it has run current account surpluses in 19 of the last 25 years.

Chart 1. Thailand: Current Account Balance
(Percent of GDP)

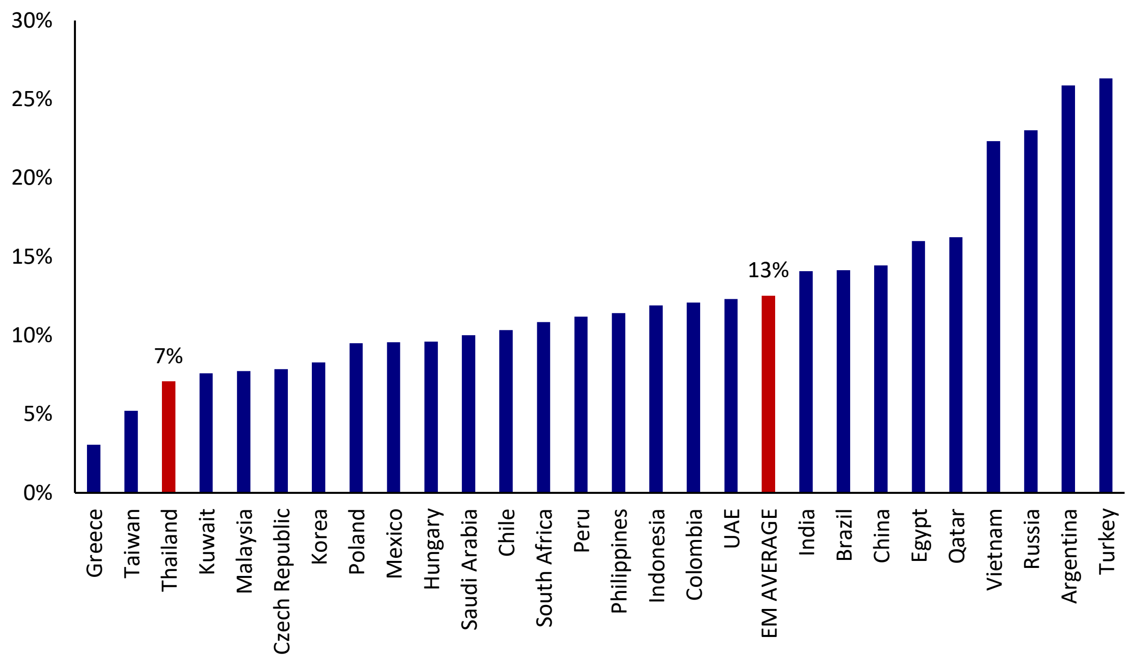


Source: Haver Analytics, IMF

2. Restrained Stimulus

The last 25 years have been defined by easy money, and increasingly generous monetary stimulus, pouring out of central banks worldwide. Thailand has been far more restrained than most countries, keeping rates relatively low and responding with unusually mild stimulus to the pandemic-induced downturns of recent years. Its broad money supply has grown at an average annual pace of 7 percent since 2000, third lowest among major emerging economies and well below the EM average (Chart 2 below).

Chart 2. Emerging Markets, ranked by Average Broad Money Supply Growth
(Percent)

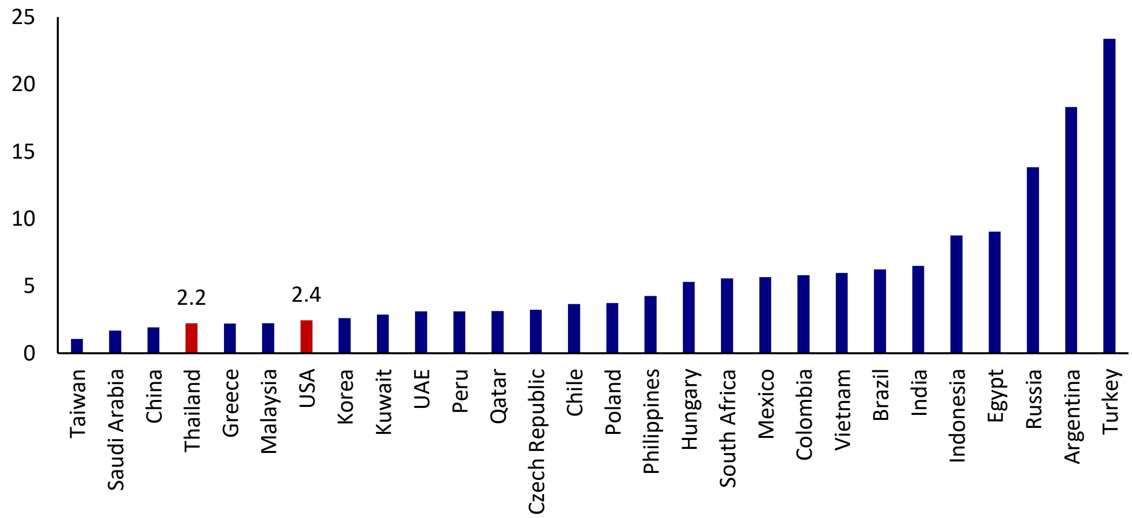


Source: IMF, Haver Analytics, Breakout Capital Calculations. Note: Average is computed over 2000-2021 (last datapoint).

3. The Upsides of Orthodoxy Include Unusually Low Inflation

Going back to '98 Thailand's inflation rate has averaged barely over 2 percent, same as the United States, which is a rare feat for any emerging country. Among other emerging economies, only China, Taiwan and Saudi Arabia have had lower inflation than Thailand in that period. (See Chart 3 below) This record of low inflation is perhaps the most stabilizing payoff of policy orthodoxy.

Chart 3. Emerging Markets and US, ranked by average annual inflation, since 1998
(Percent)

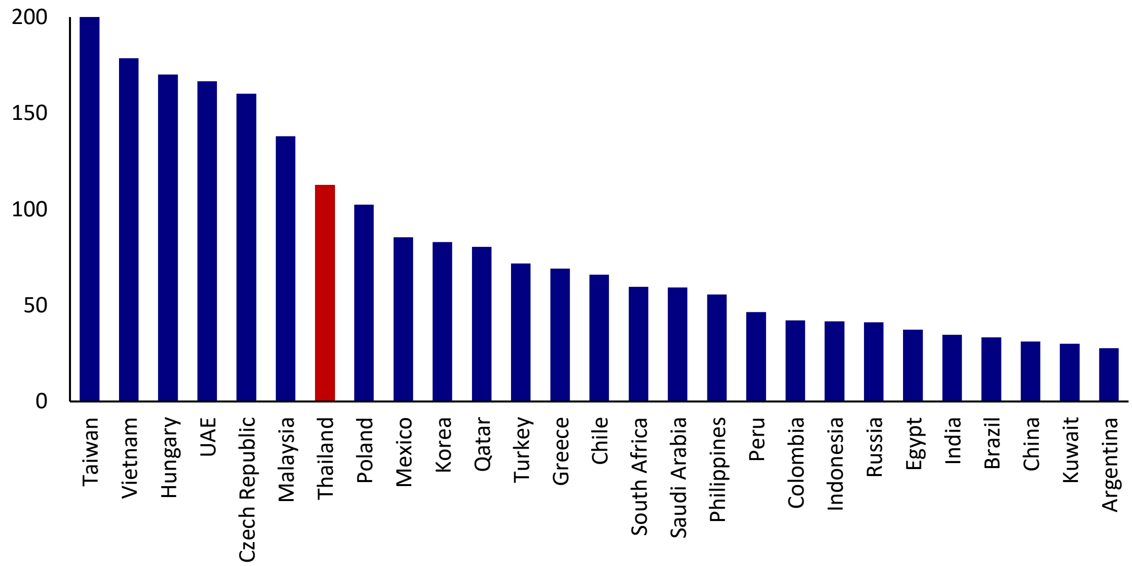


Source: IMF, Haver Analytics, Breakout Capital Calculations.

4. Steady Foreign Income Helped

In a period when many countries started turning inward, Thailand remains among the most open emerging economies. (See Chart 4 below). At 110 percent, the trade share of GDP cited below is up from 80 percent in 1998 and has built on Thailand's traditional strengths in tourism and manufacturing. At around $450 a month, Thai manufacturing wages compare to more than $550 in China, and it is one of the Asian neighbors benefiting from the exodus of factories from China.

Chart 4. Emerging markets, ranked by their Trade to GDP
(as of 2022, Percent of GDP)

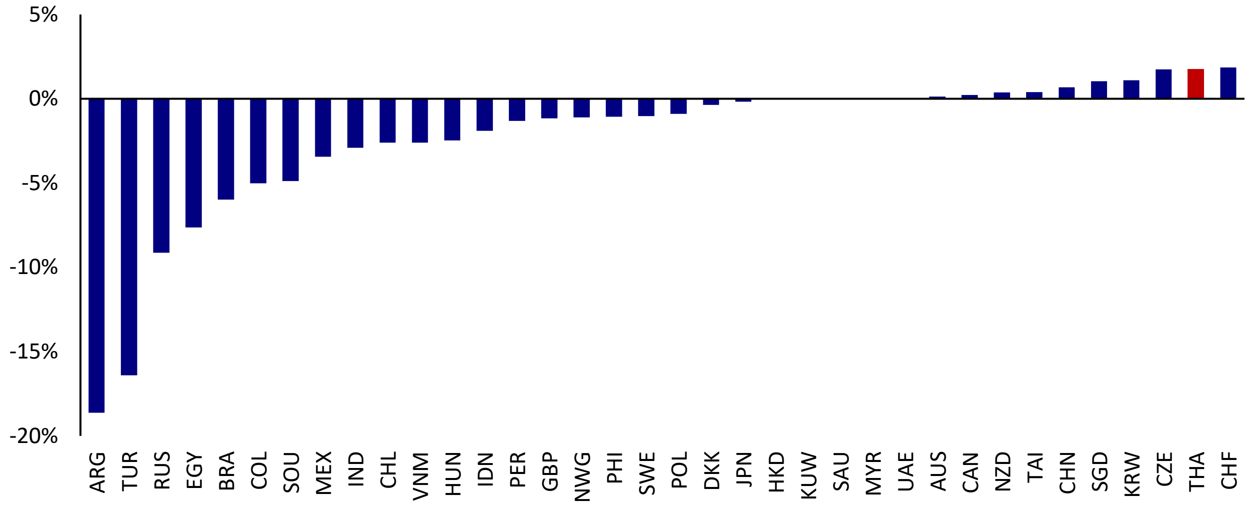


Source: IMF, Haver Analytics, Breakout Capital Calculations. Note: Trade is computed as the sum of merchandise exports and merchandise imports.

5. The Unsinkable Baht

By avoiding the excesses that can scare off outsiders and tank currencies, Thailand managed to turn the world's most unloved currency into its most resilient. The remarkable chart below shows that over the last quarter century the baht has held its value against the US dollar better than any currency other than the Swiss Franc. Moreover, Thailand achieved this feat in an environment marked by constant political upheavals of a kind alien to placid Switzerland.

Chart 5. Emerging and Developed Markets, ranked by currency performance over past 25 years
(Annualized CAGR, Percent)



Source: IMF, Haver Analytics, Breakout Capital Calculations. Note: The appreciation/depreciation is computed using average monthly exchange rate from Jan-1998 to Dec-2022. A positive (negative) number indicates appreciation (depreciation).

To see what these numbers mean for Thailand on the ground, compare the baht to the Indonesian rupiah, which was also battered in ’98. The Indonesian currency has fallen from 2400 to the dollar before the crisis to 15,500 today. Over the same period the baht barely budged, down slightly from 26 to 33 to the dollar. Today Thailand may not feel like it is holding a nationwide fire sale, as it did during the chaos of ’98, but it hardly feels expensive. A foreign visitor can find a 5-star hotel room for under $200, a fine dinner for $30. The epicenter of the crisis has become an anchor of competitive stability, and a lesson to other emerging economies on the upsides of orthodoxy.

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