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Editorial

The Conditions for Investments

At the World Investment Forum 2010, Dr.Supachai Panitchpakdi, Secretary General of the UN Conference on Trade and Development or UNCTAD, spoke of the importance of investment to economic growth and the need to ensure that investment leads to sustainable development. One of the points Dr.Supachai stressed is that while investment can bring about development, the process is not automatic. Three articles in this issue have relevance to this theme. The first looks at some measures that would facilitate India's "Look East Policy", a move to achieve economic integration by encouraging more trade with investments from Southeast Asia. The second examines the effect of foreign direct investments or FDI on the economic growth of 15 East Asian countries. The third analyzes the dynamic effects of proportional change between 1995 and 2004 of government spending in three areas, namely, defence, education and economic service - on Thailand's economic growth.

The first paper found that foreign exchange reserve and FDI of India were linked: there was a considerable contribution of foreign exchange reserve on FDI of India from 1991 to 2008. It suggests that fostering a closer economic tie with Southeast Asia would require a greater effort by India to further liberalize trade and investment. Two implications can be drawn from the findings: the foreign reserve indicates the financial stability and economic openness of the country. Both would have given investors greater confidence. Liberalization of India's economy was effected in 1991, accompanied by a host of reforms such as abolition of quotas and license, removing many custom regulations that made exporting and importing difficult and extremely costly for business and the country as a whole. Before the reform was put into effect, India according to The Economist (2011, July 23-29 issue "One More Push: How to Keep India on the Path to Prosperity") had barely two weeks left of its foreign exchange. Since then it had quadrupled its economy, growing by 7% on average over the past 20 years (9% in 2005-2007).

The second article studies 15 East Asian countries including Thailand. It classifies countries by their economic conditions, i.e. levels of human capital, investment on infrastructure, and trade openness and applied panel cointegration analysis with endogenous growth model to observe the effect of FDI on economic growth. Based on time series data from 1990 to 2007, the analysis revealed that FDI does not necessarily enhance economic growth. But it did have a positive effect on the economic growth in the countries that have the appropriate economic conditions. The author suggests that to gain more from FDI, the countries including Thailand need to invest more on fundamental infrastructure and human capital development, and increase their degree of trade openness.

The third article analyzes the dynamic effects of proportional change of government spending on Thailand’s economic growth. One finding was surprising: the increased expenditure proportion to enhance the quality of education was found ineffective. This finding on the effect of education spending, while surprising, could be attributed to a number of reasons. First the study period of nine years could have been insufficient to observe the long term effect of the higher investment in education. Second the magnitude of spending while important is not enough by itself. The funds have to be spent where they can make the most impact. Third, a significant portion of the allocation could have been spent for purposes other than education. The author suggests that government spending focus more on the R & D component of education to facilitate a direct improvement on human resources. This is in line with government plans to increase support for R & D. This makes it even more important to ensure and monitor that money for R & D is not eroded by unnecessary expenses within the system of evaluation and approval of proposals, award of grants, implementation of projects, even their monitoring, and the evaluation and acceptance of project results.

The fourth article tests a methodology to predict a market crash using historical data from the oscillations in the Indian stock market. The fifth is a marketing and trade oriented study of the consumer preferences for Thai rice in China. The book reviewed for this issue is Paul Krugman’s The Return of Depression Economics and the Crisis of 2008.