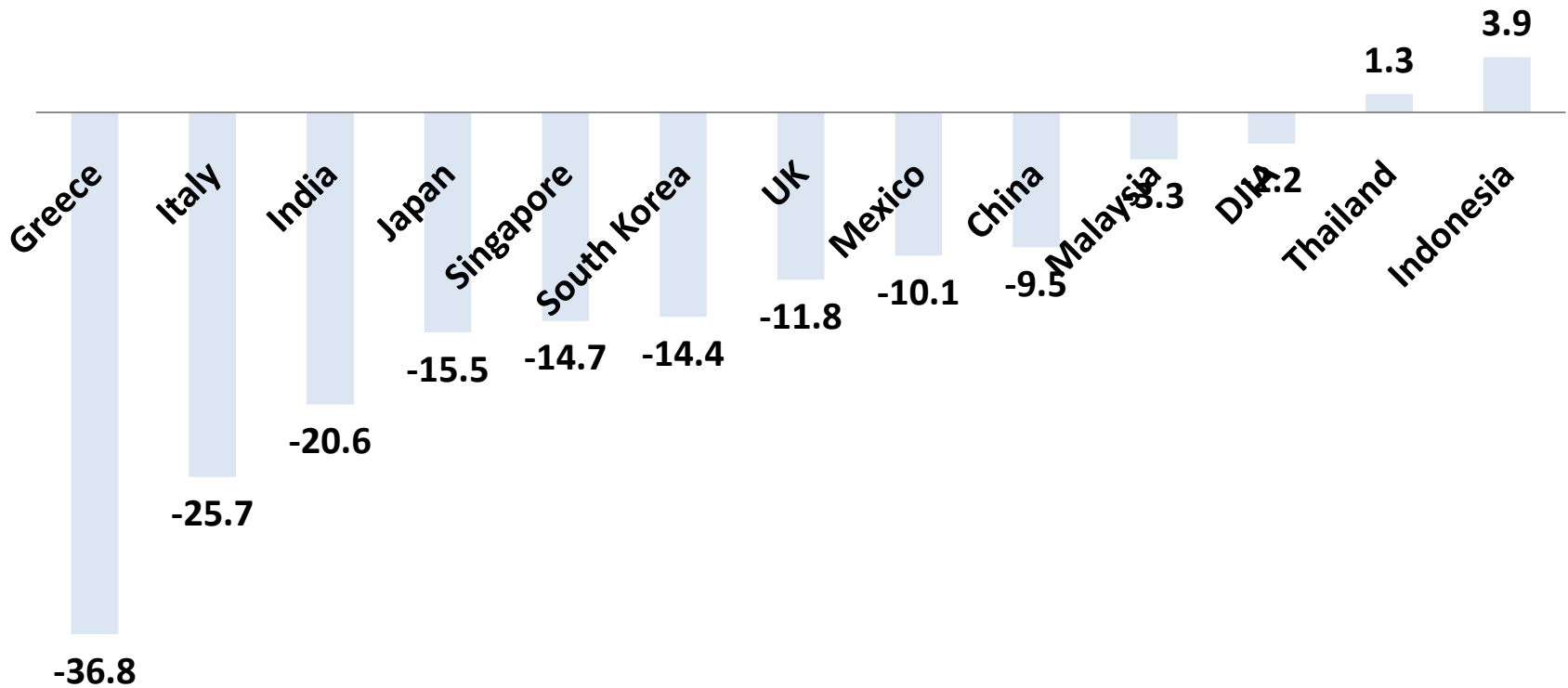


ASEAN Economic Community: Cautiously optimistic

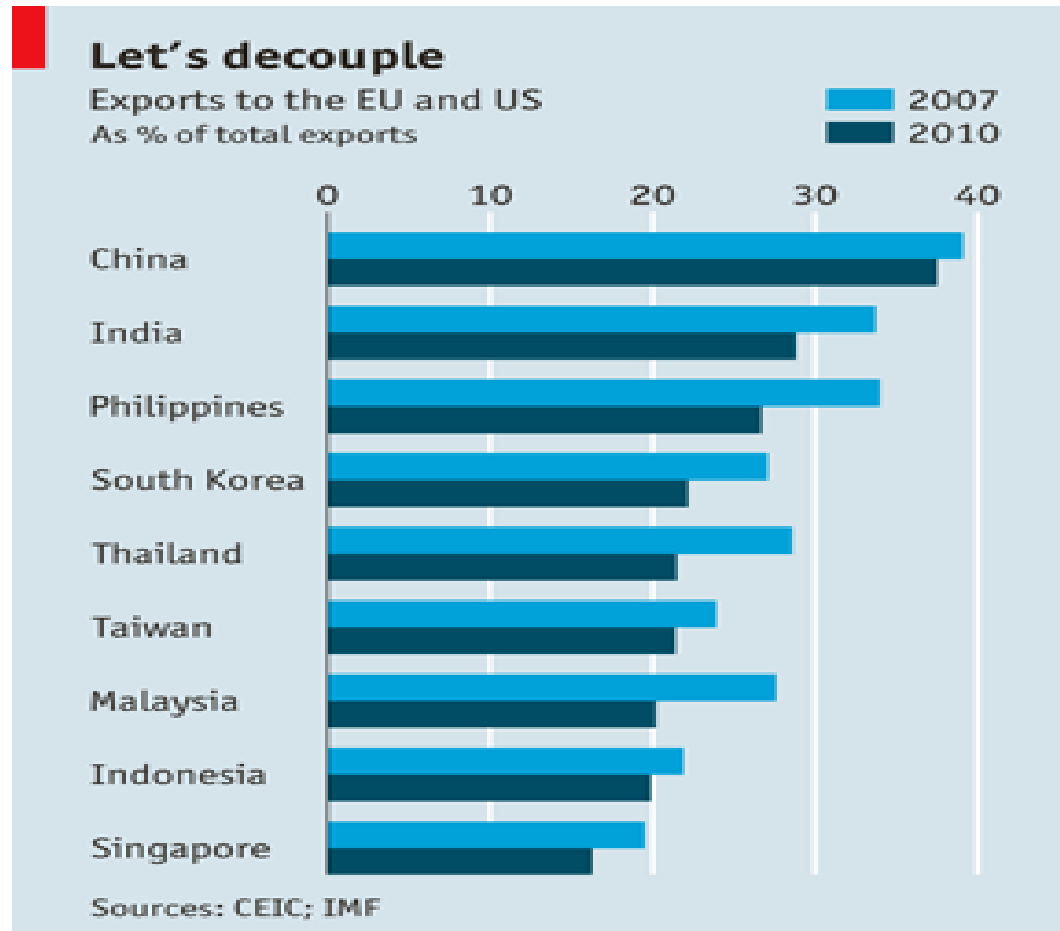
Bhanupong
Thammasat University

Transmission of shocks: Capital market channel

% change on Dec 31st 2010
Stock Indexes: Aug 24th, 2011

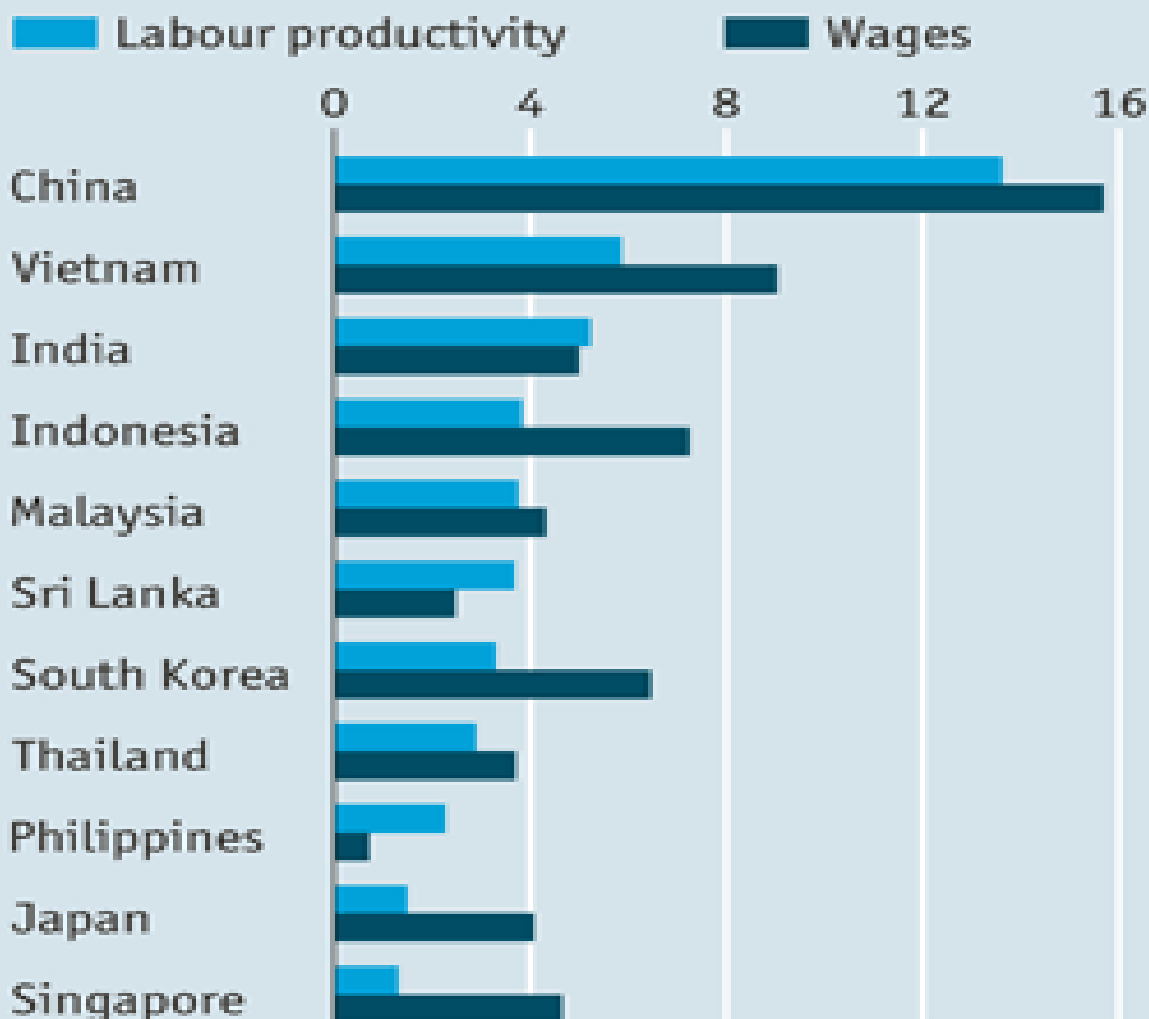


Transmission of shocks: *export market channel*



Asian labour markets

Selected countries, annual average % increase
2000-10



Source: Asian Development Bank

Fiscal expenditure

- Productivity and human capital
- Health capital
- Focus spending on high-social rate of return
- Avoid fiscal splurge

Tax reform

- Reduction in corporate income tax rate affects the effectiveness of fiscal automatic stabilizers.
- Tax revenue structure reflects output and employment structure.
- Difficult to imitate tax structure in countries with higher level of development

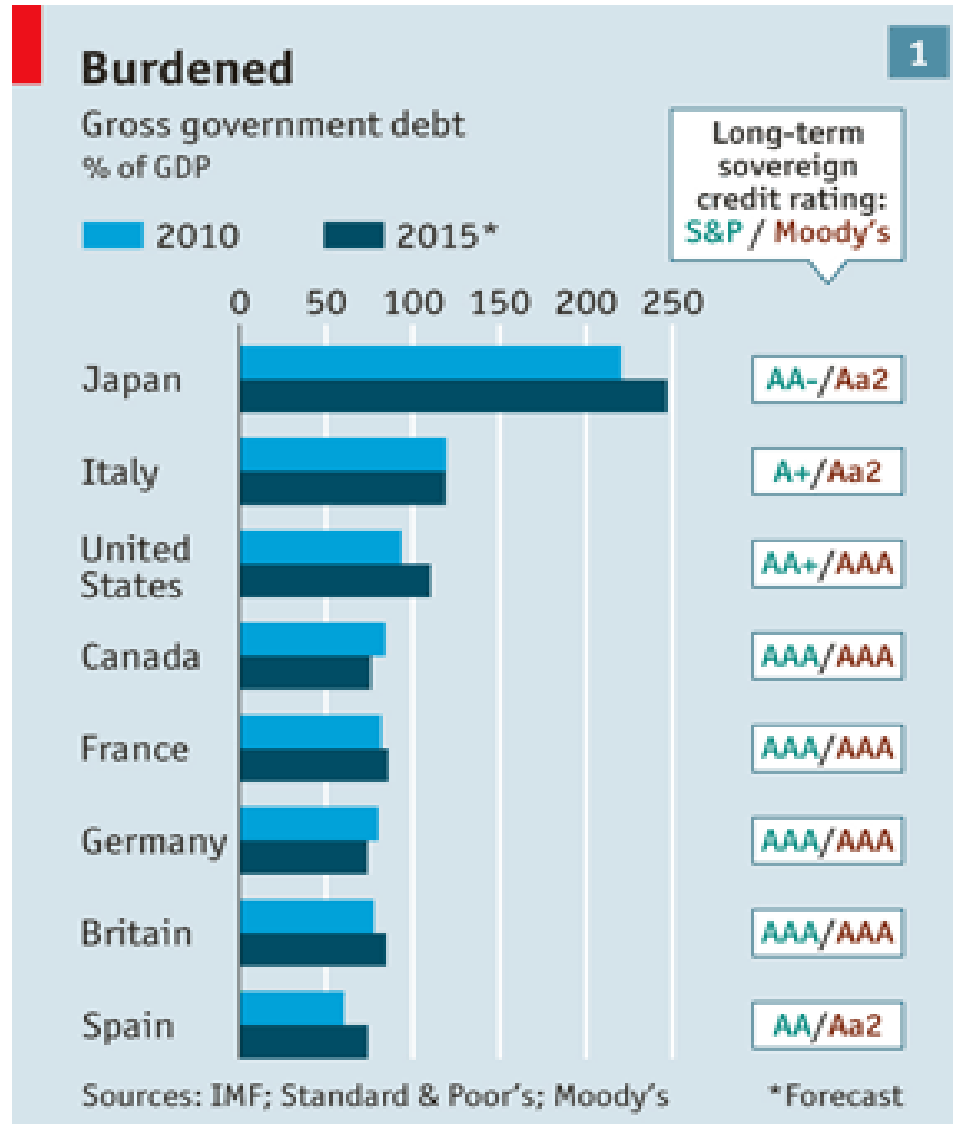
Don't say no

- Integrating the Thai economy with the regional trade bloc can serve as an instrument to speed up **domestic reform**.
- **Temporary subsidies** to adversely *affected* industries are required to ease adjustment costs.
- **Firm datelines** imposed by AEC implies more enthusiastic efforts to carry out difficult reform.

The big push

- Utilization of free trade provisions remain relatively low due to high marginal transaction costs imposed by Rules of Origin.
- Non-tariff barriers are substitutes for tariff reduction.
- Sensitive commodities are dictated by political interest.
- A surge in the number of Thailand's FTA negotiations should not be interpreted as diminished **commitment** to the **multilateralism**.

Lack of fiscal space



Monetary space

- Inflation convergence
- Monetary policy instruments
- Monetary autonomy
- Capital control?

After 2015

- Internal and external shocks will be more frequent.
- Maintain prudential rules and regulations to provide sufficient fiscal space when the time comes.
- Reduce debt-to-GDP ratio to 40% during economic upturn to provide ample fiscal space for the next downturn.

After 2015

- The baht exchange rate must be allowed to move more freely to cushion export fluctuations—less intervention.
- Don't have too much high hope on the AEC
- Must break up domestic monopoly power
- Be cautiously optimistic