WHAT DRIVES THE GROWTH OF OUTPUT IN THAILAND?

PAUL M. BEAUMONT, ONSURANG NORRBIN, AND STEFAN C. NORRBIN

Abstract. In recent years the interest in the transmission of effects from one country to another has grown. Diebold and Yilmaz (2012) construct a generalized VAR system to examine the Asian financial crisis using several financial indicators. They find strong financial spillover effects during the financial crises. In the real sector, Antonakakis and Badingen (2012) examine spillover effects for the G7 countries using a generalized VAR method, finding strong spillover effects from the recent U.S. financial crisis on the rest of the G7 countries.

We extend the past work by focusing on the relationship between the major industrialized countries and the Southeast Asian countries, in particular Thailand. It is interesting to examine spillover effects for a period that includes the Asian financial crisis, the U.S. financial crisis and the eurobond crisis. Specifically, the Asian financial crisis had uncertainty in Thailand spread to other Asian countries. Similarly, the financial crisis in the U.S. in 2008 had real effects in other countries, and the Eurobond crisis in 2010 also had a potential spillover effects.

We model the growth and volatility interaction across countries using a generalized VAR framework. This methodology allows us to decompose the growth into both own country and cross-country sources. Specifically we study the movements in Thai manufacturing output to examine where the shock to output originated. There are four different sources identified; own country growth and volatility and spillovers of growth and volatility from other countries. Furthermore we are able to identify which country transmitted most of the shocks to Thailand and how these shocks have changed over time.

The results indicate that the growth of industrial production primarily comes from the own country growth. However, spillover effects from other countries' growth are also substantial. This connection is likely through trade sources. Volatility effects are, in general, much smaller. However, in crisis times the volatility spillovers temporarily increase. In contrast, the own volatility effects on growth remain negligible throughout the time period. Specific countries are also important. In particular, Korea appears to have a strong growth spillover effects on Thailand.

Date: November 4, 2012.
Key words and phrases. Generalized VAR, Spillover effects, Output Volatility, Output Growth.

1. References

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Current address: Department of Economics, Florida State University,Tallahassee, FL 32306 USA

E-mail address: paul.beaumont@fsu.edu