

ABSTRACT

This study used ARIMA to decompose the trend of the major items in the balance of payments account into systematic and random components. The systematic component was also used to project future trend of those items whereas the random component was compared with its corresponding counterpart for factors related to international trade and capital flows.

The export items found to cause disturbances to the value of total exports are rice and "other exports". Fluctuations of rice export were caused by policies of the government and other producing and importing countries and those of "other exports" were due to lack of regular market. Random changes of variables related to those of exports were from the price of foreign goods relative to domestic goods and foreign income with a one-year lag.

The import item that caused disturbances to the value of total imports throughout 30 years under study is "capital goods" "Fuel" and "intermediate products and raw materials" caused disturbances less often but with large magnitude. Random changes of variables related to those of imports were from the price of foreign goods relative to domestic goods, gross domestic products, government expenditures, money supply and private investment.

Capital inflows have private long-term capital as a major component which often caused unexpected fluctuations. The random changes in capital inflows are related in the same direction to the random changes in gross domestic product, government expenditures and total imports.

The study of the production trend of three major economic sectors, i.e., agriculture, industry and services, revealed that the share of the agriculture sector in GDP will be reduced by 2 percentage points during 1986-1990. That reduction in production capacity will be in turn shifted one percentage point each to the industry and service sector. Moreover, the price deflator index of the agriculture sector will be rising after a long period of decline. Therefore, it can be sure that Thailand's exports will no longer focus only on agricultural products.

As for government finance, government revenue was found to vary with economic condition and unusual expansions in government expenditures were ad hoc to the policy of government prevailing. Even if government expenditure expansion goes back to its normal rate the amount of increase in succeeding years will be much magnified from its enlarged base. Consecutive high government budget deficits will be resulted and forceful squeeze of the budget will be inevitable for fears of explosive accumulation of government debt. Therefore, unexpected increase in budget deficits moved in the same direction as unexpected increase in domestic credit of the central bank since the late 1960s and with a lag of 1 year since 1980.

Forecast of the future trend of items in the balance of payments account showed that the value of total exports will expand on average during 1986-1990 at a rate of 16 percent whereas that of total imports will be 8 percent. The trade balance will continuously improve into surplus in 1989. The services and transfers balance

will expand on average at a rate of 30 percent. Together with the roughly constant capital inflows the balance of payments will be in surpluses by over B 100 billion in 1990.

It should be noted that the value of total imports might be underestimated and the services balance overestimated following the recent trend of those two items. If it is so the balance of payments will show smaller surpluses. However, the optimistic result still implied that the country can pursue monetary, exchange rate and economic growth policies under more relaxed environment. On the other hand, the optimistic forecast was not without ground in that the production capacity shifts between economic sector are in favor of those sectors that are the impetus of the recent export growth. It is also in accordance with the trend of government finance which would see less budget deficits under current bouyant economic condition.

The final part of the paper discussed causes and effects of protectionism. It also analyzed the possibility of changes in trade trend. The result of the study revealed that there will be no major change in trade trend during 1986-1990. Therefore, the forecast of trade and capital flows by using ARIMA is still valid.