

# AND CRISIS SPILLOVER: CASE STUDY OF TRANSMISSION OF THE SUBPRIME CRISIS TO THAILAND

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# Introduction:

## Transmission of the Subprime Crisis

- The subprime crisis has been transmitted worldwide due to strong financial and economic linkages between the United States and the rest of the world.
- The trade linkage is the most important transmission channel of the subprime crisis to Thailand and other East Asian countries.
- Both direct and indirect trade linkages play an important role as transmission channels of the crisis.

# Introduction:

## Transmission of the Subprime Crisis

- Trade concentration is considered to be one of the important factors to amplify the effect of crisis transmission.
- Da Costa Neto and Romeu (2011) finds that export concentration significantly amplifies trade collapse during the Subprime crisis.

# Introduction:

## Trade Concentration in Thailand

- Hesse (2008) shows that Thailand has a decline in export concentration over the past forty years and become one of the diversified economies in the region.
- However, the major exporting products might share the similar export destinations and backward and forward linkages.
- Many of the Thai manufacturing exports are intermediate goods which might share G3 markets as final destination (*indirect effect*).

# Research Question

- “Is trade concentration with the presence of indirect trade effect a transmission channel of the Subprime crisis to Thailand?”

# Literature Review



- The importance of trade diversification
- Transmission channels of financial crises
- Trade diversification and crisis spillover

# Literature Review: The importance of trade diversification

## □ Theoretical Studies

- Helpman (1991), Matsuyama (1992) and Amin Guitierrez de Pineros and Ferrantino (2000) suggest that export diversification promotes economic growth via innovation stimulation, knowledge spillover and learning-by-doing process.
- Krugman (1979), Coe and Helpman (1993), Van Meijl (1997), Das (2002) and Agosin (2007) show that technological spillovers and transfers are induced from export diversification via a study of new products or techniques.

# re Review: The importance of diversification

## I Studies

rubin (2000), Lederman and Maloney (2000) and Herzer and Nowak-Lehmann (2006) provide evidences support the diversification-led

and Wacziarg (2003), Cabellero and Cowan (2003), Klinger and Lederman (2006) and Hesse (2006) illustrate that countries benefit from diversification when their incomes are low and should be specialized economies at the higher income level

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