THAILAND

ECONOMIC GROWTH THREATENED BY CHINESE COMPETITION

Thailand's real GDP growth remained solid in Q1 2025, but downside risks are high. Thailand is one of the Asian countries that has benefitted most from the trade tensions between the US and China, but the effects of the further tightening of US trade policy could be more painful. Its products might be taxed more heavily than those of its competitors in the US market, while the influx of Chinese goods could increase significantly. However, it could also benefit from new investment from foreign companies seeking to diversify their production chains. It has many advantages over some of its neighbours.

MODEST REAL GDP GROWTH WEAKENED BY EXCESS PRODUCTION CAPACITY IN CHINA

Four years after the recession caused by the COVID-19 pandemic, Thailand's real GDP finally exceeded its 2019 level in 2024. However, the pace of growth remains below the 3.4% recorded between 2015 and 2019, and the outlook for the next three years remains modest. Even assuming that US tariffs remain significantly lower than the levels announced on 2 April 2024, difficulties are likely to persist in the manufacturing industry. In addition, Thailand faces increased competition from Chinese products in its domestic market.

In 2024, real GDP growth accelerated from 2% to 2.5%, driven by higher government spending, while private consumption and investment slowed. In May, the National Economic and Social Development Council (NESDC) revised its economic forecast for 2025 downwards (-1 pp, with estimated growth between 1.3% and 2.3%) due to the increase in US tariffs. Thailand, which has a high degree of trade openness (its exports of goods accounted for 56.4% of its GDP in 2024), will be affected not only by weaker trade with the US and China (due to the expected economic slowdown), but also by competition from China, which will seek to offload its excess production capacity.

In Q1 2025, economic activity remained solid but downside risks increased significantly. Seasonally adjusted real GDP grew by 0.7% compared to the previous quarter (+3.1% year-on-year). Services and agriculture recorded robust GDP growth, while manufacturing GDP growth remained weak (+0.6% y/y). Economic growth is expected to slow in the coming quarters. In April, consumer confidence indices fell for the fourth consecutive month, credit growth to households and companies declined further and tourist numbers fell, mainly due to a drop in Chinese tourists (-29.9%). Activity in the tourism sector is likely to remain depressed in the second half of the year given the recent earthquake, global economic uncertainty and persistently weak demand from Chinese households. Even though industrial output accelerated in April (+2.2% y/y), this rebound is likely to be temporay. The risk of an influx of Chinese products onto the domestic market is weighing on investment decisions.

Given the risks to growth, the government decided in May to reallocate the remaining funds earmarked for the household consumption support programme (the "digital wallet programme") to infrastructure projects and loans to small and medium-sized companies amounting to 0.8% of GDP. The relatively high level of government debt (63.9% of GDP), close to the legal ceiling of 70% of GDP, limits its room for manoeuvre, but raising the ceiling is not impossible. The depth and liquidity of the domestic financial markets would allow it to easily finance new spending.

FORECASTS

	2022	2023	2024	2025e	2026e
Real GDP growth (%)	2.6	2.0	2.5	2.0	2.4
Inflation (CPI, year average, %)	6.1	1.3	0.4	0.8	1.6
General gov. balance / GDP (%) (1)	-4.5	-2.0	-2.4	-4.3	-3.8
General gov. debt / GDP (%) (1)	60.5	62.4	63.3	65.7	67.6
Current account balance / GDP (%)	-3.2	1.9	2.4	2.0	1.9
External debt / GDP (%)	42.1	39.1	35.1	34.9	34.7
Forex reserves (USD bn)	196	202	211	201	198
Forex reserves, in months of imports	7.2	7.4	7.5	7.2	7.2

TABLE 1

(1) Fiscal year from October 1st of year N-1 to September 30 of year N
e: ESTIMATES & FORECASTS
SOURCE: BNP PARIBAS ECONOMIC RESEARCH

THAILAND: DECOUPLING BETWEEN MANUFACTURING OUTPUT AND CONSUMPTION

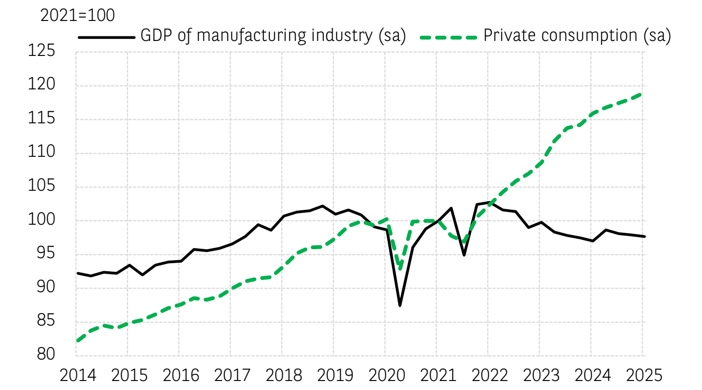

CHART 1

SOURCE: BOT, BNP PARIBAS

DISINFLATION AND MONETARY POLICY

In this context of slowing growth and falling prices (-0.6% year-on-year in May), the central bank (Bank of Thailand, BOT) cut its key rates by 25 bp at its last two monetary policy committees (February and April).

It lowered the repo rate to 1.75% and further rate cuts are expected by the end of the year in order to support economic growth and reduce household debt and the debt burden. The slowdown in economic growth could exacerbate the difficulties of the most vulnerable borrowers, households and small and medium-sized enterprises, which have already seen an increase in non-performing loans over the past year. The increase in credit risk does not currently pose a risk to the banking sector, which has comfortable capital buffers (the capital adequacy ratio stood at 20.7% in Q1 2025) and provisions (177.1% of non-performing loans). In terms of exchange rate policy, the BOT is expected to continue its managed float policy in order to mitigate any excessive volatility of the baht, with risks tilted to the downside.

RISE IN US TARIFS: RISKS AND OPPORTUNITIES

Thailand is one of the Asian countries most vulnerable to the Trump administration's trade protectionism. The country could face not only a decline in exports to the US (if tariffs are raised), but also an influx of Chinese products into its already fragile domestic market.

Within ASEAN, Thailand is the country that has benefitted most from trade tensions between the US and China since 2018, after Vietnam. Its market share of goods imported by the US increased by 0.7 pp between 2017 and 2024 to 1.9% of US imports (compared to +2.2 pp for Vietnamese goods). The US has become its largest trading partner (18.3% of total exports, or 10.4% of GDP in 2024), ahead of China (11.7% of exports).

All other things being equal, an increase in US tariffs to 25.1% (the effective tariff rate that would come into effect on 9 July if no agreement was reached with the US, taking into account the rise in tariffs on automobiles, steel and aluminium, compared with an effective tariff of only 0.68% on 1 April) could cost the economy 1.8 percentage points of GDP – assuming that exports are fully elastic to tariffs and that the Thai value added in direct exports to the US is estimated at 69% of total exports (7.2% of GDP). Although it seems unlikely that the tariffs applied from July will be those announced on 2 April, Thailand could be severely penalised if it fails to negotiate tariffs that are lower than or equal to those of its competitors. It exports electrical machinery and equipment (31.9% of its exports) to the United States, particularly telephones, semiconductors and electrical transformers. For these products, it competes with other ASEAN countries (particularly Vietnam and, to a lesser extent, Malaysia), as well as with India and Taiwan. For its exports of machinery and mechanical equipment (particularly computer equipment), it competes with Taiwan and with China for all exported products.

The second risk weighing on the Thai economy is the flood of Chinese products observed since 2017, which is expected to accelerate significantly. Thailand's imports from China have risen sharply since 2017 (+81.6%) to account for 26.2% of its total imports (compared to 19.9% in 2017). Although Thailand mainly imports intermediate goods, Chinese competition in final goods (20.3% of its imports in 2024) weighs heavily on its industry. All products are affected (copper, aluminum, textiles and furniture), but the sector most affected is likely to be the automotive industry. Imports of motor vehicles from China increased 106-fold between 2017 and 2024. At the same time, in both Thailand and Indonesia, domestic production of textiles and motor vehicles declined significantly. Since 2022, trends in private consumption and manufacturing output have decoupled. The BOT has shown that the decline in the production of electrical equipment, automobiles, metals and textiles correlates with the increase in the penetration rate of Chinese products.

THAILAND: GROSS FOREIGN INVESTMENTS

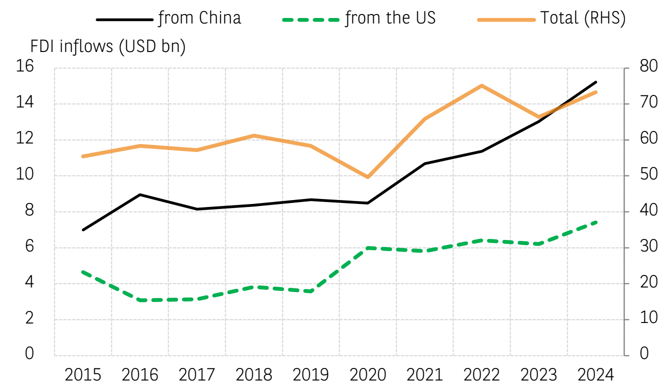

CHART 2 SOURCE: BOT, BNP PARIBAS

Finally, the last risk relates to foreign direct investment (FDI) flows. Thailand has managed to increase its market share in the United States in recent years because it has benefitted from an increase in FDI (like Vietnam, but to a lesser extent). Chinese and US gross investment increased 1.9- and 2.4-fold, respectively, between 2017 and 2024, accounting for 20.8% and 10.1% of gross foreign direct investment.

Can this momentum continue? Which Asian countries offer favorable conditions for foreign companies to set up operations? Does Thailand have sufficient conditions to continue benefitting from the reorganisation of value chains and offset the effects on its exports and growth of a possible increase in US tariffs on its products?

In order to answer these questions, several aspects need to be analysed: 1) wage and skill levels, 2) taxation, 3) manufacturing sector development, and 4) logistics performance. Although Vietnam competes with Thailand on average wages (1.5 times lower), its production capacity and infrastructure are now saturated. Compared with India and Indonesia (where wages are on average 2.6 and 1.9 times lower than in Thailand), Thailand has significant advantages: its overall level of education is higher than that of India and Indonesia, its infrastructure is more efficient overall (although there is an urgent need to modernise port infrastructure), its industry is much more developed and its production capacity utilisation rates are relatively low. It also offers a more advantageous tax system than Indonesia, but a less favorable one than India. In fact, India has introduced tax incentive programmes since 2020 to develop its industry, particularly in certain sectors (i.e., electronics) that could compete with Thai exports.

Article completed on 13 June 2025

Johanna Melka

johanna.melka@bnpparibas.com