

In Focus

Outlook
Q1/2019





In Focus:

3 Top Picks of the Thai Economy in 2019

Despite the global economic slowdown, we still see several positive factors supporting Thai economic growth in 2019. These include continuing government mega investment projects, new groups of Chinese tourists in Thailand, and positive sides of trade war which would yield opportunity for Thai businesses. Thus, these 3 issues are the EIC's top picks in 2019 so we can see arising opportunities as well as be prepared for what awaits us in this year.

3 Top Picks of the Thai Economy in 2019

Despite the global economic slowdown, we still see several positive factors supporting Thai economic growth.

EIC presents the 3 top picks in 2019 and draw up analysis on what are arising opportunities and what should we prepare for this year.



Rebound of the Chinese tourists



The number of Chinese visitors to bounce back within the second quarter of 2019



3 potential groups of Chinese tourists



Freely Independent Travelers (FITs)



Middle-income people from New Tier 1 cities



Medical tourists



Government mega projects to spur economy and spark private investment



Public investment is expected to bolster in 2019



Particularly the ongoing mega projects from 2018



Government mega projects will help boost private investment



Clearer EEC direction will attract both domestic and foreign investment



Business opportunity arising from the trade war



Opportunity of investment relocation to Thailand



Car tire industry: to supplant a production in China



Electronics industry: such as electronic integrated circuit



Opportunity of exports as alternatives Chinese and US products



Export to China: farm products such as fresh and frozen fruits



Export to the US: electronics and rubber products



Opportunity from anti-dumping measures

Pick 1: Government mega projects to spur economy and spark private investment

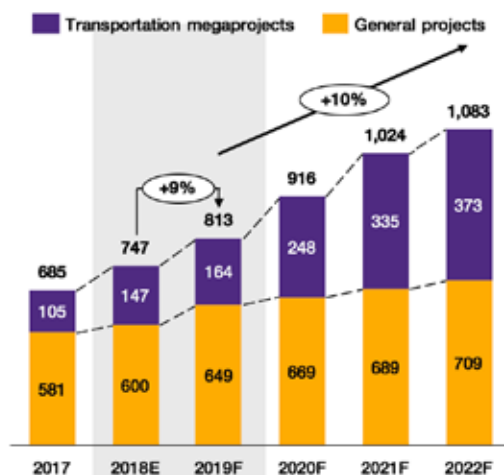


Public investment is expected to expand significantly in 2019. EIC estimates that public construction in 2019 will reach THB 810 billion, increasing approximately 9%YOY from the 2018 forecast (Figure 35). This rapid expansion continues from the year before. The investment value that will drive the economy mainly comes from the progress of ongoing projects that started construction last year. These projects are Bangkok-metropolitan rail line, dual-track railway, motorway, and airport expansion. EIC forecasts that the construction cost of these projects will worth THB 160 billion, accounted for 87% of the total infrastructure construction estimated cost and 0.9% of nominal GDP in 2019. The rest of investment will be the new projects, including the High-Speed Rail Linked 3 Airports project, the extension of city train, and the new routes of dual-track railway. However, when considering the progress, these projects will have limited impact in terms of investment value as, in the first half of 2019, most of the projects are in the bidding and other preparation processes such as land expropriation. EIC expects the construction, worth THB 8 billion, to begin construction in the late 2019.

Figure 35: Public investment in megaprojects and related crowding-in private investment will remain a key growth driver.

Forecasted government construction value categorized by type of projects

Unit: THB billion



Forecasted new and on-going government transportation mega projects value

Unit: THB billion



Source: EIC analysis based on data from MOF and MOT

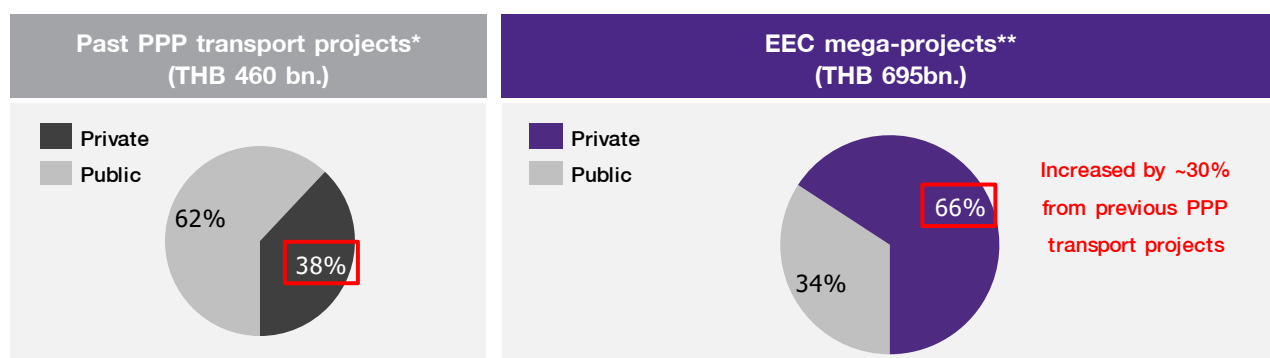
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Apart from investment in public construction that tend to increase, the new public mega projects also have potential to attract private investment even the construction activity has not yet started. Particularly, the investments in mega projects in Eastern Economic Corridor (EEC) area become more pronounced after the government approved 5 large infrastructure projects in EEC area, worth THB 695 billion in total. These projects are deemed to be Public-Private Partnership (PPP) investments, of which private investors provide most funding. When comparing with the previous PPP investments, the investment projects in EEC present noticeably higher investment budget and larger share of private investment (Figure 36).

Figure 36: On EEC transport projects, private sector expected to contribute ~70% which is up by ~30% compared with previous PPP projects

Investment budget of 5 EEC mega-projects, compared to past PPP transport projects

Unit: % of total investment



Progress of EEC mega-projects (THB bn.)	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19
HSR linked 3 airports (225)	Selling RFP					Submit proposal	Contract award			
U-Tapao airport (290)					Approved by cabinet	Selling RFP			Submit proposal	Contract award
MRO center (11)					Approved by cabinet	Selling RFP		Submit proposal	Contract award	
LCB phase#3 (114)					Approved by cabinet	Selling RFP		Submit proposal	Contract award	
Map Ta Phut phase#3 (55)					Approved by cabinet	Selling RFP			Submit proposal	Contract award

Note: * Consists of Dark green line (Mochit - On-nuch), Light green line (National stadium - Taksin), Blue line (Hua Lamphong - Bang Sue), Purple line (Tao poon - Bang Yai), East orange line (Thailand cultural center - Min Buri), Yellow line (Lat Phrao - Samrong) and Pink line (Khae Rai - Min Buri)
 ** EEC mega-projects that are approved by the cabinet as of October 30, 2018, consists of HSR linked 3 airports, U-Tapao airport, MRO center, LCB seaport phase 3 and Map Ta Phut seaport phase 3

Source: EIC analysis based on data from EECO, MOT and press search

Currently, big private players from both domestic and international levels have expressed interests in investment projects in EEC. For instance, Charoen Pokphand Holdings' joint venture submitted and won the bidding of the High-Speed Rail Linked 3 Airports projects in December 2018. The other 2 water transportation infrastructure mega projects are Laem Chabang Deep Sea Port (LCB) Phase III project, which already sold bidding document during November 5-19, 2018 to 32 Thai and foreign investors for making decision and offering proposal within January 14, 2019, and Map Ta Phut Port Phase III project, which sold bidding document during November 9-21, 2018 to 18 Thai and foreign investors for offering proposal in February 6, 2019. Lastly, U-Tapao airport development project currently offers concessions for duty-free sales, retail space, and food and beverage services to Thai big private companies, which will start operation in February 2019. In addition, U-Tapao Maintenance, Repair and Overhaul (MRO) facilities project announced application detail for private sector in November 2018. The qualified candidates are required to submit proposal in the mid of February 2019. In the future, the government is preparing to open auction for U-Tapao and Eastern Airport City project, with investment worth THB 200 billion. The 42 investors, who bought bidding documents during November 16-29, are

required to submit proposal in February 28, 2019. This development will support the rising number of tourists. In 2015-2017, the number of passengers in U-Tapao Airport increased 144% per year and in the first 8 months of 2018, the average number of passengers reached 1.3 million persons, rising 30%YOY. The government also sets target at 3 million passengers per year. EIC views that **interests of big private companies to invest in many mega projects in EEC is one of the important factors raising confidence in other private investments.**



Investments in EEC from both Thai and foreign investors have grown well, indicating the confidence in economic growth outlook in EEC area. The number of investment projects in EEC submitted to the Board of Investment (BOI) for investment promotion rose 122%YOY in the first half of the year in contrast to the total number of investment projects nationwide that dropped -2%YOY in the same period (Figure 37). The BOI expects that around 80% of the total investment projects submitted for investment promotion will mainly concentrate in targeted industries. Additionally, the registration of both Thai and foreign companies in EEC area in the first 9 months increased by 7%YOY to more than 5,000 companies. Most of them are real estate, construction, hotel, and restaurant (data from Department of Business Development), which reflect private sector's expectation toward expansion of city area and local economy. Hence, the increasing number of submitted investment projects and registered companies are positive indicators for the following economic activities ranging from investments in many areas, employment, and expansion of city area. The noticeable increase in infrastructure is the significant factor supporting confidence.

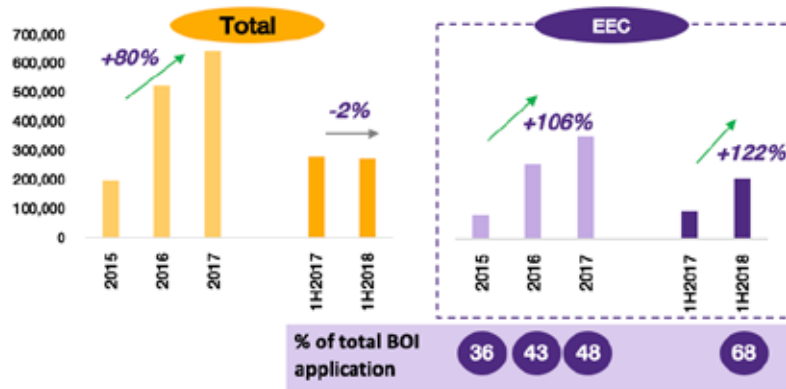
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Figure 37: EEC has already attracted some interests from private sector

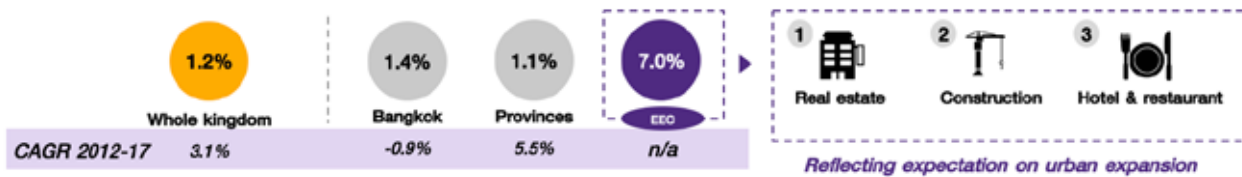
Value of projects applied for BOI investment privileges

Unit: THB million



Increase in number of new company registration in 9M18

Unit: %YOY



Source: EIC analysis based on data from BOI, DBD and press search

EIC views that Thai economy in 2019 will be further driven by public investment in mega projects, particularly in EEC and the extension from related private sector, which will compensate the private investment in exports that tend to decelerate, following the global trade outlook and the risk of trade war. Nevertheless, we need to keep an eye on the continuity of investment promotion policy regarding the investments in targeted industries in EEC in case of the change of government after the election.

Pick 2: Chinese tourists to rebound back to a positive growth within the second quarter



Chinese have been the world's largest group of tourists and the biggest spenders since 2012. In 2017, the number of Chinese outbound tourists was approximately 130 million, increasing 7%YOY, and their total spending reached USD 115 billion, making the highest amount for the 6 consecutive years. Thailand is the number 1 traveling destination for Chinese tourists. In 2017, Thailand was able to attract 9.8 million Chinese tourists, which increased 11%YOY and accounted the largest share of 28% of the total foreign tourists in Thailand. Additionally, Chinese tourists are one of the biggest spenders in Thailand with average spending of THB 53,480 per head per trip. In the first half of 2018, the number of Chinese tourists in Thailand rapidly rose 26%YOY to 5.9 million.

However, the Phuket boat accident in July 2018 severely affected Thai tourism industry and dampened Chinese tourists' confidence, particularly, all victims are Chinese tourists on a tour group. As a result, in the third quarter of 2018, the number of Chinese tourists dropped 9.5%YOY, dragging down the growth of total number of foreign tourists in Thailand to only 1.9%YOY from 15.5%YOY and 8.4%YOY in the first and second quarters of 2018, respectively. The Association of Thai Travel Agents (ATTA) estimated that Thailand may lose tourism receipts as much as THB 20-50 billion if Chinese tourists do not return to Thailand within the first quarter of 2019.

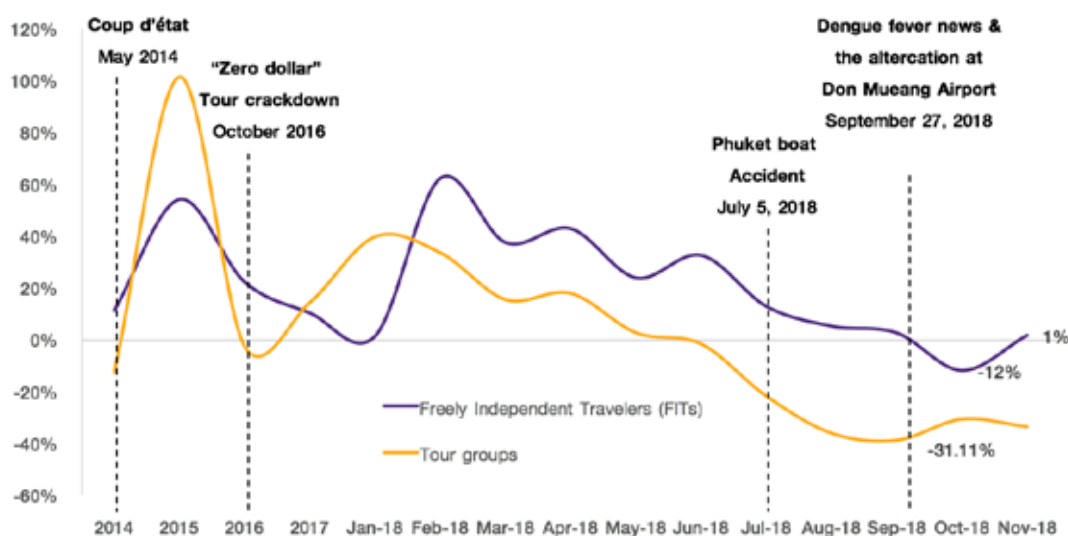
EIC expects the number of Chinese tourists to rebound back to positive growth within the second quarter of 2019. EIC estimates that the impact of Phuket boat accident to Thai tourism has passed the lowest point in terms of rate of change in the fourth quarter of 2018 comparing to that of the same period in the year before. The number of Chinese tourists has gradually recover from government's measures promoting confidence and tourism activities. Moreover, based on the historical evident, the number of Chinese tourists began to pick up 8 months after the "zero dollar" tour crackdown in October 2016. Furthermore, **EIC views that the growth of Chinese tourists in Thailand in 2019 will be supported by 3 main groups of Chinese tourists, which are the Chinese Freely Independent Travelers (FITs), the middle-income Chinese tour groups from New Tier 1 cities, and the Chinese medical tourists.**

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1. The Chinese Freely Independent Travelers (FITs), who are less affected by the incidents, tend to maintain a rapid growth. More than 400 million of Chinese aged 18-34 years old, which accounted around 30% of the total Chinese population, are potential groups of FITs. Most of them live in big cities, have purchasing power, and seek for new experience by traveling abroad themselves. The share of Chinese FITs worldwide has jumped from 37% in 2013 to 42% in 2017 and is expected to continue rising. According to the report of China Luxury Advisors and Fung Business Intelligence Center (2017), 70% of Chinese tourists plan to travel by themselves in the next trip. Thailand is the top traveling destination for Chinese FITs, with such a high share of 60% of the total foreign tourists in Thailand in 2017 and rising to 68% in the first 9 months of 2018. The Chinese FITs are the main source of Thailand's tourism revenue of all Chinese tourists as they stay longer on average 8-9 days per trip and spend higher around THB 54,345 per trip, when comparing to Chinese tour groups. Moreover, the number of Chinese FITs in Thailand has increased more than double from 2.6 million in 2013 to 5.9 million in 2017, despite the Coup d'état in 2014 and "zero dollar" tour crackdown in 2016. Furthermore, while the number of Chinese tour groups contracted by 30%YOY after the Phuket boat accident, the number of Chinese FITs only decelerated by 10%YOY in the third quarter and later rebounded to a mild positive growth at 1%YOY in November 2018 (Figure 38). This indicates that the Chinese FITs are less sensitive toward uncertainties than the Chinese tour groups. As the Chinese FITs are able to access to information, follow up, and evaluate the incidents, they are likely to return to travel in Thailand in 2019 more than any other groups.

Figure 38: The number of Chinese FITs has shown much healthier growth and relatively less impact from the incidents.

The number of Chinese tourists
Unit: %YOY



Source: EIC analysis based on data from Ministry of Tourism and Sports

2. The middle-income Chinese tour groups from the New Tier 1 cities²² will be important to Thai tourism in the near future. The economic expansion and rising GDP per capita in China's New Tier 1 cities, together with additional VISA service centers and more international flight routes connecting the New Tier 1 cities to well-known traveling destinations, lead to a robust growth of the number of outbound Chinese tourists from these cities. In 2017, there were 10 New Tier 1 cities, which are previously Tier 2 cities, in the top departure cities for Chinese

²² In 2017, the Chinese government promoted 15 Tier 2 cities to be the New Tier 1 cities, including Chengdu, Hangzhou, Wuhan, Tianjin, Nanjing, Chongqing, Xi'an, Changsha, Qingdao, Shanghai, Suzhou, Zhengsha, Ningbo, Dongguan, and Wuxi

outbound tourists. Surprisingly, Chengdu was ranked 3rd in the list, surpassing Guangzhou, which is the traditional Tier 1 city. Moreover, the number of Chinese outbound tourists from the New Tier 1 cities jumped significantly, led by the growth in Xi'an (232%YOY) and in Changsha (235%YOY) (Figure 39). These Chinese outbound tourists still prefer traveling in tour groups but their spending is on the rise. During the China's Golden Week 2018, Ctrip reported that the Chinese tourists from the New Tier 1 cities, such as, Dalian, Suzhou, Shenyang, Chengdu, Fuzhou, Zhengzhou, Xian, and Xiamen, spent around USD 982-1,127 per trip, higher than last year and even higher than that of the Chinese tourists from Tier 1. Nevertheless, Thailand has been China's top destination for many years and also during the Golden Week 2018 thanks to the natural beauty and tourist attractions uniqueness, variety of food, and shopping centers. These advantages satisfy the demand of Chinese tourists, especially those who travel with tour groups, as they like to spend on relaxing and shopping. Therefore, the opportunity for Thailand to welcome the Chinese tourists from the New Tier 1 cities is rising.

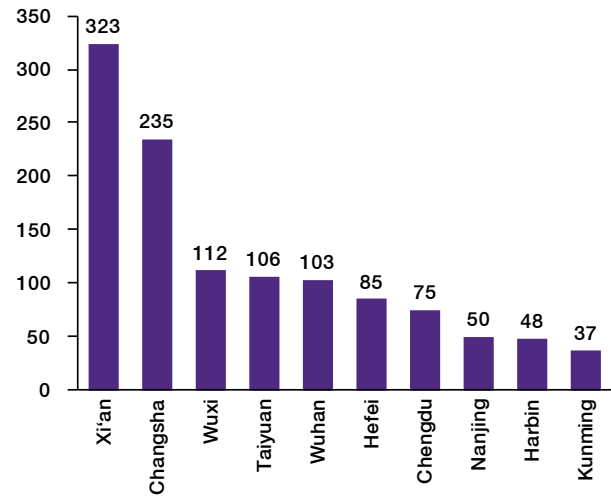
Figure 39: The number of outbound Chinese tourists from New Tier 1 cities grew significantly in 2017 and the rapid growth is expected to continue.

Top 10 departure cities from Chinese outbound tourists in 2017

Rank	Name	Tier
1	Shanghai	Tier 1
2	Beijing	Tier 1
3	Chengdu	New Tier 1
4	Guangzhou	Tier 1
5	Shenzhen	Tier 1
6	Nanjing	New Tier 1
7	Wuhan	New Tier 1
8	Tianjin	New Tier 1
9	Xi'an	New Tier 1
10	Changsha	New Tier 1

The number of Chinese outbound tourists from New Tier 1 cities (2017)

Unit: %YOY



Source: EIC analysis based on data from Ctrip and China Tourism Academy

3. The Chinese medical tourists, who are still small in number but willing to spend a large amount on medical services. China is encountering 2 population structural challenges, which are 1) the high share of elderly population at 17.3% of the total population and 2) the decline in birth rate to 3.5% in 2017 even though the government has announced “two-child policy” since 2016. Thus, the elderly population and the married couples become Thailand's potential medical tourists. Thailand also targets to be the medical tourism hub and it was given 6th rank from International Healthcare Research Center's Medical Tourism Index in 2017, with advantages of medical personnel, standard, equipment, and relatively lower medical expenses. The Tourism Authority of Thailand reported that, in 2017, Thailand welcomed 66,492 medical tourists and gained THB 23 billion of revenue. It is expected that the revenue from medical tourism would increase 13.9%YOY to THB 26 billion in 2018. Thailand aims to attract more Chinese medical tourists, who are the largest group and the biggest spender of all foreign medical tourists in Thailand. For more than 240 million Chinese elderly people, Thailand will provide medical services for serious diseases, including Vascular disease, Bone disease, Gastrointestinal and liver diseases, Cancer, and Brain disease. For more than 90 million Chinese couples, who want the second child, Thailand is well-known for In Vitro Fertilization (IVF) services, with higher success rate

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of 60% than 30% in China²³ and relatively cheaper expenses around THB 200,000-400,000 per person per trip. Moreover, Thailand is the Chinese medical tourists' top destination for anti-aging and esthetic medical services, which generate the highest revenue around THB 200,000-700,000 per person per trip. The number of Chinese medical tourists is expected to increase from 2019 onwards. The government has put efforts to attract Chinese medical tourists by extending the stay for Chinese medical tourists from 30 to 90 days and promoting Thailand's medical tourism in China's 5 major cities. In the meantime, Chinese people are willing to pay for better medical services in Thailand, for example, IVF.



Thai government has implemented 3 measures to restore tourists' confidence and attract Chinese tourists back to Thailand in the second half of 2018. These included 1) Improvement of marine and land safety measures, 2) promoting charter flight and cooperating with local travel agents targeting Chinese tour groups from the New Tier 1 and Tier 2 cities, and 3) temporally exemption of Visa fee for Chinese tourists in the last 2 months of 2018. The government expected that the number of Chinese tourists in Thailand would reach the target of 10 million in 2018. In fact, the number of Chinese population with passports and travel abroad in 2017 was accounted only 10% of the total population²⁴. This presents the opportunity for Thailand to welcome future Chinese tourists. The 3 mentioned groups of Chinese tourists will be key drivers for Thai tourism from 2019 onwards. However, the sharp decline in the number of Chinese tourists and a great loss of tourism revenue following the Phuket boat accident in July 2018 point out the weakness of Thai tourism, with highly dependent on Chinese market. Therefore, Thai tourism should diversify its markets and pay more attention to attract tourists from ASEAN and Asian countries, which presented high growth in 2018. Meanwhile, Thailand should also improve the quality of the existing tourist attractions and develop new traveling destinations as to increase variety and capture demands of different groups of tourists. Tourism infrastructure must be improved, particularly the expansion of international airports, to increase the country's tourism carrying capacity and to promote the sustainable growth of the industry in the long term.

²³ Brian Wang, Fertility and IVF assistance tool has 8 million Chinese users, NEXTBIGFUTURE, September 2018

²⁴ Ctrip and China Tourism Academy, 2017 China Outbound Tourism Travel Report, China Outbound Tourism Research Institute, January 2018

Trend 3: Opportunity for Thai business in the US-China



The US-China trade war has caused uncertainty in the global trade, which could change trade routes and disrupt global manufacturing supply chain and investment plans of businesses. On the other hand, it might open opportunities for Thailand to take advantages amid conflicts between the two largest economies. Trade protectionism measures might force the US and China to change trade routes to avoid higher manufacturing and export costs from the new import tariffs. Particularly, China is losing its competitiveness in exporting products to the US. China is Asia's important manufacturing center, which plays a crucial role in global supply chain network. Thai exports, which are highly connected to China's trade, have been indirectly affected in the same supply chain. Moreover, investment plans for business tend to be impacted due to trade policy uncertainty in the US and China. Amid negative impacts on trade and investment, Thailand might still be able to benefit from the trade war. EIC views that Thailand would receive some positive impacts from the US-China trade war through 3 channels as follows;

1. Opportunity for investment relocation to Thailand

Manufacturers in China are facing higher operational and export costs from the new import tariffs and considering to move some parts of their production line out of China. The trade war makes manufacturers in China lose competitiveness in exporting goods to the US as they are subjected to higher import tariffs than any other countries. As a result, some manufacturers which export goods to the US, are planning to relocate in order to avoid import tariffs and other possible US's protectionism measures from the ongoing trade war. Asia is China's one of the important targets due to its competitiveness in location and Free Trade Agreement (FTA). The benefit of FTA in the host countries will allow Chinese investors to expand into markets that China has not yet had FTA with. EIC views that it might be an opportunity for Thailand to be China's new production base in some industries, especially industries currently affected by the trade war, along with Thailand's readiness absorptive capacity to welcome these investments.

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1.1) Tire industry: the trade war has affected tire manufacturers in China and pressured them to relocate their productions to Thailand, which is a renowned rubber production hub. In 2015, the US imposed an import tariff on passenger car and light truck tires from China at 25.3%, accusing China of dumping and subsidies tires exported to the US. This led to the relocation of tire manufacturers in China to Thailand, which has competitiveness in terms of raw material as Thailand is the world's biggest producer of rubber with 36% share of the global rubber production. Recently, the US announced a 10% tariff on car tires, with a possibility to raise the rate to 25% in 2019. This trade protectionism increased costs for car tire manufacturers in China. Therefore, they are likely to shift the US-export orders from China to their production base in Thailand. However, Thailand's tire production has almost reached its capacity. Tire manufacturers from China need to increase their investments in Thailand to expand the country's production capacity and make Thailand the new China's tire production base for exporting to the US.

1.2) Electronics industry: Thailand might receive benefits from investment relocation in some product categories. The US imposed import tariffs on Chinese goods, focusing on electronics, machineries and parts, which are the biggest categories of US imports from China. In 2017, the US imports of these products from China accounted for 50% of total imports from China. Electronics manufacturers in China, who were affected by the US tariffs, are likely to reduce risks by relocating their US-exporting production to other regions (Figure X). Thai electronics sector that will benefit from China's investment relocation is Electronic integrated circuit as Thailand used to be the production base and exported around 3.5% of the total Thai exports in 2017. Even though Thailand is ready and has high potential to be the destination for investment relocation, the country still has to compete with neighboring countries, like Vietnam and Malaysia, in attracting investments in this product. Especially, Vietnam is currently a production base for such important electronics as mobile phone and tablet, with more competitive advantages in terms of shorter distance to China and cheaper labor cost.

Figure 40: Some manufacturers in China announced investment relocation plan to Thailand to avoid the trade war

Name	Nationality	Product	Detail
Merry Electronics Co.	Taiwan	Headphone supplier for Bose Corp.	Intends to move some of its production from southern China to Thailand.
Delta electronics power	Taiwan	Electronics and electric parts for smartphone	Expand its investment to Thailand replacing the current production in southern China.
Toshiba Machine Co. (Shanghai)	Japan	Plastic molding machines	Moved its production to Thailand in October 2018.
New Kinpo group	Taiwan	Produce electronics components	Investment in the new plants in Thailand and Philippines.

Source: EIC analysis based on data from press (data as of December 21, 2018)

2. Opportunity for substituting Chinese and US export products

Amid the trade war, the US and China are looking for alternative products from other countries to replace the existing imported products, which are currently being affected by the import tariffs. In general, the US imposed import tariffs on Chinese goods, specially on electronics while China retaliated by imposing tariffs on US agricultural goods. As a result, Thailand might enjoy short-term opportunity in exporting competitive products, substituting some Chinese and US export products.

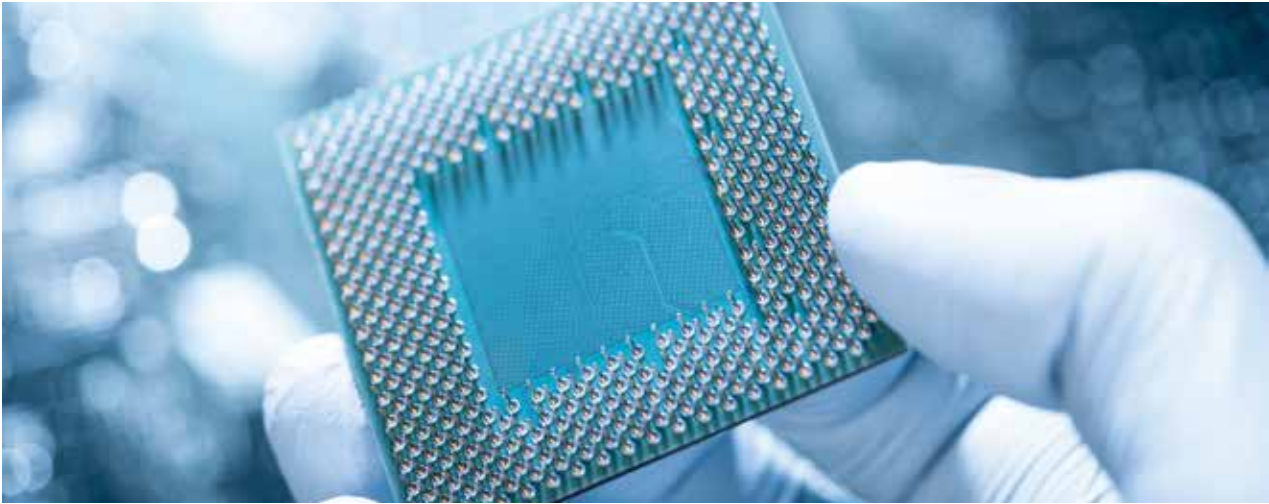
2.1 Opportunity in exporting more Thai agricultural products to China, replacing the US exports. China imposed import tariffs in retaliation on the US goods, mostly focusing on agricultural goods because farmer are the President Trump's important supporters. For China, the prices of the US agricultural imported products become relatively higher than any other countries. Therefore, this presents an opportunity for Thailand to export agricultural products to China, replacing the US exports, for example, molasses (Figure X). Prior to the tariff imposition, China imported most molasses from the US, worth around USD 66 million in 2017. Meanwhile, Thailand exported most molasses to Laos, worth around USD 3.2 million in 2017. Although the export value

is still small, it is an opportunity for Thailand to expand the market to China. Moreover, Chinese prefer Thai fresh and frozen fruit (guava, mango, and mangosteen). When China imposed import tariffs on US fruit (apple, pear, and quince), the prices of these fruit rose. Chinese consumers, therefore, are likely to turn to purchase Thai fruit instead of US fruit. However, Laos is considered to be the main competitor in the fruit market.

Figure 41: Thai goods with an opportunity to export to China, replacing US exports, during trade war

US goods that China imposed import tariffs on	Thai goods with an opportunity to export to China, replacing US exports	Share of China imports from the US	Share of China imports from Thailand
Agricultural product	Residues of sugar manufacture	98.7% (Rank 1)	0.1% (Rank 5)
	Fresh fruit	35.4% (Rank 1)	37.3% (Rank 1) ²⁵

Source: EIC analysis based on data from Trademap (2017)



2.2 Opportunity in exporting Thai electronics and rubber products to the US, replacing some Chinese manufacturing exports. The US imposed import tariffs on Chinese goods, mostly focusing on electronics. Thailand is the world’s production base of Hard Disk Drive (HDDs), accounting for 50% of the global production. Thailand, therefore, has potential to export HDDs and electronic parts to the US, replacing some of China’s exports (Picture 3). However, Thailand’s current technological advancement are still not able to completely transit and develop the production of HDDs into SSD. This matter is still an obstacle discouraging future demand and potential export capability as technological behavior changes and evolves. For rubber products, Thailand is also one of the world’s main production bases, with large production capacity of care tires and rubber gloves. Nevertheless, Thailand may not be able to rapidly expand its production capacity in short run. Besides, Canada and Malaysia still have potential to compete and export rubber products to the US. Therefore, Thailand has limited opportunity to export alternative rubber products.

Figure 42: Thai goods with an opportunity to export to the US, replacing Chinese exports, during trade war

Chinese goods that The US imposed import tariffs on	Thai goods with an opportunity to export to the US, replacing China exports	Share of US imports from China	Share of US imports from Thailand
Electronics	Hard Disk Drives	21.7% (Rank 2)	40.8% (Rank 1)
Rubber product	Car tires	14.5% (Rank 1)	14% (Rank 2)
	Rubber gloves	13.3% (Rank 3)	17.3% (Rank 2)

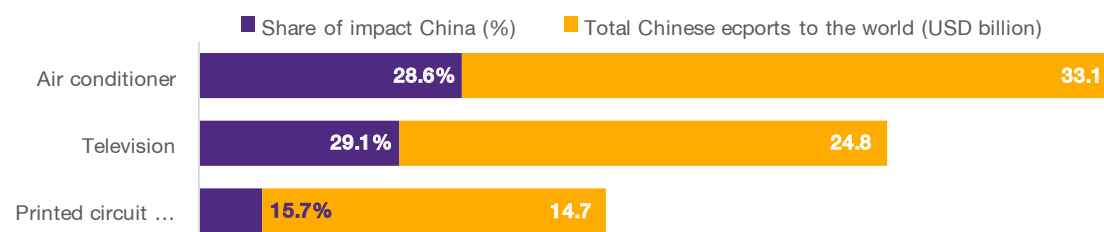
Source: EIC analysis based on data from Trademap (2017)

3. Opportunity for taking advantages of dumped products

In the short run, the US-China trade war will raise the cost of export products for both sides as there are additional costs from import tariffs. US and China export prices will be comparatively higher than other countries'. Both countries might avoid importing from each other in affected product categories. Therefore, in the short form, there may be a large amount of excess inventories and encourage China and the US to dump exports of these products to other countries, including Thailand. Dump products would lower overall export prices to compared to the domestic market price to enter new markets and be able to sell out in large quantities. This will directly affect Thai export manufacturers of the dumped product in terms of export revenue due to lower export prices. On the contrary, Thai consumers and producers that rely on these dumped products as input materials or a part of their production would benefit from these market changes as follows.

3.1 Taking advantages from Chinese products suffered from the US tariffs. Trade barriers tend to cause a decreased volume of Chinese exports to the US yet, since China has high production capacity, low cost of production per unit, and depreciating yuan from the beginning of 2018, Chinese products remain affordable. If the trade war prolongs and further escalates in the short run, there is a chance that Chinese goods will swiftly flow and dumped into Thailand. EIC considers that some dumped products and parts will benefit manufacturers, specifically ones that have to be imported as raw materials from foreign countries such as computers components, especially printed circuit boards. (Figure X) This allows manufacturers to obtain raw materials from China at cheaper prices. In addition, Thai consumers might benefit, as they can buy products at a cheaper price, especially in the category of electrical appliances, namely, imported phone and air conditioner from China, which are all products that has been affected from the US import tariffs. In addition, the US tends to import air conditioner from China less and shifts to import from Mexico instead. Therefore, Chinese air conditioners might flow into Thailand as a result. Nevertheless, some Thai manufacturing will be affected by lower export prices due to more dumped and imported Chinese products in the domestic market.

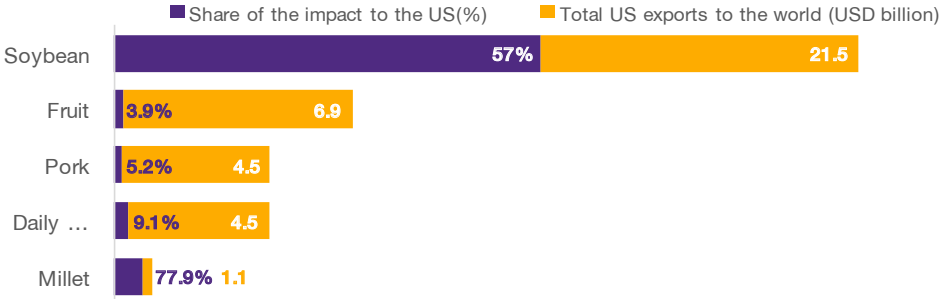
Figure 43: Affected Chinese electronics might flow into Thailand



Source: EIC analysis based on data from Trademap (2017)

3.2 Taking advantages from the US goods are affected by Chinese import tariffs, particularly soybean. Currently, the US exports excess soybean to Thailand. As a result, there is an opportunity for Thai animal food manufacturers for livestock to import US soybean as cheaper raw materials instead of fish meal (Figure X). For large animal food manufacturers, the raw material costs for animal food may be further reduced by using imported soybean.

Figure 44: Soybean is the US’s most affected agricultural product from China’s tariff measures



Source: EIC analysis based on data from Trademap (2017)

EIC views that although the negative impacts of the US-China trade war on Thai exports are unavoidable, Thailand can turn this situation into opportunity through 3 above channels to alleviate the negative impacts. Firstly, Thailand would be able to benefit from being a production base of electronics and agricultural products by seeking opportunities from investment relocation to Thailand especially from Chinese manufacturers. Secondly, Thai alternative exports to China and the US, and thirdly, taking advantages of dumped products, under this ongoing trade war. Nevertheless, in short run, the benefits might be limited as other countries are also competing over the same opportunity. Importantly, Thailand might be nearing its maximum production capability in some products, limiting its ability to export as an alternative source. Even though the positive impacts of the trade war cannot compensate the negative effects of global supply chain disruption, they are still able to partially reduce negative impacts for some industries and countries. Thai manufactures and exporters, relying on exports to the US and China, should closely keep an eye on the trade war in 2019.

EIC articles for further analysis on the US-China trade war



September 19, 2018
US-China Trade war heats up with new USD 200 billion tariffs on Chinese goods



March 23, 2018
U.S. plans to impose tariffs on Chinese imports, raising trade war fear

