Q2/2024

SCB EIC

Outlook

Economic outlook 2024-2025
as of Q2/2024

Despite a fragile and uncertain economic recovery,
Thai manufacturing sector still has opportunities from global decoupling.

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Outlook Q2/2024

Executive summary

The global economy will likely maintain a steady growth of 2.7% in 2024 and 2025, yet slower than the pre-pandemic pace. In 2024, the US economy shows significant improvement thanks to robust domestic demand, while the manufacturing sector and economic stimulus bolster China's outlook. India and ASEAN economies will continue a firm footing, whereas the Eurozone and Japan will experience subdued growth. **Yet, we expect a shift in economic drivers in 2025:** ASEAN economies will pick up pace, India will maintain buoyant growth despite a slight slowdown, and Japan and the Eurozone will witness modest rebounds. In contrast, the US economy is projected to slow down, and ongoing structural issues will hold back China's growth. We anticipate **the global economic slowdown over the medium term due to emerging challenges**—notably China's structural problems, geopolitical tensions, and policy uncertainties stemming from upcoming elections worldwide, including the US presidential race. **Major central banks gradually cut policy rates amid subsiding inflation,** led by the ECB and BOC. The Fed and BOE are likely to lower policy rates in H2/2024, while the BOJ is expected to make another rate hike following an upward revision of medium-term inflation forecasts.

Thailand's economy will slowly rebound to 2.5% in 2024, backed by the service sector alongside a robust rebound in foreign tourist arrivals—following additional initiatives such as free visas and visa-on-arrival (VOA), as well as the return of Chinese tourists. Domestic travel will also expand steadily thanks to government tourism promotions. However, growth in 2024 will be limited for merchandise exports (particularly steel, fruits, and HDD—all of which will shrink this year), while the manufacturing sector will recover slowly. Despite an expedited disbursement of public investment following an over-six-month delay in the 2024 budget bill, it will not fully offset the previous sharp contraction. **In 2025, Thailand's economy will expand by 2.9%,** partly supported by private investment rebound and government disbursement returning to normal levels. Nonetheless, **the Thai economy will face heightened vulnerability in household and business sectors. (1) Household:** low-income groups still lack sufficient financial buffers. **(2) Business:** despite signs of an overall rebound, some firms remain highly fragile—particularly small businesses. Financial measures to support these vulnerable groups will take time to yield broad-based benefits.

SCB EIC anticipates two MPC rate cuts to 2.25% in late 2024 and 2% in early 2025. Thailand will face heightened economic risks, with tighter financial conditions pressuring growth while households and businesses remain fragile. **The year-end Thai baht is expected to strengthen to 35-36 THB/USD,** in line with Thailand's economic recovery, driven in part by the government budget disbursement returning to normal levels.

Geopolitical issues will fuel uncertainties and accelerate global economic decoupling, but this could present an opportunity for Thailand's industry. Maintaining a neutral stance, Thailand is poised to benefit from trade and investment diversions as global decoupling continues. To seize this opportunity, Thailand needs proactive export promotions and business strategies tailored to the specific contexts of each manufacturing product. We categorize them into four groups based on productivity and market competition.

Thai Economy in 2024 and 2025

Despite a fragile and uncertain economic rebound, Thailand's industry sees opportunities from global decoupling.

Key forecasts

(Previous forecast)

GDP
(%YOY)

2023	2024F
1.9	2.5 (2.7)

SCB EIC downgraded Thailand's 2024 GDP growth forecast to 2.5% (from 2.7%) but anticipated a steady rebound to 2.9% in 2025 (excluding the D-Wallet initiative). We revised down the forecasts of most economic components, particularly exports and government spending. Households have become increasingly fragile, with higher-income groups reporting insufficient income to cover expenses, while relief measures have yielded limited benefits to debtors. Furthermore, some firms are exposed to external risks and structural challenges within Thailand's manufacturing sector.

Policy rate (year-end)
(%)

2023	2024F
2.5	2.25 (2.0)

SCB EIC anticipates two MPC rate cuts to 2.25% by the end of 2024 and 2% in early 2025, during which Thailand will face heightened economic risks due to tighter financial conditions and increased fragility among certain households and businesses.

Exchange rate (year-end)
(THB/USD)

2023	2024F
34.3	35-36 (33.5-34.5)

The Thai baht has been increasingly volatile over the recent months. Earlier, the baht appreciated as Thailand's Q1 GDP outperformed forecasts, but recently weakened amid rising political uncertainties and better-than-forecasted US PMI. We expect the year-end baht to settle around 35-36 THB/USD, assuming Thai political factors stay unchanged, the 2025 budget bill proceeds as planned, and the economy continues its consistent rebound.

Source: SCB EIC analysis based on data from the Office of the National Economic and Social Development Board, the Office of Agricultural Economics, the Office of National Statistics, the Office of Election Commission of Thailand, Ministry of Finance, Bank of Thailand, Ministry of Commerce, Tourism Authority of Thailand, CEIC, and Bloomberg.

Thai Economy in 2024 and 2025

Positive factors

- Upbeat rebound in tourism and the service sector
- Robust private investment in line with higher investment promotion applications and government incentives
- Economic stimulus measures

Negative factors

- Higher fragility impairing household consumption
- Weak rebound in the manufacturing sector
- Subdued export growth as global trade loses traction

Risk factors

- Heightened geopolitical risks, particularly a potential escalation of the Israel-Palestine war could disrupt the global supply chain and threaten Thai exports
- Financial system vulnerabilities due to accelerating NPLs in household and business sectors, potentially hampering consumption and investment

Opportunities

- Opportunities for Thai industrial sectors as global decoupling continues

Source: SCB EIC analysis based on data from the Office of the National Economic and Social Development Board, the Office of Agricultural Economics, the Office of National Statistics, the Office of Election Commission of Thailand, Ministry of Finance, Bank of Thailand, Ministry of Commerce, Tourism Authority of Thailand, CEIC, and Bloomberg.

Global Economy in 2024 and 2025

Global economy will maintain consistent growth at 2.7% in 2024 and 2025, though the pace of rebound will vary across countries. Major central banks began to lower their policy rates as inflation subsided, with further cuts anticipated in H2/2024 and 2025.

Economic growth

SCB EIC upgraded the global GDP forecast for 2024 to 2.7% (from 2.6%) given a more upbeat outlook for the US and China. India and ASEAN economic growth should also stay intact, whereas the Eurozone and Japan are likely to remain somber.

In 2025, the global economy will continue expanding at 2.7%, backed by different growth drivers from last year. ASEAN economies should pick up pace, India will face a slight slowdown but remain buoyant, and Japan and the Eurozone will witness a modest rebound. In contrast, the US is expected to lose momentum, and the structural challenges will impede China's growth.

Inflation rate

SCB EIC expects global inflation to steadily cool down in H2/2024 and 2025, settling closer to many central banks' targets of 2%.

Monetary policy direction

Major central banks started lowering their policy rate in Q2/2024, with further rate cuts expected in H2/2024 and 2025.

Yet, real interest rates remained high despite the shift towards monetary easing.

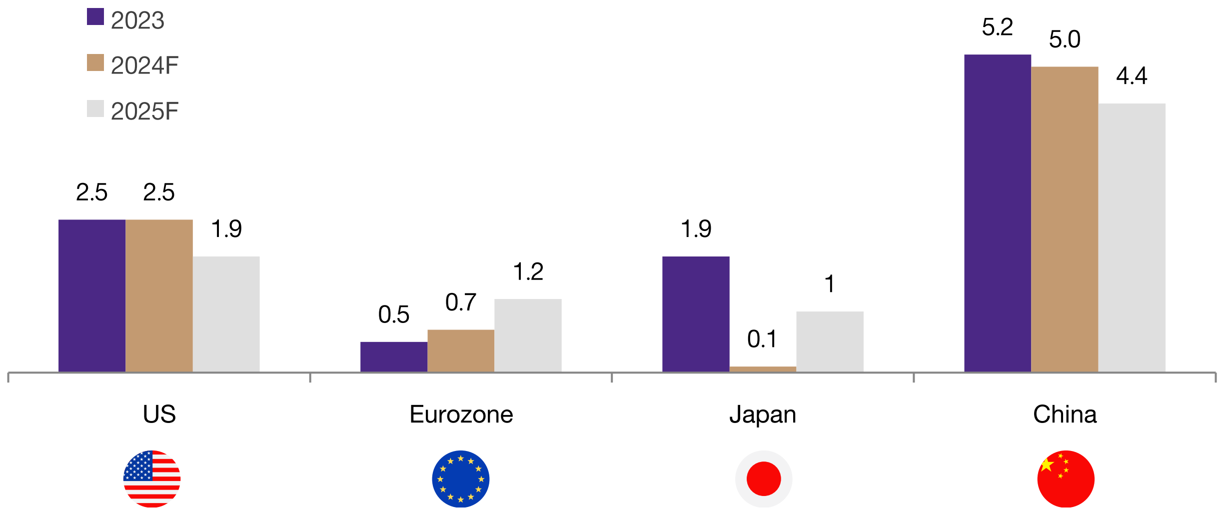
Conversely, we anticipate another BOJ rate hike this year following an upward revision of medium-term inflation forecasts nearing the 2% target.

Source: SCB EIC analysis.

Meter 1-5 in colors from left to right: red-worse/ yellow-moderate/ green-good

Economic growth in 2023-2025

Unit: %YOY



Positive factors

- Global inflation cooldown
- Easing policy rates
- International trade to gain traction in H2/2024 and 2025
- The service sector maintains robust growth, and the manufacturing sector regains momentum
- Growing trends in investment and the adoption of AI/Data center

Risk factors

- Global supply chain and trade disruptions from the Red Sea and Panama Canal
- Ongoing geopolitical conflicts
- Escalating trade barriers
- China's manufacturing overcapacity
- Upcoming elections worldwide, particularly in the US and the European Parliament

Source: SCB EIC analysis.

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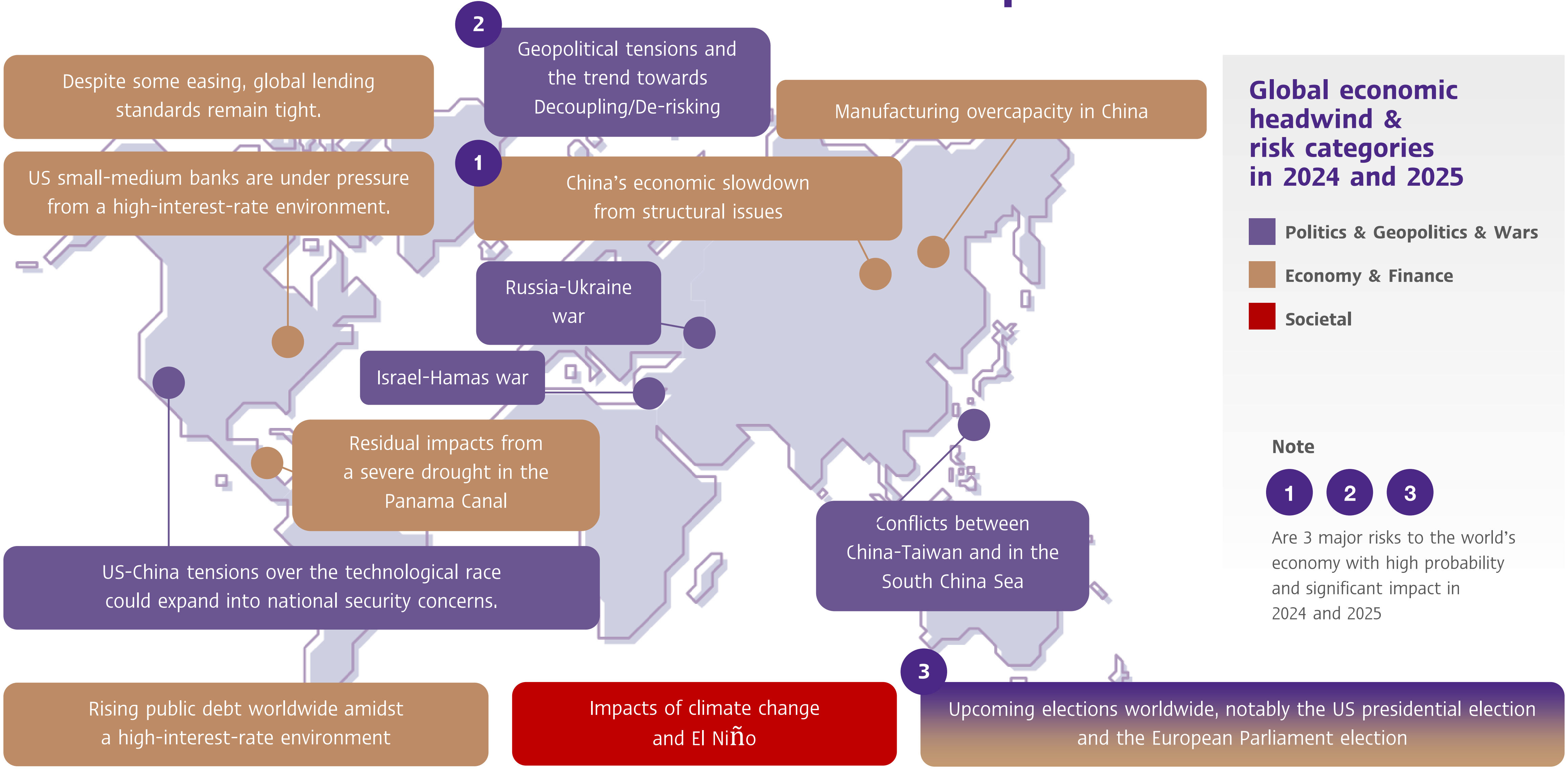
Global economic headwind & risk map in 2024 and 2025



Global economic headwind & risk categories in 2024 and 2025

- Politics & Geopolitics & Wars
- Economy & Finance
- Societal

Note

1 2 3

Are 3 major risks to the world's economy with high probability and significant impact in 2024 and 2025

Source: SCB EIC analysis.

Global economy

The global economy will grow at a stable pace of 2.7% in 2024 and 2025, consistent with 2023 but still slower than the pre-pandemic growth. Global growth tends to decelerate over the medium term due to emerging challenges, particularly China's structural issues and ongoing geopolitical tensions.

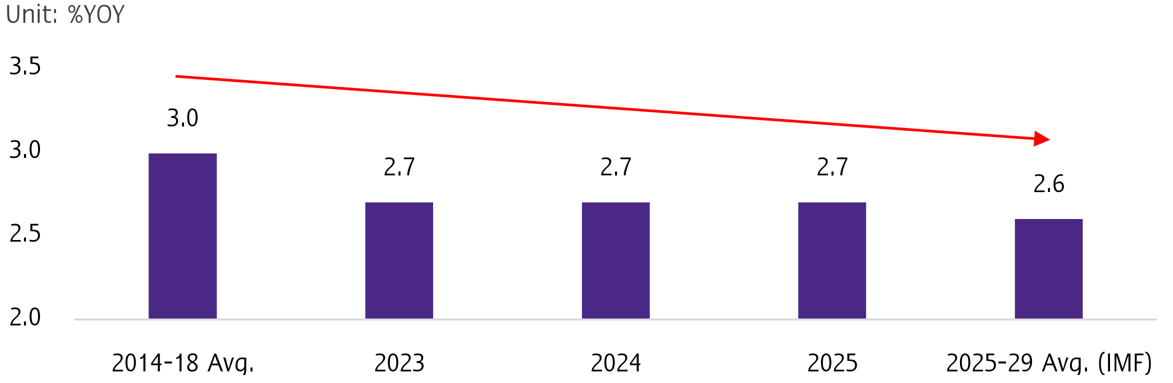
Consistent with 2023, the global economy is expected to continue a steady growth of 2.7% in 2024 and 2025, although economic drivers will vary each year. Global growth is likely to lose pace over the medium term, pressured by emerging challenges.

SCB EIC's global economic growth projection

GDP Growth (%YOY)	2023	2024F As of Mar 24	2024F As of Jun 24	2025F as of Jun 24
Global*	2.7%	2.6%	2.7%	2.7%
US	2.5%	2.1%	2.5%	1.9%
Eurozone	0.5%	0.6%	0.7%	1.2%
Japan	1.9%	0.6%	0.1%	1.0%
China	5.2%	4.6%	5.0%	4.4%
India**	7.7%	6.8%	7.1%	6.8%
ASEAN-5***	4.3%	4.8%	4.7%	5.0%

- **The global economy will grow steadily in 2024.** The US outlook has significantly improved thanks to robust domestic consumption, while economic stimulus will shore up growth in China. India and ASEAN economies will continue on a firm footing, whereas the Eurozone and Japan's economic growth will be subdued.
- **Economic drivers to shift in 2025.** Growth in ASEAN will likely pick up, and India will maintain high growth despite a slight slowdown. The Eurozone and Japan will see modest improvements. Structural issues will hamper China's growth, and the US is likely to decelerate.

IMF global economic growth forecast over the medium term (2025-2029)



China's economy to lose momentum from persistent structural challenges

Declining workforce in line with an aging population

Global Gross Fixed Capital Formation remained below pre-COVID-19 levels

Climate change and long-term damages

Global economic decoupling hinders global partnerships and heightens uncertainties

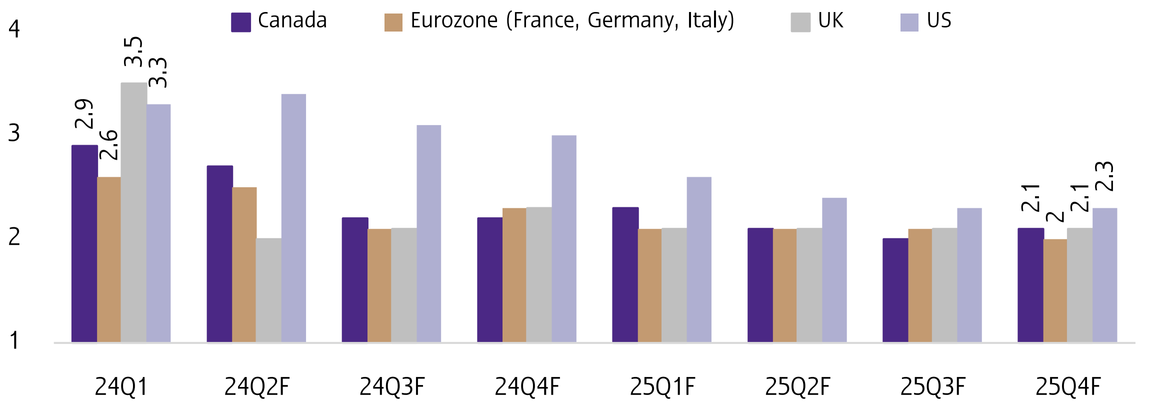
Rising public debt worldwide implies higher vulnerability to economic volatility

Note: *Weights based on market exchange rates. **GDP projections are in calendar years (vs. fiscal years in Mar-24 projection). ***ASEAN-5 includes Indonesia, Malaysia, Philippines, Singapore, and Vietnam.
Source: SCB EIC analysis based on data from FED, ECB, BOJ, PBOC, IMF, IMF WEO (Davos 2024), CEIC, and Bloomberg.

Major central banks started to lower their policy rates in response to cooling inflation. The Fed and BOE will begin to ease their policy rates in H2/2024, during which we anticipate another rate hike from the BOJ.

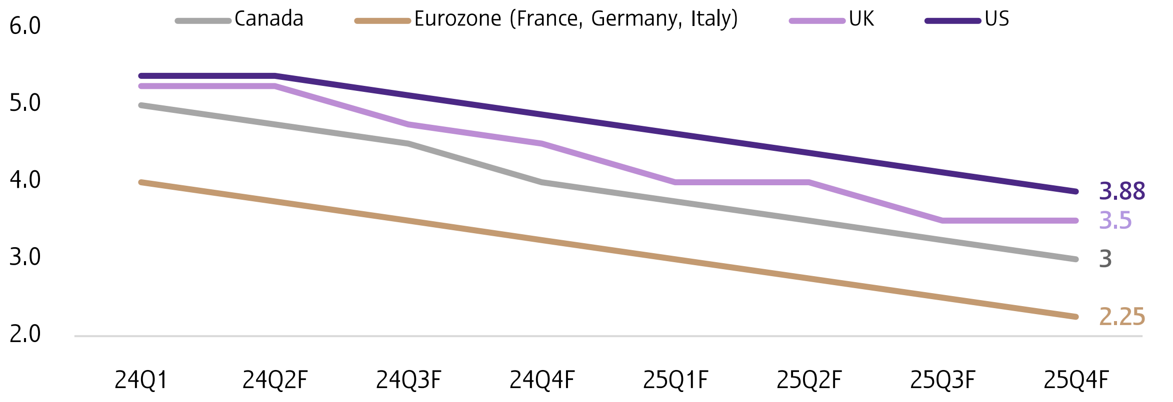
G7 inflation forecast (excl. Japan), Bloomberg median

Unit: %YOY



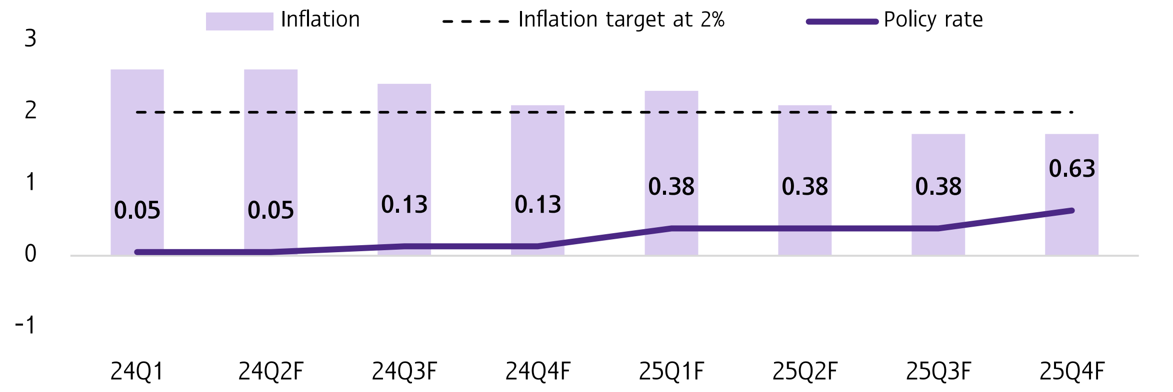
G7 policy rate forecast (excl. Japan) by SCB EIC

Unit: %, mid-point



Japan's inflation and policy rate forecasts by SCB EIC

Unit: % for policy rate (median) and %YOY for inflation



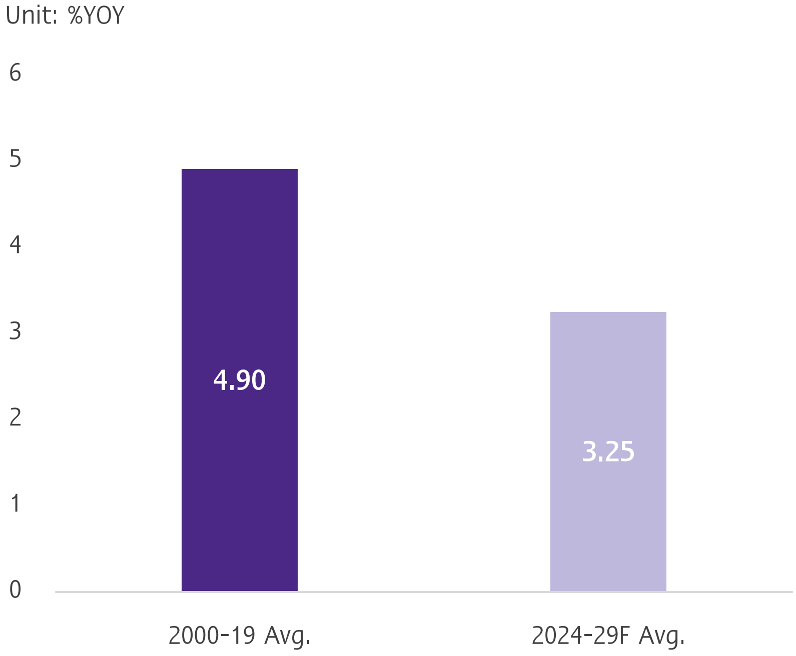
Country	2023	Current rate	2024F	2025F
BOC (Canada)	5	4.75	4	3
ECB (Eurozone)	4	3.75	**3.25**	**2.25**
Fed (US)	5.38	5.38	**4.88**	**3.88**
BOE (UK)	5.25	5.25	**4.5**	**3.5**
BOJ (Japan)	-0.05	0.05	**0.13**	**0.63**

Despite the Fed's dot plot signaling one possible rate cut in 2024, **SCB EIC maintains our forecast that the Fed has room for two rate cuts** with first cut expected in Sep—given Powell's remarks, CPI and PPI data, and the job growth slowing more than expected by the Reuters poll.

Source: SCB EIC analysis based on data from the central banks of each country, Reuters, and Bloomberg.

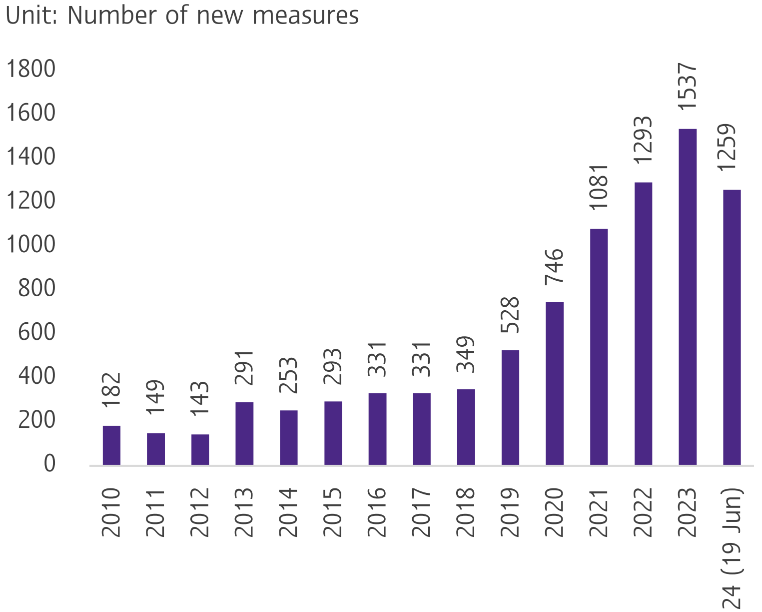
With geopolitical tensions hampering international trade, global economic growth is expected to slow down over the coming years.

Global trade volume forecast by IMF**



- <u>Global trade volume growth in 2024 is expected to fall behind the previous forecasts. In the medium term, global trade volume will not reach the growth levels observed during the pre-pandemic era</u> due to global economic decoupling and escalating trade protectionism.
- <u>The IMF expects global growth to decelerate in the medium term</u> from an average of 3% during 2014-2018 to 2.6% during 2025-2029. Factors behind include slower growth in China, geopolitical conflicts, climate change, and structural issues, such as an aging population and worsening productivity.

Global protectionist measures on trade, investment, and labor mobility



- <u>Trade, investment, and labor mobility policies have become increasingly protectionist.</u> As of Jun 19, 2024, there have been 1,259 new protectionist measures globally.
- **Recent examples include:**

  - The US raised tariffs on imports of semiconductors, clean energy, steel and aluminum products, and others from China.

  - The EU increased import tariffs of up to 38% on Chinese EVs. (in addition to the existing 10% import tariff)

Geopolitical Risk Index (GPR) by Fed*

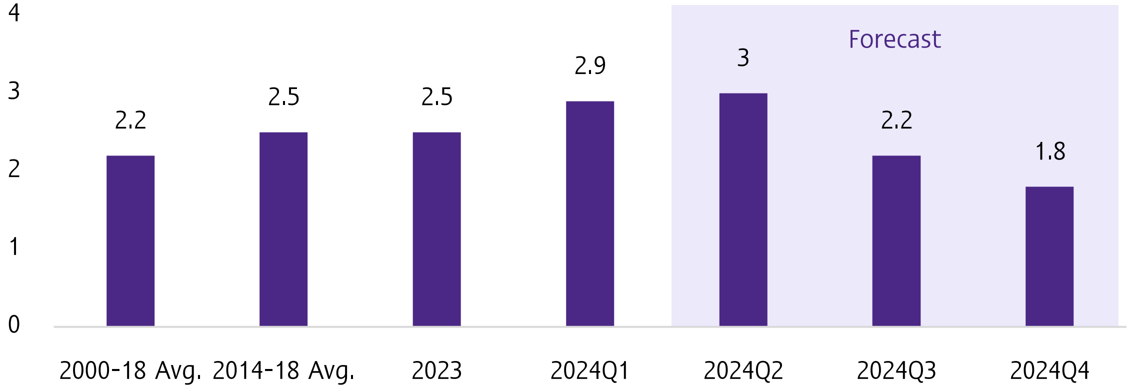
- <u>Global geopolitical risks remain high,</u> with the Geopolitical Risk Index reaching 123.5 as of May 2024 (vs. an average of 93.8 during 2005-2018).
- <u>The ongoing war in Israel</u> has had limited impacts on the global economy so far, but further escalation could have significant repercussions. The **potential resurgence of the Russia-Ukraine war** also presents another risk.

Note: *GPR Index retrieved from Caldara, D., & Iacoviello, M. (2022). Measuring geopolitical risk. American Economic Review, 112(4), 1194-1225.
Source: SCB EIC analysis based on data from IMF, Global Trade Alert, Bloomberg, CNBC, and CEIC.

The US economy has continued its firm footing but will decelerate through the remainder of 2024 as the labor market shows signs of slowing down. This could ease inflation and allow the Fed to cut its policy rate during H2/2024.

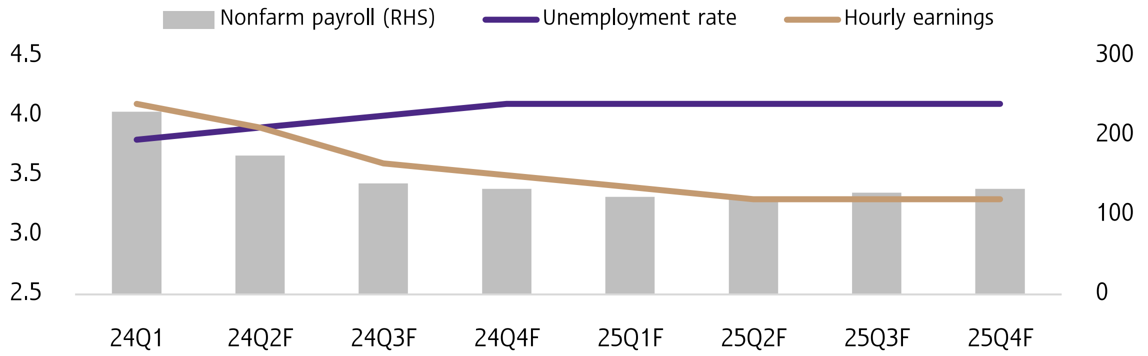
US economic growth

Unit: %YOY



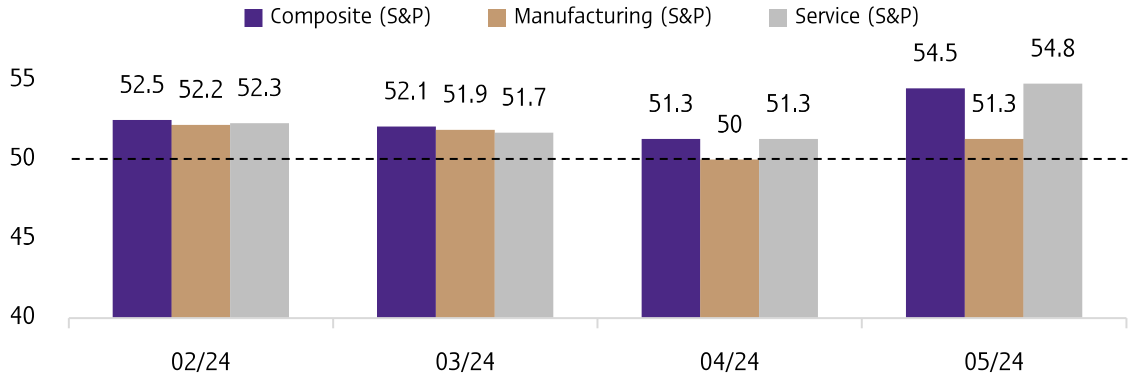
US nonfarm payroll, unemployment rate, and hourly earnings (Bloomberg median)

Unit: LHS: % (unemployment rate), %YOY (hourly earnings)
RHS: Change from previous month (thousand jobs, seasonally adjusted)



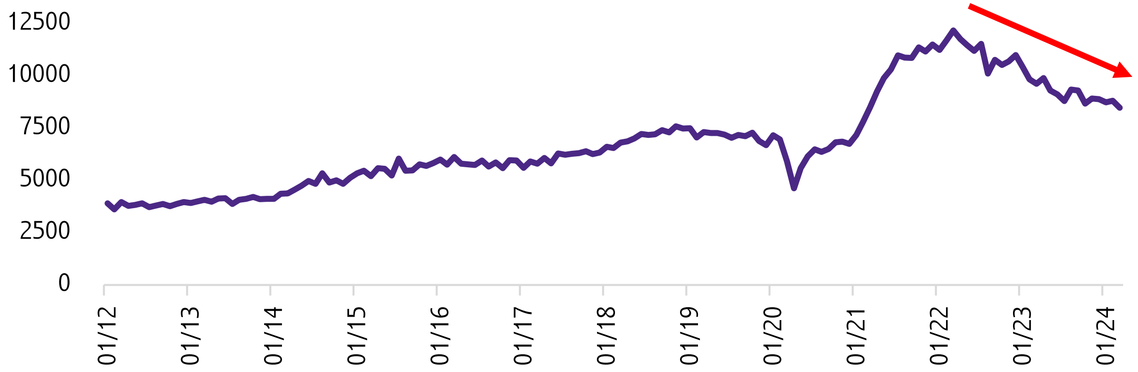
US Purchasing Manager Index (PMI)

Unit: Index, > 50 = expansion



Job Openings and Labor Turnover Survey (JOLTS)

Unit: Thousand openings, seasonally adjusted

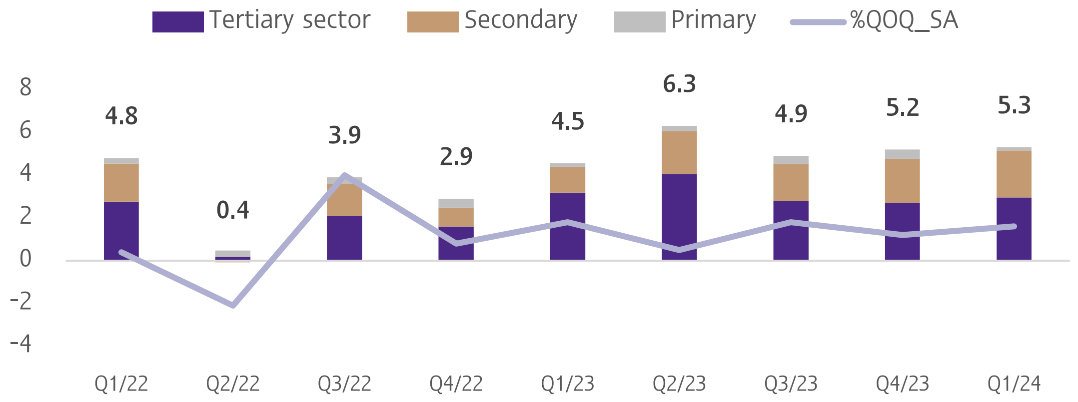


Source: SCB EIC analysis based on data from Fed, U.S. Bureau of Economic Analysis, Fed, Reuters, S&P Global, and CEIC.

China's economic growth momentum will continue in 2024, with varying pace across sectors. Manufacturing and exports should experience robust growth, in contrast to modest domestic consumption. Inflation will likely stay subdued, while the real estate market and lending will remain bleak.

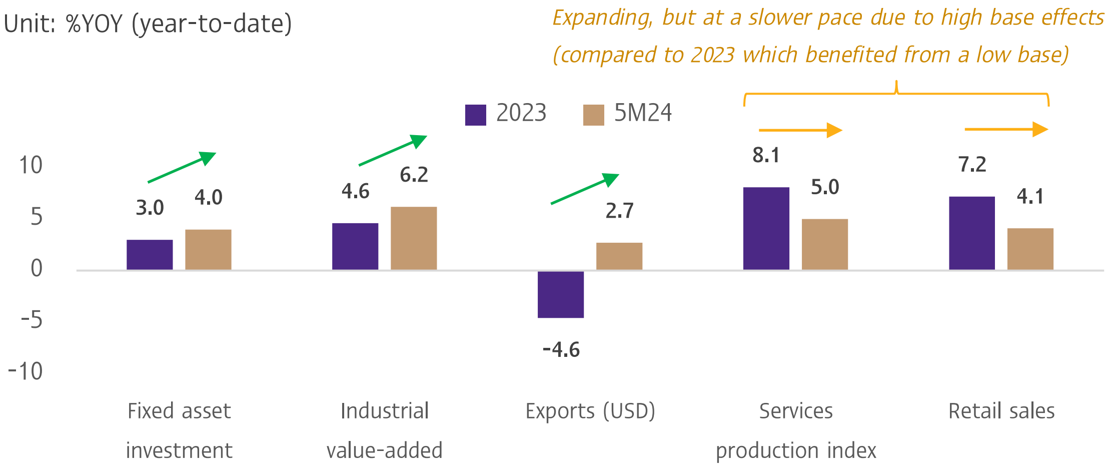
China's economic growth

Unit: %YOY (Line: %QOQ_SA)



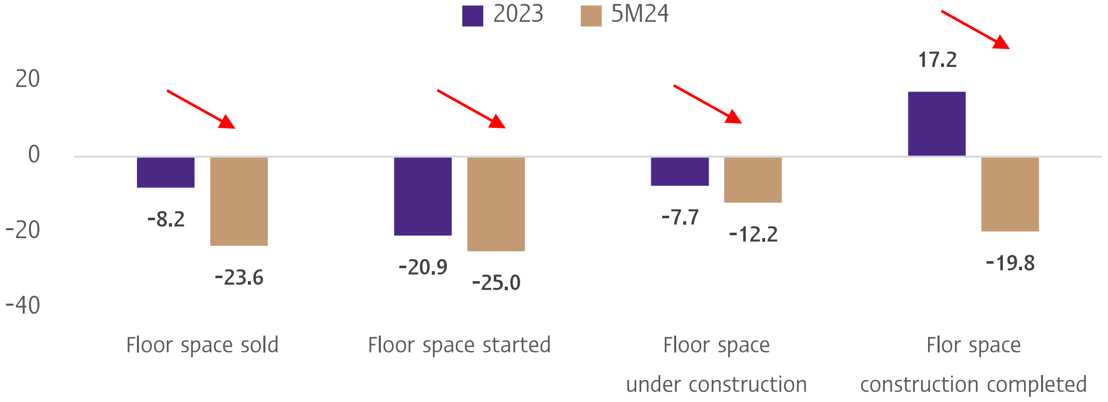
China's economic indicator (5H/2024 vs. full-year 2023)

Unit: %YOY (year-to-date)



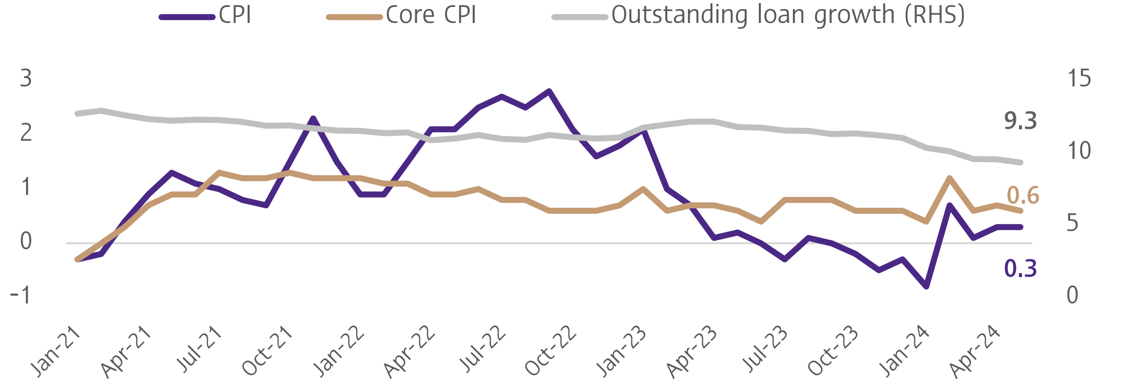
China's real estate indicator*

Unit: %YOY



China's inflation and outstanding loan growth

Unit: %YOY



Note: *Residential real estate.

Source: SCB EIC analysis based on data from Goldman Sachs, PBOC, China's National Bureau of Statistics, and CEIC.

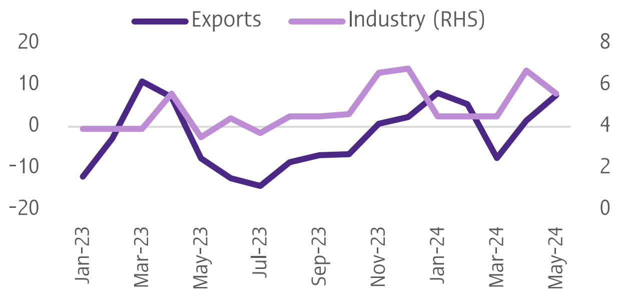
A rebound in the manufacturing sector and exports, along with government stimulus, will provide a strong impetus for China's economy to achieve its target of 5% growth this year. **Still, these drivers are cyclical,** while structural factors continue to threaten China's outlook in the medium term.

Economic Drivers for China in 2024

Exports picked up, supporting the manufacturing sector

China's exports and industrial output growth

Unit: %YOY



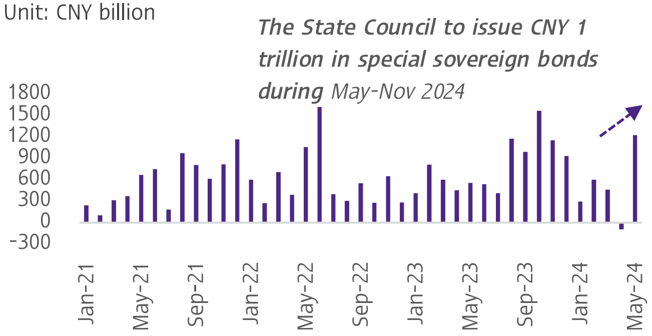
New stimulus in the real estate sector

- **Earmarked CNY 300 billion for local governments (LG) to purchase unsold properties and convert them into public housing;** Banks that offer lending to LG under this program will have 60% of the loan principle covered by PBOC, resulting in a total financing capacity of CNY 500 billion.
- **Cut the minimum down payment ratio by 5ppt for first- and second-time homebuyers and removed the mortgage floor rates nationwide.**

Sovereign bond issuance to bolster the economy

Aggregate financing: new increase in government bond

Unit: CNY billion



Goods Trade-in Program

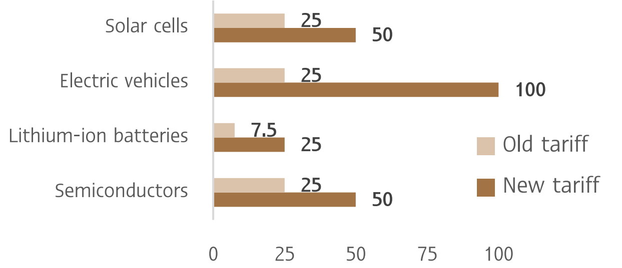
Offering funds or incentives to consumers and businesses exchanging used consumer products (cars, electronic appliances, and machinery) **for smart appliances or more environmentally friendly products.**

Yet, China still grapples with medium-term structural challenges:

Heightened trade barriers against China's products

US tariffs on Chinese imports [Selected products]

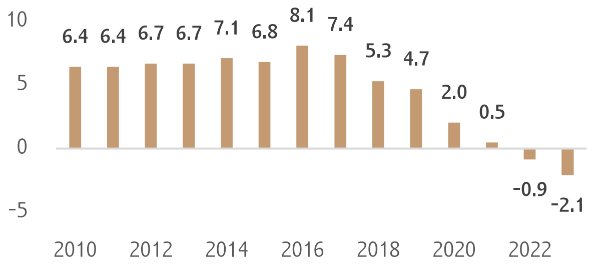
Unit: %



Demographic shifts could hinder long-term demand

Changes in Chinese population (Natural growth)

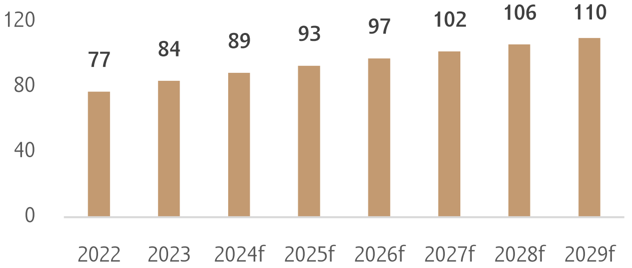
Unit: Million people



Higher public debt, heightening the risk of downgrade

China's public debt forecast by IMF

Unit: % of GDP



Demand being drawn from the future

Consumers and businesses participating in the Goods Trade-in program could be less likely to buy new products in the future (using their future demand for current purchases) as well as reduce their consumption in other segments.

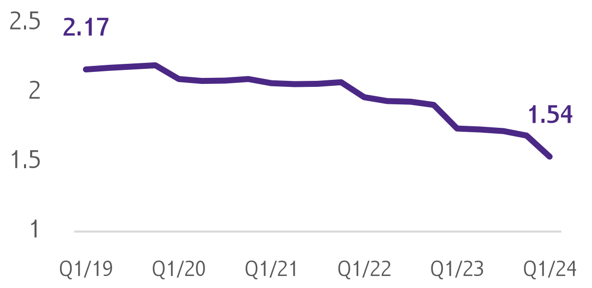
Source: SCB EIC analysis based on data from Bloomberg, IMF, Goldman Sachs, and CEIC.

China's property stimulus plan will bolster home sales to some degree, but yield limited impacts on the real estate market. The stimulus would provide limited impetus for new home construction and is still at risk of low budget disbursement and delays.

Stimulus 1: Cut the minimum down payment ratio by 5ppt and remove the mortgage floor rates countrywide	Limited impetus on home sales as it is unlikely to revive a low real estate market sentiment or reverse falling property prices. Furthermore, with commercial banks facing low NIM (1.54% as of Q1/2024), the effectiveness of this measure could be reduced amid looming concerns over NPLs.
Stimulus 2: Earmark CNY 300 billion to support commercial banks lending worth CNY 500 billion for local governments for local governments to purchase unsold properties and convert them into public housing	Moderate impetus on the purchase of unsold properties as the measure targets properties available in the market and could create a positive feedback loop (higher sales -> higher liquidity for real estate firms -> improving sentiment). However, overall house prices might still plummet. Limited impetus to an overall real estate market as a significant boost to new property construction is unlikely due to oversupply and a declining population. Meanwhile, **the total value of unsold properties is remarkably higher than the total budget,** and negotiating sales prices between the local governments and real estate firms could be challenging, thus posing a risk of low budget disbursement.

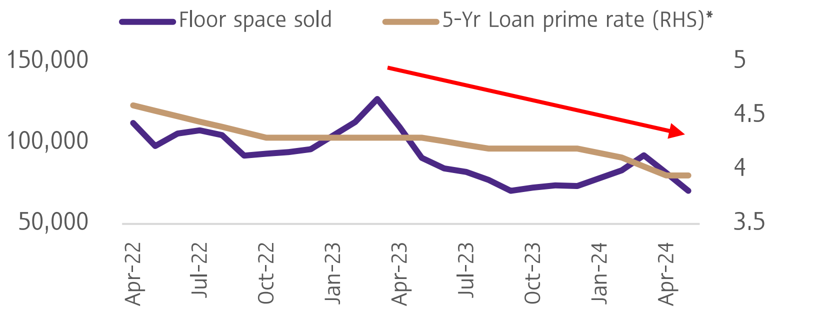
NIM of Chinese commercial banks are already low

Unit: %



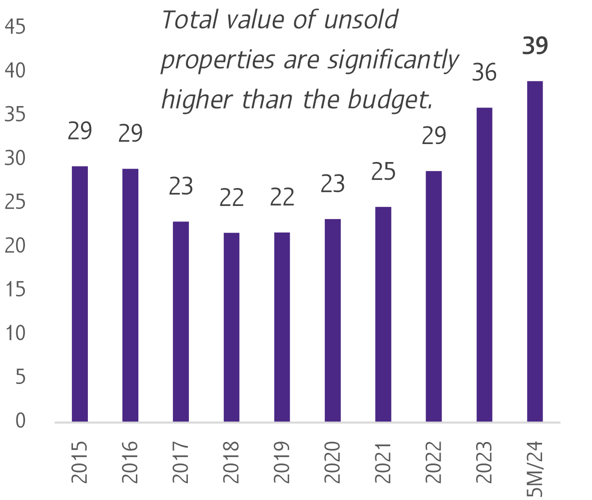
Previous LPR* cuts were unable to significantly bolster home sales

Unit: Thousand square meters (LHS), % (RHS) 3-month moving average



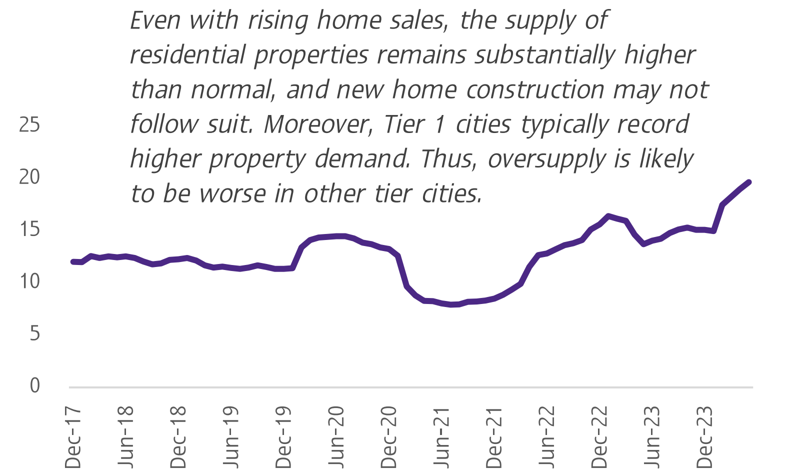
Total value of unsold properties in China**

Unit: CNY 100 billion



Time required to sell unsold residential properties in Tier 1 cities

Unit: Inventory-months (12-month moving average, Simple average)



Note: *5-Yr Loan Prime Rate (LPR) is the benchmark for property mortgages, but the local governments can determine their own mortgage rates. **Unsold = Waiting for sale (vacant), excluding residential properties under construction.

Source: SCB EIC analysis based on data from Goldman Sachs, Bloomberg, CEIC, National Bureau of Statistics China, and foreign news agencies.

Over the medium term, China's economy will undergo structural reforms to enhance stability, with the government playing a critical role. **The focus will be on qualitative growth and reducing reliance on Western nations,** though these will take time to yield pronounced benefits and potentially affect market mechanisms.

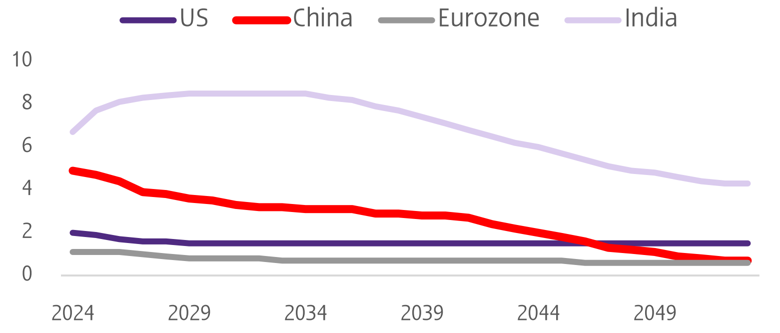
Selected China's Reform Strategies

- **Dual circulation:** Strengthen domestic consumption and export higher value-added products
- **Made in China 2025:** Promote domestic production of strategic products and reduce reliance on imports
- **New productive forces:** Encourage high-productivity manufacturing in EV, battery, and solar panel industries
- **Social housing and urban renovation:** Develop affordable housing and urban residential properties to enhance sustainability in the real estate sector

Still, these initiatives will take time to yield impactful results and could disrupt market mechanisms. We thus anticipate China's economic slowdown over the long term.

Forecast of economic growth potential by Bloomberg

Unit: %YOY



Implications on China's Economy

Trade: Lower trade with Western countries, Expand trade with others

- Direct trade between China and Western countries is expected to decline, **while trade with neutral nations like Thailand may increase** to avoid heightened tariffs and explore new markets.
- China's exports will shift from finished goods to *more* **intermediate goods for final assembly in other countries.**
- **Exports of products in which China has a competitive advantage, such as rare earths and EVs, will see promising growth** but likely face allegations of dumping.

Investment: Focus on new industries, Reduce dominance of real estate sector, Increase government involvement

- **China's investment is pivoting to new productive forces**—namely EVs, batteries, and solar panels—reducing the dominance of the real estate sector.
- **The government will play a crucial role in investment to ensure the allocation of funds to strategic sectors** through subsidies, funds, or transforming SOEs into national champions.

International Relations: Lower reliance on Western counties, Build alliances

- **Continue to support BRI investments, albeit at a slower pace** due to limited fiscal space.
- **Emphasize investments in countries rich in raw materials that can replace those from Western nations, and enhance regional connectivity.** Projects will be smaller in size but have more critical impacts on national strategy.
- **Broaden alliances with BRICS** and reduce reliance on Western partners.

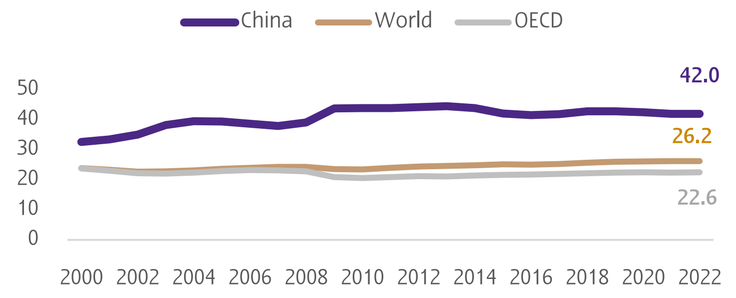
Source: SCB EIC analysis based on data from Bloomberg and foreign news agencies.

Manufacturing overcapacity reflects China's structural challenges. The Chinese government has actively promoted manufacturing as a key driver to offset the sluggish real estate market and domestic demand leading to increased manufacturing investment and exports at competitive prices.

China's economic structure emphasizes investment over consumption, reflecting the government policies that prioritize supply over demand.

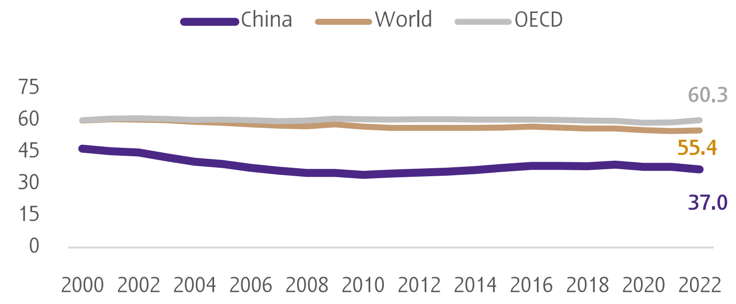
China's gross fixed capital formation to GDP

Unit: % of GDP



China's household final consumption to GDP

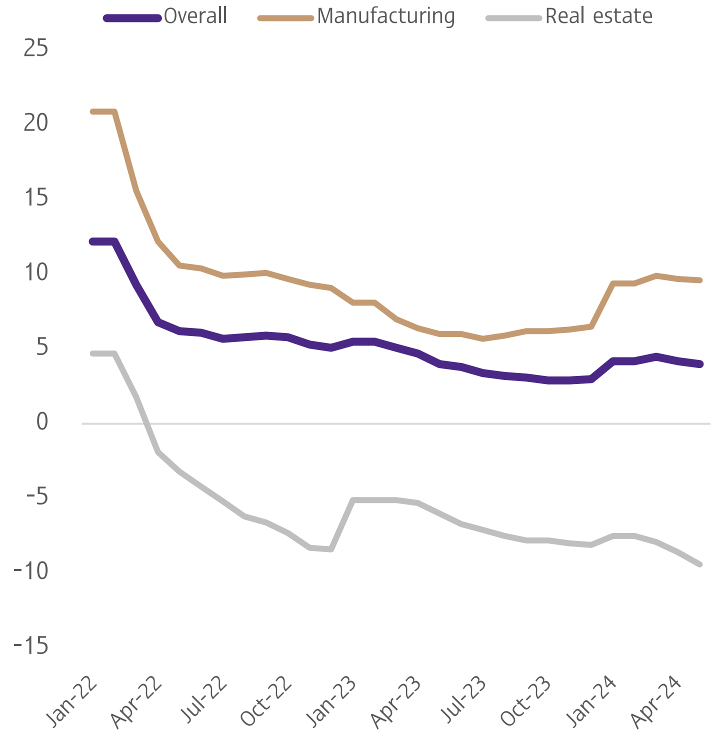
Unit: % of GDP



In recent years, China has focused on manufacturing investments to offset the subdued real estate industry and reduce reliance on foreign imports.

China's fixed-asset investment by industry

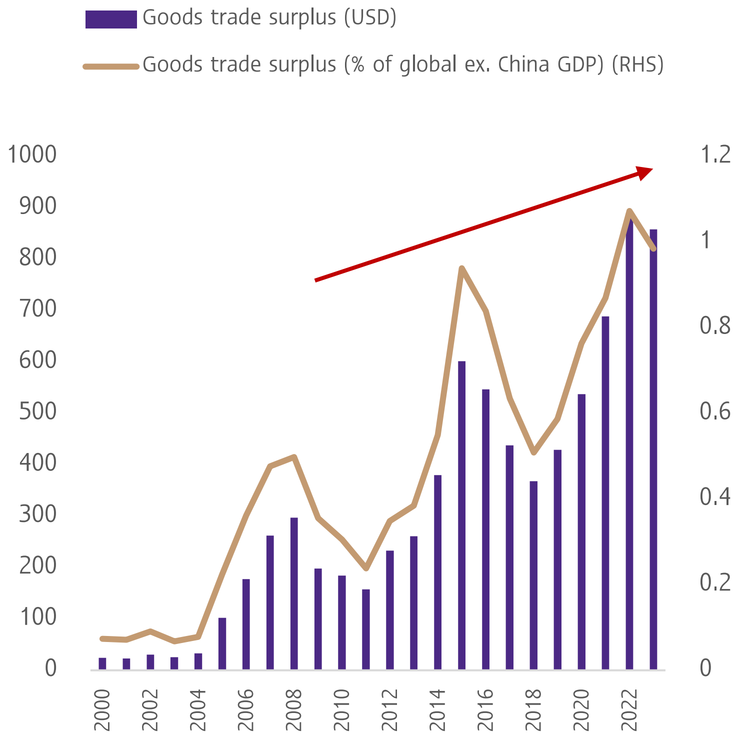
Unit: %YOY (year-to-date)



China's exports rose significantly, resulting in a higher trade surplus. Foreign imports struggled to penetrate the Chinese market due to sluggish domestic demand.

China's trade surplus (reported by China Customs)

Unit: USD billion (LHS), % of global GDP excl. China (RHS)



Source: SCB EIC analysis based on data from World Bank, General Administration of Customs China, National Bureau of Statistics China, Capital Economics, and CEIC.

SCB EIC found that China's manufacturing sector is facing broad-based and persistent overcapacity issues, with varying severity among different segments.

Assessment on China's industrial sector (2023 data vs. 2000-2023* average)	Share of loss-making enterprise (1)	Inventory to sales ratio (2)	Gross profit margins (3)	Asset turnover (4)	*Overcapacity score*
Agricultural	3	3	4	4	3.5
Petroleum, Coking & Nuclear Fuel	4	3	3	4	3.5
Chemical Material & Product	4	2	4	4	3.5
Non-Metallic Mineral Product	4	2	4	4	3.5
Fabricated Metal Product	4	2	4	4	3.5
Computer, Communication & Other Electronic Equipment	4	3	3	4	3.5
Textile	3	3	3	4	3.25
Garment & Apparel	4	4	1	4	3.25
Wood Processing, Wood, Bamboo, Rattan, Palm & Grass Product	3	2	4	4	3.25
Chemical Fiber	3	2	4	4	3.25
Rubber & Plastic Product	4	4	1	4	3.25
Ferrous Metal Smelting & Pressing	4	1	4	4	3.25
Electrical Machinery & Equipment	4	1	4	4	3.25
Automobile	4	1	4	4	3.25
Food	3	2	3	4	3
Furniture	4	2	1	4	2.75
Non-Ferrous Metal Smelting & Pressing	4	1	4	2	2.75
Special Equipment	3	3	1	4	2.75
General Equipment	3	2	1	4	2.5

4 High Overcapacity (90^{th} percentile)

3 Moderate Overcapacity (75^{th} percentile)

2 Low Overcapacity (50^{th} percentile)

1 No Overcapacity (<50^{th} percentile)

Overcapacity indicators

(1) Share of loss-making enterprise
A higher share indicates more firms incurring losses due to intense price competition, yet unwilling to exit the market, thus signaling overcapacity.

(2) Inventory to sales ratio
Higher inventory levels compared to sales signify that production capacity outpaces current demand.

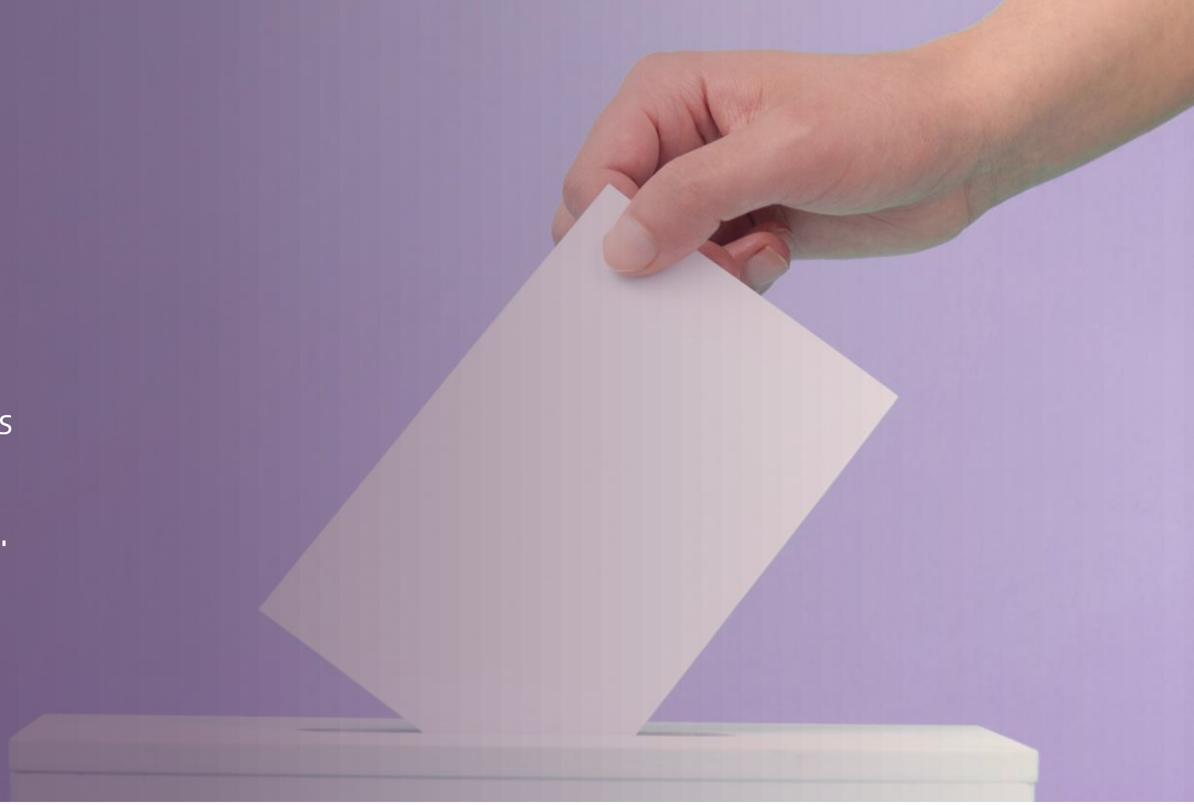
(3) Gross profit margins
Overcapacity contributes to lower gross profit margins due to more aggressive price competition.

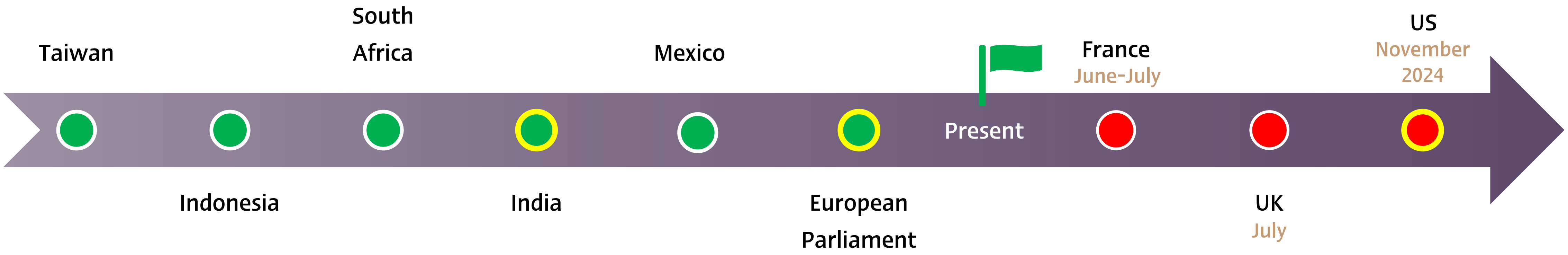
(4) Asset turnover
A lower ratio suggests that increased assets from investments do not translate into corresponding sales growth.

Note: *Except for Automobile (2003-2023) and Rubber & Plastic Product, Garment & Apparel (2012-2023).
Source: SCB EIC analysis based on data from National Bureau of Statistics China and CEIC.

Global Elections and Policy Uncertainty

Elections in 2024 so far may not have shifted the political landscape, but results underscored public discontent with current policy directions across various governments, casting a shadow of uncertainty over future policy developments. Furthermore, the upcoming presidential election in the US, the world's largest economy, later this year warrants close monitoring.

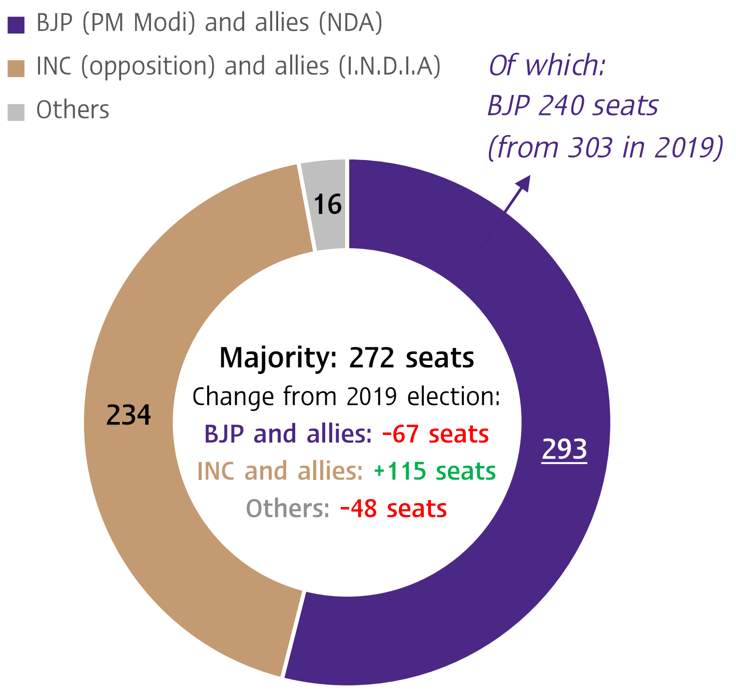




Prime Minister Modi's BJP won a third term, but lost its majority in the lower house for the first time, threatening BJP's ability to implement its restructuring policies and India's long-term economic plans.

India's election results (Lower house : Lok Sabha)

Unit: Seats



BJP's lower-than-expected seats is attributed to income inequality under Modi's Government, sluggish employment conditions, particularly for youth, and high inflation.

Implications for current policies

BJP now needs coalition partners to form a government.

- Modi will serve a third term but is the first to fail to secure an outright majority (winning just 240 seats) in the Lok Sabha.

BJP's policies will continue but may be at a slower pace.

- Key ministers in Finance, Home Affairs, External Affairs, Commerce, and Transport will be reappointed. The cabinet includes 25 BJP members and 5 from allied parties.
- The election results will not affect India's neutral stance in global geopolitics.
- Corporations with ties to Modi, like Adani could be affected.
- Investors may question India's political stability and adopt a wait-and-see approach in the short term, including re-evaluating the valuation of Indian assets.

Implications for future policies

The new Modi government will see more policy enactment challenges.

- BJP may need to share cabinet positions with allies. Controversial policies, like labor market liberalization, land liberalization, and Hindu nationalism, may be harder to pass.

BJP might adopt more populist measures to shore up support.

- Economic growth may slow in the long run if the government relies on populist rather than economic restructuring policies.
- Plans to reduce the fiscal deficit could be delayed due to increasing spending, potentially affecting India's credit rating, currently at the lowest investment grade.
- The government may have to increasingly accommodate individual state requests as coalition voting bases are in many states.

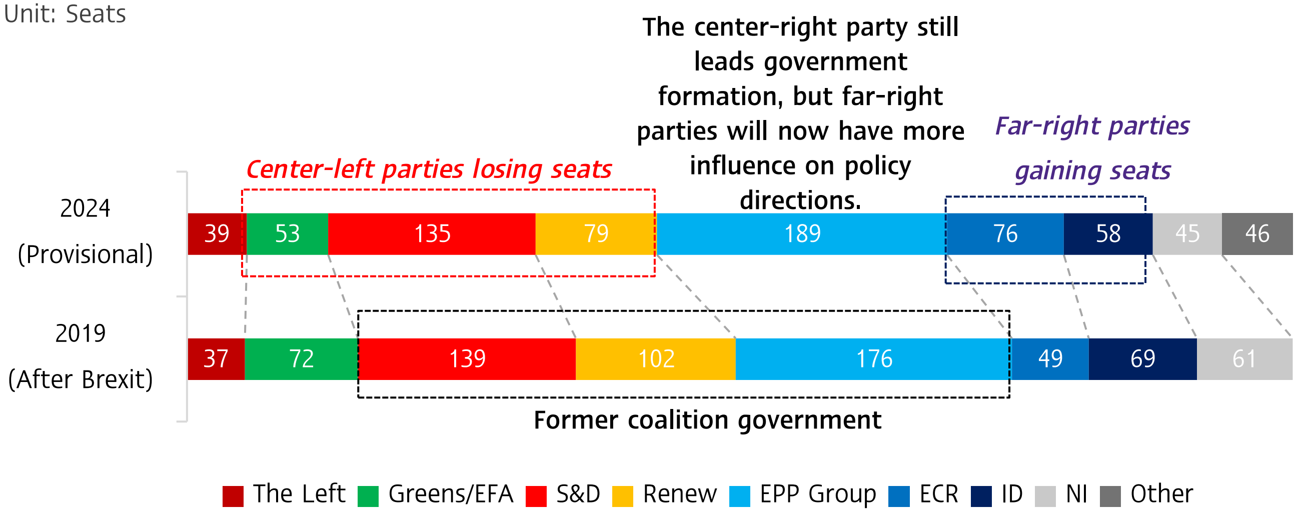
The election results might prompt a sweet spot -
balancing investor confidence in Modi's pro-growth policies and reducing his excessive power concerns.

Source: SCB EIC analysis based on data from The Times of India, BBC, Bloomberg, Nikkei Asia, Reuters, and Capital Economics.

The European Parliament election results indicate rising popularity of far-right parties, while center-left parties are losing seats, suggesting a potential shift towards more nationalist policies in the EU, particularly environmental, trade, and security policies.

European Parliament's election results in June 2024

Unit: Seats



Implications for politics in EU countries

Europeans are increasingly favoring far-right parties, with climate change interests weakening significantly, as seen from considerably lower support for the Greens party compared to 2019 when Europeans were more alert about climate change. Meanwhile, right-wing parties gained the most votes in many countries, such as France, Italy, Netherlands, Austria and Hungary.

President Macron dissolved the French parliament following a heavy defeat to the far-right party, which is expected to become the largest party in the French national assembly complicating the government's ability to implement neutral policies amid heightened political uncertainties.

The Belgian Prime Minister announced his resignation after losing to the far-right.

Implications for environmental policies

Stringent EU Green Deal measures might be delayed to address rising agricultural production costs, with many farmers choosing to support far-right parties opposing these measures.

Implications for trade policies

Trade policies may increasingly factor in geopolitical considerations to stay competitive with major competitors like China and the US, potentially shifting towards supporting and protecting key markets and industries in EU.

Implications for security policies

EPP's defense industry promotion policies might face challenges as some far-right parties aim to reduce the EU's role in this area and reduce future aid to Ukraine.

Immigration policies may become more stringent to reduce budget burdens, though potentially causing labor shortages in the long run.

Source: SCB EIC analysis based on data from the European Parliament, Reuters, DW, The New York Times, BBC, FT, Bloomberg, France24, The Economist, Nikkei Asia, Reuters, and Euronews.

SCB EIC

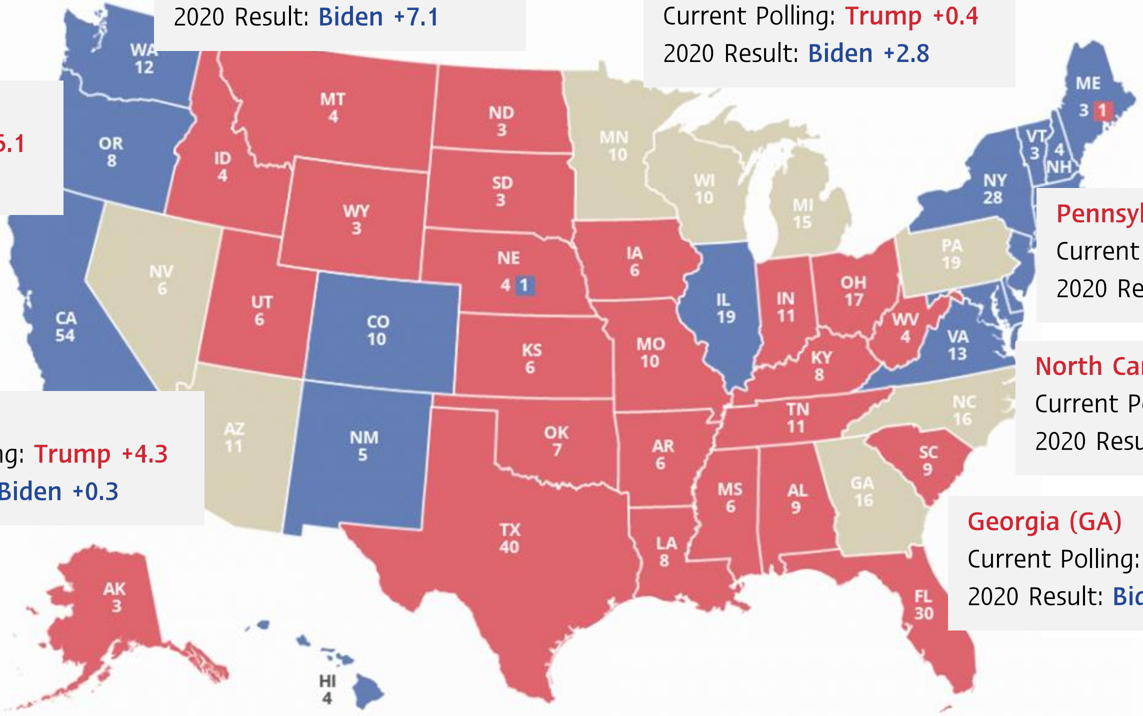
The US presidential election should be a close race, with the latest polls in June showing Trump leading in swing states that could determine the outcome.

Wisconsin (WI)
Current Polling: Trump +0.7
2020 Result: Biden +0.6

Minnesota (MN)
Current Polling: Biden +2.4
2020 Result: Biden +7.1

Michigan (MI)
Current Polling: Trump +0.4
2020 Result: Biden +2.8

Nevada (NV)
Current Polling: Trump +5.1
2020 Result: Biden +2.4



Pennsylvania (PA)
Current Polling: Trump +1.5
2020 Result: Biden +1.2

North Carolina (NC)
Current Polling: Trump +6.5
2020 Result: Trump +1.4

Arizona (AZ)
Current Polling: Trump +4.3
2020 Result: Biden +0.3

Georgia (GA)
Current Polling: Trump +5.3
2020 Result: Biden +0.2

Electoral votes

Democrats 216 | 219 Republicans

216 | 103 | 219

Votes Biden likely to secure | Swing votes | Votes Trump likely to secure

Biden still has a chance of winning. Factors to monitor include:

- Biden's popularity rating
- The US economy, particularly inflation
- Criminal cases against Trump
- Wars in Gaza and Ukraine

Note: The number after the + sign indicates the percentage of the lead that the candidate has.
Source: SCB EIC analysis based on data from FiveThirtyEight's average polling data, illustration from Electoral Ventures 270towin.com.

The election results will not drastically alter US policy directions, as Trump and Biden share similar agendas. However, the uncertainty of US policy is likely to increase.

Policy	Similar proposals from Trump and Biden	Trump's distinct approach
Overall	**Lower US cooperation with other countries,** especially in terms of economics and trade, **leads to greater uncertainty** in both domestic and foreign policies.	**Trump will create global uncertainty** as his foreign policies, especially in security and economics, will become more unpredictable and extreme.
Trade	**A shift towards more protectionism is likely, with increasing usage of trade barriers** and a focus on maintaining domestic manufacturing competitiveness and opposing foreign acquisitions of US businesses.	**Trump supports trade protectionism through import tariffs,** proposing a 10% tax on all imported goods from all countries to make trade fairer for the US.
China	**A less friendly stance towards China,** particularly in economics and trade, with potential increases in tariffs on Chinese products and worsening geopolitical tensions, such as regarding South China Sea disputes.	**Trump proposes at least a 60% tax on all imports from China** and plans to reduce Chinese imports to zero within four years, signaling a more extreme stance on China than in his first term.
Fiscal	**The US is likely to continue deficit-spending policies, with public debt becoming increasingly unsustainable.** Reducing government spending will be difficult due to the aging population, which demands significant funding for public healthcare and pensions. Raising taxes may also be politically challenging.	**Trump is likely to cut taxes, increasing the budget deficit.** He plans to extend the tax deductions, especially for middle and high-income individuals and corporations, which was Trump's key achievement in 2017. On the other hand, Biden focuses on increasing domestic investment through higher spending.

Trump's extreme policies may not be implemented entirely or could be implemented on a less severe scale than campaigned due to

The power balance in Congress
While Republicans are likely to gain a majority in both houses, the win would probably be a slim majority. This means Congress could still block Trump's policies, especially ones with extreme stances.

Trump seeks to minimize the impact of his policies on large corporations and his voter base
Before the 2016 election, Trump suggested a 45% tariff on all Chinese imports, but once in office, he imposed only a 25% tariff on certain products from China.

Criminal proceedings against Trump
Ongoing criminal proceedings during his presidency could hinder Trump's ability to fully implement his policies, as he will need to focus on his legal defense.

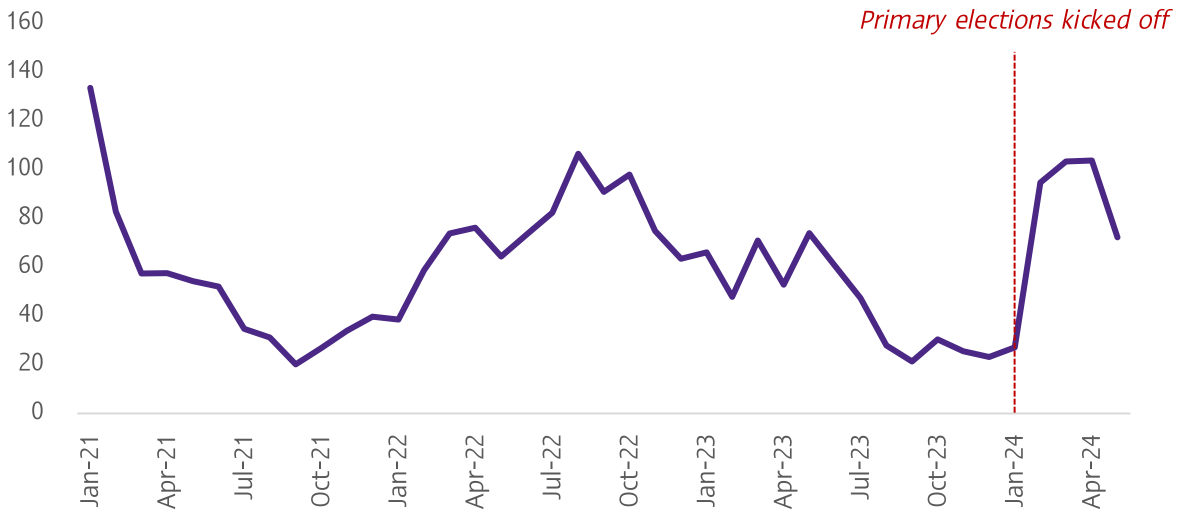
Source: SCB EIC analysis based on data from Bloomberg, FT.com, New York Times, and The Economist.

The US presidential election is a major source of uncertainty for the global economy in H2/2024 and 2025.

US policy uncertainties have been rising even before the upcoming presidential election…

US Trade Policy Uncertainty Index

Unit: Index, 3MMA



Pre-Election	Post-Election
Additional trade barriers, particularly against Chinese imports, **might be introduced during the campaign trail** as Biden seeks to secure his political base among manufacturing workers.	**US politics are at risk of turmoil** regardless of whether Trump or Biden wins the presidential run, as voters from both sides are unlikely to accept the election defeat.

…Trump's victory will further exacerbate policy uncertainties.

Higher uncertainties in US economic and trade policies, driven by Trump's main strategy of increasing US policy unpredictability for trade partners.

Aggressive stance towards China with harsher tariffs on Chinese imports, which would accelerate the US-China decoupling

US priorities shift away from NATO and alliances. Ukraine might lose further assistance from the US and have to comply with Russia's demands.

Slower progress in tackling GHG emissions under Trump's support for fossil fuels and high-emitting industries

Increasingly volatile financial markets given higher inflation risks following tariff hikes; Trump is also likely to interfere with the Fed's decision-making process.

Source: SCB EIC analysis based on data from "Measuring Climate Policy Uncertainty", Caldara et al (2021, C) "Measuring Geopolitical Risk", Ludvigson, Ma, Ng (2021, LMN).

Thai economy

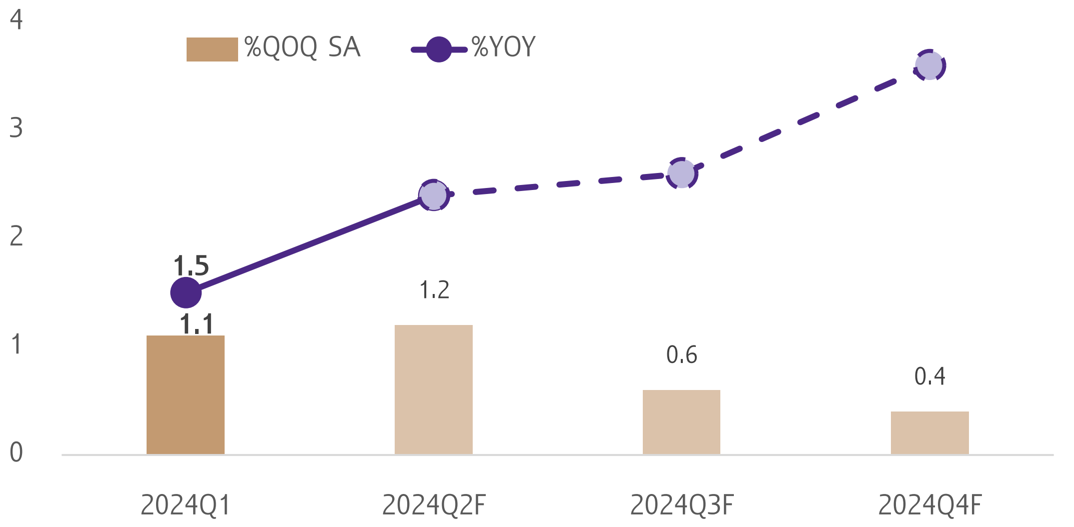
Thai economy is recovering slowly amid increasing vulnerabilities and uncertainties.

Thailand's economy continued to rebound slowly. SCB EIC downgrades the forecasts for most components, particularly exports and government spending.

Thailand's Economic Forecast (Base case)	Unit	2024F* As of Mar 2024	2024F* As of Jun 2024	2025F* As of Jun 2024
GDP	%YOY	2.7	2.5	2.9
Private consumption	%YOY	2.4	3.2	2.9
Government consumption	%YOY	1.4	1.4	3.7
Private investment	%YOY	3.8	3.6	4.8
Public investment	%YOY	1.1	-0.5	4.2
Goods exports value (USD BOP)	%YOY	3.1	2.6	2.6
Goods imports value (USD BOP)	%YOY	4.0	3.8	3.6
Foreign tourist arrivals	Million persons	36.2	36.2	40.4
Headline inflation	%YOY	0.8	0.8	1.0
Core inflation	%YOY	0.6	0.6	0.9
Crude oil price (Brent)	USD/Bbl.	78.5	85.3	80.1
Policy rate (Year-end)	%	2.0	2.25	2.00
Current account balance	% of GDP	1.5	1.2	1.5
Exchange rate (average)	THB/USD	35	36	34

Quarterly GDP forecast, 2024

Unit: %



- **In Q2/2024, Thailand's economy will accelerate from Q1.**
  - **Expedited public spending disbursement** following the enforcement of the 2024 budget bill
  - **Private investment should improve** in line with an export rebound
- **Thailand's economic growth will likely lose momentum in H2/2024**
  - **Private consumption will decelerate** as household incomes remain fragile

Note: *If the digital wallet scheme is included (scheduled to start in Q4/2024 based on the government's timeline), the estimated impact on GDP will be around 0.5-0.6% in 2024 and 0.6-1.2% in 2025.
Source: SCB EIC analysis based on data from the Office of the National Economic and Social Development Council (NESDC).

The Thai economy since the beginning of the year has shown positive growth, primarily driven by private consumption and the services sector fueled by tourism recovery, while the manufacturing sector has begun to gradually improve.

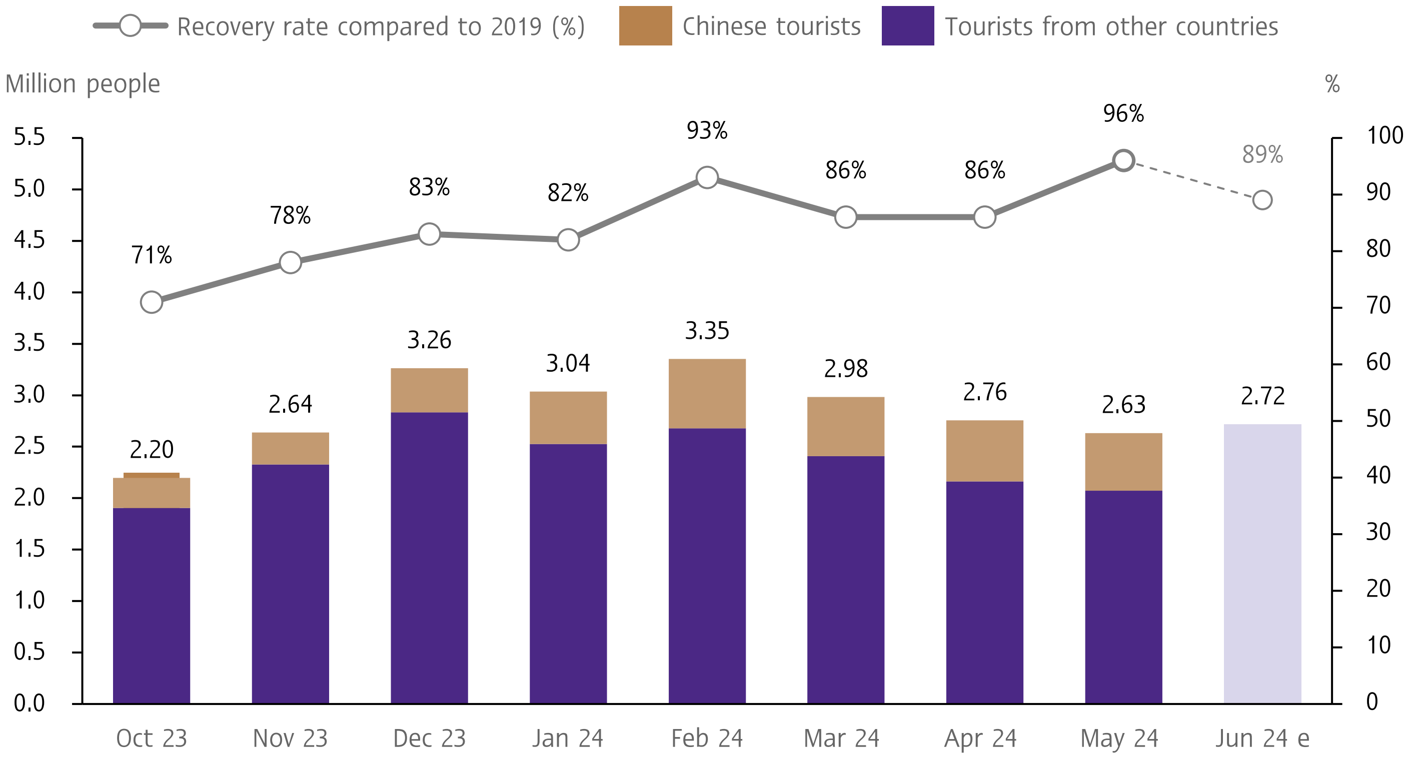
Lagging indicator		Unit	2022	2023	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24
Coincident economic index (CEI)		2019=100, SA	97.8	99.6	99.0	99.4	100.2	99.2	99.6	99.4	99.0	99.4	99.7	100.2	100.5	99.9	100.9	101.8	100.2	102.3	
Consumption	Private consumption index	2010=100, SA	141.8	151.1	148.6	148.5	150.4	150.7	152.4	151.2	152.4	152.0	150.4	151.6	152.5	152.2	152.9	152.8	151.5	153.9	
	Unemployment compensation	% insured person	2.1%	1.9%	1.7%	1.6%	1.9%	1.9%	2.1%	2.1%	2.1%	2.1%	1.9%	1.9%	1.9%	1.7%	1.8%	1.7%	1.8%		
	Unemployment rate	% labor force	1.3%	1.0%		1.1%			1.1%			0.99%			0.81%			1.00%			
Investment	Private investment index	2010=100, SA	139.0	136.9	136.5	138.0	139.1	134.7	142.3	138.3	139.1	136.9	134.9	134.2	137.1	132.0	138.5	138.5	136.0	142.8	
Export (Custom basis)	Exports ex. Gold	%YoY	4.6%	-0.6%	-2.9%	-1.7%	0.9%	-9.1%	-4.2%	-2.9%	-5.2%	3.6%	0.7%	6.8%	4.6%	3.0%	8.5%	1.2%	-7.1%	9.6%	
		%MoM, SA	4.6%	-0.6%	2.4%	0.3%	3.4%	-5.2%	0.1%	3.7%	-2.3%	3.0%	0.7%	-0.9%	-0.3%	0.7%	-0.7%	-1.0%	0.0%	3.8%	
Agriculture	Agriculture production index	2005=100, SA	144.4	145.8	146.0	148.2	144.5	160.6	142.9	147.2	142.9	145.4	145.1	143.3	142.0	141.2	139.8	139.9	137.7	144.3	
Manufacturing	PMI : Manufacturing	50 = Stable	52.3	51.8	54.5	54.8	53.1	60.4	58.2	53.2	50.7	48.9	47.8	47.5	47.6	45.1	46.7	45.3	49.1	48.6	50.3
	Manu production index	2016=100, SA	101.4	97.6	98.9	100.1	99.7	95.1	98.4	98.4	98.6	98.1	98.2	95.8	95.4	94.3	96.0	97.3	94.8	98.1	
	Capacity utilization rate	%, SA	63.6	59.6	61.2	61.9	61.3	58.9	60.1	60.2	60.3	59.6	58.8	58.0	58.0	57.0	57.8	58.4	57.1	59.7	
Service	Service production index	2016=100, SA	111.2	120.8	117.7	119.6	119.9	118.9	120.6	120.4	122.3	121.5	121.3	122.2	122.4	123.1	125.1	128.1	126.2	127.7	
	Foreign tourist arrivals	thousands	11093.3	28099.3	2144.9	2113.6	2219.0	2182.1	2013.9	2241.2	2490.6	2468.0	2130.6	2197.0	2637.1	3261.3	3035.3	3352.3	2982.7	2757.1	
	Hotel Occupancy rate	%	47.2	69.2	71.4	69.9	69.5	70.1	65.5	65.1	66.7	67.5	64.3	66.1	71.7	82.8	77.4	76.7	71.7	73.5	

Source: SCB EIC analysis based on data from Bank of Thailand, Ministry of Commerce, Federation of Thai Industries, Chinese and South Korean Customs, Board of Investment, S&P Global, and CEIC.

Despite low season, the recovery of foreign tourist arrivals is maintaining its positive momentum from an expansion of visa exemption / VOA and the return of Chinese tourists.

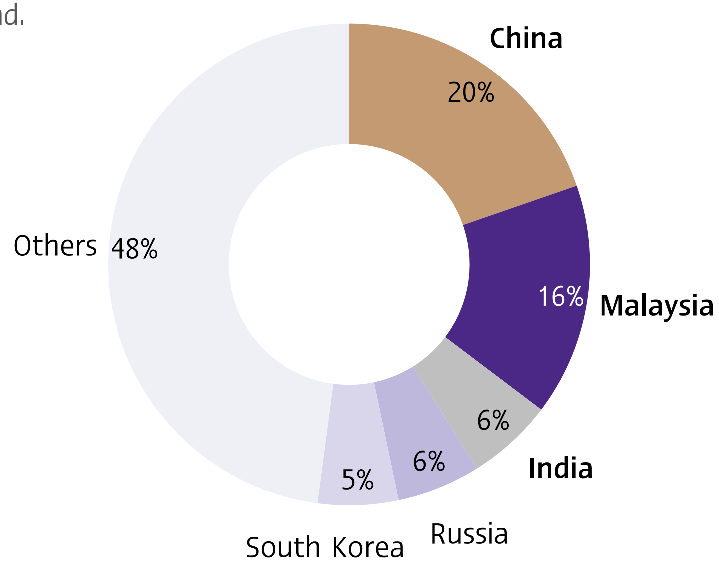
In 2024, Thailand already welcomed over 15.6 million foreign tourists, generating revenue of approximately 736 billion baht. (data as of June, 9 2024)

Unit: million persons, %



Share of foreign tourists visiting Thailand (Unit: %)

China topped the list as the country with the highest number of tourists visiting Thailand although in the recovery phase. followed by tourists from Malaysia and India. Tourists from the five main countries account for more than half of all foreign tourists visiting Thailand.

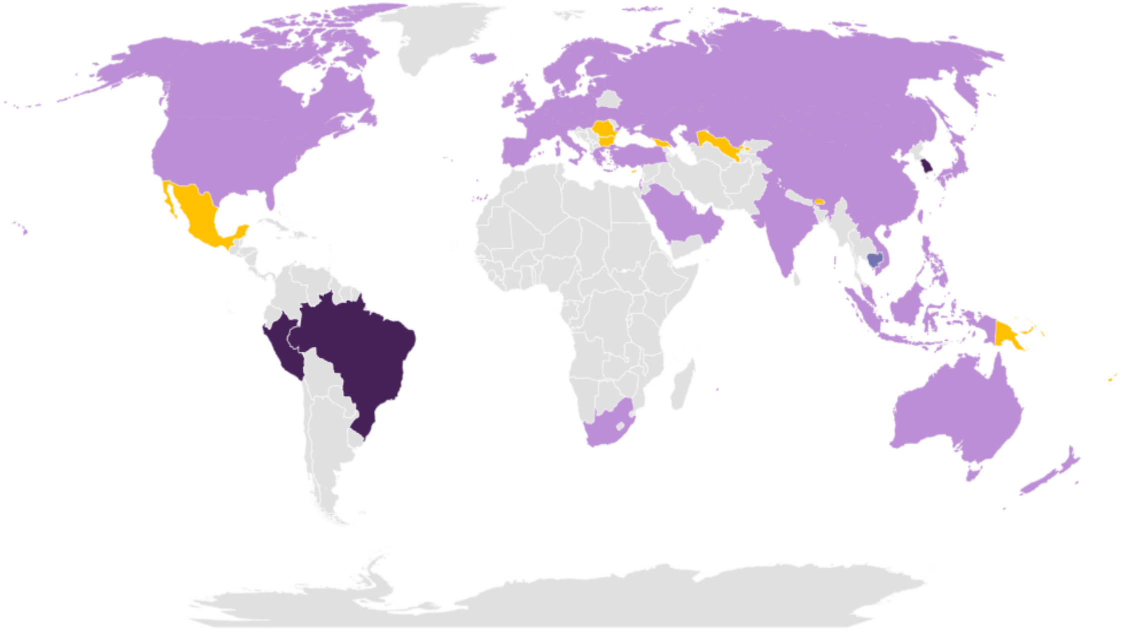


Note: Foreign tourist figures are preliminary data from the Economic Tourism and Sports Division.
Source: SCB EIC analysis based on data from the Ministry of Tourism and Sports.

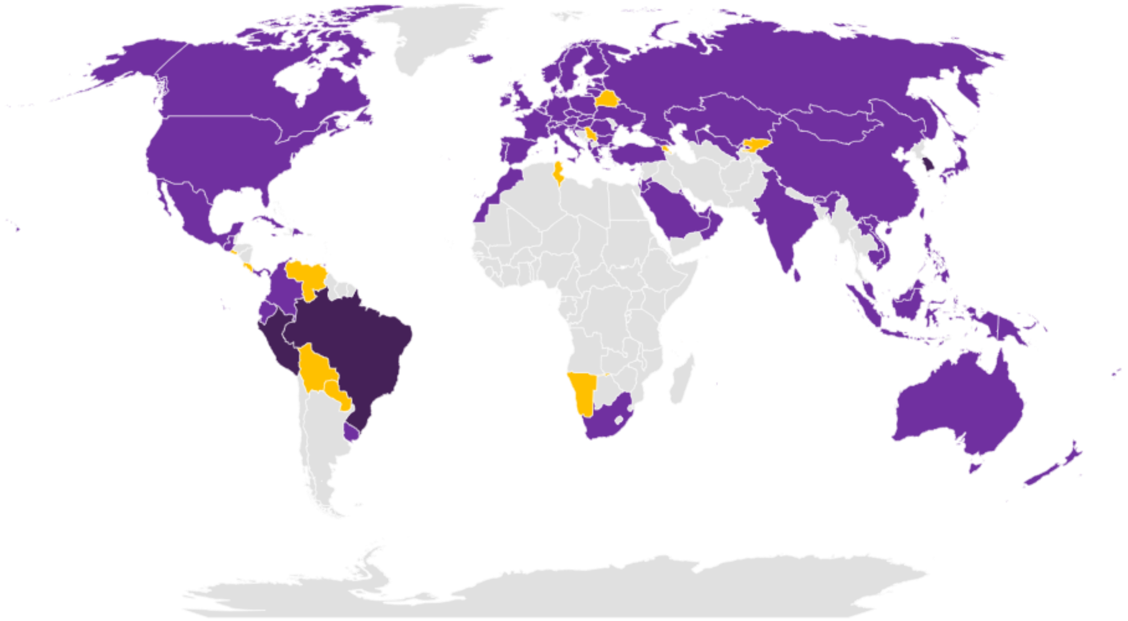
An adoption of multiple visa measures will be enable to boost a longer stays for an expansion visa exemption and attract new markets from Eastern Europe/South America under VOA.

Countries that are entitled for an expansion of visa exemption and VOA account 96% of total foreign tourists visiting Thailand in 2024 (YTD)

Before announcing new measures



Latest measures, effective in Jun 24



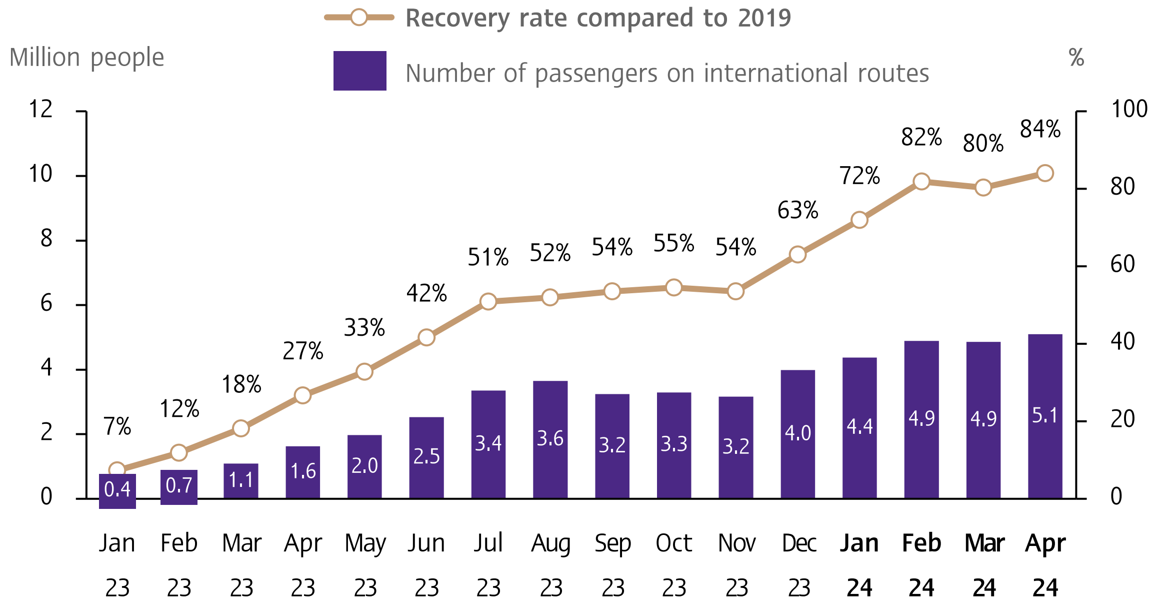
- Visa exemption for a visit of not exceeding 90 days
- Visa exemption for a visit of not exceeding 60 days
- Visa exemption for a visit of not exceeding 30 days
- Visa exemption for a visit of not exceeding 14 days
- Visa on Arrival (VoA)
- No VoA or Visa exemption

Source: SCB EIC analysis based on data from the Ministry of Tourism and Sports and the Ministry of Foreign Affairs.

The return of Chinese tourists has shown sign of a strong recovery with increasing outbound tourists and Thailand is the top destination.

Demand for outbound tourism from China continues to recover

Unit: million persons, % recovery rate compared to the same period in 2019



3 factors driving China's outbound tourism

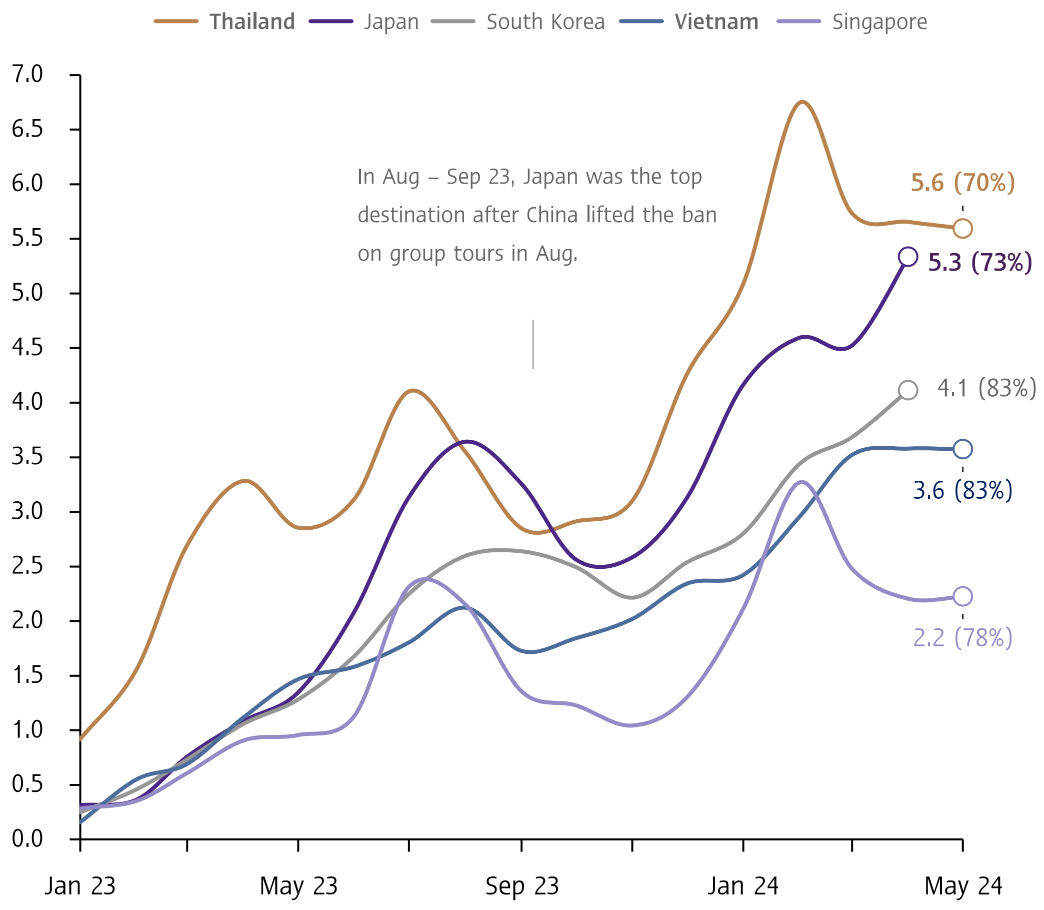
Pent-up demand after COVID-19

Gradual recovery of Chinese economy

Large share of upper-middle to high income households (>30%)

Thailand is the top destination for Chinese tourists

Unit: Hundred thousand persons (% recovery rate compared to the same period in 2019)



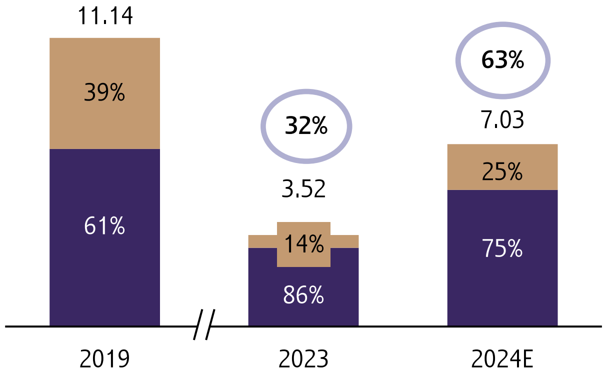
Note: *except Hong Kong, Macau and, Taiwan.

Source: SCB EIC analysis based on data from CEIC, Dragon tail, China's statistics bureau, and the Ministry of Tourism and Sports.

Chinese tourists is projected to reach at least 7 million in 2024 from FIT with their huge spending power, while group tour is gradually recovering in line with the economic conditions.

Chinese tourists visiting Thailand continue to recover especially the FIT group with mid-to high income

Unit: million persons (% recovery rate compared to the same period in 2019)



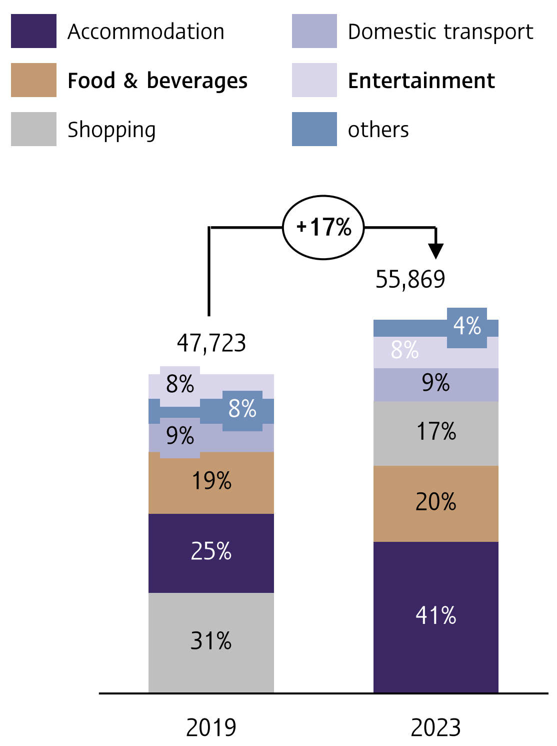
% Recovery compared to 2019	FIT	Tour group
2023E	44%	12%
2024E	77%	41%

Major groups	FIT	Tour group
Generation	Gen Z, Gen Y	Baby boomer
Income group	Mid-to-high income	Low-to-middle income
City group	tier 1 cities such as Shanghai (90% FIT) Beijing Guangzhou	Chengdu and tier 2-3+ ctities
Characteristics	Focus on experience, content, service quality	Price sensitive, prefer to travel to many places according to the program

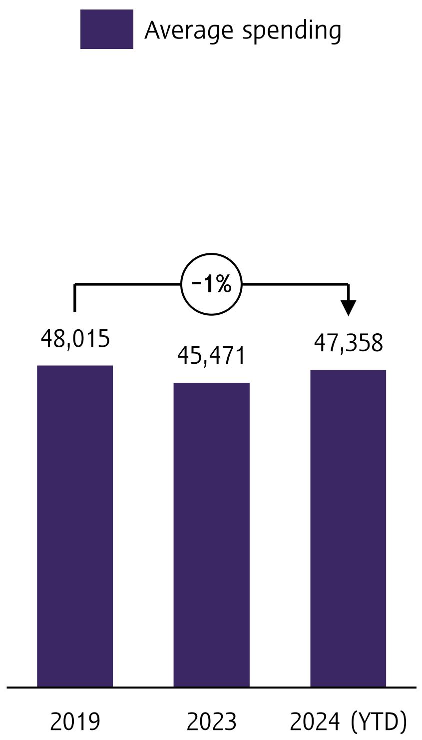
Average spending of Chinese tourists is higher than in 2019 whereas average spending of overall foreign tourists is still lower than in 2019

Unit: baht, baht

Average spending of Chinese tourists



Average spending of foreign tourists

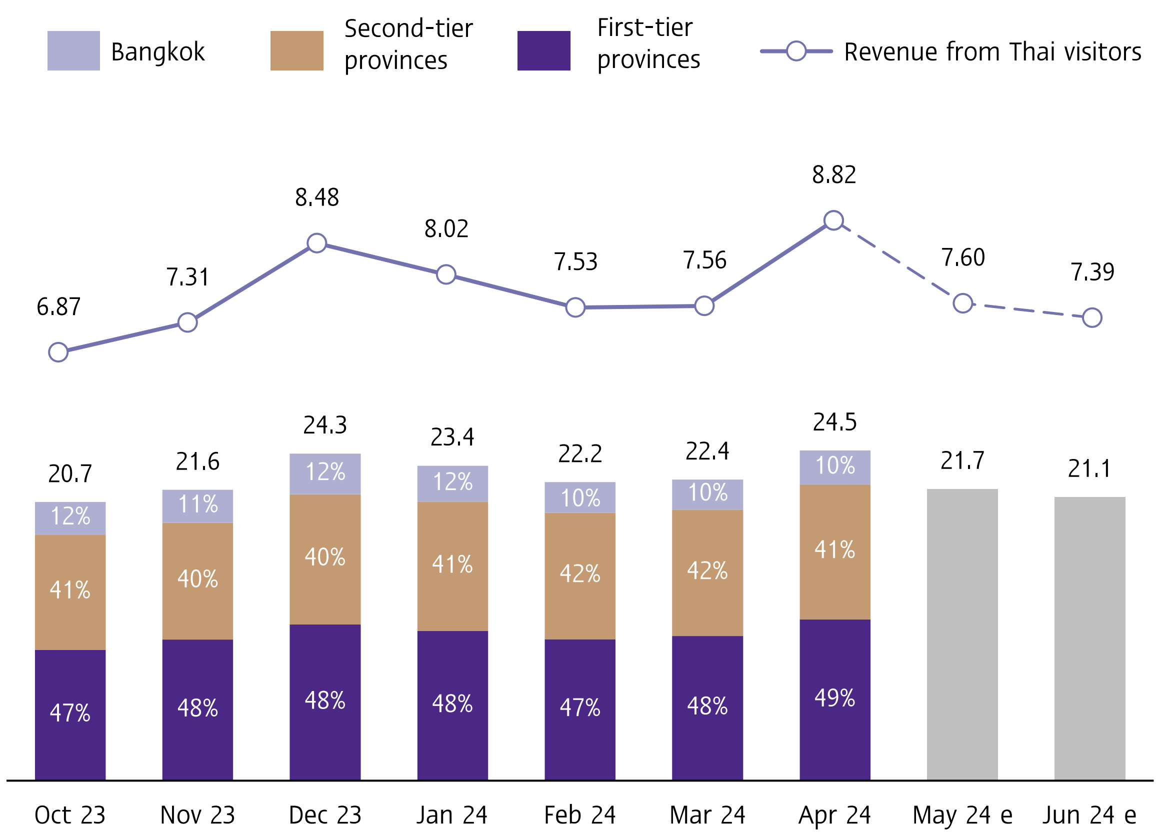


Source: SCB EIC analysis based on data from Tourism Authority of Thailand, Ctrip, CITS.

Domestic tourism growth among Thai visitors remains high, with There is positive on the growth of domestic tourism and secondary cities are gaining more traction from government's stimulus measures.

Number of Thai visitors and revenue from Thai visitors

Unit: Million persons, Billion THB



Provinces with the most Thai visitors from Jan - Apr 2024 (excluding Bangkok)

Province	Number of visitors	Province type
Kanchanaburi	4.83 million	Major city
Chonburi	4.52 million	Major city
Phetchaburi	3.91 million	Major city
Prachuap Khiri Khan	3.86 million	Major city
Ayutthaya	3.16 million	Major city
Chiang Mai	2.92 million	Major city
Nakhon Ratchasima	2.75 million	Major city
Suphan Buri	**2.51 million**	**Secondary city**
Samut Songkhram	**2.29 million**	**Secondary city**
Chachoengsao	2.21 million	Major city

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

Theapproved new domestic tourism stimulus measures are expected to boost visitors and their spending in secondary cities, as many are in recovery.

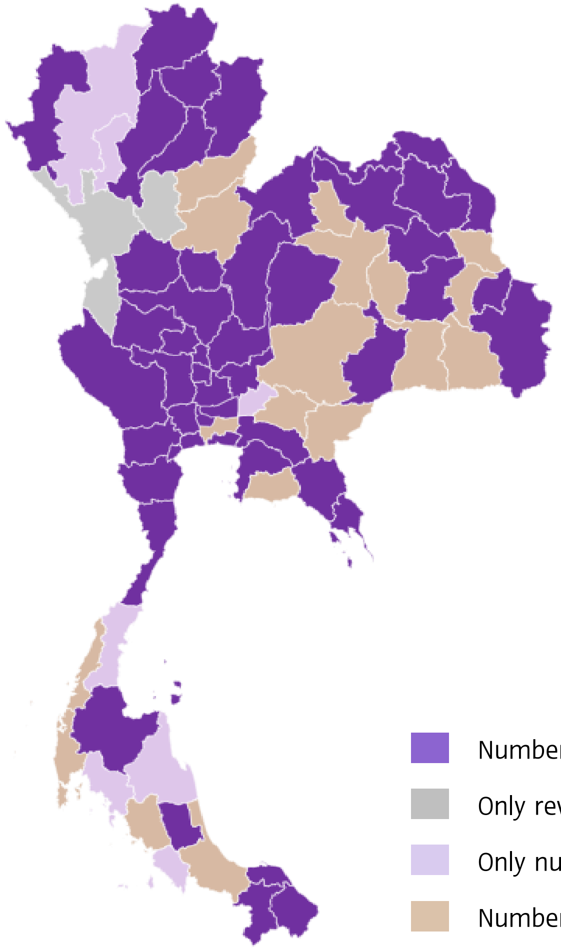
Tax incentives to stimulate tourism during the low season in May – Nov 2024

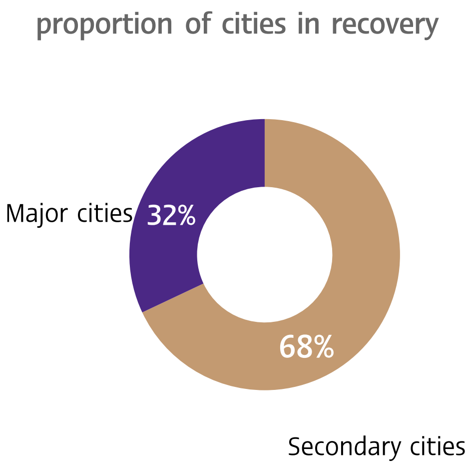
Details	Individuals	Corporate
e-Tax Invoice/ e-Receipt expenses	Accommodation and travel services	Accommodation, seminar room, transportation, tour guide expenses for training and seminars
Second-tier provinces or areas designated by the Revenue Department	Up to 15,000 Baht in taxable income deductions on actual expenses	Double tax deductions on actual expenses
Non second-tier areas		1.5 times tax deductions on actual expenses

Similar tax incentives in the past that successfully stimulated domestic tourism, such as

- The tax incentives introduced in Dec 2016 with the aim to boost tourism after the repression of illegal tourism led to a drop in tourist numbers. The incentive successfully increased Thai overnight stays in the month by 8%YOY and boosted revenue from Thai visitors in Q4 by 12%YOY.

The recovery of domestic tourism





Source: SCB EIC analysis based on data from the Ministry of Tourism and Sports and the Revenue Department.

Looking ahead, private consumption is expected to moderate somewhat, while the manufacturing sector is unlikely to see significant improvement in the near term in line with subdued outlook of exports.

The Thai economy is thus expected to recover gradually during the remaining months of the year.

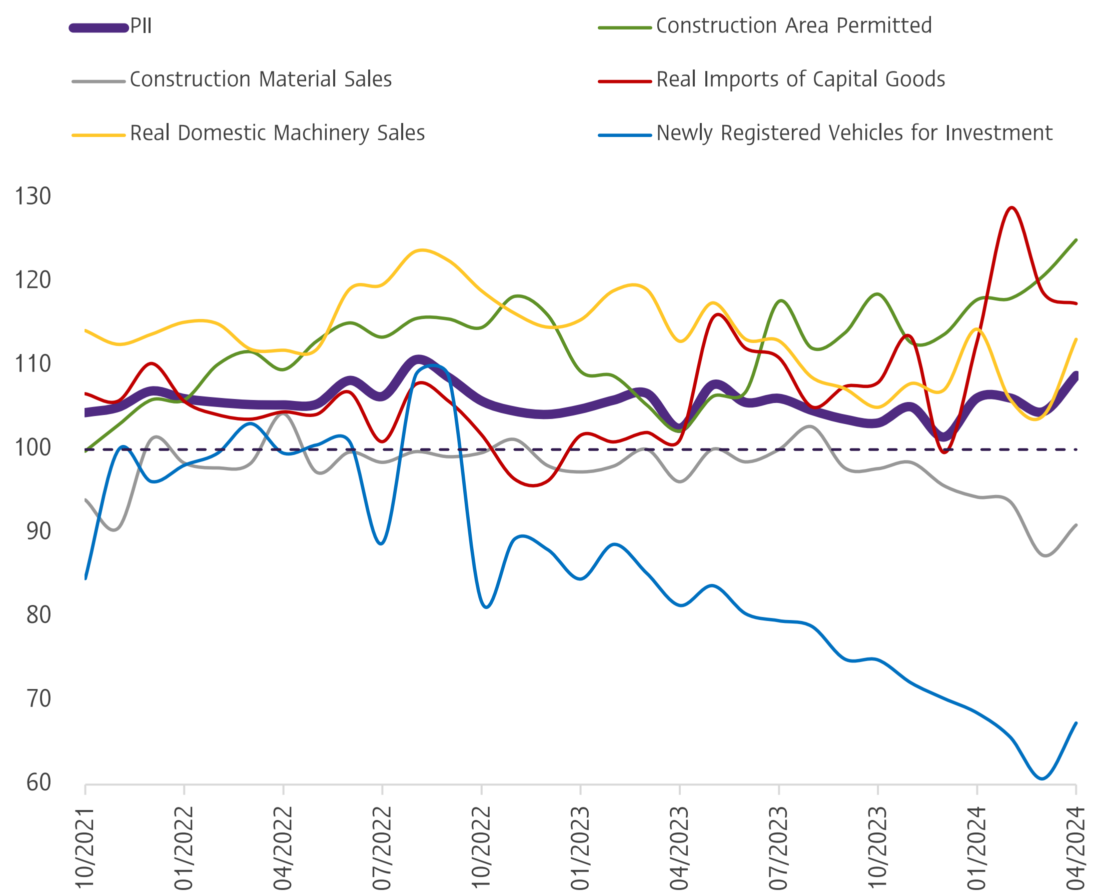
Leading indicator		Unit	2022	2023	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24
Leading economic index (LEI)		2000=100, SA	158.5	159.5	158.7	159.2	161.6	158.8	160.3	160.8	159.5	158.5	159.6	158.8	158.9	159.2	160.1	159.4	159.8	159.3	
Consumption	CCI : Future	100 = Stable	51.1	64.2	59.2	60.2	61.4	62.5	63.1	63.9	62.8	64.2	66.3	68.0	68.7	69.9	70.9	71.9	71.2	70.2	
Export	Global PMI : Manu export orders	50 = Stable	47.8	47.6	47.5	48.3	47.7	48.4	47.3	47.1	46.4	47.0	47.6	47.5	48.1	48.1	48.8	49.3	49.6	50.5	50.4
	Korea exports : First 25 days	2021=100, SA	106.8	92.9	85.1	104.6	98.6	91.4	99.8	96.8	91.8	96.4	109.4	100.6	104.6	107.9	95.7	87.8	95.7	103.9	94.7
	Korea exports	2021=100, SA	106.2	92.4	89.6	100.2	97.0	90.5	96.4	99.9	92.6	99.2	100.1	103.3	102.9	102.8	100.9	99.5	94.8	102.0	98.6
	China exports	2021=100, SA	105.7	95.5	98.0	102.9	117.0	100.9	100.4	97.7	95.7	97.6	99.3	97.8	99.7	100.2	102.8	104.4	104.7	102.2	100.4
	China imports from Thailand	2021=100, SA	92.1	90.4	67.1	98.5	87.8	91.2	81.5	85.5	81.1	78.3	79.1	86.6	77.4	83.9	74.4	74.5	73.6	79.2	91.4
Investment - Near term	BSI : Expectation	50 = Stable	53.4	54.6	56.5	56.2	54.2	56.0	54.6	55.2	53.3	54.1	54.7	53.3	52.6	53.9	53.9	53.5	51.9	52.4	52.9
	Construction area permitted	2000=0.1, SA	6.3	6.2	6.1	6.1	5.9	5.7	5.9	6.0	6.6	6.3	6.4	6.6	6.3	6.4	6.6	6.6	6.7	7.0	
	Net business open Value	THB billions	302.8	402.4	16.6	16.2	276.9	15.7	20.2	33.4	9.1	17.9	6.9	18.3	7.9	-36.7	22.2	17.2	16.6	22.2	
Investment - Longer term	BOI : Cert. issued Value	%YoY	15.4%	5.5%	29.7%			-9.3%			-13.4%			18.4%			107.2%				
	BOI : Approved Value	%YoY	19.6%	22.6%	171.5%			-52.4%			22.3%			98.6%			5.9%				
	BOI : Application Value	%YoY	25.3%	43.4%	66.4%			72.3%			-27.1%			97.9%			30.9%				
Manufacturing	TISI : Expectation	100 = Stable	98.2	100.6	101.1	103.2	106.3	105.0	104.3	102.1	100.2	99.5	97.3	94.5	97.3	96.2	98.4	100.0	100.8	98.3	

Source: SCB EIC analysis based on data from Bank of Thailand, Ministry of Commerce, Federation of Thai Industries, Chinese and South Korean Customs, Board of Investment, S&P Global, and CEIC.

Private investment is expected to continue expanding this year as reflected in the higher value of investment promotion certificates and inflow foreign direct investment.

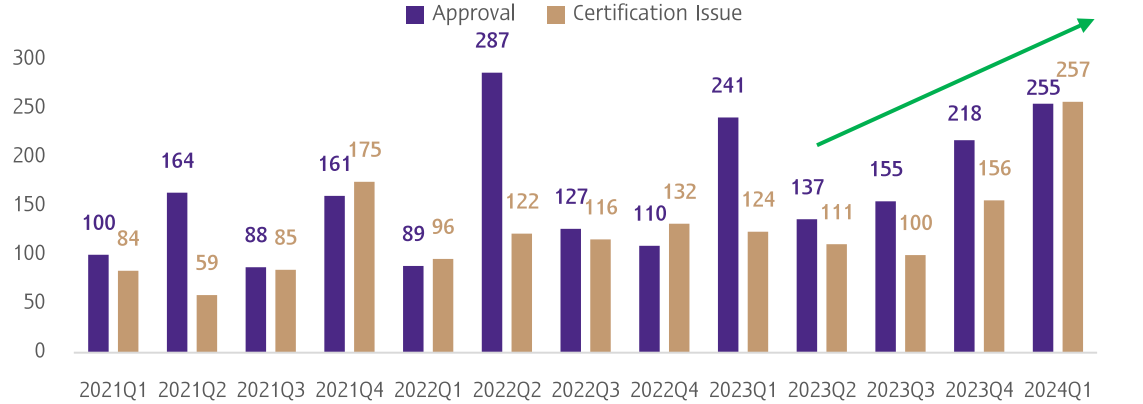
Private Investment Index (PII)

Unit: Index (2018Q1=100) seasonally adjusted



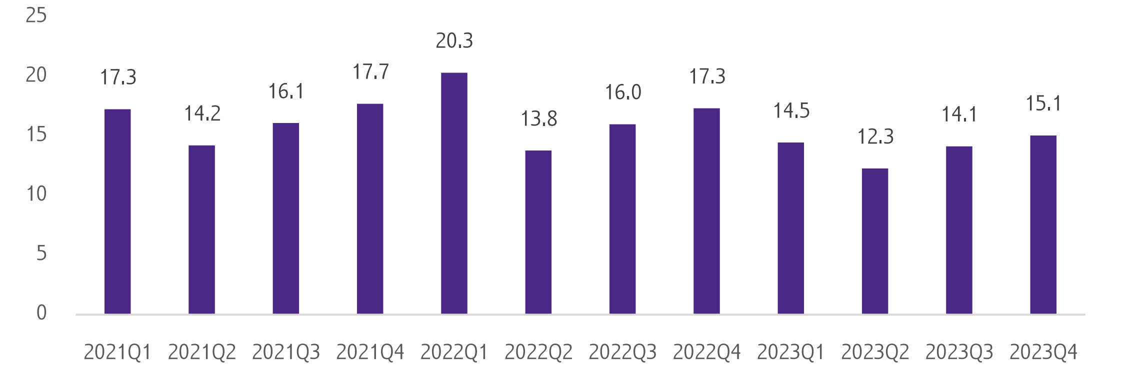
Value of investment promotion certicates issued and approved by BOI

Unit: THB billion



Value of inflow foreign direct investment (FDI)

Unit: billion US dollar



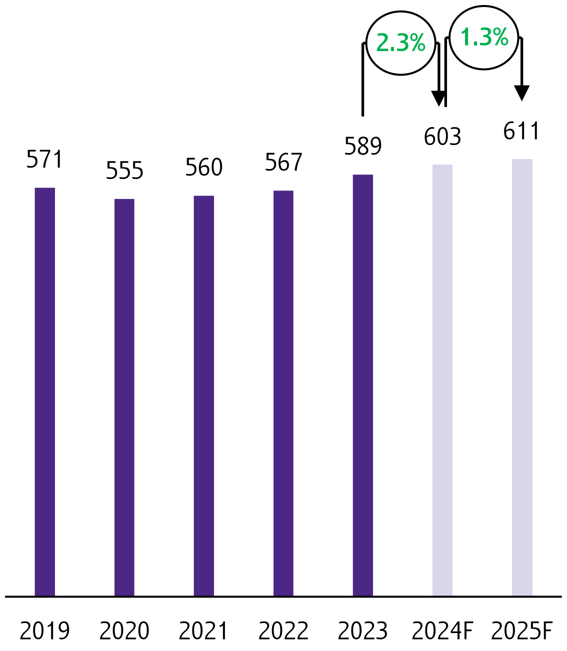
Source: SCB EIC analysis based on data from Office of the Board of Investment, Bank of Thailand, and CEIC.

SCB EIC

Private construction value in 2025 is expected to grow at a moderate pace. Construction of large-scale commercial real estate projects are still ongoing, while slow recovery of the residential market will still put pressure on the sector.

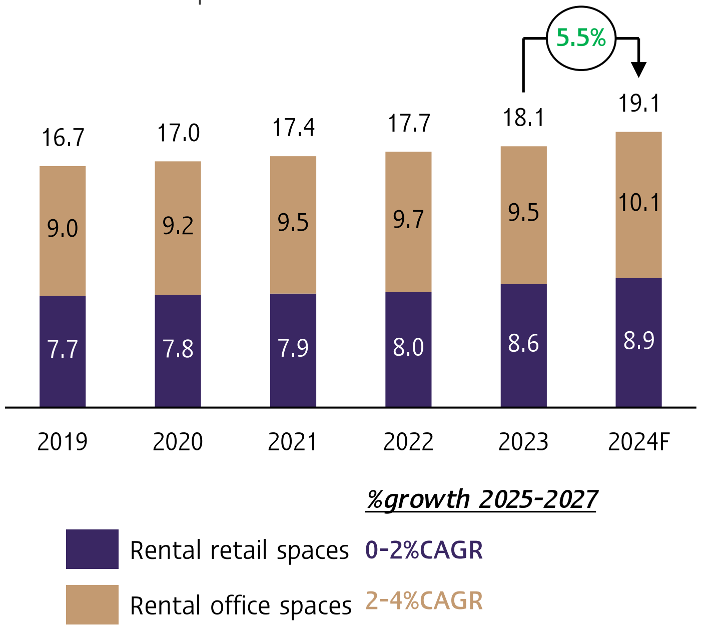
Value of private construction

Unit: THB billion



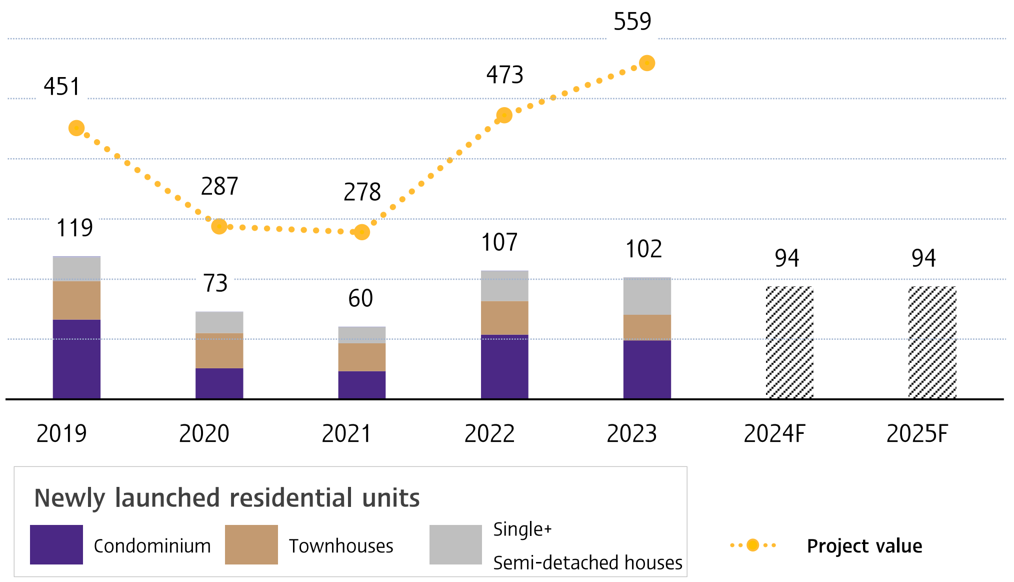
Supply of office and retail spaces for rent in Bangkok

Unit: million square meters



Newly launched residential units and value of the newly launched projects in Bangkok and vicinity

Unit: thousand units, THB billion



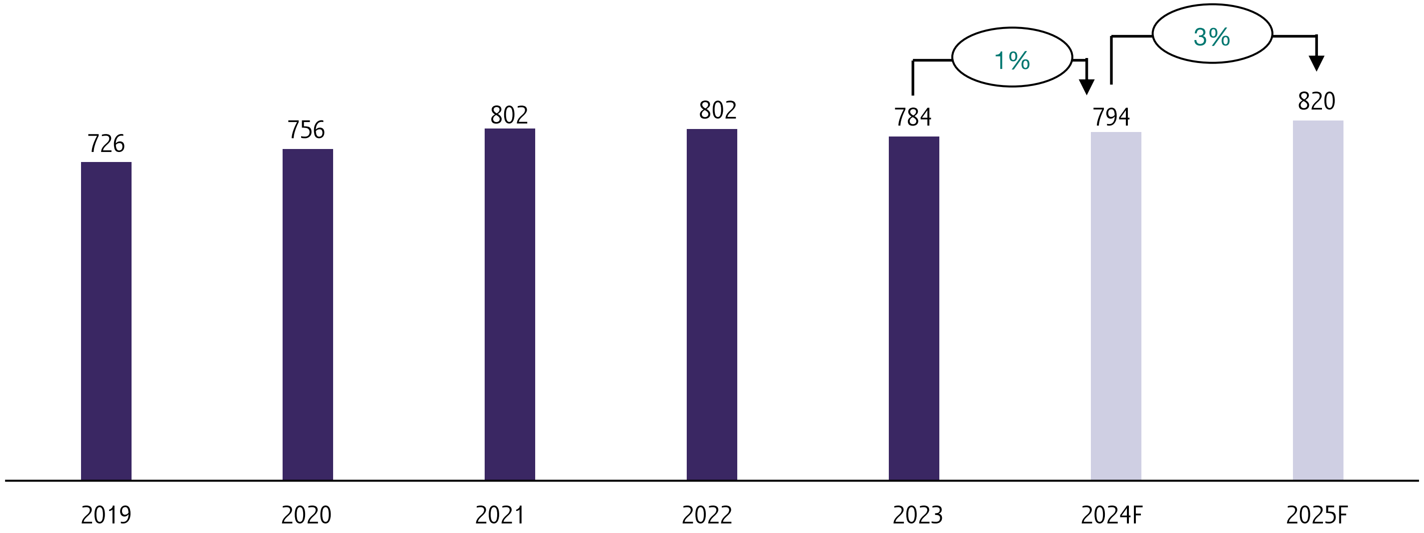
- <u>Construction of commercial real estate projects is still ongoing,</u> with developers expanding their retail and large-scale mixed-use projects in prime business and tourist areas, as well as Grade A offices for rent. This will increase supply of rental retail and office spaces in 2024 and going forward in line with developers' plans to launch new projects. This will therefore drive activities in private construction.
- <u>Residential construction is facing pressure from slow recovery of the residential market.</u> High household debts, credit constraints, and rising new residential prices are challenges in launching new projects, especially in the middle-to-lower price segment. However, developers are turning to launch projects in the middle-to-upper price segment, resulting in a higher value of newly launched projects than in the past. In addition to rising land prices, construction costs are also increasing as these new projects are in the middle-to-upper price segment. This will likely attract more investment into the construction sector, despite a smaller number of expected new launch units.

Source: SCB EIC analysis based on data from Office of the National Economic and Social Development Council, CBRE, and AREA.

Public construction value in 2025 is expected to expand as investment disbursement can proceed as usual.

Value of public investment

Unit: THB billion



Jun 2024 — Accelerating investment budget disbursement
After the draft 2024 Budget Act were enacted

Oct 2024 — Investment budget disbursement proceeds as usual in line with 2025 Budget Act preparation process.

Jan 2025

Oct 2025

- Construction contractors mainly undertaking public construction projects have the opportunity to bid on new construction projects, and have better liquidity than in the previous period.
- This results in a positive knock-on effect to liquidity of businesses in the construction sector's supply chain.

Cumulative investment budget disbursements from central agencies

Unit: %

Cumulative investment budget disbursements in May 2024 accelerated at a rate close to 2020, the year which also saw delayed budget approval.

Agencies with high investment budget disbursement	End of Sep					End of May	
	2019	2020	2021	2022	2023	2020	2024
Department of Highways	74%	77%	86%	90%	96%	29%	28%
Department of Rural Roads	87%	82%	89%	91%	90%	18%	18%
Royal Irrigation Department	81%	81%	82%	83%	89%	33%	28%
Department of Public Works and Town and Country Planning	66%	65%	62%	47%	42%	32%	22%

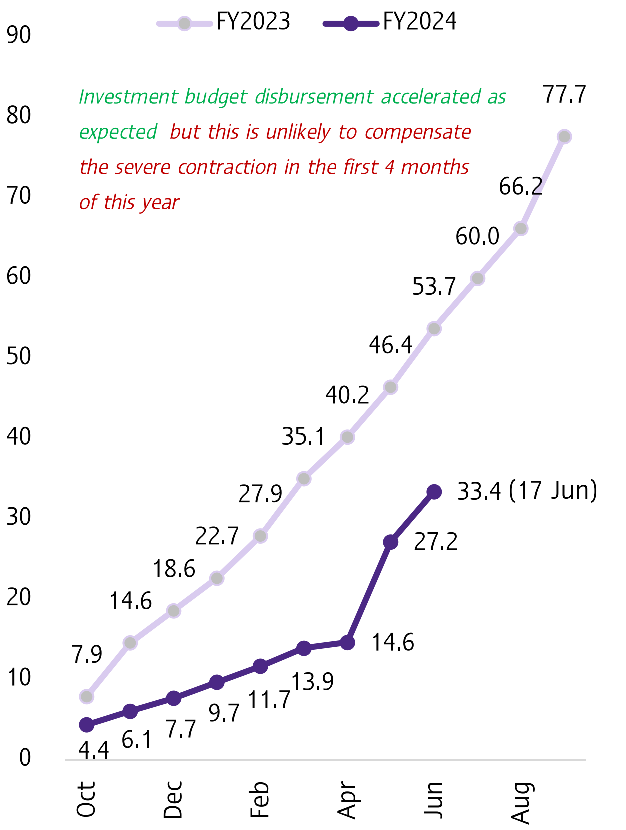
Examples of mega projects expected to open for bidding in 2024 and 2025	Project value (THB billion)
Phase II of double-track rail route linking Khon Kaen to Nong Khai	29.7
Intercity Motorway No.9, Western Bangkok outer ring road between Bang Khun Thian – Bang Bua Thong	56.0
Intercity Motorway No.8, Nakhon Pathom - Pak Tho	45.9
Eastern extension of Suvarnabhumi Airport	10.0

Source: SCB EIC analysis based on data from Office of the National Economic and Social Development Council and the Comptroller General's Department.

Public investment is expected to accelerate in the remaining months of this year due to expediting disbursement after the implementation of 2024 Budget Act was delayed for more than half a year. However, this is unlikely to compensate the severe contraction in the first four months of 2024.

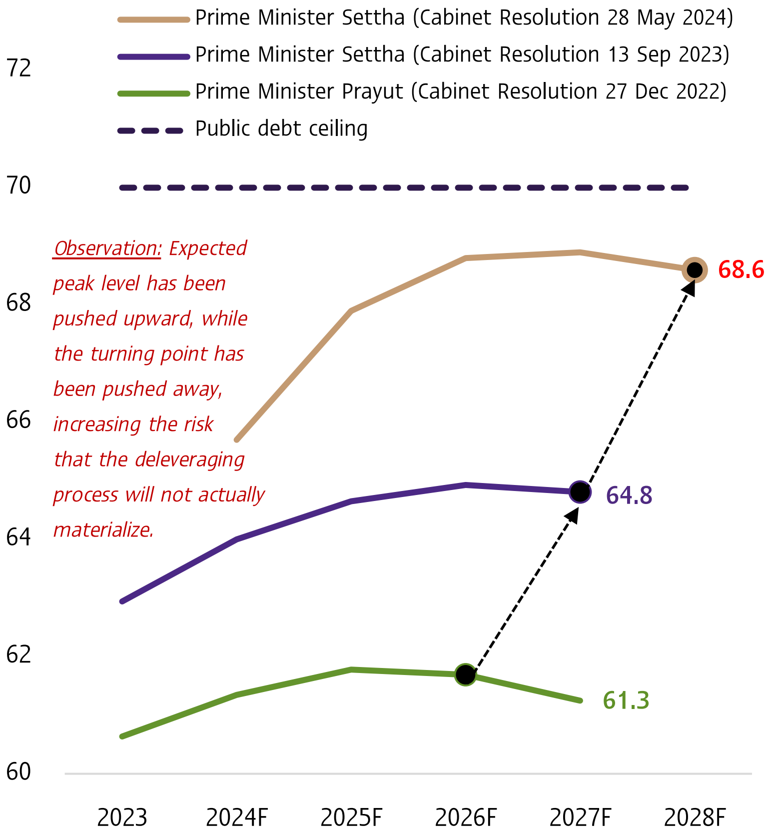
Cumulative investment disbursement rate

Unit: % cumulative by fiscal year



Public debt forecast by the Ministry of Finance

Unit: % Nominal GDP, fiscal year



Preparation of the 2025 Budget Act may face risk from political litigation

*assessed as of 14 Jun 2024

Month	Preparation of 2025 Budget Act	Prime Minister (PM) Settha's litigation
May	28 Cabinet approved the draft	23 Constitutional Court accepted the petition
Jun	11 Cabinet considered the draft again 18 Presented the first reading to the House of Representatives	7 PM submitted his defence to the Constitutional Court 12 The Court began considering the case 28 Earliest possible hearing date
Sep	5 Present the second and third readings to the House of Representatives 10 Present the second and third readings to the Senate 17 Submit for the King's endorsement	
Oct	1 to be enacted	

In addition to the PM's case, **Thailand's political risk could heighten looking ahead** such as from amnesty issue and the decision to dissolve the Progressive Party.

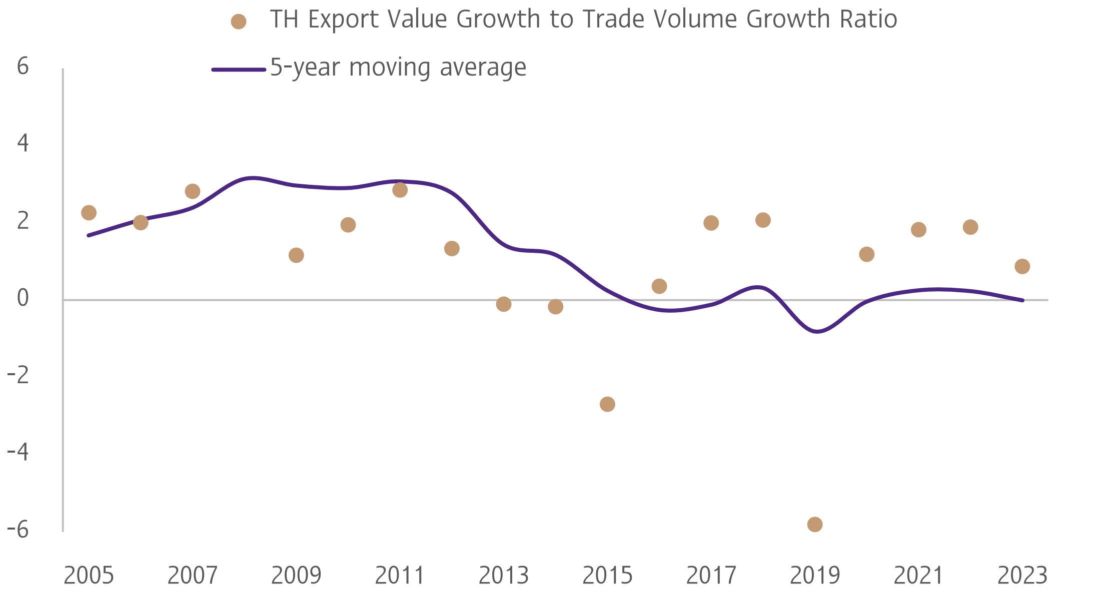
Source: SCB EIC analysis based on data from the Ministry of Finance, Office of the National Economic and Social Development Council, The Secretariat of the Cabinet, and various news agencies.

SCB EIC

The value of Thai exports in 2024 is expected to expand less than previously projected **especially steel, fruits, and HDD exports which are likely to drop this year.**

Thailand's export value growth to global trade volume growth

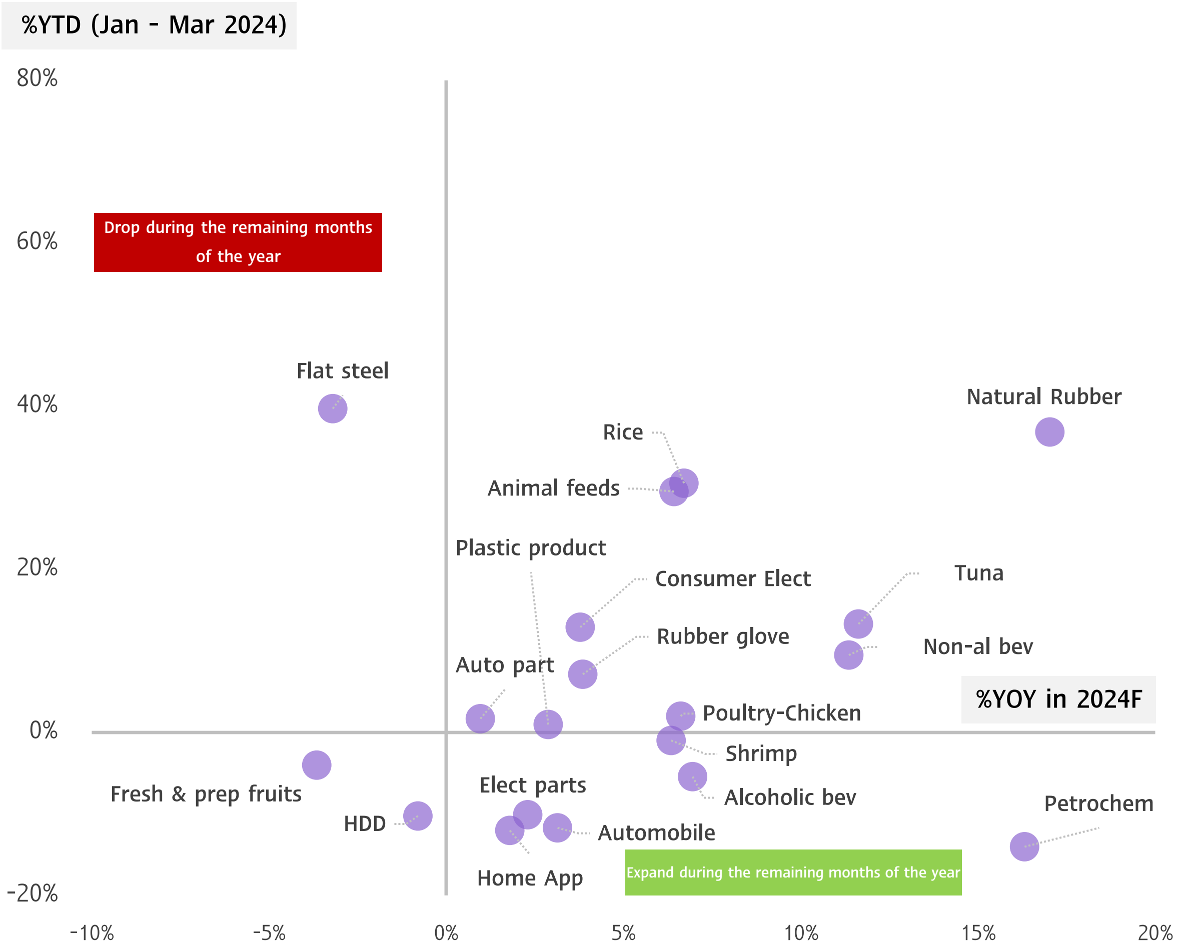
Unit: ratio



The value of Thai exports is expected to grow in 2024 with supporting factors from 1) the global economy which is likely to expand, and 2) international trade-related manufacturing sector which will play a greater role in driving the global economy in 2024. However, **Thai exports are expected to grow at a slower rate than previously forecasted** due to the weakening relationship between Thai exports and global trade growth in recent periods.

Export value growth of industrial products* (Q1 2024 and forecast for 2024)

Unit: %YTD Jan – Mar 2024 and %YOY 2024



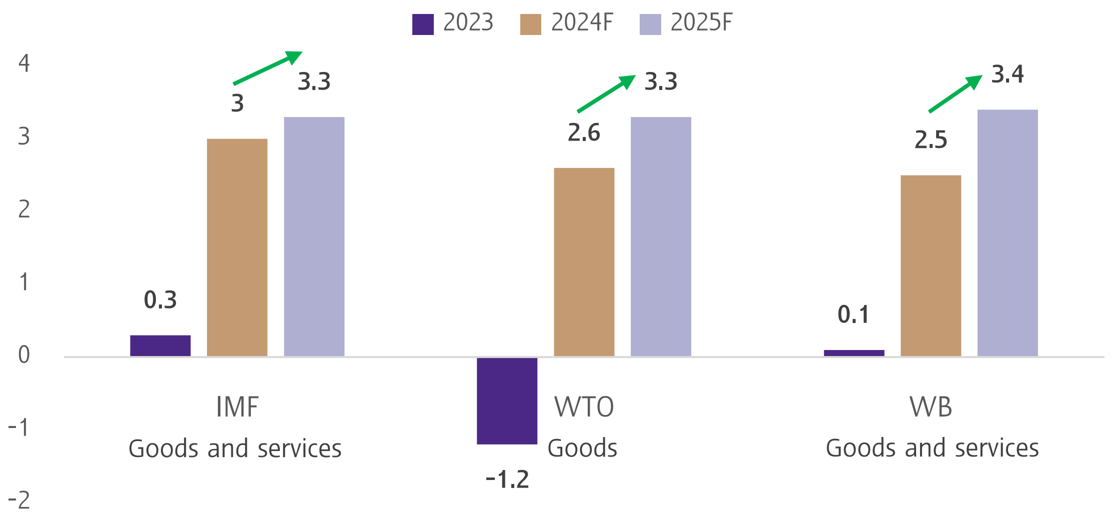
Note: *Value of exports of industrial products covers 59% of total exports (including gold) in 2023.

Source: SCB EIC analysis based on data from the Ministry of Commerce.

Thai export value in 2025 is expected to expand close to this year's level, driven by accelerating global trade and proactive efforts to boost Thai exports through Free Trade Agreements.

Forecast of growth in global trade volume by various international organizations

Unit: %YOY



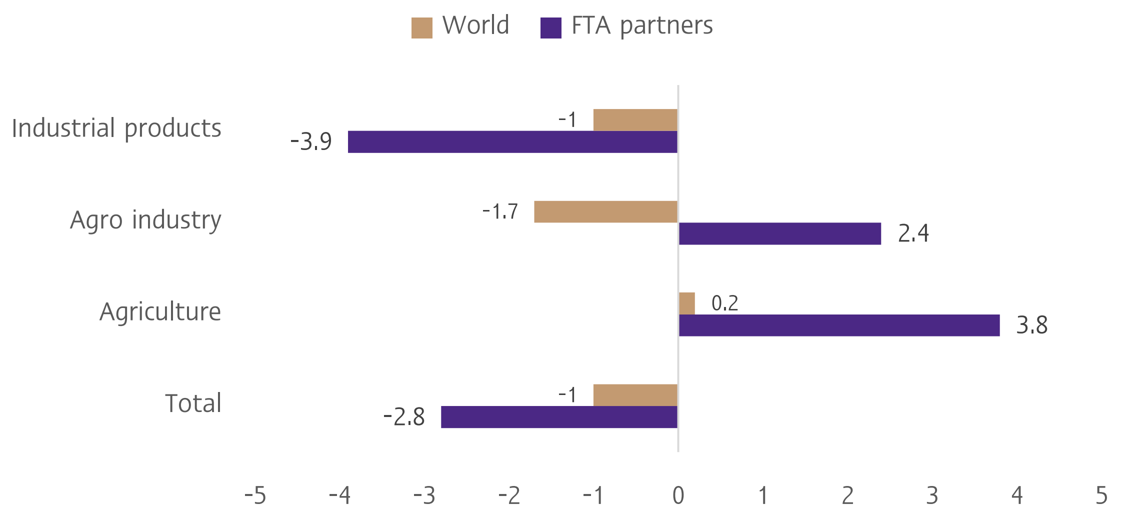
Thai export value in 2025 is expected to expand close to this year's level, supported by the following factors:

1) Global trade that expanded at a faster pace than this year;
2) Efforts by government agencies and the private sector to boost Thai exports through Free Trade Agreements (FTA).

The Ministry of Commerce aims to complete FTA negotiations with EFTA within 2024 and with EU, UAE, South Korea, and Canada within 2025.

Growth of Thai export value to FTA partners and the world in 2023

Unit: %YOY



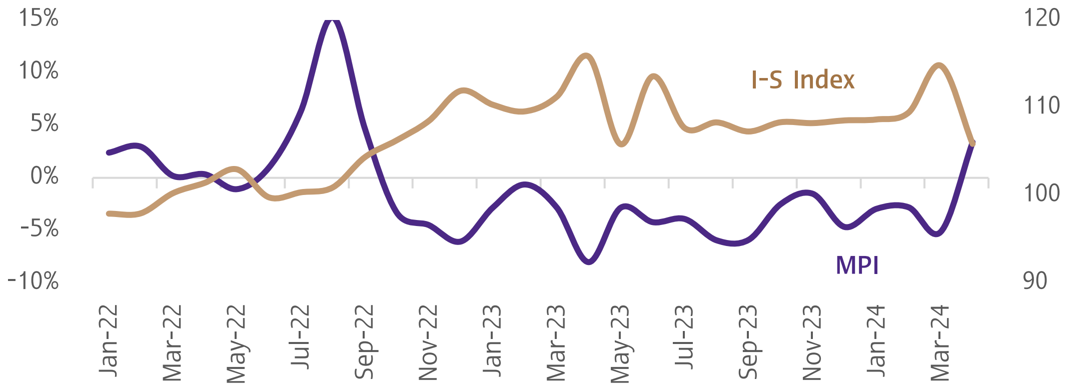
Thailand's Free Trade Agreements (FTA)	Trading partners	Share to total Thai export value
Existing FTAs	**18 countries** such as China, Japan, Australia, and India	60.4%
FTAs under negotiations	**7 countries** namely EFTA, EU, UAE, Canada, Sri Lanka, Pakistan, and Turkey	11.9%

Source: SCB EIC analysis based on data from Bank of Thailand, Ministry of Commerce, WTO, World Bank, and IMF.

Thailand's manufacturing sector is expected to have a limited recovery due to high inventories and rising competition from imported goods from China.

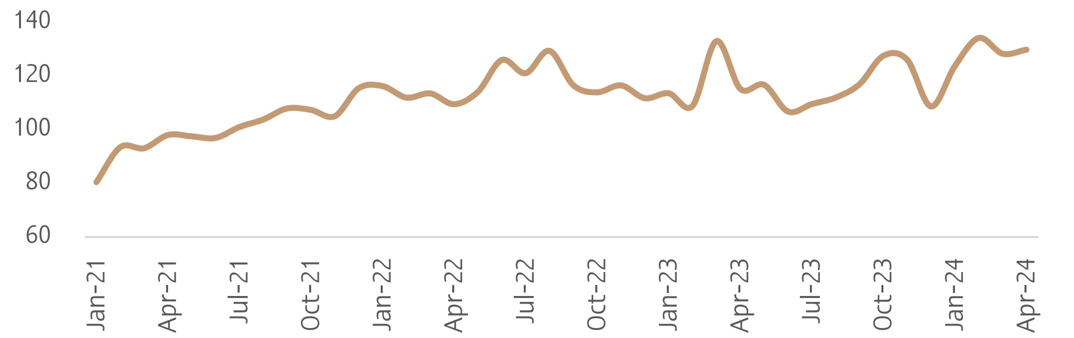
Thailand's Manufacturing Production Index (MPI) and Inventory-Shipping Index (I-S Index)

Unit: MPI %YoY (LHS) and I-S Index, sa (Index 2021 =100, RHS)



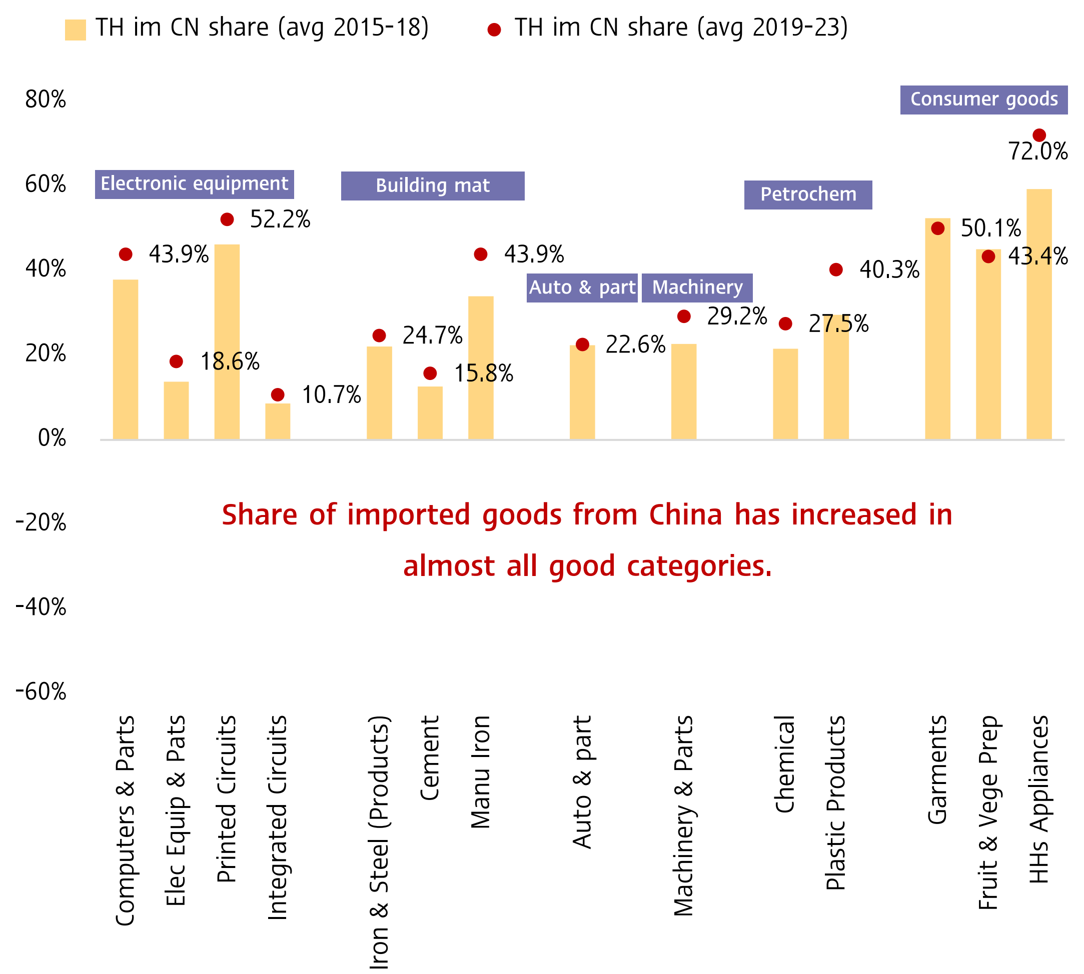
Index of value imported goods from China

Unit: Index, sa (2021= 100)



Share of imported goods from China and growth of MPI

Unit: % share of Chinese imports



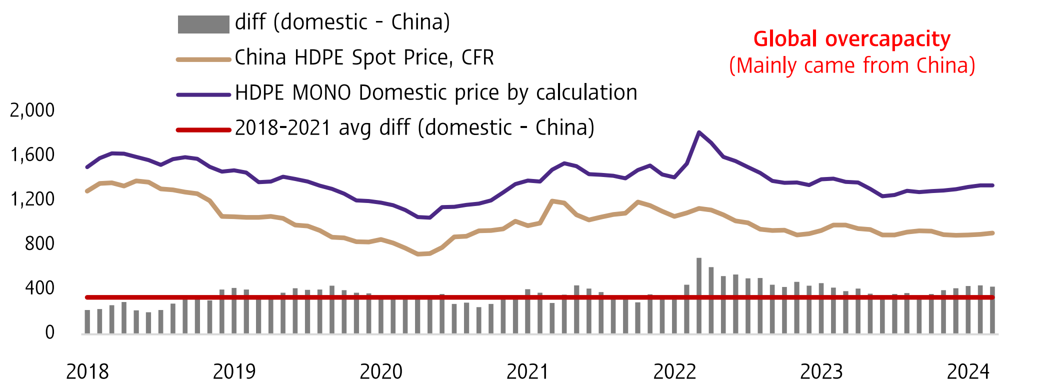
Source: SCB EIC analysis based on data from the Ministry of Commerce, Bank of Thailand, and Office of Industrial Economics.

Looking ahead, some businesses are still at risk of being dominated by Chinese goods, especially steel, petrochemical, and plastic products, as well as consumer goods, due to Chinese economic slowdown and geopolitical conflicts.

Examples of Thai goods facing impact and unable to compete in terms of price

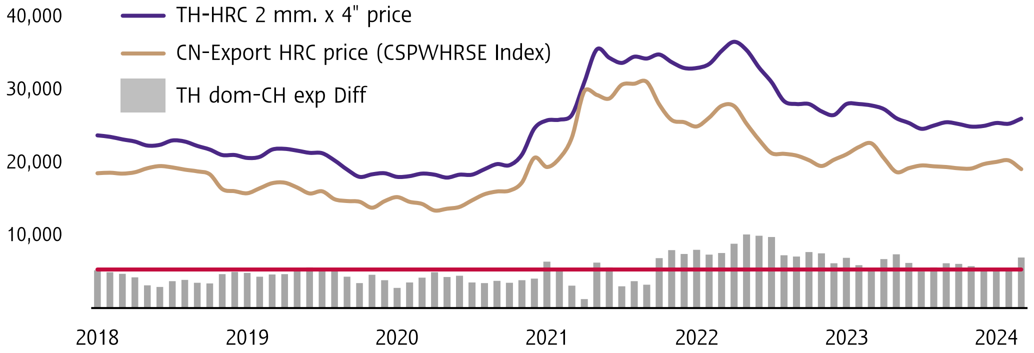
Price of HDPE plastic pallets from Thailand and China

Unit: MPI %YoY (LHS) and I-S Index, sa (Index 2021 =100, RHS)



Price of hot-rolled coil from Thailand and export prices from China

Unit: baht/ton



Source: SCB EIC analysis based on data from the Ministry of Commerce and Office of Industrial Economics.

Looking ahead, there remains risk of being dominated by Chinese imported goods.

Key risks to watch		China slowdown	CN price advantages	Trade policy & Geopolitical Pol	Self-sufficiency policy	Environment policy	High-speed rail project
Electronic equipment		✓		✓	✓		
Building mat	Iron & steel	✓	✓	✓		✓	
	Cement	✓				✓	
	Aluminium		✓			✓	
Auto & parts		✓	✓			✓	
Machinery & parts		✓					
Petrochem & Plastic product		✓	✓				
Consumer goods	Electrical appliances		✓	✓	✓		
	Fruits & Vegetables		✓	✓	✓		✓
	Agri & food products				✓		

Sluggish manufacturing activities is putting pressure on income and domestic demand, particularly for durable goods which are contracting continuously, and consumer confidence which starts to deteriorate.

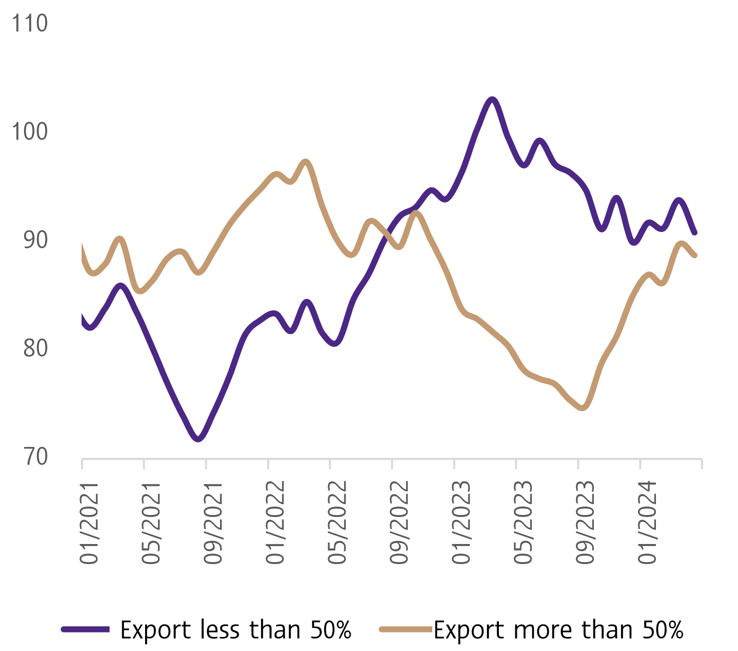
Confidence in the manufacturing sector producing for domestic market declines despite some improvement in confidence in manufacturing for exports

Domestic market for durable goods still face demand pressures from the continued contraction in durable goods consumption.

Looking ahead, consumption on durable goods is unlikely to pick up as consumer confidence starts to decline

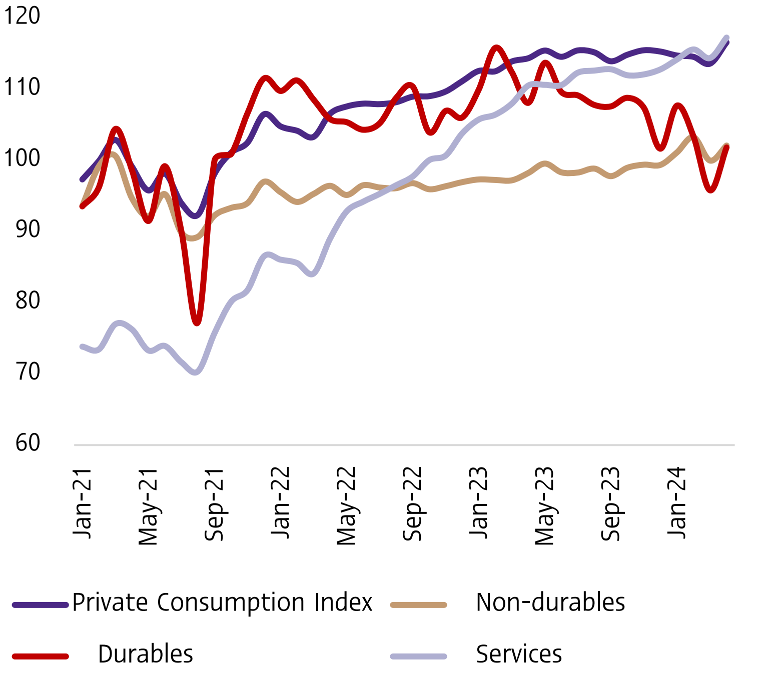
Thai Industries Sentiment Index

Unit: Diffusion index (100 = unchanged)



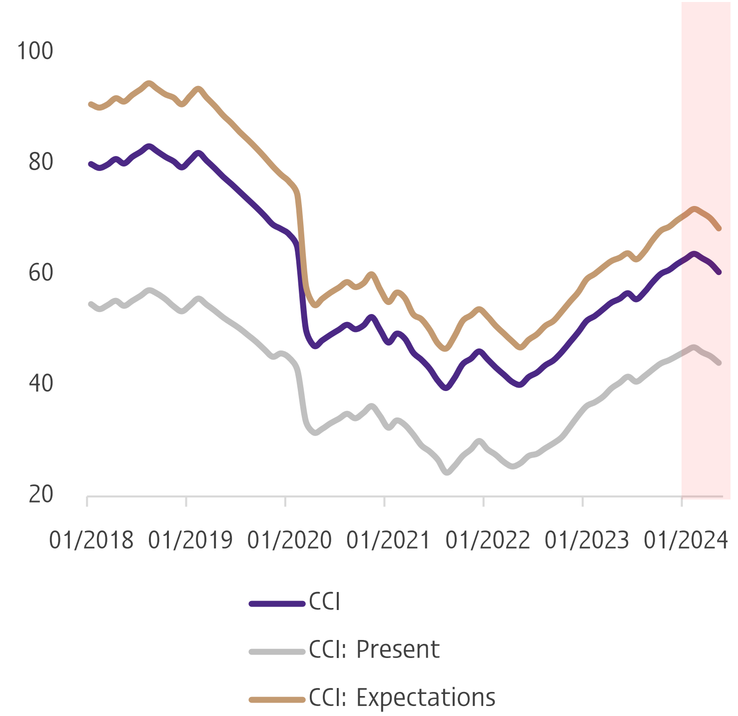
Thai Private Consumption Index, by spending category

Unit: Index, sa (Average 2019 = 100)



Thai Consumer Confidence Index

Unit: Index (100 = unchanged)

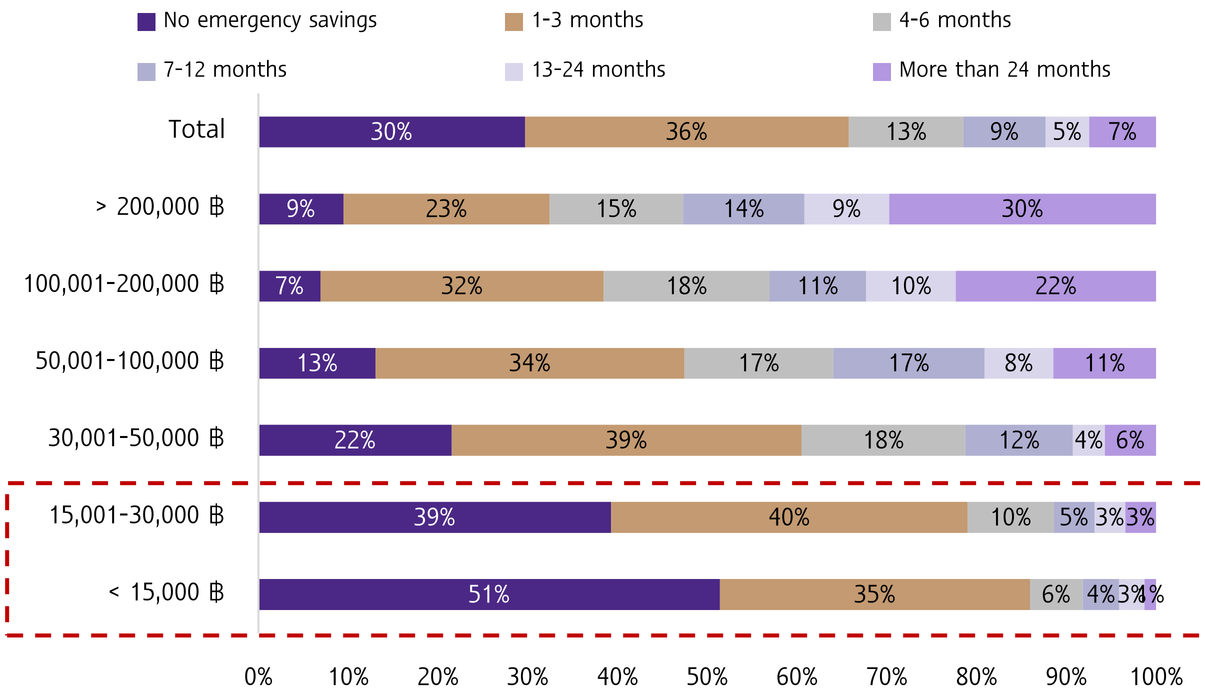


Source: SCB EIC analysis based on data from the Federation of Thai Industries, University of the Thai Chamber of Commerce, and Bank of Thailand.

The Thai economy is becoming more fragile as reflected by (1) the household sector, especially the low-income group, which does not have adequate financial buffers for the future such as emergency savings and various forms of risk insurance.

Emergency savings in case of unexpected events, by income level of respondent

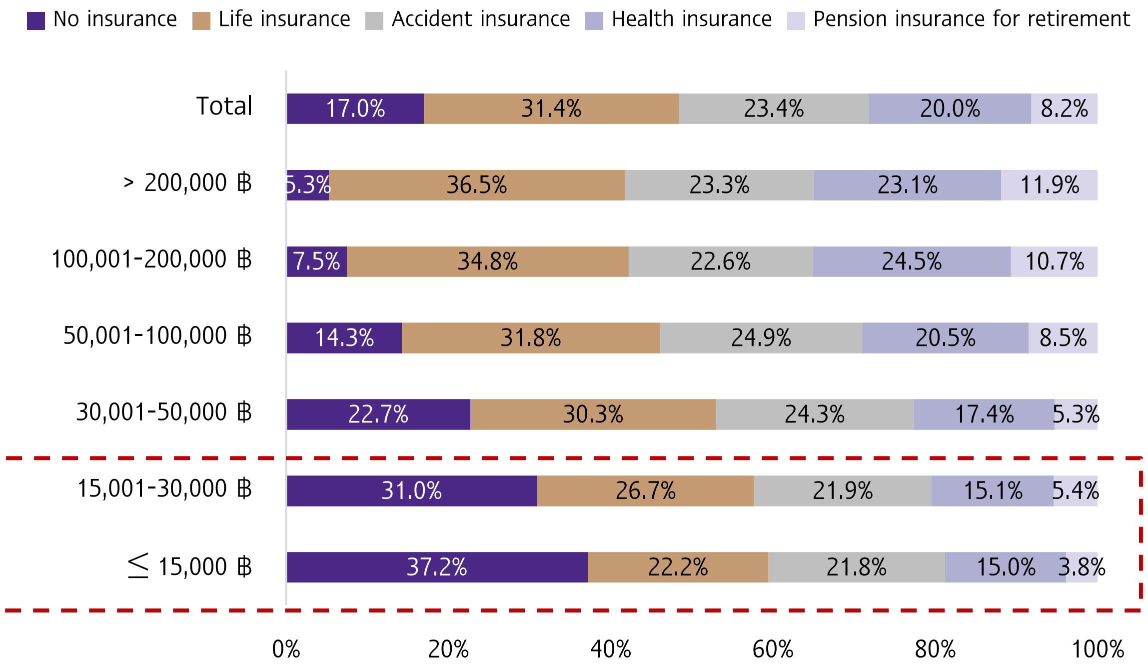
Unit: %



SCB EIC Consumer survey (May 2023) suggests that **more than 70% of consumers have less than 3 months of emergency savings, especially those with monthly income less then 30,000 baht, where almost all of whom have no emergency savings.** Most of them are of working age, aged 31 – 40 years, and are employed by private firms or self-employed.

Various forms of household risk insurance, by income level of respondent

Unit: %



More than one-third of the group with monthly income less than 30,000 baht do not have any insurance. Therefore, this is a risk in terms of expenses that may arise should any unexpected event occur, reflecting high vulnerability of this consumer group.

Note: data on household income, expenses and debt expenses only include debt-laden households.

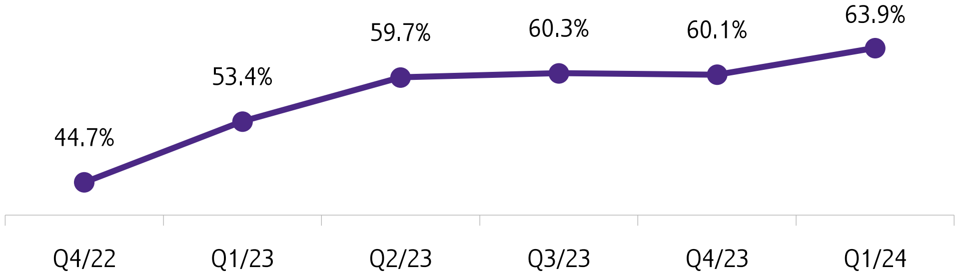
Source: SCB EIC analysis based on data from the National Statistical Office of Thailand and SCB EIC Consumer survey 2023 conducted during 20 Oct – 3 Nov 2023 (2,090 respondents).

(2) Businesses, especially small ones, are facing rising debt, **particularly from informal borrowings.**

Share of MSME with debt burden

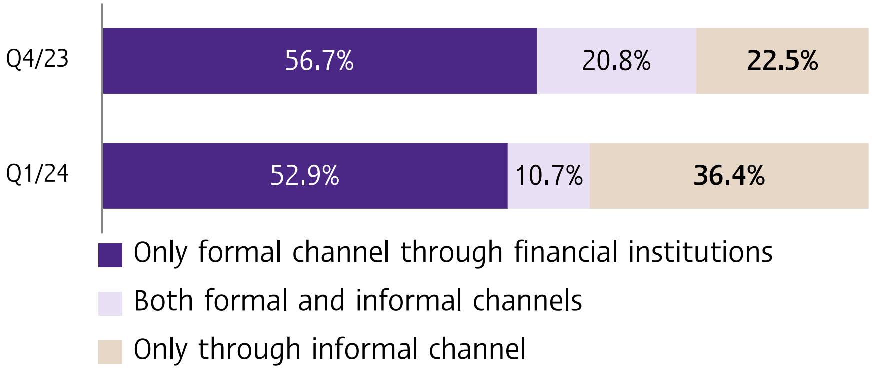
Unit: %

Debt burden of MSMEs has been expanding since Q4 2023, with most of which being in trade and manufacturing sectors.



Share of MSME's borrowing sources

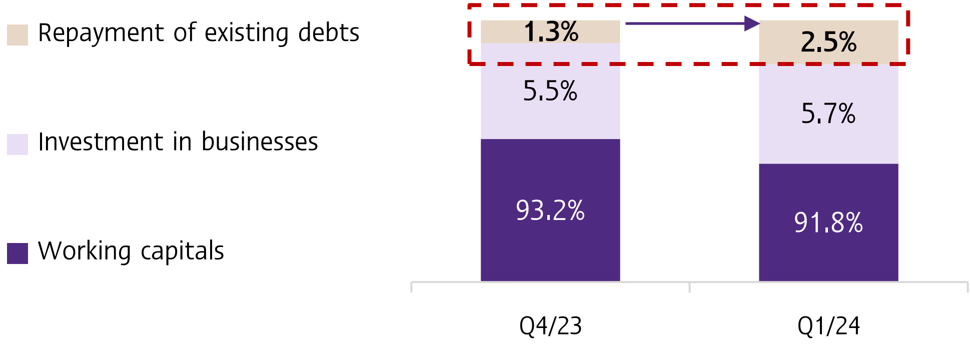
Unit: %



Informal borrowing of MSMEs has been rising

Purpose of MSME borrowing

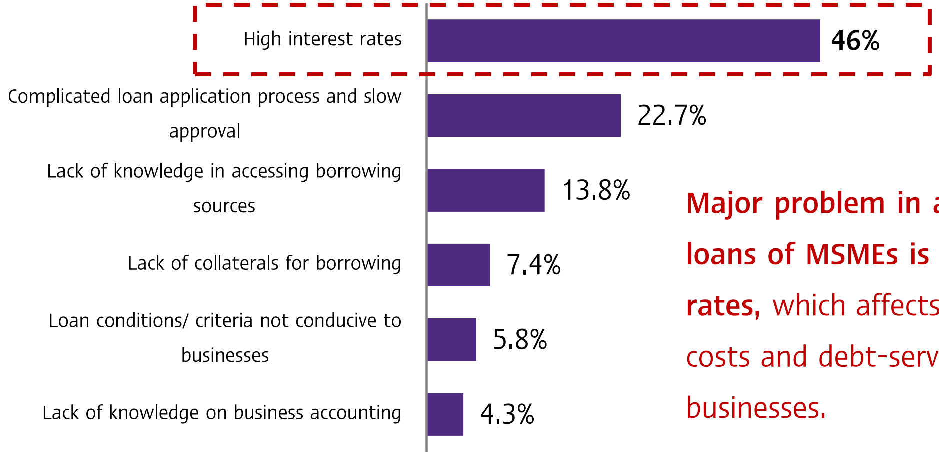
Unit: %



Most of MSME borrowing is for working capital in businesses. However, **share of borrowing to repay existing debts has increased significantly** reflecting deteriorating liquidity of businesses.

The need for financial assistance and debt burden solutions

Unit: %



Major problem in accessing loans of MSMEs is high interest rates, which affects borrowing costs and debt-servicing ability of businesses.

Source: MSME business survey conducted during 16-25 Mar 2024 (2,738 respondents) by the Office of SMEs Promotion.

Despite an increase in financial measures to assist the vulnerable households and businesses, SCB EIC assesses that it will take time for these measures to have a widespread impact.

Financial measures to assist vulnerable households

Covid crisis (2020)	Recovery phase (2021-2023)	Present (since 1 Jan 2024)
• Broad-based debt moratorium	• Targeted debt moratorium • Expediting sustainable debt restructuring	• **Responsible lending**

Responsible lending

- Offering debt solutions before and after becoming NPLs
- Protecting debtors by prohibiting banks from collecting penalties prior to the due date
- Assisting vulnerable debtors to pay off their debts by converting debts into installment loans

Current measures focus on resolving existing debts for better liquidity in the long term

- Responsible lending aims for financial institutions to provide comprehensive solutions for existing debtors
- With added features in resolving persistent debts
- **SCB EIC estimates that debt restructuring will not show clear benefits on households in the short run (1-3 years)**
  - **Households are still facing slow income recovery and fragile financial positions.** Although they have begun to restructure their debts, their debt-servicing ability may have yet to improve.
  - **Measures focus on resolving existing debts, which will take time to improve financial vulnerabilities of households.** The benefits will not be clearly seen in 2024.

Financial assistance for SMEs

Covid crisis (2020)	Recovery phase (2021-2023)	Present
• Debt moratorium • Soft loans • Government's credit guarantee scheme through TCG	• Rehabilitation loans • Government's credit guarantee scheme through TCG	• **Government's credit guarantee scheme through TCG (continued)** • **IGNITE THAILAND loans managed by GSB**

Increase credit limit for TCG's credit guarantee for SMEs adding 50 THB billion to TCG's Portfolio Guarantee Scheme phase 11 (PGS 11), as credit limit of PGS 10 added last year is almost fully utilized.

IGNITE THAILAND loans managed by Government Savings Bank (GSB) low-interest loans worth 5 THB billion for SMEs in 3 targeted industries namely tourism, medical-wellness, and food with no principle repayments for 6 months.

Current measures utilize TCG mechanism to continue assisting SMEs through PGS

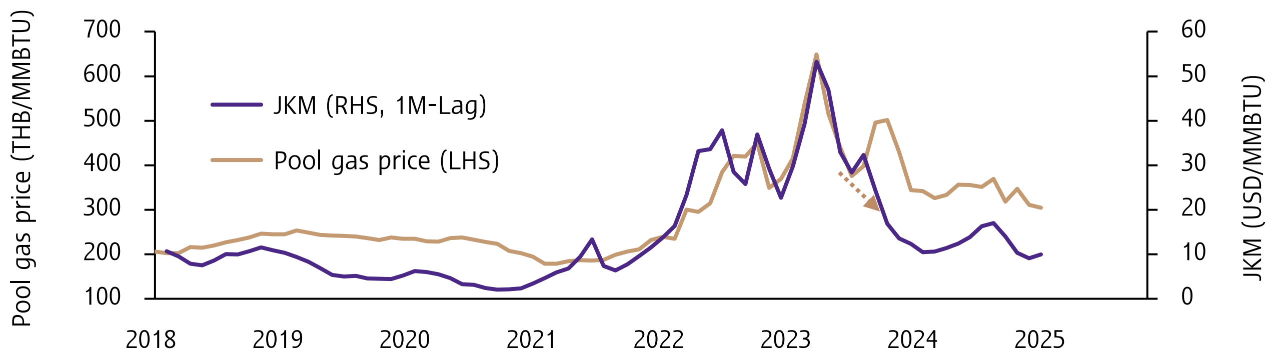
- PGS 11 is an ongoing scheme by adding credit limit to be able to continue providing credit guarantee for SMEs.
- IGNITE THAILAND loans will support targeted industries that are already recovering.
- **SCB EIC assesses that SMEs that are already recovering will continue to obtain liquidity** (such as tourism, restaurants, consumer goods, and processed agricultural products), **whereas businesses that are facing structural problems will remain fragile and will not benefit much.**
  - TCG's guarantee mechanism still relies on financial institutions to primarily approve loans.
  - Financial institutions are not incentivized to lend at low funding costs like during crisis.

Source: SCB EIC analysis based on data from the Government House, Ministry of Finance, Bank of Thailand, and various news agencies.

SCB EIC maintains its electricity tariff forecast at 4.18 baht per unit for May – Aug, after the ERC's second announcement of electricity tariff in 2024 at 4.18 baht per unit to pay back AF despite lower natural gas prices than in the past at 10-12 USD/MMBTU.

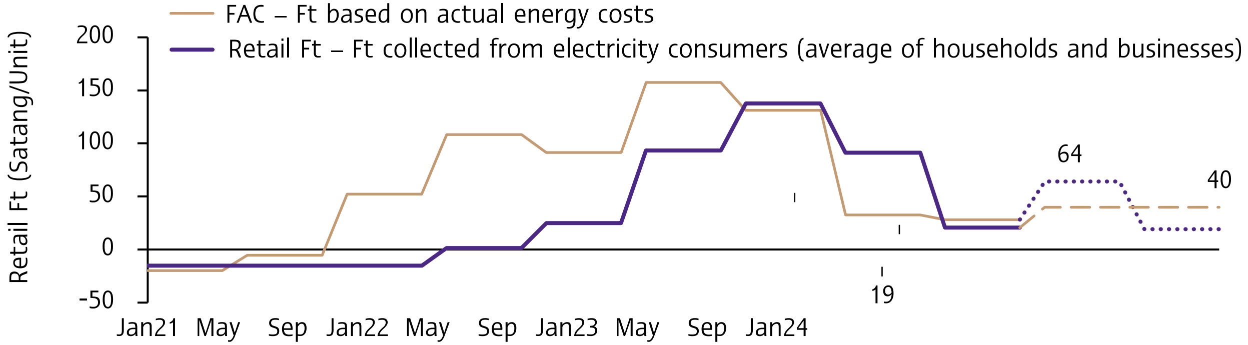
Global natural gas prices are expected to decline, reducing pressure on Pool gas prices of power plants

Global natural gas price: JKM (USD/mmBTU, monthly average) and Pool gas price (THB/mmBTU)



Ft is expected to fall in line with energy costs, while the Accumulated Energy Adjustment Charge (AF) is gradually being repaid.

Unit: Satang/Unit



- **ERC announced the electricity tariff for May – Aug 2024 to remain unchanged at 4.18 baht per unit, or 0.3972 baht per unit for retail Ft.** This Ft is calculated based on the actual energy cost of 0.1921 baht per unit (down from 0.3974 baht per unit in the previous period, due to lower Pool gas prices in line with global natural gas prices, which are expected to remain at 10-12 USD/MMBTU during May-Aug) **However, the remaining Accumulated Energy Adjustment Charge (AF) of nearly 100 THB billion means that the electricity consumers will still have to bear this burden.** This results in a higher retail Ft than the actual cost by around 0.2051 baht per unit.

- **SCB EIC maintains its electricity tariff forecast for 2024 at 4.1 – 4.2 baht per unit (down around -10%YOY)** due to..

  1. lower Pool gas prices

  2. Start of repayment of the AF throughout 2024 until the second repayment of 2026 (lower natural gas prices allow the ERC to collect AF again)

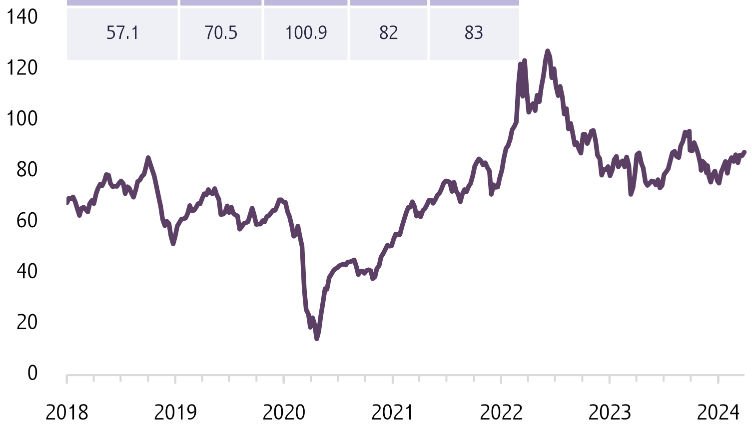
Source: SCB EIC analysis based on data from ERC, EPPO, EGAT, and Bloomberg.

The OPEC announced to end the voluntary production cuts, but global demand is still expected to continue expanding in line with the global growth outlook.

Brent crude price

Unit: USD/Barrel

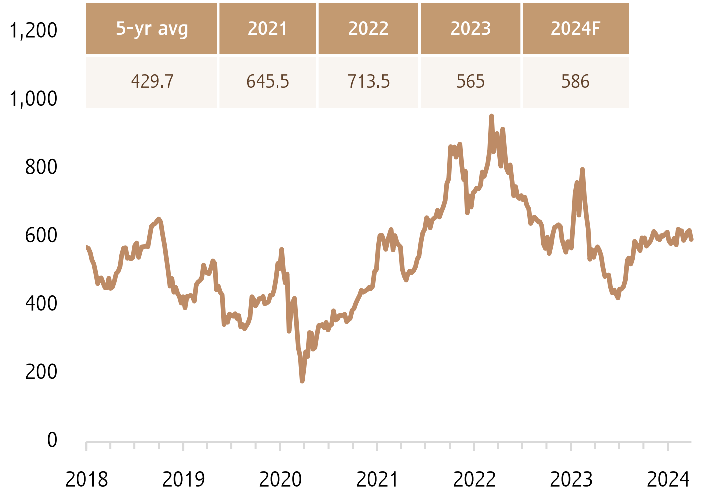
5-yr avg	2021	2022	2023	2024F
57.1	70.5	100.9	82	83



Aramco Liquefied Petroleum Gas (LPG) price

Unit: USD/Ton

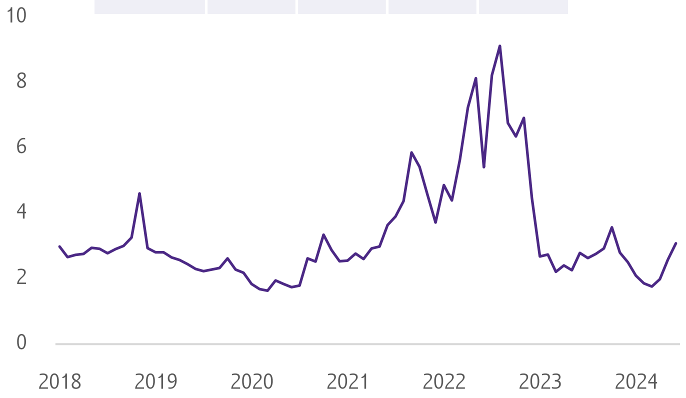
5-yr avg	2021	2022	2023	2024F
429.7	645.5	713.5	565	586



Henry hub natural gas price

Unit: USD/MMBtu

5-yr avg	2021	2022	2023	2024F
2.8	3.7	6.6	2.7	2.88



- **Supply** : Previously, OPEC+ cut its production by a total of 5.86 million barrels per day (5.7% of global demand), coming from the production cut by OPEC+ members by 3.66 million barrels per day until the end of 2024 and the voluntary cut of 8 OPEC+ members by 2.2 million barrels per day. Recently (2 Jun), OPEC+ members agreed to extend the period of production cut of 3.66 barrels per day until the end of 2025. However, **for the voluntary production cut of 2.2 million barrels per day, members voted at the meeting to cut the production until the end of Sep.**
- **Demand** : IEA raised its forecast for oil demand to 102.12 million barrels per day (previously 110kb/d, up by 1.7 million barrels per day), supported by positive economic signals in the US in Q1.

- **Demand for LPG is expected to improve** as China's Manufacturing PMI increased to 51.4 in Apr from 50.8 in Mar, which has been above 50 for 3 consecutive months.
- An increase in LPG prices in Mar-Apr was due to price adjustments in LPG contracts among major LPG suppliers such as Petron and Solane, which have announced price increases in their LPG products effective from 1 Mar and 2 Mar, respectively.

- **Climate change, unfavorable weather conditions:** heat waves in the Southeast Asia have started since Apr, causing demand for natural gas to rise.
- **Importers in Asia such as Japan and South Korea restocked gas inventories ahead of summer** in the Northern Hemisphere, resulting in tight supply caused by disruptions at facilities in Malaysia and Australia.

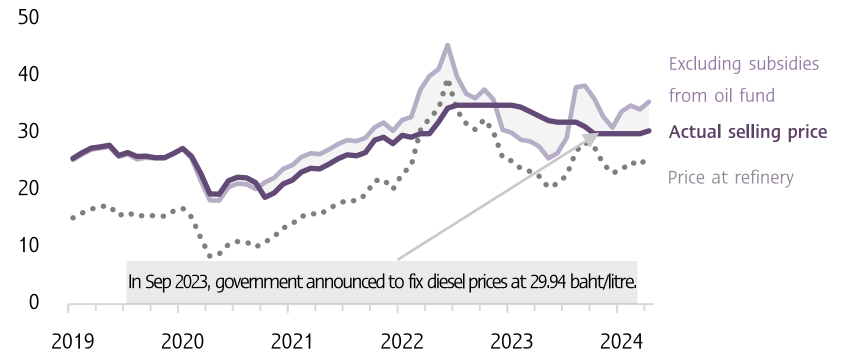
Note: 5-year period = 2015-2019; data and analysis based on the situation in Apr 2024.

Source: SCB EIC analysis based on data from Bloomberg, TradingView, Goldman Sachs, US EIA, JP Morgan, and various news agencies.

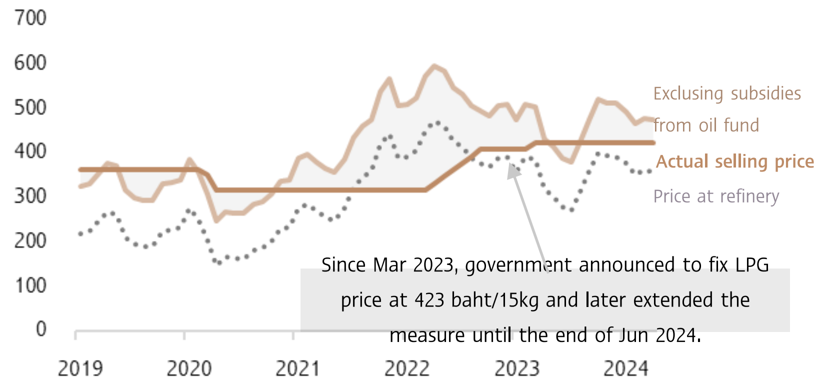
The government has lifted the ceiling of diesel prices to 33 baht until the end of Jul, while LPG prices are also likely to gradually rise after Jun as the Oil Fund is still overburdened.

Retail prices and costs of oil, diesel, and LPG (15 kg)

Diesel price (baht/litre)

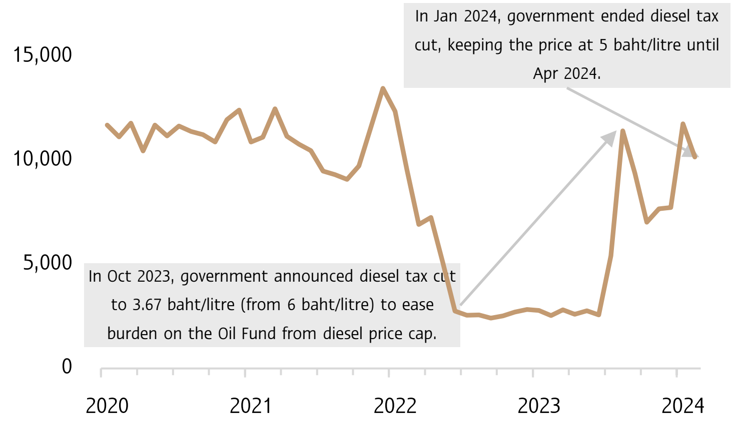


15 kg LPG tank price (baht/15kg)

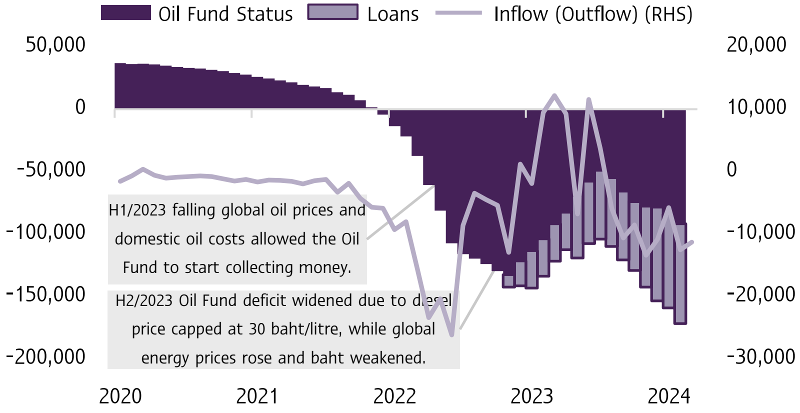


Revenue from diesel excise tax collection and Oil Fund status

Monthly revenue from diesel excise tax collection (THB million/month)



Oil Fund status at the end of the month, inflows and outflows, and loans (THB million)



- Crude oil costs remain above the 5-year average, **further deepening the Oil Fund deficits since H2/2023. As of Jun 2024, Oil Fund deficit stands at over 110,030 THB million.** However, it can only borrow an additional 20 THB billion from its latest credit line to maintain domestic oil prices.
- **In addition, the Oil Fund must repay the first principal installment of 30 THB billion in Nov 2024, putting further pressure on the Oil Fund to manage its liquidity.**
- **Recently, the FPF decided to float diesel price above 30 baht/litre, gradually increasing it in steps,** to alleviate burden on the Oil Fund on price subsidies.
- **The Cabinet approved to set the ceiling of diesel prices at 33 baht/litre (currently at 32.94 baht/litre) effective from 22 Jun - 31 Jul 2024.**
- As for retail LPG prices, government decided to extend the period of price cap at **423 baht per 15kg until 30 Jun 2024.**

Note: data and analysis based on the situation in Apr 2024; The Oil Fund subsidizes fuel and LPG prices of households.
Source: SCB EIC analysis based on data from EPPO, DOEB, OFFO, CEIC, and various news agencies.

SCB EIC estimates that inflation will gradually increase and maintains the full-year forecast to be below the 0.8% range. If there is a policy to raise the minimum wage to 400 baht, it is expected to have a minimal impact on the overall price level of Thai goods.

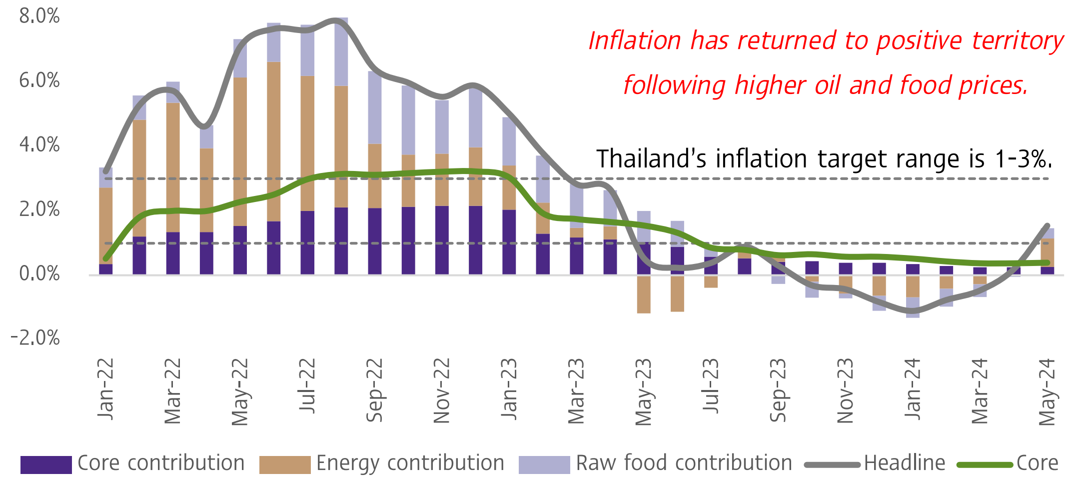
Headline inflation (by product category)

Unit: Index (2019 = 100)

%YOY	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24
Total items	-0.8%	-1.1%	-0.8%	-0.5%	0.2%	**1.5%**
Food and non-alcoholic beverages	-0.6%	-1.1%	-1.0%	-0.6%	0.3%	**1.1%**
Fresh produce	-2.3%	-3.1%	-2.7%	-1.9%	-0.2%	1.5%
Meat	-16.3%	-15.4%	-14.6%	-12.3%	-11.3%	-8.1%
Food – at home consumption	1.4%	1.2%	0.9%	0.8%	0.7%	**0.7%**
Food – away from home	0.9%	0.8%	0.6%	0.5%	0.5%	**0.5%**
Apparel and footwear	0.0%	-0.1%	-0.2%	-0.1%	-0.2%	**-0.4%**
Residences	-0.7%	-0.7%	-0.8%	-0.9%	-0.8%	**2.1%**
Electricity, fuel, water, and lighting	-3.1%	-3.1%	-3.1%	-3.4%	-3.4%	8.4%
Medical and personal care	0.9%	0.9%	0.9%	0.3%	0.4%	**0.5%**
Transportation and communication	-2.2%	-2.5%	-1.2%	-0.4%	0.9%	**2.4%**
Recreation, education, and religion	0.7%	0.6%	0.5%	0.5%	0.4%	**0.6%**
Tobacco and alcoholic beverages	1.0%	0.9%	1.2%	1.4%	1.4%	**1.4%**
Core consumer price index	0.6%	0.5%	0.4%	0.4%	0.4%	0.4%

Sources of inflation

Unit: %YOY



Thai inflation projections for 2024 and 2025

Unit: %YOY

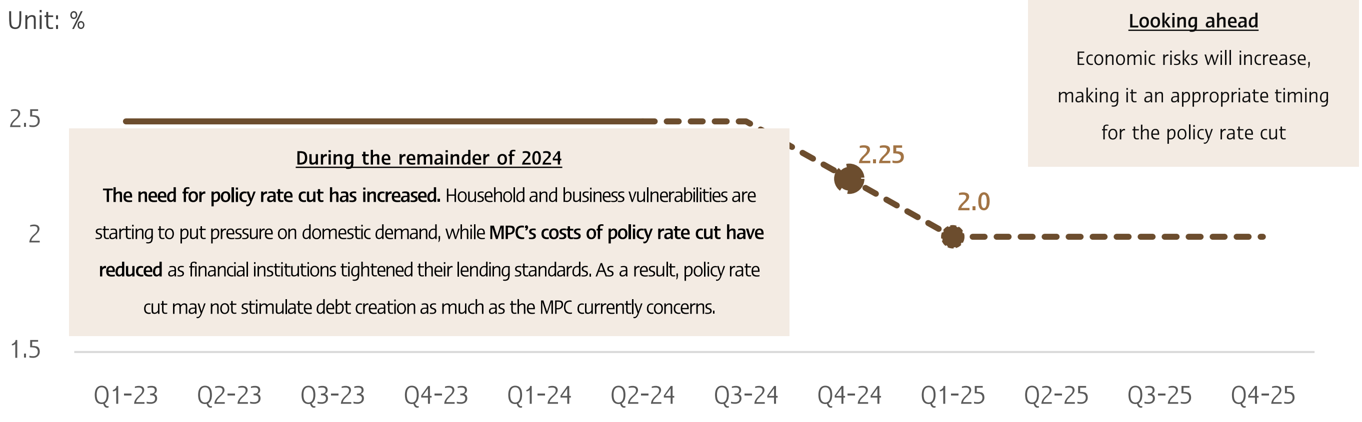
	2024F	2025F
Headline inflation	0.8	1.0
Core inflation	0.6	0.9

If there is a policy to raise the minimum wage to 400 baht per day, SCB EIC estimates that: 1) agricultural employers will be the most affected, and 2) the impact on the Headline CPI and Core CPI will be 0.04% MOM and 0.01% MOM, respectively.

Source: SCB EIC analysis based on data from the Ministry of Commerce, Bank of Thailand, and CEIC.

Looking ahead, SCB EIC expects negative factors to start increasing. The MPC is thus likely to cut the policy rate in Q4.

Policy rate forecast by SCB EIC

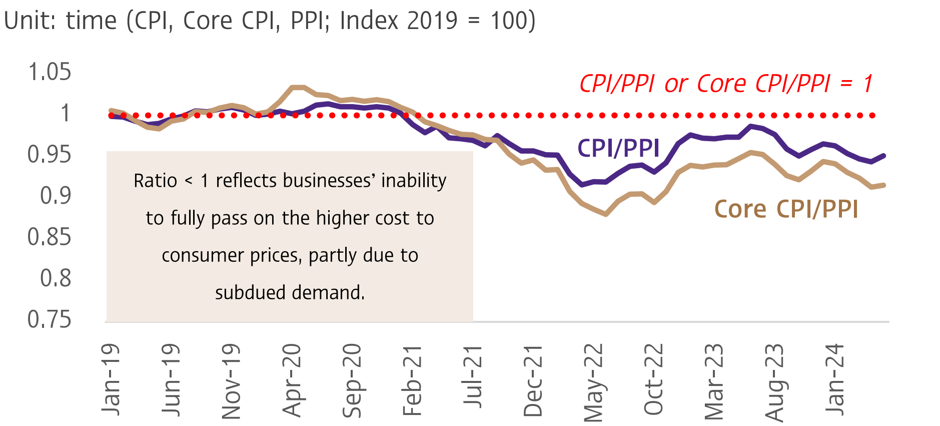


Factors underpinning MPC decisions in terms of target and timeline

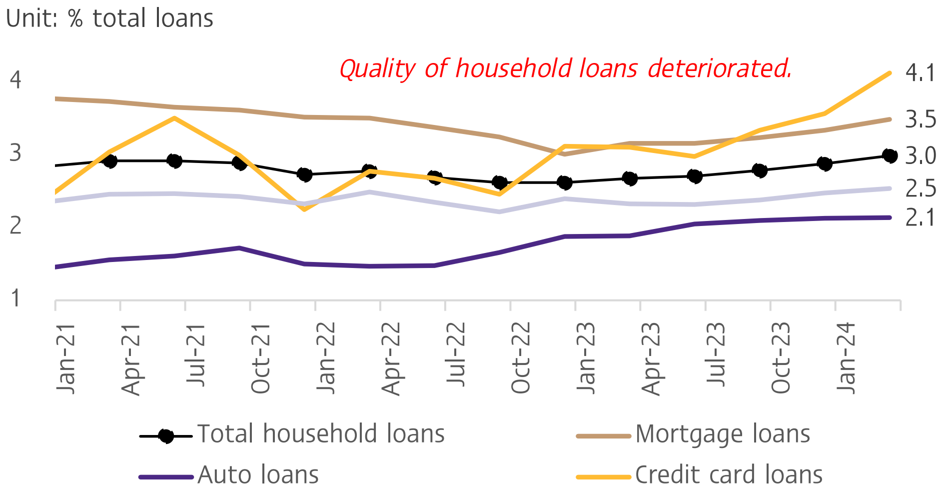
Target	Short term (present)	Medium term (2 years)	Long term (>2 years)
GDP growth	Economy expands but with sluggish recovery of exports and manufacturing sector.	Risk to the Thai economy increases as vulnerable households and businesses put pressure on domestic demand.	Declining Thailand's growth potential has become more pronounced, causing neutral rate to fall.
Inflation	Inflation returns to the lower bound of target range.	Inflation is expected to stabilize close to the lower bound of the target range.	Inflation expectation is at 2%.
Financial system stability*	Vulnerable households and businesses face tighter financial conditions.	Credits grow at a slower rate than the past given tighter lending standards.	Current policy rate is above the long-term equilibrium interest rate or neutral rate.

Factors for **holding** policy rate — Factors for **cutting** policy rate

Thailand's Consumer Price Index (CPI) to Producer Price Index (PPI)



Gross NPLs outstanding of Thai household loans

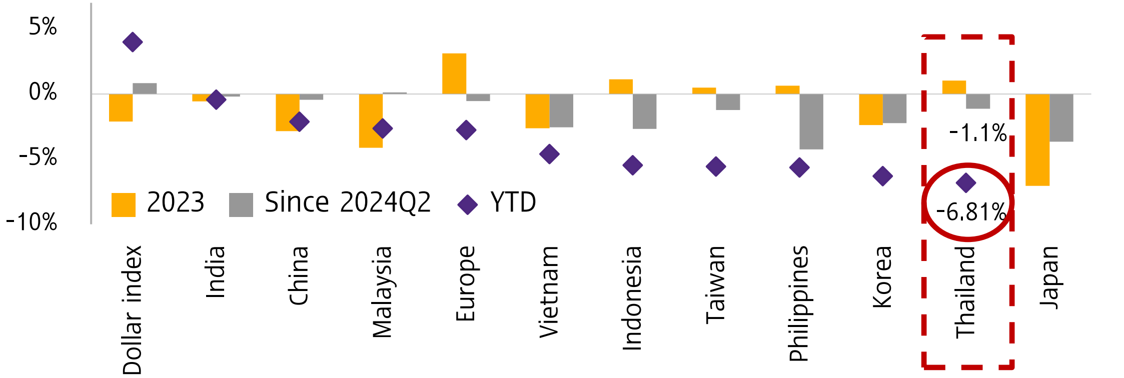


Note: *concerning stability of household, corporate, real estate, financial institution, non-bank financial institution, financial market, and external sectors.
Source: SCB EIC analysis based on data from the Ministry of Commerce and Bank of Thailand.

The baht continues to exhibit high volatility. The baht previously strengthened on the back of stronger-than-expected GDP outturn in Q1, but it quickly weakened due to political uncertainty in Thailand. Domestic factors will influence the baht outlook looking ahead.

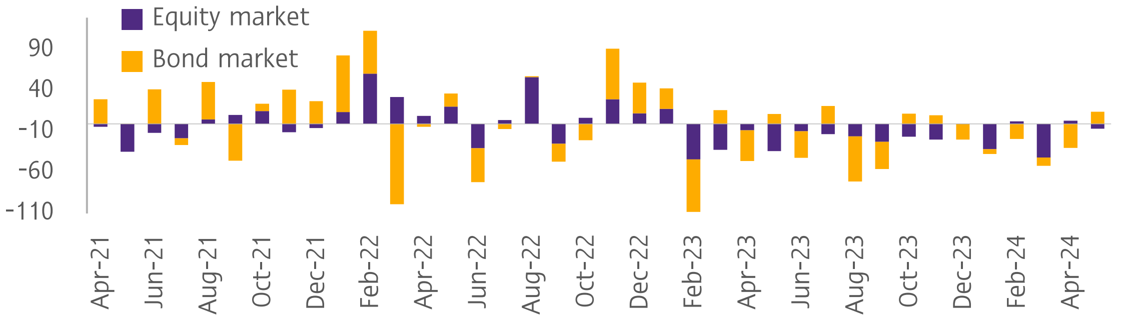
Change in currency value against USD

Unit: % (data as of 11 Jun 2024)



Capital inflows to the Thai financial markets

Unit: THB billion (data as of 27 May 2024)



Factors causing the baht volatility in the previous month

Weakening factors

TH Political uncertainty: After the Constitutional Court accepted the petition to impeach the Prime Minister

Hawkish FOMC minutes: Some members remained concerned on inflation.

US bond supply: Markets were concerned about US public debt.

Gold price: PBOC paused its gold buying in April, causing gold price to fall.

Strengthening factors

Weak US economic outturns: CPI, Retail sales, and ISM manufacturing PMI turned out lower than expected.

Capital inflows: Capital flows returned to the Thai government bond market in May after a large outflow in Mar-Apr.

Stronger yuan and yen: caused by BOJ's yen intervention and Chinese commercial banks' USD selling.

The baht outlook (Year-end) : 35-36 baht per USD

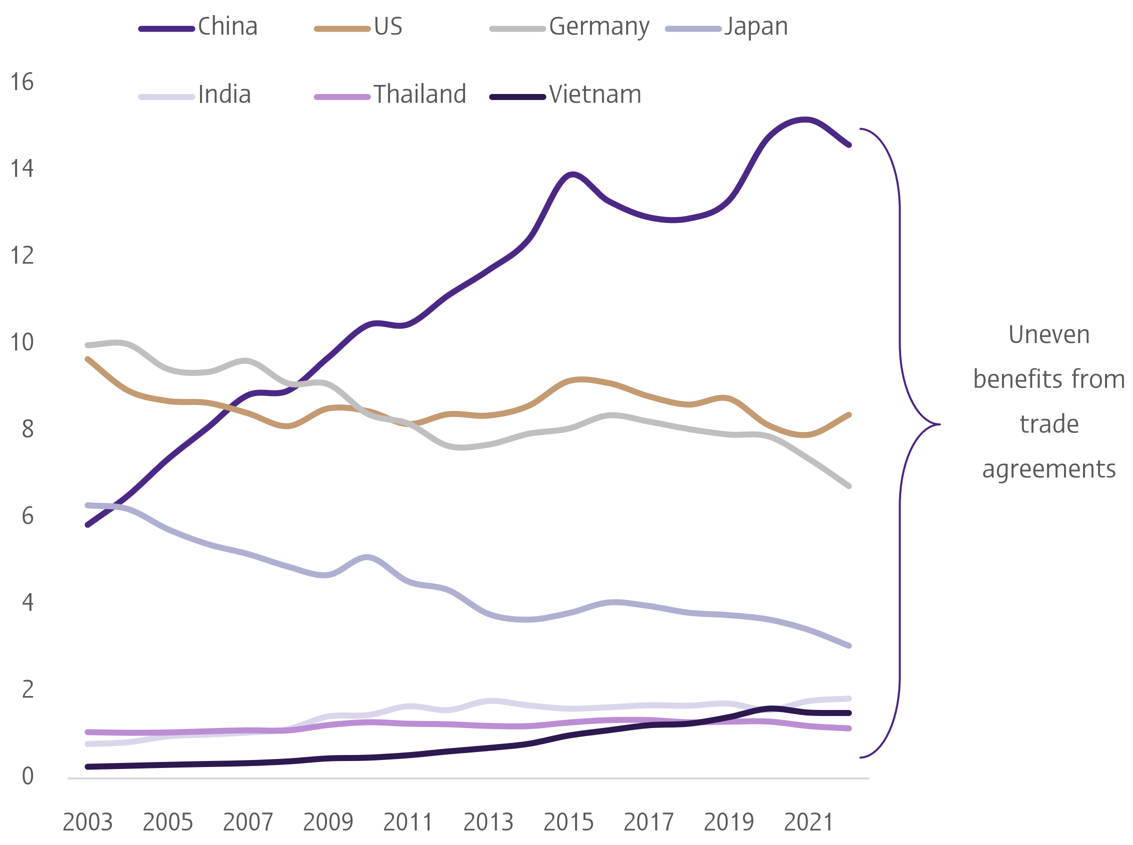
Source: SCB FM based on data from Bloomberg.

Capitalizing on Thai industry prospects amidst a decoupled world.

The export proportions of different countries diverged over the past 20 years, reflecting uneven benefits from globalization, whilst the Global Cooperation Index stabilized in recent years.

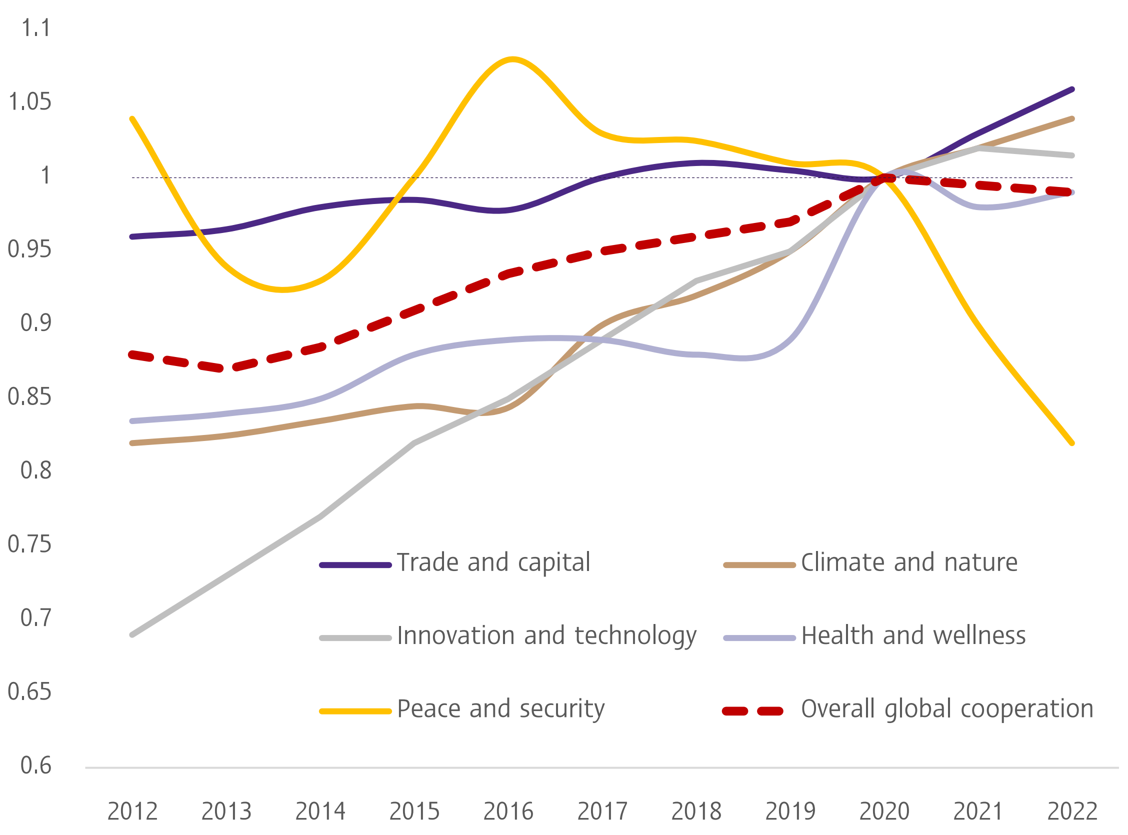
Exports share (selected countries)

Unit: % of world GDP



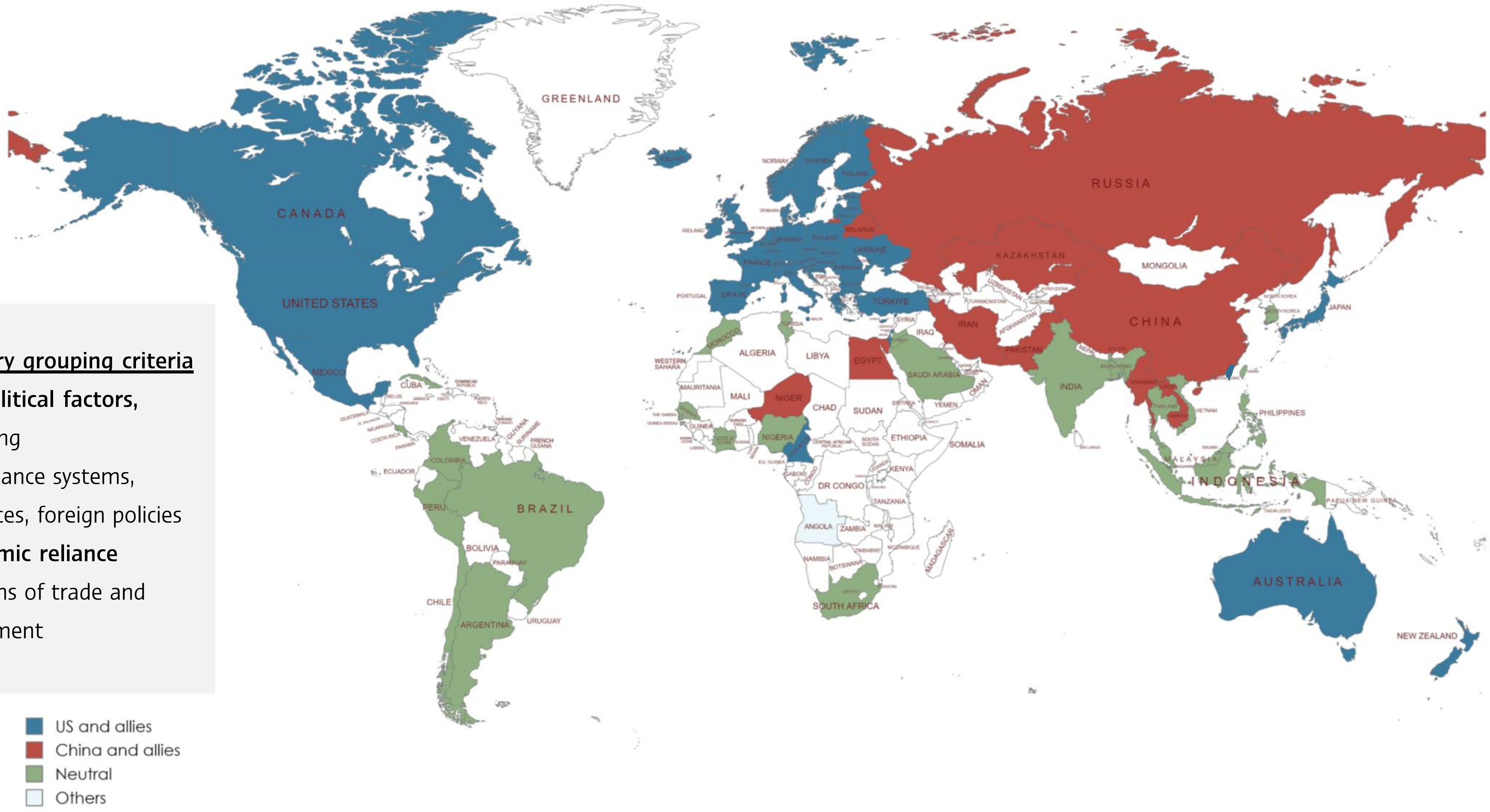
Global Cooperation Index by 5 Pillars

Unit: Index (2020 = 1)



Source: SCB EIC analysis based on data from the World Economic Forum 2024 and Trademap.

Economic decoupling is becoming more severe.



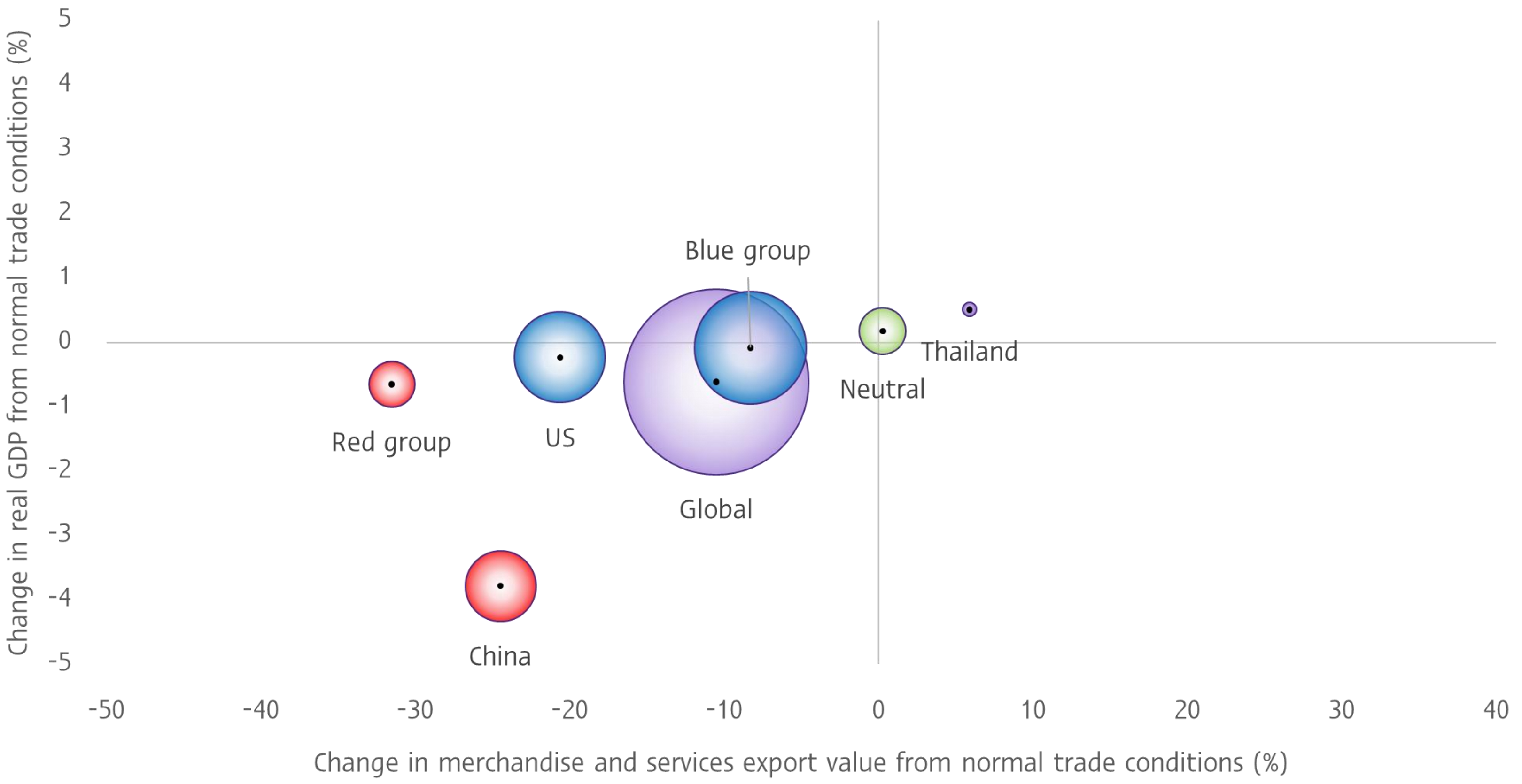
<u>Country grouping criteria</u>

1. **Geopolitical factors,** including governance systems, distances, foreign policies
2. **Economic reliance** in terms of trade and investment

Source: SCB EIC analysis based on data from UNGA, IMF WEO April 2023, Trade Map, Statista, UN, CEIC, and World Bank Database.

Economic decoupling brings opportunities, as countries with conflicting geopolitical stances will turn to trade with 'secondary' countries with a conforming geopolitical stance, such as Thailand.

The impact of economic decoupling on merchandise exports and real GDP in the scenario that US-allied and Chinese-allied countries impose a higher import tax against each other.

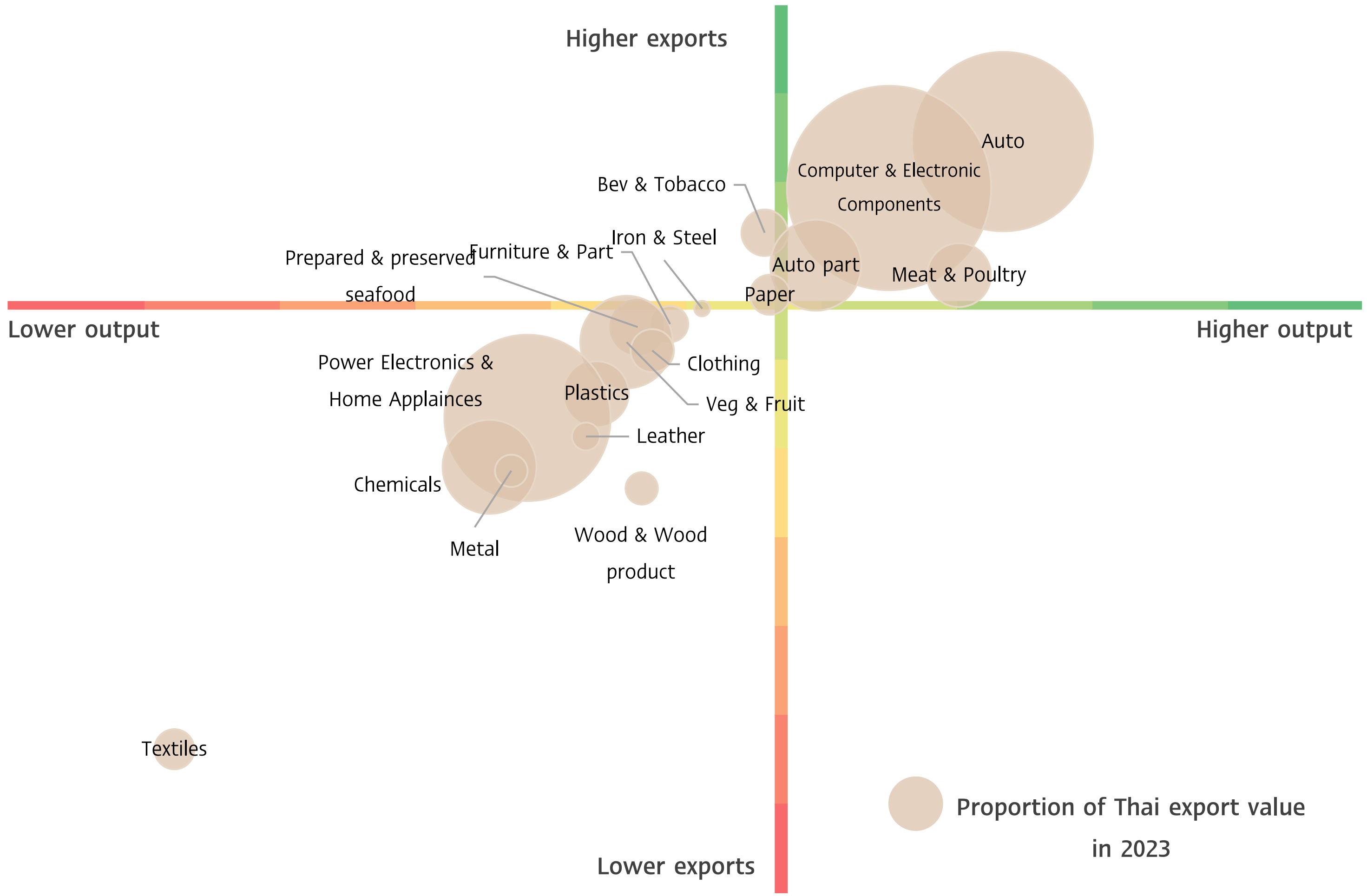


- International trade used to integrate manufacturing sectors around the world into a single supply chain.
- However, economic decoupling is causing countries with conflicting geopolitical stances to trade less with each other, **fragmenting the manufacturing supply chain into "small and numerous chains".**
- **Decoupling rationale –** importers may not be able to import from certain suitable partners and **may choose to import from the next most suitable partner without a conflicting stance.**

Note: Bubble size represents real GDP with economic decoupling.
Source: SCB EIC analysis based on data from GTAP.

The manufacturing sector by product and destinations will see **uneven impacts from trade diversion.**

Implications of US-China tariff hikes on Thai manufacturing and export sectors



Examples of manufacturing sectors affected

Upside

- Sectors with manufacturing base relocations to Thailand during the trade war in 2018
  - Auto and auto part
  - Electronics and electrical equipment
- Sectors with higher imports from Thailand to avoid potential trade disputes
  - Meat & Poultry
  - Beverage and Tobacco

Downside

- Sectors impacted by slowing Chinese demand or heavy reliance on Chinese supply chain
  - Petrochemical (Plastic)
  - Rubber wood
  - Printed circuit board
  - Hard disk drive
  - Prepared and preserved seafood
- Sectors impacted by the US importing more from nearby countries or with high competition in ASEAN
  - Furniture and part
  - Semiconductor
- Sectors impacted by Chinese product dumping
  - Electrical appliances & parts
  - Iron & Steel
  - Fruits & Vegetables
  - Textiles
  - Clothing

Note: The figure depicts the outcome of a scenario in which countries in the blue bloc and red bloc impose a 30% import tariff on all product categories.
Source: SCB EIC analysis based on data from GTAP.

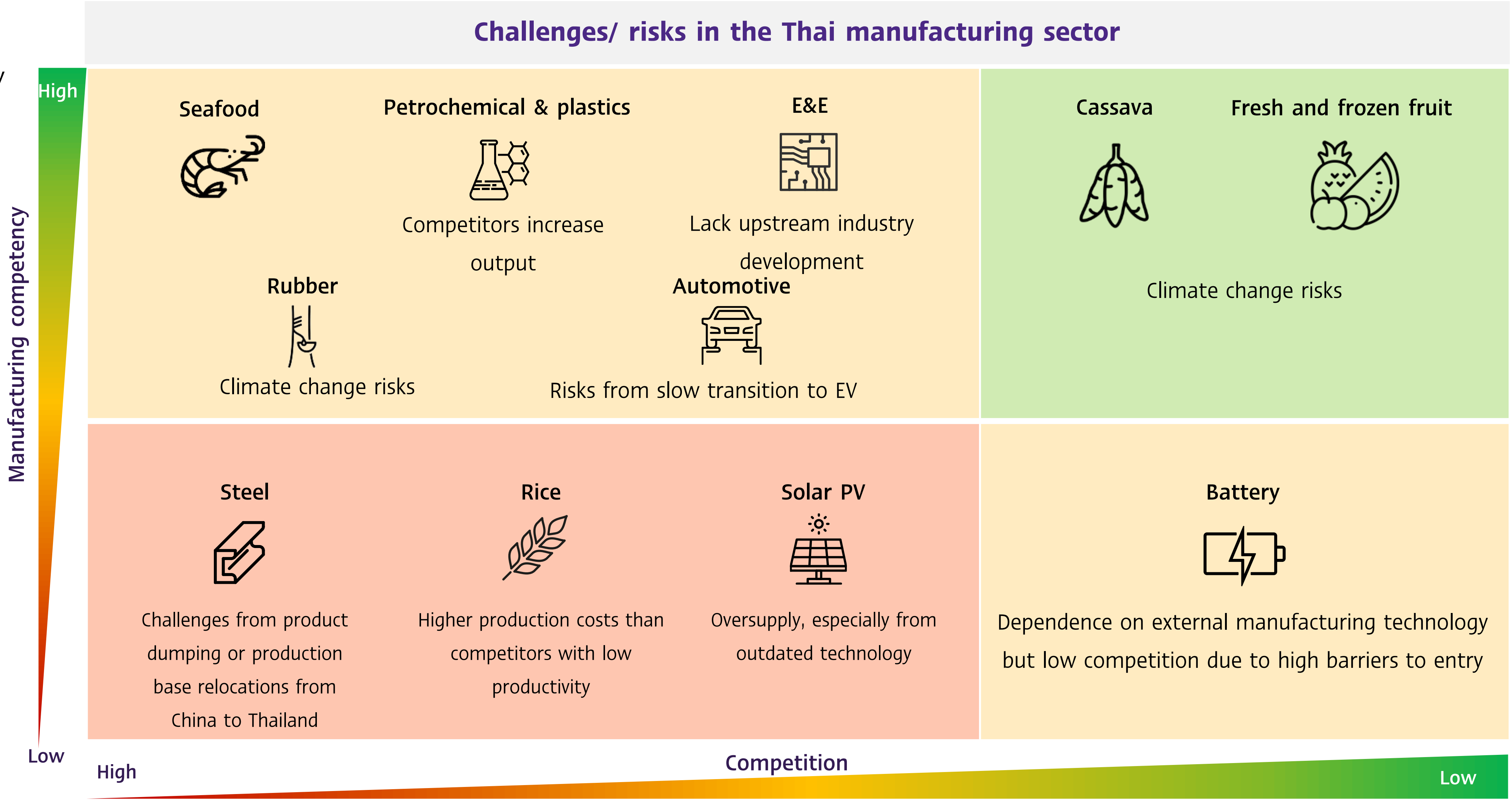
While some sectors may benefit from changes in the global supply chain landscape, the sectors may also face other risks and intense competition.

Manufacturing competency

- Labor readiness
- Technology readiness
- Raw material readiness
- Comprehensive local content supply chain

Risks

- Higher price competition
- Oversupply
- Higher production costs
- Trade barriers
- Regionalization and self-reliance policies
- Climate change
- Rapid change in consumer behavior



Source: SCB EIC analysis.

Proactive strategies in the export sector and the adaptation of Thai businesses must be tailored to suit each type of business.

Export promotion strategies for Thailand and proactive adjustments for the business sector

Manufacturing competency: High – Low

High-competency, high-competition

Government policy

- **Provide financial support to help exporters compete** and differentiate from competitors
- **Encourage exporters to establish strategic partnerships along the supply chain,** supporting in accessing opportunities to build trade relationships with influential partners

Business adjustment

- **Adjust products** to align more with global trends
- **Develop high-value products** and products in the supply chain
- **Reduce dependency on existing markets**
- Improve production processes, **focusing on research and development**

High-competency, low-competition

Government policy

- **Encourage exporters to expand into new markets** to create new opportunities and diversify risks
- **Provide incentives to motivate exporters to upgrade manufacturing processes** to meet environmental sustainability standards

Business adjustment

- **Mitigate risks by investing to seize opportunities/ lower impacts,** such as climate change
- **Enhance energy efficiency** and promote renewable energy adoption

Low-competency, high-competition

Government policy

- **Identify manufacturing fields with potential** and help exporters gain a competitive edge during the transition to such fields
- **Provide subsidies and tax benefits** to help exporters move into new sectors
- **Improve institutional frameworks** to enable failed businesses to restart operations in promising sectors

Business adjustment

- **Invest in creating new value chains,** such as other high-value agricultural products to increase farm income

Low-competency, low-competition

Government policy

- **Offer tax incentives/ subsidies** to encourage investments that enhance technological manufacturing capabilities
- **Create a collaborative network of exporters, universities, and research institutes** to co-create innovative solutions

Business adjustment

- **Upgrade manufacturing technology capabilities** and knowledge base
- **Build relationships with the US and China** by leveraging Thailand's role as a production base, such as using Chinese technology to manufacture products while exporting to the US market

Competition: High – Low

Source: SCB EIC analysis.

During the remainder of 2024, Thai businesses **should see higher risks than previously evaluated.**

Risks: … **Opportunities:**

- Climate change
- Economic slowdown (Global/domestic)
- China overcapacity
- Oversupply risk
- Geopolitical risks (impacts on price/cost)
- Government budget delay
- Pent up demand/ Demand for necessities/ Government stimulus
- Relocation opportunities from Geopolitical risks
- Opportunities from Climate change concern

Petrochemical Plastic products
Automotive (OEM, Supplier)
Building material (Steel, Cement)

Transport

Home appliances | **Plastic packaging**
Consumer electronics

Retails and Marketing
Power conventional

Casava | **Coal**
Rubber | **Glass/Metal packaging**

Public construction

Tuna | **Palm oil**
Sugar | **Rice**

Refinery

Private construction | **Car dealer**
Paper packaging | **Shrimp**
Real estate (Residential & Commercial)

Industrial estate

Electronic components

Solar PV

Non-grocery retail

Power (Renewable)

Healthcare | **Hotel**
Non-alcoholic beverages | **Grocery retail**
Packaged foods | **Warehouse**
Fresh & Processed fruits | **Poultry**

Source: SCB EIC analysis.

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