

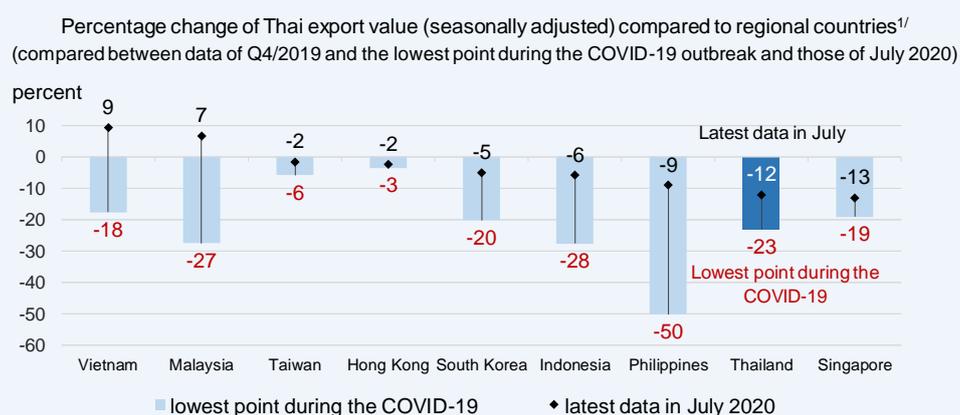
The post-COVID-19 recovery of Thai exports under structural constraints

In the recent periods, COVID-19 had severe and broad-based impacts on the global economy as well as international trade. While exports of many countries including Thailand have already bottomed out, the recovery remained uneven. **The recovery of Thai exports was still slower than that of regional countries, as the structure of Thai exports was concentrated in the product segments and the markets that were slow to recover. Moreover, Thailand's participation in the global supply chain has declined.** These thus had implications on the competitiveness of Thai exports in the long term.

Thai exports faced a slow recovery and remained at a lower level compared to other regional countries

Exports of regional countries and Thailand contracted sharply in the second quarter of 2020. In May, Thai exports shrank by 23 percent compared to the fourth quarter of 2019 (Chart 1, shaded blue). **While Thai exports had already recovered by around 50 percent from the bottom and registered a 12 percent contraction in July compared to the fourth quarter of 2020. Moreover, they remained much lower than the pre-pandemic level compared to most countries in the region.**

Chart 1 Thai exports in July 2020 remained below the pre-pandemic level compared to regional countries.



Note: ^{1/} Thailand's export value did not include gold export while those of Singapore and Hong Kong did not include re-export value.

The structure of Thai exports was concentrated in the product segments and the markets that face a slow recovery

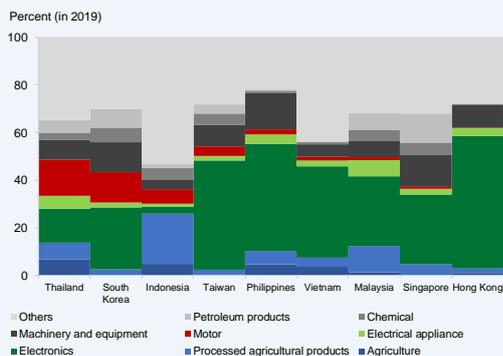
Thai exports faced a slower recovery compared to other regional countries, due to the following reasons **(1) the product composition of Thai exports consisted of a relatively larger share of slow recovery products such as automotive, machineries and equipment compared to other countries in the region.** (Chart 2, shaded red). As they were high-value products, their demand declined in line with a collapse in global demand because of the COVID-19 pandemic. Exports of automotive contracted by 21 percent compared to the fourth quarter of 2019 – worse than other product categories and regional countries (Chart 3)^{8/}. Meanwhile,

^{8/} Calculated from the average value of exports during January and July 2020, compared to the fourth quarter of 2019. This should cover the periods when each product category was impacted and exhibited different recovery patterns. Thai exports of automotive registered the second highest level of contraction among 6 countries.

Thailand had lower proportion of products with fast recovery than other regional countries, particularly electronics and electrical appliances (Chart 2, shaded green) whose demand surged during the transition period into new-normal environment. Thai exports in this category contracted by only 5 percent (Chart 3), which was lower than other categories. Overall, however, Thailand did not benefit much from the recovery of electronics and electrical appliances.

Chart 2 The product composition of Thai exports consisted of a relatively larger share of slow recovery products such as automotive, machineries and equipment and a relatively smaller share of electronics compared to other countries in the region.

Share of export products compared to other regional countries.



Source: Trademap and Thai customs, calculated by Bank of Thailand

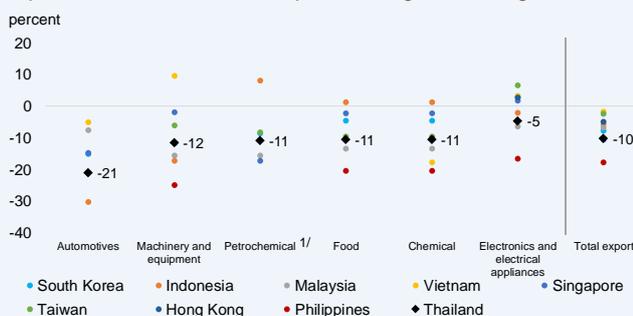
(2) For the market composition, a share of Thai exports to ASEAN was rather larger while share of those to China was smaller compared to other regional countries (Chart 4). ASEAN countries were affected by strict containment measure, imposing in some countries and slow recovery of global trade and tourism sector as they had high reliance on external demand. Meanwhile, domestic demand in China recovered fast and their purchasing power remained solid owing to a relaxation of containment measures and the stimulus measures. As a result, Thailand benefited less from the recovering Chinese economy compared to regional countries.

Thailand's declining participation in the global supply chain

Another reason why Thai exports recovered more slowly than other regional countries was because Thailand's competitiveness lagged behind our competitors, as reflected in declining level of participation in the global value chain in many industries. This was in the opposite direction to our key competitors, particularly Vietnam which received an average of 15 billion U.S. dollars per year in foreign direct investment (FDI) during the past 10 years (average 7.2 percent of GDP), and the trend is increasing. Meanwhile, Thailand received an average of 3.6 billion U.S. dollars per year in FDI (average 0.9 percent of GDP). This partly explained why Vietnam's value of exports surpassed that of Thailand for the first time in 2019.

Such trend reflected the fact that Vietnam was a more attractive investment destination than Thailand in many ways (Chart 5), namely its market size and growth

Chart 3 Average Thai export value in 2020 contracted from the pre-COVID level more than other regional countries due to a worse contraction in exports of automotive than other product categories and regional countries.

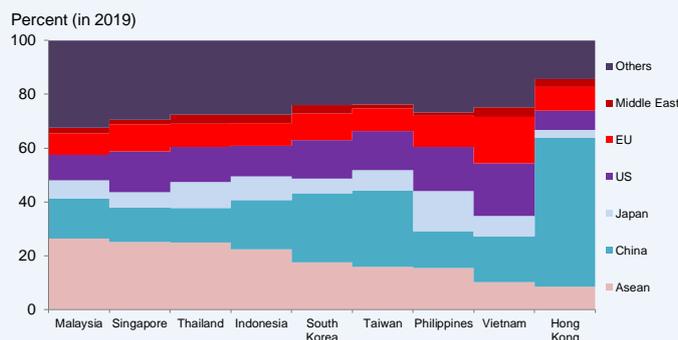


Note: 1/ Food included rice, fruits, sugar and canned food.

Source: CEIC and Thai customs, calculated by Bank of Thailand

Chart 4 The market composition of Thai exports relied more on ASEAN markets but less on the Chinese market, compared to regional countries.

Share of Thai export markets compared to other regional countries.

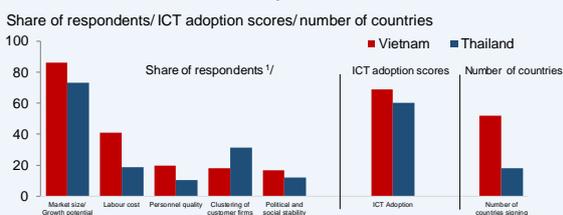


Note: Singapore's export value did not include the re-export value.
Source: Trademap and Thai customs, calculated by Bank of Thailand

potential, labor costs, quality of labor, political stability^{9/}, and the level of ICT adoption^{10/}. Moreover, Vietnam signed free trade agreements (FTA)^{11/} with three times as many countries as Thailand did, resulting in Vietnamese firms having a competitive advantage over Thai firms. This was because they can export to several countries at almost zero tariff due to the relaxation or exemption of imports tariffs (Chart 6). Moreover, Vietnam can take advantage of the rules of origin^{12/}, owing to their participation in multi-lateral FTA which resulted in more products being qualified for tax purposes according to the FTA.

Chart 5 Vietnam has more comparative advantages to attract investment more than Thailand, including the number of countries signing free trade agreements.

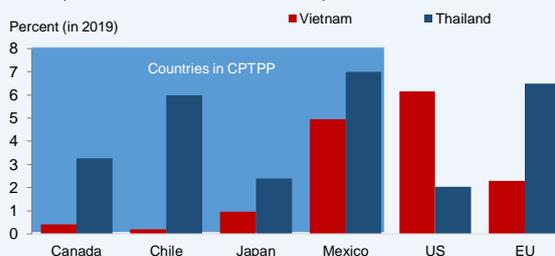
Factor of investment attraction among Vietnam and Thailand



Note: ^{1/} calculated by the number of respondents to each factor of investment attraction divided by total respondents
Source: JETRO, World Economic Forum and OECD

Chart 6 Trading partner countries could set the tariff rates on products importing from Vietnam than those of Thailand.

Real import tariff of Vietnam's and Thailand's products from several countries



Note: ^{1/} real import tariff of each country calculated from weighted average import tariff of all products.
^{2/} real import tariff from US and EU was the real tariff in 2017.
However, Vietnam agreed to sign FTA contracts with the EU in June 2019, resulting in significant lower import tariff of Vietnam's product to EU.
Source: CEIC, JETRO, WEF and OECD, calculated by Bank of Thailand

The fact that Thailand remained lagged behind regional countries in terms of international trade agreements and technology adoption posed significant risk to its participation in the global supply chain. Multinational companies were currently in the process of selecting their production base or adjusting their supply chain to suit the post-COVID environment. The trend of regionalization has become more apparent, as well as the use of technology to increase resilience in cross-country production allocation in order to prevent supply chain disruptions that could arise due to uncertainties in the future.

In summary, the recovery of Thai exports remained slow and at a lower level than regional countries, with the risk of declining participation in the global supply chain in the long term. **Boosting the competitiveness of Thai exports was therefore of critical importance at this juncture, both by expediting the negotiations of trade agreements, especially the multilateral agreements, improving necessary infrastructure, and ensuring technology adoption particularly for SMEs. Moreover, both business models and products should be adjusted to suit the post-COVID environment, in order to increase participation in the global supply chain and enhance competitiveness of Thai exports sector in the future.**

^{9/} According to JETRO's survey in 2019.

^{10/} Competitiveness Index, World Economic Forum (WEF) in 2019.

^{11/} Currently, Vietnam has 12 FTAs, covering 52 countries, while Thailand has 13 FTAs covering only 18 countries.

^{12/} Rules of origin referred to the nationality of the product based on its origin of production, and calculated from the value add which was generated from that origin. Therefore, multilateral agreements were favorable as they allowed for the accumulation of such value add among member countries – resulting in higher benefits from the relaxation or exemption of tariffs than bilateral agreements.