Media Briefing: Preliminary Analysis of the Impact of Global Trade Policies on the Thai Economy

The current trade policies of the United States, along with the responses from major economies, will significantly impact the global economy, international financial markets, and world trade. The Thai economy is expected to be pressured by this prolonged situation through multiple channels, although it will take time for the consequences to become apparent.

In the short term, Thai economy has experienced increased volatility in financial market, along with a slowdown in production, trade, and investment due to the high level of uncertainty, **whereas the impact of tariffs on exports will become more evident in the second half of the year.** The severity of the impact will depend on the tariffs imposed on Thailand compared to other trading partners, and the retaliatory measures between major economies and the United States. The effects on the Thai economy will be transmitted through five main channels as follows:

1. **Financial Markets:** Asset prices in global and Thai financial markets have become more volatile; however, overall liquidity and market functioning remain normal. The Thai baht has appreciated slightly against the US dollar since before April 2nd, by 2.71% as of 12:00 PM on April 17th, compared to the Japanese yen and South Korean won, which have appreciated by 4.75% and 3.11%, respectively. The baht strengthened against US dollar in line with the region currencies, following the rapid depreciation of the US dollar due to concerns over its negative impact on the United States economy. The stock market has declined in line with the region, while Thai government bond yields have increased slightly. Although there have been no unusual transactions from institutional investors. Overall, corporate bond issuance remains normal, but the financial conditions of businesses affected by tariffs need to be closely monitored. In addition, Thailand's external stability remains favorable.
2. **Investment:** The ongoing high level of uncertainty has led to a delay in business and investment decisions (wait and see), particularly in industries that primarily export to the United States (electronics, electrical appliances, machinery, and automotive). Some are awaiting clarity before proceeding with new investments. In the future, if Thailand is subjected to higher tariffs compared to other countries, there may be a relocation of production out of Thailand.
3. **Export:** The rise in tariffs primarily affects Thai exports, but there is still uncertainty regarding tax policies due to the 90-day delay in implementing reciprocal tariffs. Therefore, the impact is expected to become more evident from the second half of the year onwards, with a potential export acceleration in the second quarter, particularly in processed foods. Thailand's export exposure to the United States accounts for 18% of Thailand's total exports and 2.2% of GDP. The main sectors affected include the electronics, machinery, automotive, electrical appliances, and processed food industries. Moreover, Thai exports will experience additional impacts through the global supply chain producing for United States demand, including rubber, automotive parts, metal and steel, and chemical product, accounting for approximately 4.3% of Thailand's exports.

4. **Higher Competition:** Thai merchandise will experience increased competition from other countries that are exporting less to the United States and redirecting their exports to Thailand and Thailand's trading partners, especially in electronics, metal and steel, machinery, electrical appliances, and chemical product, leading to higher pressure on the manufacturing sector.
5. **Global Economic Slowdown:** Exports and tourism revenue may be affected by the slowdown in trading partner economies. Furthermore, the slowdown in global economy will decrease global commodity prices. These two factors will lead to reduced import costs and lower inflation in Thailand due to supply-side factors.

The Bank of Thailand will closely monitor the overall situation and watch for potential disruptions in key sectors which primarily exporting to the United States, as well as increased competition from imported goods by tracking real-time data on **(1) trade,** such as export and import transactions, **(2) production and employment,** such as temporary business closures under Section 75 of the Labor Protection Act, **(3) financial conditions,** such as default risks and borrowing costs through corporate bonds, and **(4) investment sentiment,** such as applications for investment promotion and requests for extensions of investment promotion certificates to delay investments.

Additionally, the Bank of Thailand will maintain market functioning and manage the higher-than-usual volatility in financial markets during this period to mitigate the impact on the Thai economy.

The new landscape of global trade is permanently altering the structure of the Thai and global economies, leading to an urgent need for adaptation. **In the short term**, besides accelerating negotiations with the United States, Thailand should implement measures to address competition from foreign goods and prevent the importation of goods for re-export to the United States through Thailand (transshipment). Such measures include examining the quality of imported products to align with standards, expediting the investigation process (AD/CVD and AC) for disputes with foreign countries, and tightening the inspection of goods exported to the United States to prevent circumvention by third countries.

In the long term, Thailand should expand export markets and restructure its economy, especially by strengthening supply chains with countries in the region and participating in the global supply chain. The strategy should include upgrading the manufacturing and service sectors where Thailand has potential, such as processed agricultural products, food, and medical and wellness tourism, and enhancing business competitiveness, particularly in research and innovation, workforce skills, and regulatory guillotine.