Thailand at Crossroads: Trade shocks could test Economic Resilience

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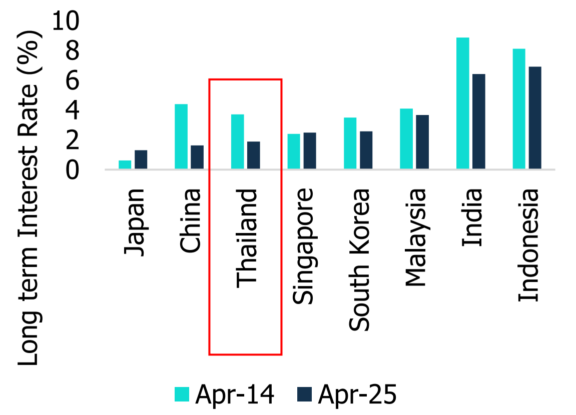
As global trade undergoes realignment—marked by rising protectionism and supply chain shifts—Thailand faces growing risks to its trade competitiveness. The external sector has played a pivotal role in driving Thailand's economic expansion, supported by strong trade integration with major global markets such as the U.S. and China. However, this high degree of export dependence—once a key strength—is now facing heightened risks amid shifts in the global trade landscape.

According to the protectionist measures announced by the United States on April 2, a significant portion of Thailand's exports are subject to potential U.S. tariff hikes of up to 34%, among the highest in the Asia-Pacific region. The reciprocal tariff has been paused and currently these tariffs have been blocked by The US court of international trade, but the uncertainty surrounding future trade restrictions remains a concern. These headwinds come at a time when Thailand is grappled with existing structural challenges. With limited fiscal and policy space available, the country's ability to respond to such external shocks could be challenged and could undermine its long-term growth trajectory.

External Sector has been an anchor of economic stability for Thailand

Thailand's economy has long benefited from its role as a high-capability manufacturing hub and an attractive alternative to China in global supply chains. The country's export basket has been well diversified, with 80% merchandise exports and 20% service sector exports. The well-established manufacturing base provides a buffer against sector-specific seasonality and demand slowdown. The country's manufacturing strength is complemented by strong logistics and infrastructure capabilities. Thailand consistently ranks above regional peers on the World Bank's Logistics Performance Index (LPI), reflecting the efficiency of its supply chains and transport networks. Major infrastructure initiatives, such as the Eastern Economic Corridor (EEC), have further enhanced regional connectivity, attracted foreign direct investment, and supported industrial growth. These gains are reinforced by a supportive tax regime, investment-friendly policies, and a stable regulatory structure. These strengths have cemented its position as a regional manufacturing base for multi-national companies based in the United States and Japan. Thailand's strategic location along critical trade routes continue to boost its export competitiveness.

Exhibit 1: Thailand's Long-Term Yields Among the Lowest in APAC



Source: CEIC
Note: Long-term Interest Rate refers to the 10-year Government Bond Yield

Thailand's economy is also supported by its deep & liquid domestic capital markets, enabling the government to raise funds at competitive rates. This is reflected in relatively low and stable yield curves, comparable to the advanced economies, including China & Singapore, signalling strong investor confidence (Exhibit 1). Thailand has maintained more stable borrowing costs and market access compared to regional peers.

Thailand also benefits from its well-capitalized banking sector, low short-term external debt levels, and the country operates under a credible inflation-targeting framework led by an independent central bank. In addition, Thailand holds ample foreign exchange reserves—equivalent to 7.3 months of import cover in April 2025—which, along with a relatively stable currency, provide a buffer against capital flow volatility.

Is the table turning against Thailand as the global geo-economic environment moves towards trade isolationist policies of major trade partners?

As mentioned above, these past gains now intersect with a trade-policy reprioritization, readjustment of terms-of-trade, and accelerated push for reshoring by major economies, particularly the United States. The U.S. is a critical export market for Thailand, especially for high-value products such as machinery, broadcasting equipment, and semiconductor devices, a significant proportion of which is exported to the U.S. market. Accordingly, any material change in U.S. trade policy may substantially affect Thailand's export performance and broader external sector stability. Further, Thailand maintains significant economic dependence on China across trade, investment, and tourism channels. China is Thailand's largest trading partner, accounting for nearly one-fourth of total imports. It is also a key source of foreign direct investment, ranging from key manufacturing supplies, including solar cells, etc, to strategic infrastructure projects. Additionally, Chinese tourists represent a substantial share of Thailand's tourism inflows. Given these deep linkages, a slowdown in China could have material implications for Thailand's external sector.

External trade disruption has become a critical challenge for Thailand, especially as its internal growth drivers remain subdued. A key indicator of this vulnerability is the high volatility of Thailand's current account surplus, which has been the highest among its regional peers. Between 2015 and 2019, the current account surplus averaged nearly 8% of GDP; however, it reduced sharply to average of just 0.4% during 2020–2024, weakening Thailand's external buffers. While the current account surplus rebounded to around 2% in 2024, the underlying fluctuations point to high sensitivity to external trade dynamics. According to revised estimates by the central bank, Thailand's economy could potentially lose up to 1.6pp of growth in 2025, from its earlier projections of 2.9%, if the United States imposes the proposed tariffs of 34%. Structural constraints in the domestic economy are becoming increasingly visible—sluggish productivity growth, unfavourable demographic profile and weakening household consumption – raise concerns about the country's capacity to absorb prolonged external shocks without renewed policy support.

Exhibit 2: Thailand enjoys one of the Strongest Current Account Position among Regional Peers

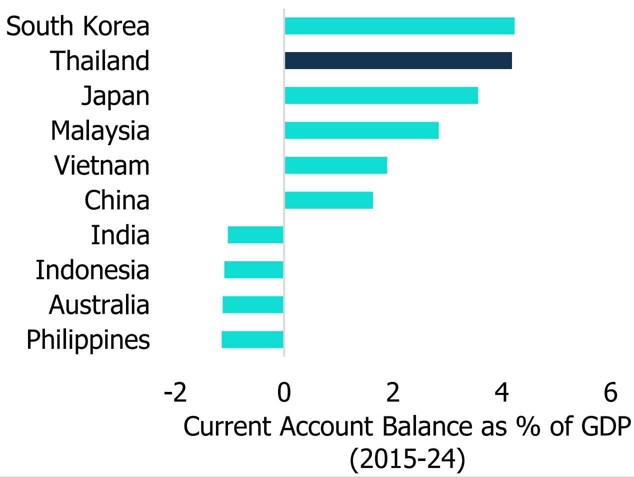
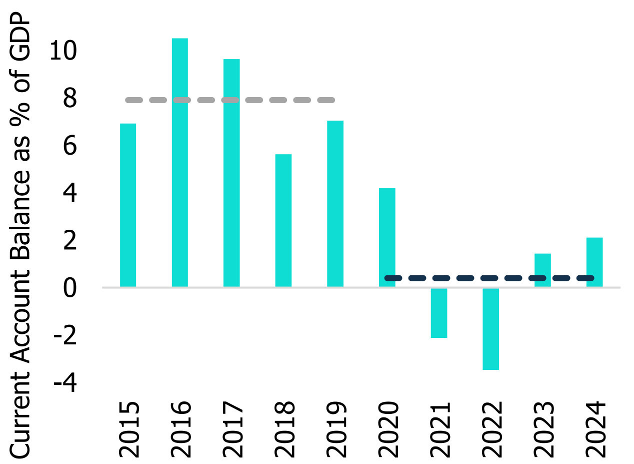


Exhibit 3:Current Account Surplus has narrowed down significantly compared to pre-pandemic period

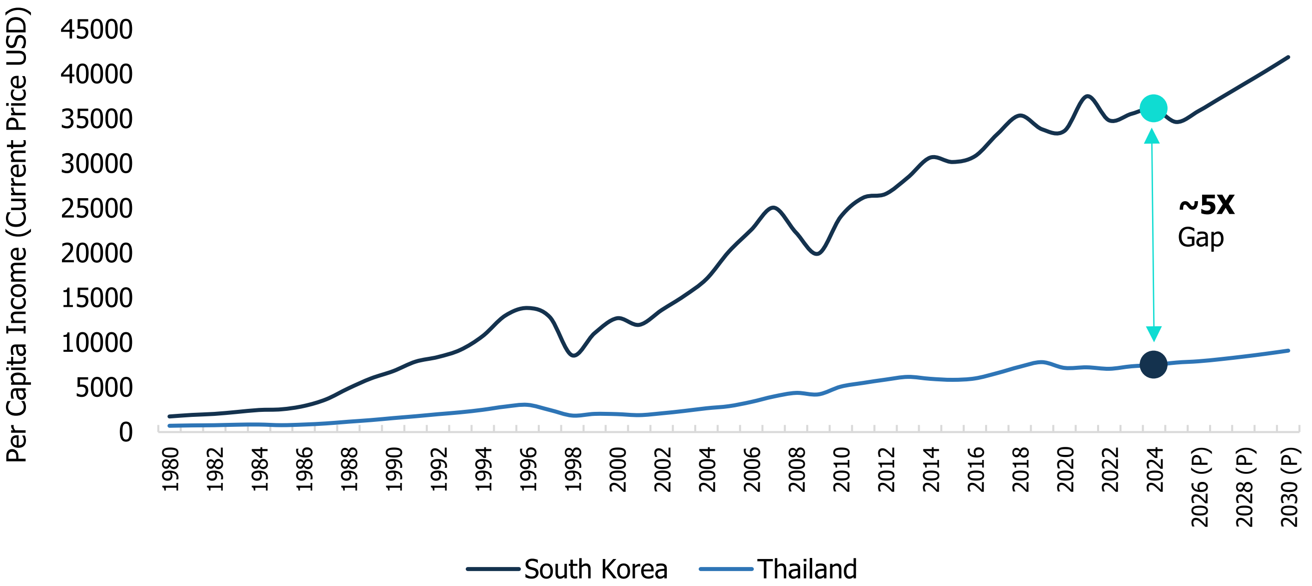


Source: IMF, CEIC, CGIL

Structural Challenges building up in the Economy, indicating Early signs of Middle-Income Trap

Thailand's ambitious aspiration to attain high-income country status is increasingly being tested amid fragmentation and disorientation in the global trade order. Thailand stood at a similar stage of development—measured by per capita income—as several of its Asian peers, including South Korea in the 1980s (Exhibit 3). However, over the decades, the gap in income levels has widened significantly, with South Korea's current per capita income now standing at nearly five times that of Thailand.

Exhibit 4: Per Capita Income Gap Between Thailand and South Korea Has Widened



Source: IMF, CEIC

South Korea has successfully navigated this inflection point by systematically capitalising on its export strength, investing in innovation and high-value manufacturing, and building strong institutions. In contrast, Thailand has struggled to replicate this structural shift, as the country lacks the innovation intensity and human capital depth that characterised South Korea's rise. Moreover, its fragmented policy coordination and relatively low investment in R&D (~1% of GDP compared to Korea's ~4.5%) further widens the gap in long-term growth potential. This growing gap highlights Thailand's structural issues—issues that could keep the country stuck in the middle-income trap if not addressed.

Thailand's production base has been gradually losing momentum due to impending structural challenges

The **growing integration of China** within Thailand's production ecosystem has become a key pressure point. Imports from China have risen by over 60% over the last decade, with a significant concentration in the steel and auto parts sectors, which have been a mainstay of Thailand's industrial landscape. The direct competition from Chinese firms, with the influx of low-cost goods, has distorted local pricing dynamics, making it difficult for domestic producers to remain viable in a tightening margin environment. The stress on the broader manufacturing ecosystem is reflected in the closure of approximately 2,000 factories in 2023, with the trend continuing in 2024 (as per the Department of Industrial Works, Thailand). The implications are most visible in the automotive sector—one of Thailand's core manufacturing strengths—where production has declined significantly from its peak in 2014, signalling a gradual erosion of competitiveness.

At the same time, **Thailand faces stiff competition from regional peers.** The country's share of high-tech exports (~28%) as a percentage of total manufacturing exports continues to trail behind economies such as Vietnam (42%), Philippines (~64%) and Malaysia (~60%). This signals a slower pace of technological upgrading and limited integration into higher-value segments of the global production network. While Thailand has established strength in mid-tech manufacturing and assembly-based exports, advancing toward more innovation-intensive sectors remains a critical challenge.

Further, **private investment has remained subdued**, reflecting a combination of weak business sentiment, elevated production costs, and ongoing uncertainty around the political and regulatory landscape. These interlinked challenges pose a material risk to Thailand's medium-term growth and export competitiveness.

The **country's demography is turning unfavourable,** with a rapidly declining working-age population (averaging -0.2% declining annually from 2019-23) and relatively higher cost of labour compared to peers, adding to long-term productivity concerns. Further, labour market inefficiencies and skill mismatches continue to weigh on output, characterized by a high prevalence of informal employment, low digital adoption, and limited access to quality education and training. Further, Thailand's export base is likely to face increasing pressure as global production shifts toward automation-driven industries, reducing reliance on traditional labour-intensive manufacturing. The country's limited focus on innovation, complemented by stagnant total factor productivity over the last two decades, highlights the significant downside risks to its journey toward high-income status.

Thailand's domestic demand landscape is showing signs of stress. The country's post-pandemic economic recovery has been uneven, constrained by sluggish consumption and muted private sector investment (degrowth of -2.6% in 2024). Household consumption has been under pressure due to the elevated household debt levels (~91% of GDP). While consumption growth resumed in 2024 (See Exhibit 5), it has been primarily supported by government-led stimulus measures, raising concerns about their sustainability and the mounting strain on the exchequer. Inflation has averaged just 0.4% in 2024—well below the Bank of Thailand's target range of 1–3%—and price growth turned negative in April 2025.

Exhibit 5: Thailand's Economic Recovery Post Pandemic has Lagged its Peers

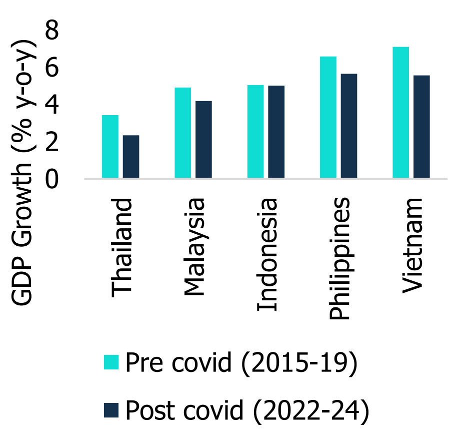
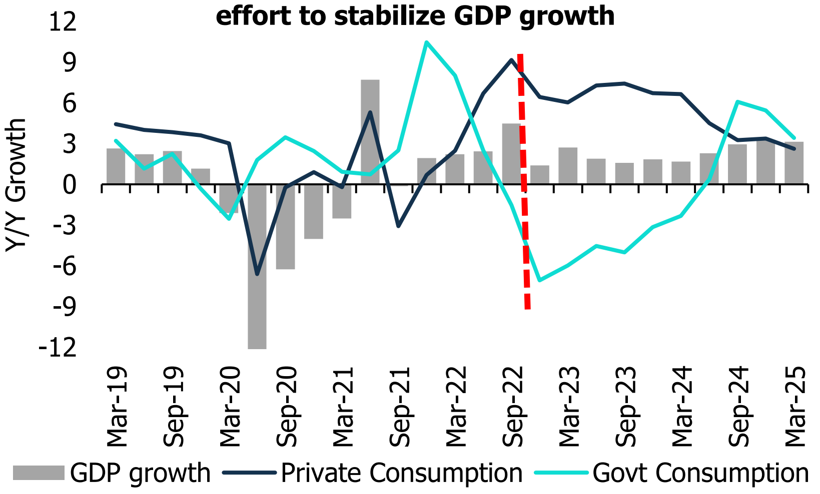


Exhibit 6: Growth in govt. consumption partially offsets moderating private consumption, in an effort to stabilize GDP growth



Sources: Office of the National Economic and Social Development Council, IMF, CEIC

Policy predicaments: Limited Policy Space Constrains Economic Revival Efforts

Thailand has traditionally maintained a strong fiscal foundation, with general government debt levels remaining below 40% of GDP between 2010 and 2019. However, post-pandemic stimulus efforts—particularly those aimed at supporting households and consumption—have elevated expenditure levels (rising to ~27% of GDP in 2021 from ~20% in 2019). The additional fiscal space to support the government-driven initiatives, such as digital cash handouts to support consumption, has continued to drive the debt levels high (~60% from 2020 to 2024). Thailand's public debt ceiling is currently set at 70% of GDP, as defined by the Fiscal Responsibility Act of 2018. This ceiling was raised from 60% in September 2021 to provide additional fiscal space for COVID-19-related expenditures.

Currently, general government debt stands at 63.2% in 2024, and it is expected to rise to 66.6% in the next five years (2025-29), edging closer to the government's statutory ceiling of 70%. While the fiscal deficit narrowed to 2.5% in FY 2024, the gap is expected to further widen to 3.5% for FY 2025. Additionally, the economy's social expenditure pressures are rising due to demographic shifts, widening social obligations, and a growing need for competitiveness. The government is constrained by limited headroom to pursue growth and simultaneously adhere to medium-term consolidation goals. While further stimulus may appear necessary in the face of softening exports and tepid domestic demand, doing so risks pushing government debt toward the threshold, raising concerns about long-term debt sustainability.

High household debt is a critical monetary stability concern. High household debt (~91% of GDP) remains a significant concern for monetary stability in Thailand, even as the central bank seeks to preserve adequate liquidity. Amid the persistent deflationary pressures in the economy since 2024, the Bank of Thailand has pursued an accommodative policy with a policy reduction of 75 basis points since October 2024. Despite these rate cuts, high household debt levels have restricted credit transmission and dampened consumption.

If export performance deteriorates further and household consumption remains constrained due to high household debt, there could be a risk of limited monetary policy effectiveness, especially as policy space narrows amid already accommodative rates. In the context of a slowing global economy, growing trade frictions, and soft external demand, reduced space of monetary policy poses a medium-term risk to Thailand's economic outlook.

Conclusion

While Thailand faces several structural headwinds—including an ageing population, modest productivity growth, and evolving external competitiveness—its stable regulatory environment, sound financial system, and diversified economic base provide a solid foundation for long-term resilience. The country's ability to maintain macroeconomic stability is owed to its institutional maturity and prudent policy management. However, the long-term growth outlook remains uncertain, as the global trade environment remains in flux. In a rapidly shifting global economic landscape, future shifts in U.S. trade policies, including tariff adjustments and trade agreement realignments, could significantly impact Thailand's export performance. Monitoring these developments will be critical to gauge the resilience of Thailand's external sector and its ability to maintain integration within global value chains amid rising protectionism and geopolitical uncertainties.

To fully leverage its strengths, Thailand must continue to address internal bottlenecks, support innovation, and boost productivity, particularly in sectors with untapped potential. Strategic investments, workforce upskilling, and deeper integration into new global value chains will be key to sustaining growth momentum.

Thailand's aspiration to attain high-income status hinges on its ability to implement targeted structural reforms while preserving macroeconomic discipline. Enhancing productivity, deepening innovation capacity, and addressing demographic headwinds will require a coherent policy framework that balances short-term stabilization with long-term transformation. The pace and credibility of reforms—particularly in labour markets, education, and competitiveness—will be key indicators of the country's medium-term growth prospects.

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