



Kingdom of the Netherlands

THAILAND ECONOMIC UPDATE

H1/2021

The Embassy of the Kingdom of the Netherlands in Bangkok regularly publishes economic updates about Thailand, Thai-Dutch bilateral trade and investment and our business support services to Dutch companies.



Economic Review Thailand

Thailand's economic performance in the first half of 2021

Despite a fresh and so far the biggest round of COVID-19 outbreaks starting in April, Thailand's GDP in the second quarter of 2021 grew by 7.5% year-on-year, compared with a 2.6% contraction in the first quarter. In the first half of 2021, the economy expanded by 2.0%.

Increased merchandise exports and government spending were the main contributors to the economic growth, in addition to a particularly low base in the same period last year.

Boosted by a global economic recovery, Thailand's export value in the first half of 2021 rose by 15.5% in USD terms to 132.3 billion USD, already surpassing the pre-pandemic level of 123.1 billion USD in the same period of 2019. The positive growth was recorded in all major exporting markets i.e. ASEAN, US, China, Japan, and the EU, and in principal products such as vehicles, computers & parts, chemicals, and rubber products.

The expansion in exports led to a favourable growth of 8.2% in the manufacturing sector and an increase in private investment especially in machinery and equipment. Agricultural production also expanded supported by accommodative weather conditions and rising external demand particularly for fishery and aquatic products.

The government has implemented a large response, primarily social assistance, to mitigate the impact of the crisis on consumption and livelihoods. These include cash handouts, co-payments for consumer purchases and cash/tax rebates, as well as compensation to employees and self-employed workers affected by the containment measures.

However, the rebound of private consumption in the second quarter of 2021 was mainly due to the low base effect. The new wave did cause a severe impact on households' income and employment. On a quarterly basis, private consumption in the second quarter dropped 0.6% from the first quarter.

Tourism related services continued to suffer although some hotels were benefited from participating as Alternative Quarantine providers. In the first half of 2021, the accommodation and food services activities contracted by 17.2%. The number of foreign tourists drop by 99.4% to 40,500 visitors and the average occupancy rate was at 12.2%.

The unemployment rate did not rise significantly (standing at around 1.9% or 730,000) but the labour market became more fragile, particularly the service sector and self-employed. The Bank of Thailand reported the combination of unemployed workers and employees working fewer hours reached 3 million in the second quarter this year, up from 1 million before the pandemic. Around 1.6 million have returned to their hometowns and most have shifted from the service sector to agriculture, earning a lower income. The number of workers unemployed for more than one year also rose to 170,000 people, an increase of three times from the level before the outbreak.

Nonetheless, the country's economic stability remained sound. The public debt to GDP was 56.1% at the end of June, still below the government's fiscal discipline of 60%. The international reserves were at 246.5 billion USD, almost three times of the country's external debt.



Thailand's economic outlook for 2021

Significant downside risks for the Thai economy remain in the second half of 2021. Given prolonged outbreak and slow progress on vaccine administration, many research centers have revised down Thailand's economic forecast for the full-year 2021 to 0.7-1.3%.

The emergence of subsequent COVID cases and the government's strict measures to contain the contagion, particularly the lockdown and curfew in Bangkok and 28 other high-risk provinces (which account for more than half of the Thai economy) from mid-July to August, have exacerbated already weak domestic consumption and business sentiment. Economic activity is likely to decline further than it did in 2020, affecting employment and income especially among those unable to work from home.

Public confidence will be a key factor in boosting the economy. With new daily infections falling, the government has eased some of the strictest containment measures from 1 September, giving people more freedom to travel and allowing shopping malls and restaurants to reopen, to help revive the economy.

However, the recovery will be slow and uneven - slow because the Thai economy heavily relies on the slowly-recovering tourism sector and uneven as the export sector has reached the pre-crisis level while the service sector is lagging behind.

Thailand has tried to reopen to tourism under the sandbox scheme in areas such as Phuket and Koh Samui although responses so far have been lukewarm due to complicated requirements and the overall image of the country's COVID situation. More destinations are expected to welcome inoculated tourists from October, but overstretched public health system and below-the-target distribution of vaccine may cause a delay in the revival of the tourism industry and the overall economy.

Exports, the only bright spot, are also facing higher external risks from trading partners' new infections, in addition to lingering container shortage and rising freight costs. Business operators have also expressed concerns about the lack of labour as a result of containment measures and infections spreading into the industrial sector, leading to the temporary closure of some factories and supply chain disruptions.

Coinciding with the economic and health crises is political unrest. The claimed pro-democracy movement has returned to streets in Bangkok with gatherings organized almost daily by different groups since early August, adding more challenges to the country's attempts to contain the virus spread and reopen the country in mid-October.

Nevertheless, the Thai economy has proven to be resilient due to strong fundamentals in three main areas. Firstly, the country's international reserves are among the highest in the world while the level of external debts remains low. Secondly, the banking sector is in a healthy position with strong balance sheets (capital adequacy ratio of 20%), allowing the banking sector to function as a shock absorber. Finally, the fiscal positions remain firm with a reasonable level of public debt even after the significant increase in borrowing (at around 60% of GDP) and low cost of finances. Therefore, there is room for additional fiscal measure measures to support the economic recovery.



The Netherlands-Thailand Trade and Investment

Bilateral trade

According to CBS, bilateral merchandise trade in the first half of 2021 increased 9.3% from the same period of 2020, to 2.3 billion euros. Improvements were recorded in both exports and imports. The Netherlands' exports to Thailand picked up 2.2% to 517 million euros while the Netherlands' imports from Thailand expanded 11.6% to 1.8 billion euros.

Thailand's main import items from the Netherlands are machinery & parts, electronics, integrated circuits, chemicals, medicinal & pharmaceutical products, and scientific & testing instruments, as well as food, dairy and animal products.

Thailand's top export items to the Netherlands are mainly industrial goods including computers & parts, electrical equipment and transformer, lens, and motorcycles & parts. For agricultural products, principal exports are rubber products and prepared poultry.

Bilateral investment

Based on the Bank of Thailand's statistics on Thailand's cumulative investment position, investment from the Netherlands is the biggest EU source of foreign direct investment (FDI) in Thailand, stood at 13.3 billion USD at the end of the first quarter of 2021, and No. 5 globally (following Japan, Singapore, Hong Kong, and the U.S.).

The Netherlands is also No.1 EU destination for Thai Direct Investment (TDI) abroad, with accumulated investment of 12.9 billion USD, and No. 3 globally (after Hong Kong and Singapore).

Business Support Services by The Embassy

The Embassy continues to proactively provide business support services despite the COVID-19 interruptions. In the first half of 2021, the team completed support to 255 trade requests. The Agriculture & Food sector still received the most requests mainly concerning market access barriers.

While a number of business events and physical visits have been postponed or cancelled due to the pandemic, the Embassy has turned to virtual meetings and utilized digital platforms to provide supports and updates to Dutch businesses.

For examples, the Embassy organized two hybrid events in March: 1) Climate Adaptation Conference to exchange knowledge and share Dutch solutions on nature-based solutions for coastal erosions and Agri-food value chains, and to sign an agreement to collaborate on environmental management; and 2) The Netherlands-Thailand Water Dialogue to sign the MoU on Water and exchange knowledge on water management. We also organized/co-organised a number webinars e.g. on Maritime, Rooms for Rivers, Salt Intrusion, Livestock, Animal Feed Safety, and Circular Design, as well as the Netherlands-Thai Business Forum. In addition, the Embassy actively supported the virtual trade mission on Life Sciences & Health to Thailand, Indonesia, and Malaysia which was held from 28 June – 1 July 2021.



This update is prepared by the Embassy of the Kingdom of the Netherlands in Bangkok, Thailand

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