krungsri Research

A member of MUFG a global financial group

China reopening and impact on Thailand's economy

February 2023

Krungsri Research



China reopening and impact on Thailand's economy

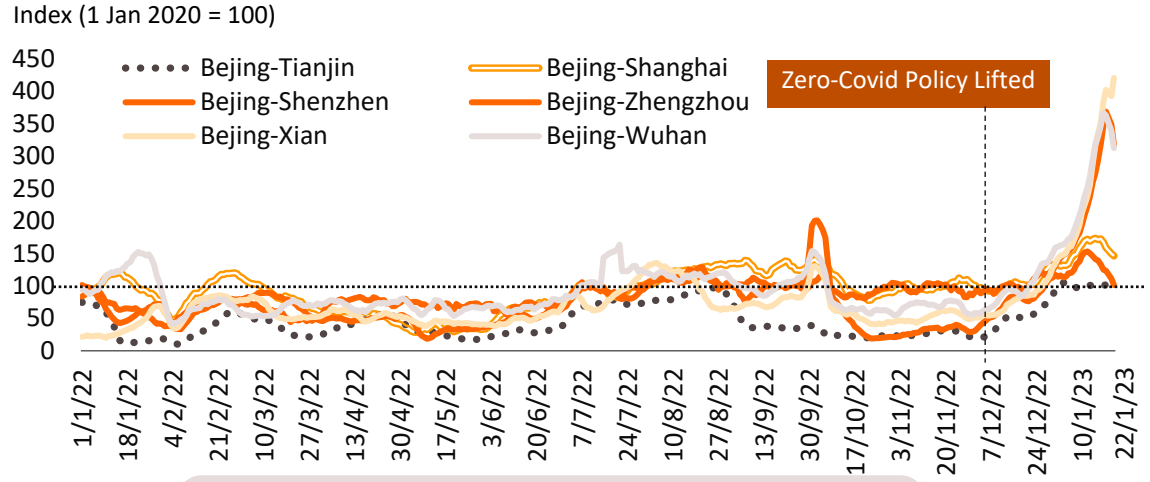
Executive Summary:

- China lifted its zero-Covid policy in early December and started to reopened its borders in early January this year, sooner than we expected (mid-2023). Life is starting to return to normal in China after the government lifted the zero-Covid policy; we might see ***revenge spending*** **soon but it would not be as aggressive as in the US.** Production in China has been halted temporarily by an uptick in new Covid-19 cases but will resume soon. In the absence of Zero-Covid restrictions in China, **the global supply chain disruption will continue to subside.**
- China's reopening is unlikely to cause a surge in domestic inflation. However, the impact on global inflation is more complicated, depending on how quickly demand regains ground in China. **We expect China's reopening to have limited impact on global inflation.**
- China's sudden reopening will **boost growth in many sectors of economy and in many countries,** led by tourism in Asia.
- **In Thailand, the tourism sector is dependent on Chinese tourists which accounted for the largest share of tourist arrivals as well as tourism receipts** in 2019, before the pandemic.
- **We project a sharp increase in inbound Chinese tourists in 2Q23**. We also project total foreign tourist arrivals would surge to 25-28 mn in 2023 from 11 mn in 2022.
- Higher spending by Chinese tourists will provide opportunities for Thai businesses in **Shopping & Souvenirs, Accommodation, and Food & Beverage** sectors**.**
- Thailand's key exports to China are expected to gain traction, especially products that are relatively elastic to Chinese demand, **but gains would be limited for some export items, including fresh, frozen & dried fruit, rubber products, cars & parts and computers & parts.**
- **Looking at FDI (foreign direct investment) in Thailand,** direct investment by Chinese investors has been promising. They accounted for the largest share of applications (by investment value) for BOI incentives in 2022, led by investments in electric vehicles (EVs), clean energy, data centers, and electronics. Despite the pandemic, **FDI from China has also increased**, which would help to promote medium- and long-term economic growth in Thailand.

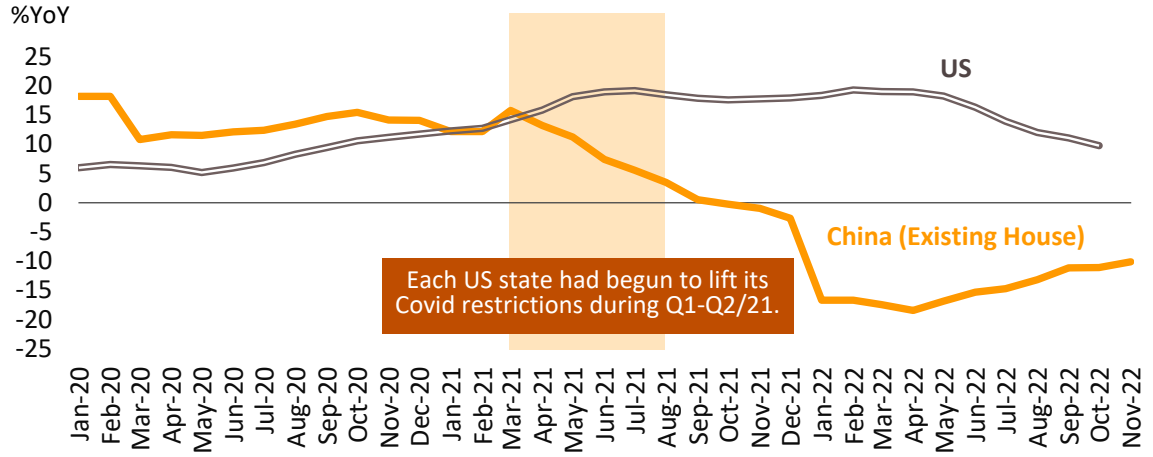
Life has started to return to normal in China; expect *revenge spending* soon but it might be less aggressive than in the US

There has been a resurgence in Covid-19 cases since China lifted its Zero-Covid policy in December but travel between major cities has recovered, some exceeding pre-pandemic levels. We expect that to be followed by a strong recovery in consumer spending. However, pent-up demand would be limited by the *wealth effect* (spending will be cautious as asset values drop). Unlike in the US in 2021, there are no signs of substantial improvements in China housing prices, savings rate, and stock market performance since reopening.

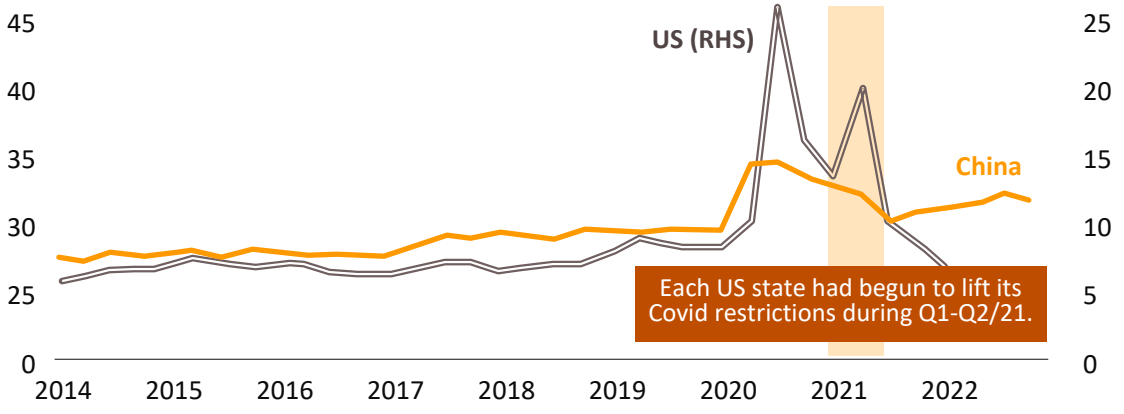
Cross-city Highway Traffic Mobility Index



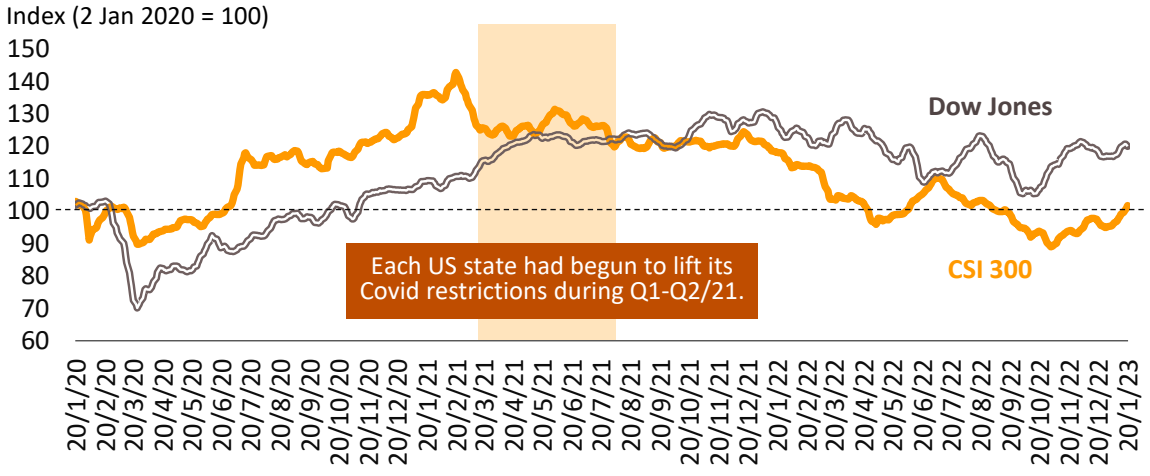
Change in Residential Prices in China and US



Household Savings Rate in China and US (%)



China and US Stock Market Performance

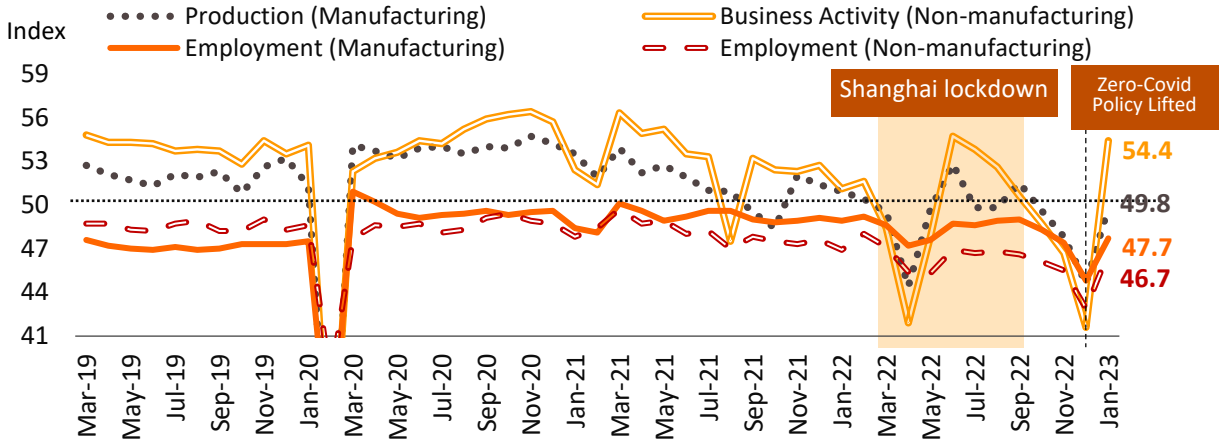


Source: Capital Economics, CEIC and Krungsri Research

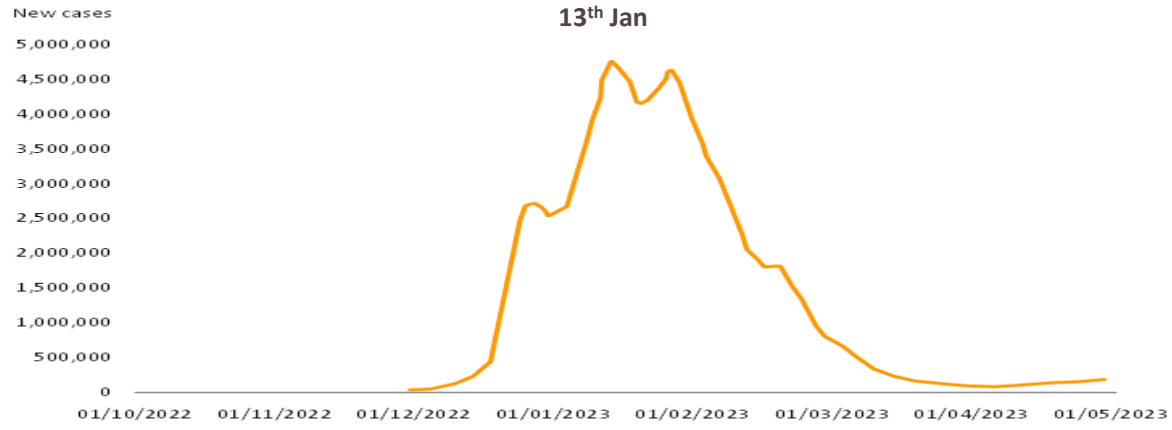
Production is halted temporarily by resurgence in Covid-19 cases but will resume soon and global supply chain disruptions will continue to subside

Despite the resurgence in Covid-19 cases, supply-side activity remained close to lows seen during the Shanghai lockdown last April. This suggests the Zero-Covid policy has caused some damage but it will not get worse. In the absence of widespread lockdowns, manufacturing activity will improve from Q1. And, even if there are sporadic production disruptions in Q1, global supply chains are unlikely to be affected in the near-term due to high levels of finished goods inventories and lower transportation cost (lower freight prices since lifting Zero-Covid policy). Production in China would accelerate after Q1 and help ease global supply disruptions the rest of this year.

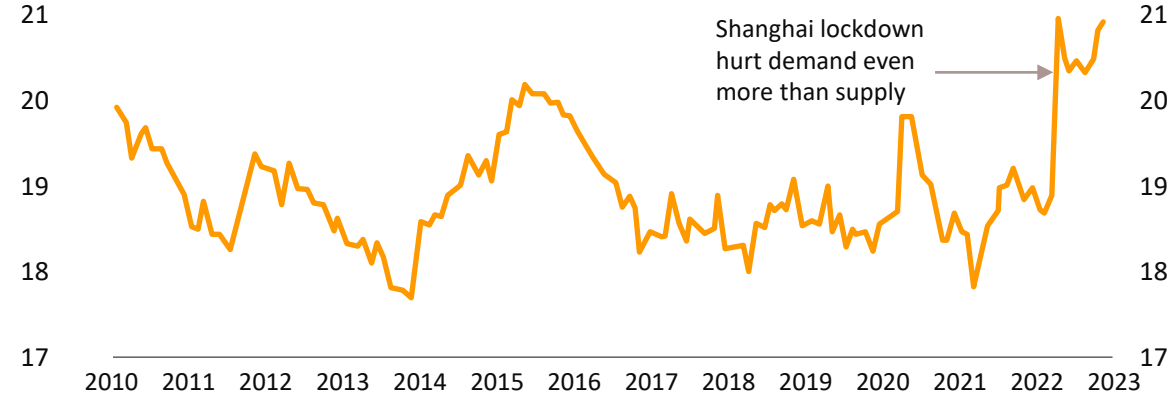
Purchasing Managers' Index



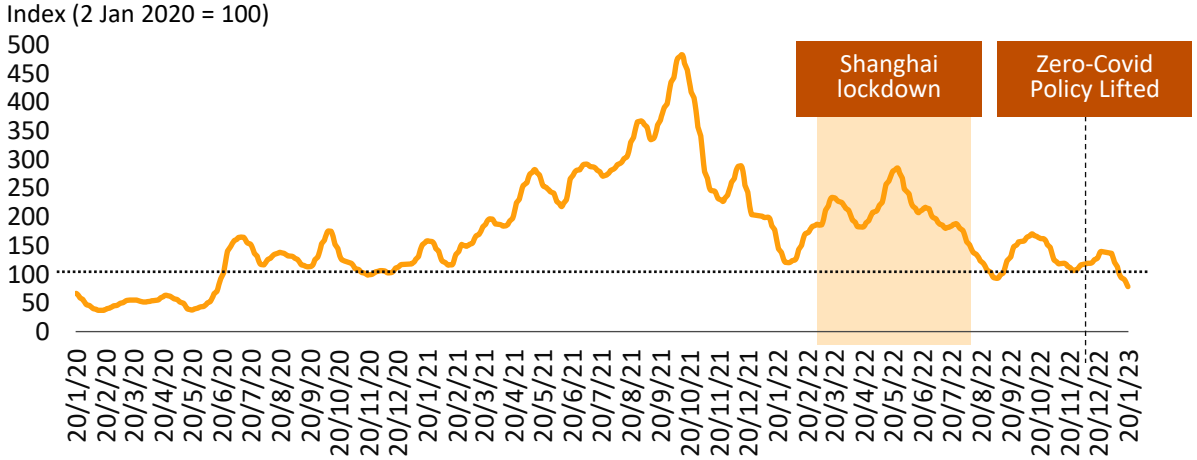
Forecast of Covid-19 Cases in China



Chinese Finished Goods Inventory (days of sales, seasonally adjusted)



Baltic Exchange Dry Bulk Index

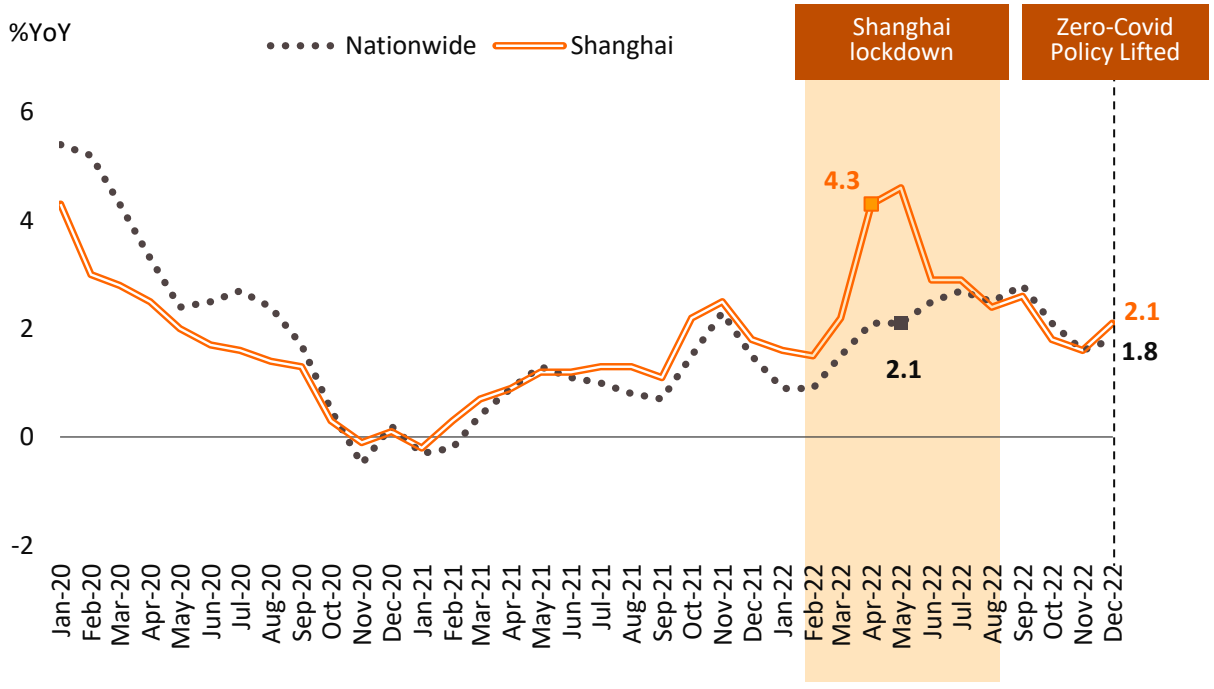


Source: Capital Economics, CEIC, Airfinity and Krungsri Research

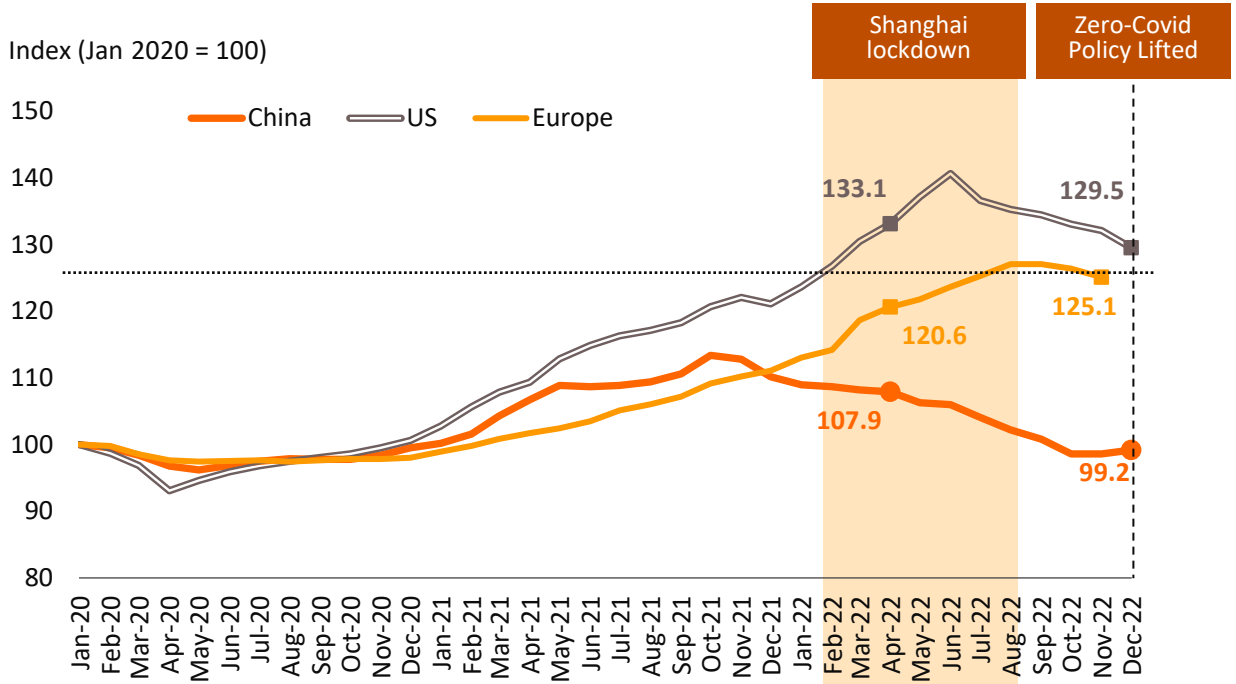
China reopening is unlikely to cause a surge in *domestic inflation,* but the impact on global inflation is more complicated

Inflation had peaked during the Shanghai lockdown in mid-2022, which disrupted global supply chains. However, the disruption triggered by the resurgence in Covid-19 cases recently had minimal impact on inflation in December and it could ease in 1Q23 as manufacturing activity normalize in most industries. China's production will return to normal in 2Q23, in time to meet rising domestic demand. This trend is expected to continue throughout 2023, which means China would not experience a surge in inflation this year.

Consumer Price Index in China



Producer Price Index



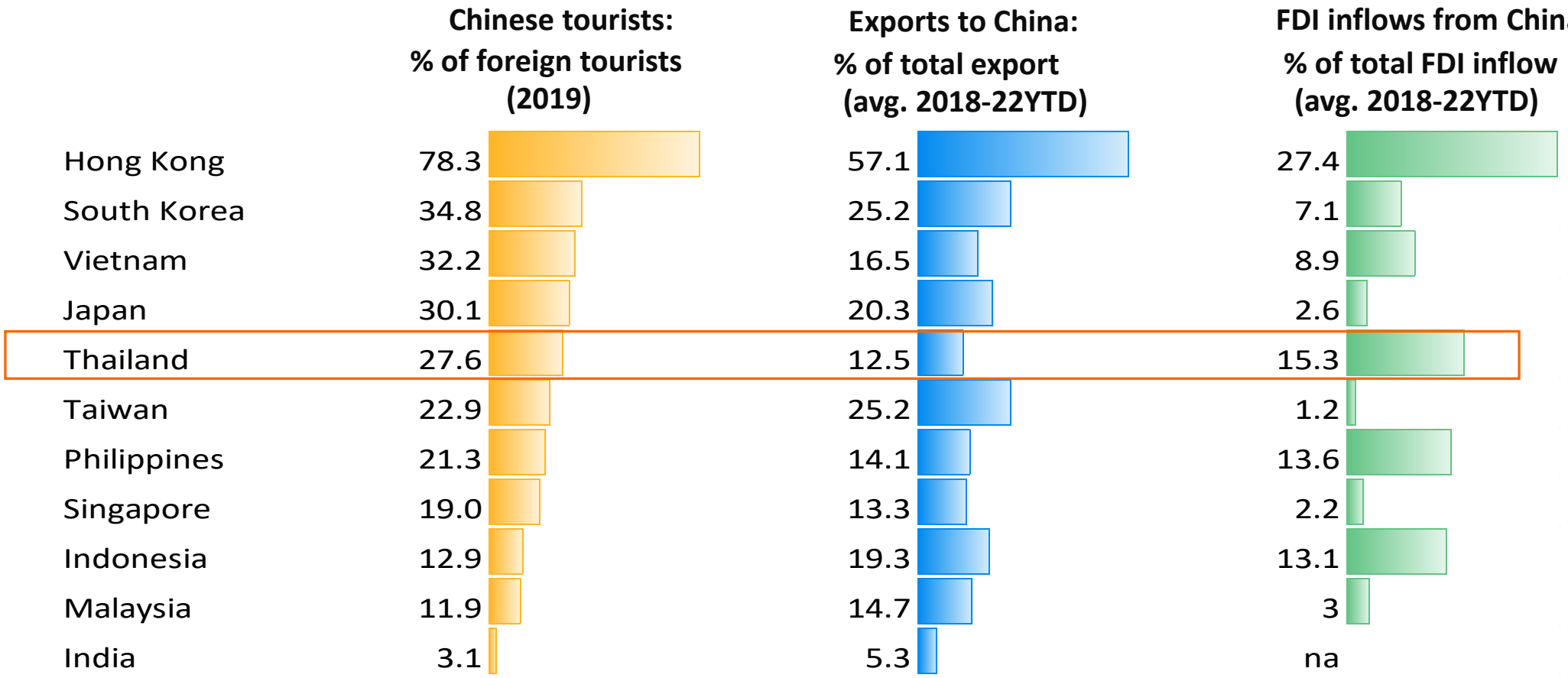
Source: Bloomberg, CEIC, and Krungsri Research

Improving supply chains after China reopening will ease *global inflation*; low-medium risk of an acceleration in global inflation

Scenarios	Key Factors	Impact on Inflation	Probability
2023 average oil price is **lower than or close to** 2022 level. • **Brent:** $99.8 per barrel • **Dubai:** $97 per barrel • **WTI:** $94.4 per barrel	• **We expect limited recovery in Chinese demand for goods because of the *wealth effect*.** However, demand for services is soaring and outbound travel would rebound sharply by Q3. • **Global demand is likely to slow down in 2023.** Given tightening monetary policies, major economies could see slower growth or possibly a recession. • **Despite the reopening effects, China's demand for oil will only rise moderately this year** by 3.9% YoY, close to its 10-year average of 4.1%. This would translate to demand for nearly 16 mn barrels per day. • **China unlikely to experience cost-push inflation.** Raw material costs are still significantly lower than in the US, Europe, and during the Shanghai lockdown. There could be an excess labor force after Covid-19 cases peak in Q1.	**China reopening to have moderate impact on inflation** Pent-up spending in China would mostly be offset by weak global demand. And, since China's oil demand is expected to increase at a manageable pace, there would not be a steep rise in prices. Hence, **supply recovery would be a more powerful force to prevent a surge in global inflation.**	Medium to High
2023 average oil price are **significantly higher than** 2022 level. • **Brent:** $99.8 per barrel • **Dubai:** $97 per barrel • **WTI:** $94.4 per barrel	• **If Chinese wealth improves substantially in Q2** as a result of large stimulus measures, successful property sector rescue measures, and improving equity prices, like that experienced in the US in 2021, Chinese demand for goods and services would surge in H2 this year and possibly exceed expectations. • **With the US and Europe trying to avoid a recession or economic slowdown,** that could drive more robust global demand. • **If China experiences labor shortage for a longer period,** production and business activities might reach full capacity later than expected. This could extend the Covid-led supply disruption to Q2.	**Risk of accelerating global inflation given surging Chinese demand and stronger global growth** The anticipated surge in Chinese consumption in H2 coupled with stronger spending in the US and Europe would boost global oil demand and push up prices beyond 2022 levels. **This demand-pull pressure is unlikely to be offset by easing supply. This would eventually push up global inflation.**	Low to Medium

Source: Bloomberg, U.S. Energy Information Administration, CEIC, Capital Economics, World Bank and Krungsri Research

China's sudden reopening is set to offer *a boost for growth in several angles* of economies and countries, led by tourism in Asia

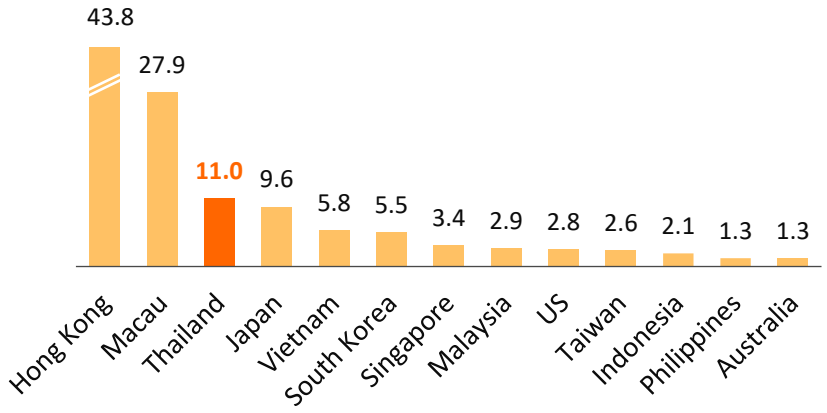


Source: CEIC, MOTS, MOC, Krungsri Research

In Thailand, tourism sector is dependent on Chinese tourists; they accounted for largest share of tourist arrivals and tourism receipts in 2019 (pre-pandemic)

Excluding Hong Kong and Macao, about 11 mn Chinese tourists visited Thailand in 2019 (27% of total tourist arrivals), before the COVID-19 pandemic hit. They generated THB543 bn worth of tourism receipts or 28.1% of total tourism receipts.

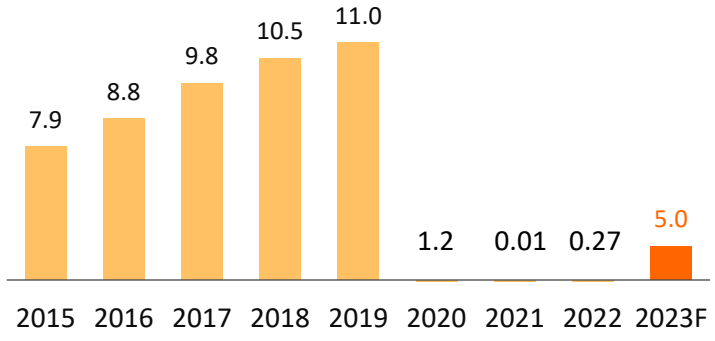
Chinese tourist in key countries, 2019 (person, mn)



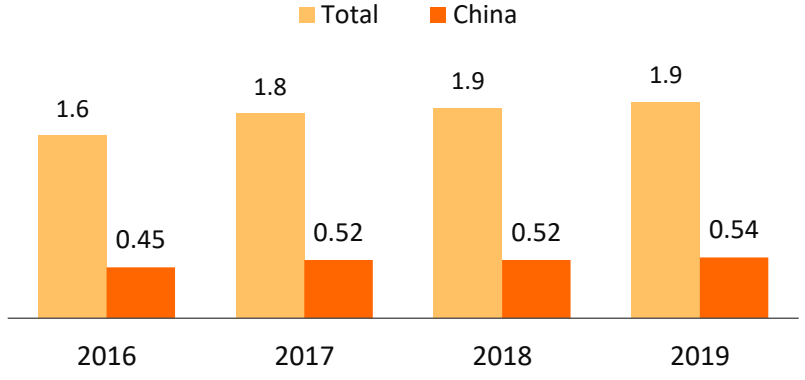
Top 5 foreign tourist arrivals in Thailand, 2019

Country	Amount (person, mn)	Length of stay (days)	Revenue (THB mn)
China	**11.0**	**7.80**	**543,707**
Malaysia	4.2	4.81	107,457
Russia	1.4	16.94	102,895
Japan	1.7	9.79	93,758
India	1.9	7.43	80,039

Chinese tourist arrivals in Thailand (person, mn)



Revenue from foreign tourists (THB tn)



Note: Forecast by TAT
Source: CEIC, MOTS, Krungsri Research

Arrivals from China will surge in 2Q23; we project total foreign tourist arrivals to surge to 25-28 mn in 2023 from 11 mn last year

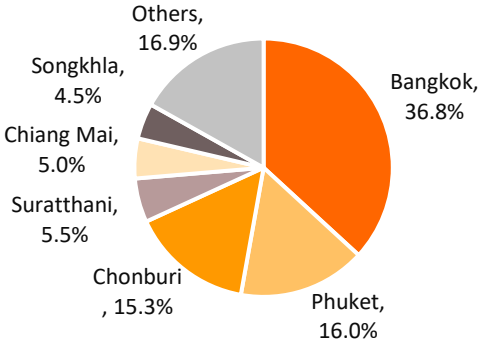
Latest surveys show Thailand remains a popular tourist destination for Chinese tourist. The recovery in Thailand's tourism sector would also be triggered by the China's decision to allow outbound group tours to 20 countries including Thailand, starting February 6th. Some of Thailand's tourism competitors in the region such as South Korea, Japan and Vietnam have yet to be included on the list. However, limited flights out of China currently suggests a surge in Chinese tourists from 2Q23. Following China's decision to reopen its borders since January 8th, we have revised up 2023 forecast for foreign tourist arrivals to 25-28 mn from 22.7 mn.

Top 10 destinations for Chinese tourists since reopening (survey by CNBC)

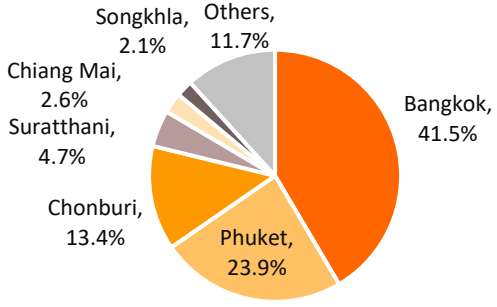


1. Japan
2. Thailand
3. South Korea
4. US
5. Singapore
6. Malaysia
7. Australia
8. UK
9. Macao
10. Hong Kong

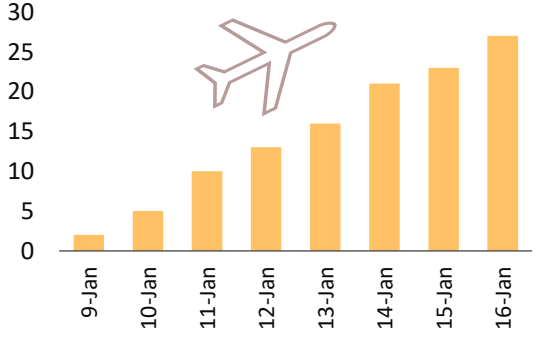
Top destinations of foreign tourists in Thailand (% of total foreign tourists in 2019)



Top destinations of foreign tourists by revenue (% of total revenue in 2019)

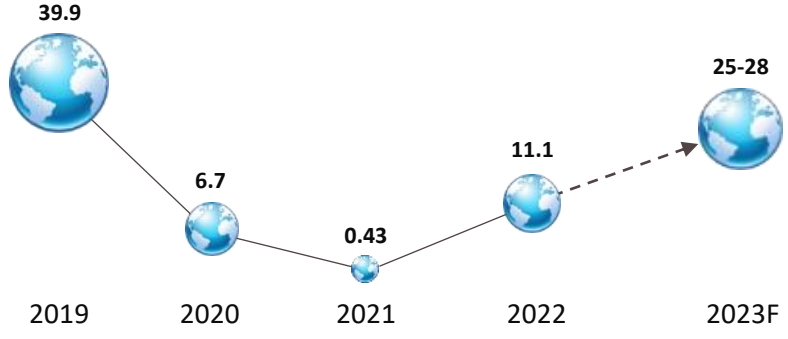


China airline flight to Thailand after reopening



the number of flights from China expected to gradually increase from 2-5 flights per day to around 15 flights per day by the end of January. Pre-pandemic, there were an average of 93 flights from China to Thailand per day.

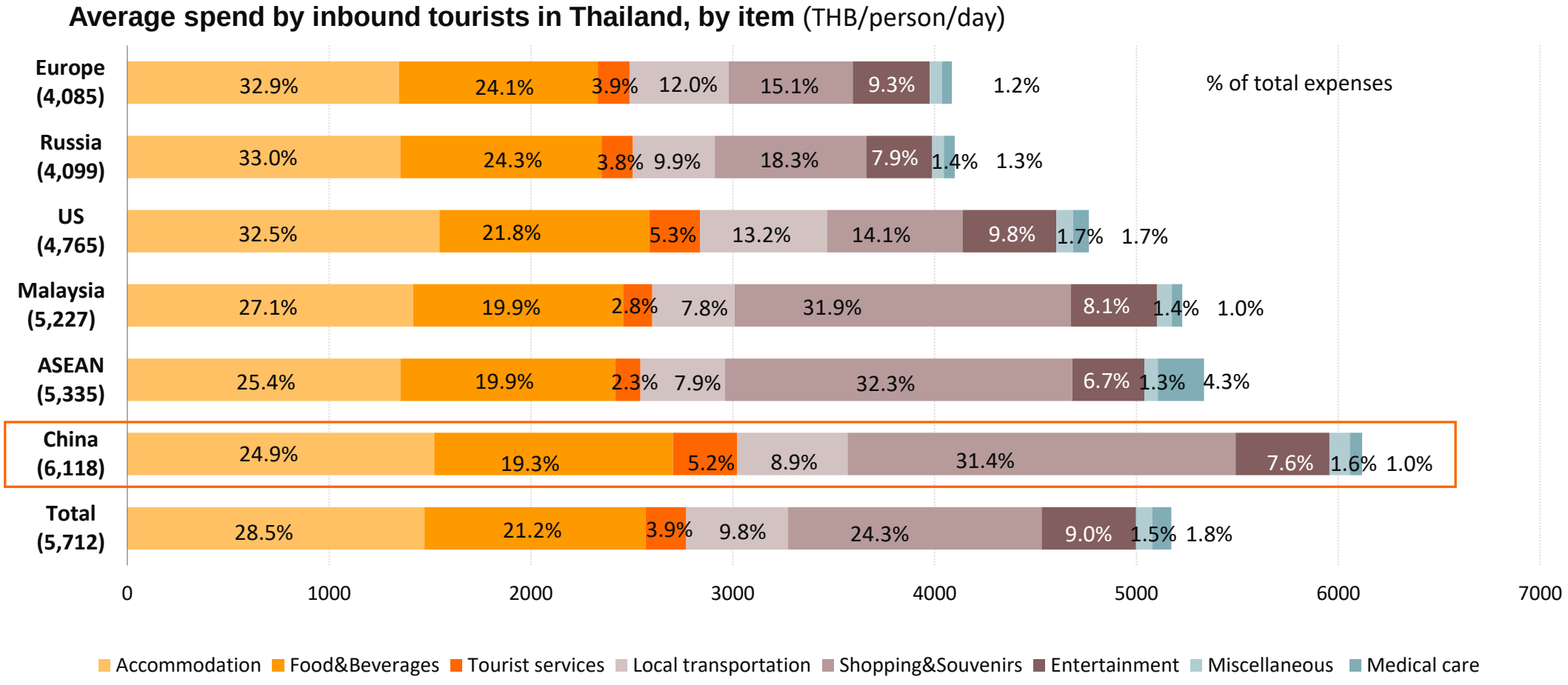
Projected foreign tourist arrivals (person, mn)



Source: CNBC, NSO, CAAT, Krungsri Research

Higher *spending by Chinese tourists* will provide opportunities in related industries such as Shopping & Souvenirs, Accommodation, and Food & Beverage

In 2019, foreign tourists in Thailand spent 5,712 baht per person per day. This was led by spending on Accommodation (28.5%). Spending by Chinese tourists averaged 6,118 baht per person per day in Thailand, with the largest shares spent on Shopping & Souvenirs (31%), Accommodation (25%), and Food & Beverage (19%).



Source: NSO, Krungsri Research

Anticipated pent-up demand from China could support some *Thai exports* amid weaker demand from the US and Europe

In 2022, Thailand's total exports grew by 5.5% but exports to China fell 7.7% as the zero-COVID policy had limited output and suppressed consumer demand there. China's reopening has spurred hopes trade would recover, but Thai exports could continue to face headwinds this year from a more pronounced slowdown in the global economy, especially in the US and Europe.

Thailand's international trade (2022)

USD bn	Total	China
Total trade	**590.3**	**105.4**
% of total trade		17.9
Export	287.1	34.4
% of total export		12.0
Import	303.2	71.0
% of total import		23.4
Trade balance	-16.1	-36.6

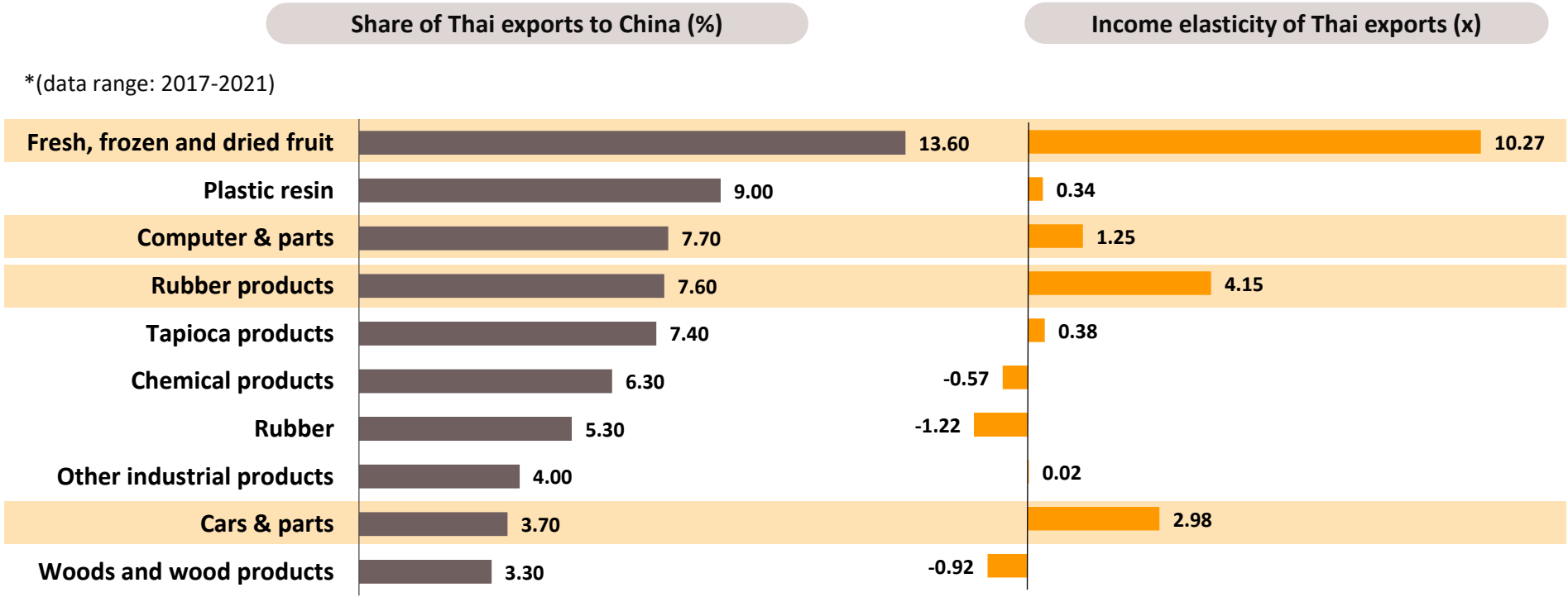
Thai exports to China

Product	2019	2020	2021			2022		
	USD bn	USD bn	USD bn	% growth	% share	USD bn	% growth	% share
Total	**29.2**	**29.8**	**37.3**	**25.0**	**100**	**34.4**	**-7.7**	**100**
Fresh, frozen and dried fruit	2.09	2.91	5.07	74.4	13.6	4.91	-3.2	14.3
Rubber products	2.41	2.82	2.81	-0.3	7.6	3.39	20.7	9.9
Plastic resin	3.21	2.96	3.37	13.9	9.0	3.13	-7.0	9.1
Tapioca products	1.36	1.60	2.76	72.1	7.4	2.84	3.0	8.3
Computer & parts	1.93	2.21	2.85	29.3	7.7	2.51	-12.0	7.3
Chemical products	1.81	1.62	2.35	45.0	6.3	1.71	-27.1	5.0
Rubber	1.62	1.28	1.97	53.1	5.3	1.58	-19.6	4.6
Woods and wood products	1.11	1.06	1.24	16.34	3.3	1.20	-2.79	3.5
Other industrial products	1.50	1.27	1.48	16.4	4.0	1.15	-22.4	3.4
Cars & parts	1.20	1.39	1.36	-2.00	3.7	0.44	-67.7	1.3

Source: MOC, Krungsri Research

Export of key products to China will rise, especially those with relatively-high elasticity to Chinese demand, but gains would be limited for some items

Only four of Thailand's top 10 Thai exports to China **- Fresh, frozen and dried fruit, Rubber products, Cars & parts and Computers & parts** – registered strong elasticity (>1) to China's GDP growth. That means if pent-up demand in China returns to normal, exports of these products would gain traction. However, the projected gains in Thai exports will be limited to some sectors only.

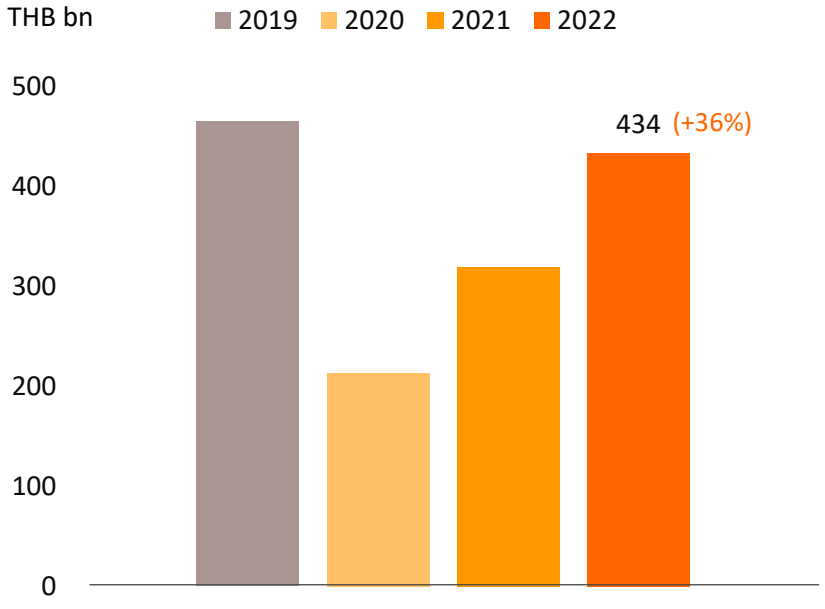


Note:* Elasticity of demand for Thai total exports to China is at 0.73
Source: MOC, Krungsri Research

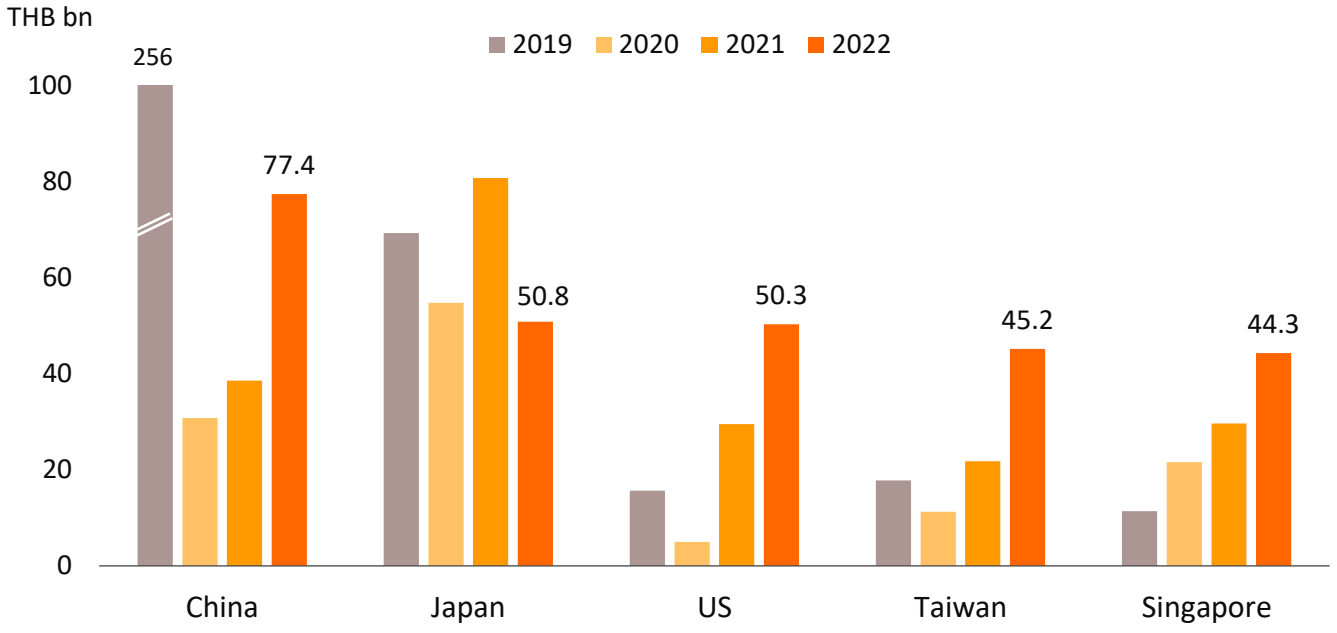
Chinese direct investment in Thailand is encouraging; they accounted for the largest share of applications for investment incentives in 2022

In 2022, Thailand's Board of Investment (BOI) reported foreign companies applied for BOI privileges valued at THB434 bn, rising 36% from a year earlier. China was the top investor. The industries targeted by investors were electric vehicles (EVs), clean energy, data centers, and electronics.

Total FDI applications for BOI privileges



Top 5 sources of FDI applications for BOI privileges



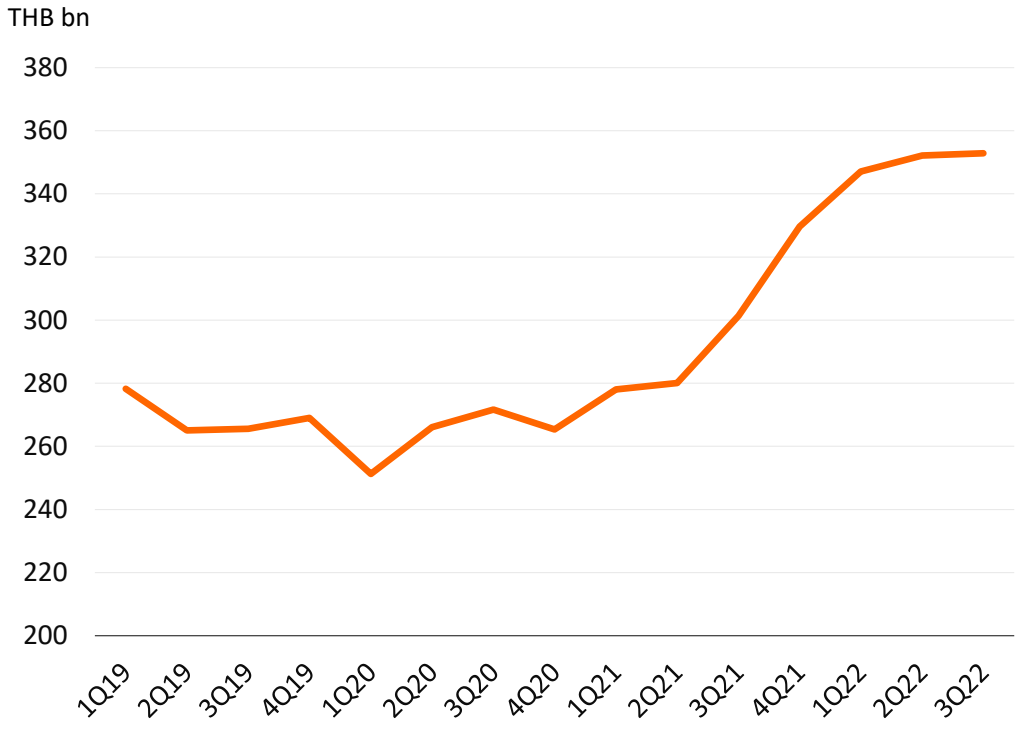
Source: BOI, Krungsri Research

Despite the pandemic, FDI from China has surged; this would promote the growth of key industries in Thailand in the medium-to-long term

Foreign Direct Investment (FDI) from China to Thailand will improve, especially in sectors which have been a consistent recipient of Chinese investment, such as **Rubber & plastics products, Motor vehicles, trailers & semi-trailers, Financial & insurance, and Wholesale & retail trade.**

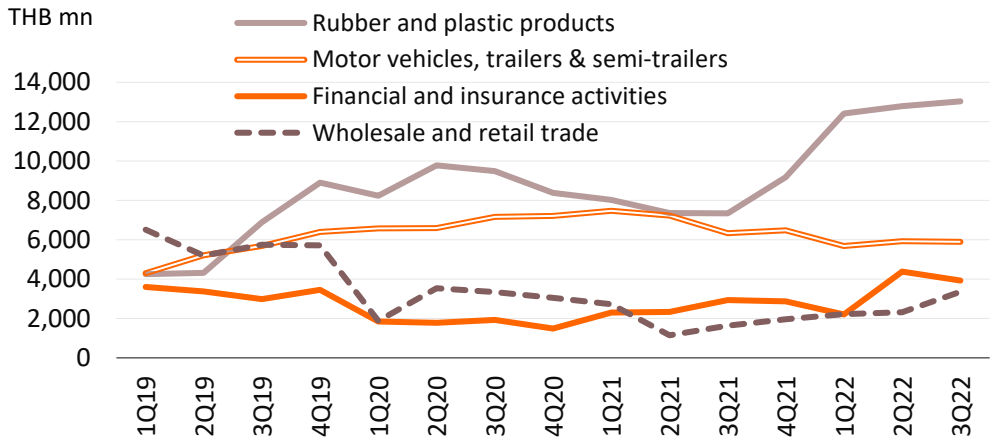
Total China FDI into Thailand

(4-Quarter rolling sum)



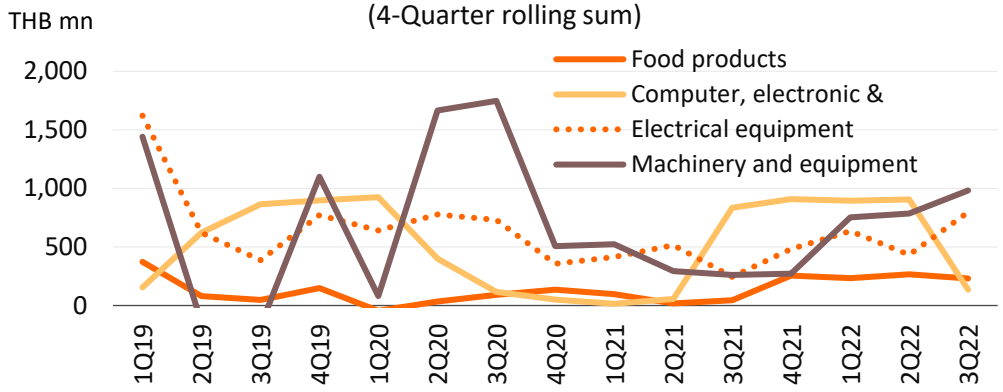
China FDI to Thailand by sector (1)

(4-Quarter rolling sum)



China FDI to Thailand by sector (2)

(4-Quarter rolling sum)



Source: BOT, Krungsri Research

FDI inflows from China (2016 to 9M22)

China's FDI (Inflow, THB mn)	2016	2017	2018	2019	2020	2021			9M2022		
						THB mn	% of total FDI	% of China FDI	THB mn	% of total FDI	% of China FDI
Total	316,093	276,065	270,497	269,052	265,349	329,625	15.94	100	260,813	15.21	100
Agriculture, forestry and fishing	1.8	0.7	316.9	3.2	(19.5)	5.0	0.00	0.00	1.0	0.00	0.00
Mining and quarrying	86.6	152.6	21.5	3.3	6.2	34.5	0.00	0.01	3.6	0.00	0.00
Manufacturing	6,642.3	5,546.8	12,181.5	23,852.6	20,761.0	21,936.5	1.06	6.65	17,499.9	1.02	6.71
Food products	20.6	5.1	119.1	149.5	135.8	254.3	0.01	0.08	8.9	0.00	0.00
Beverages	0.0	3.6	7.1	12.4	0.7	(1.6)	(0.00)	0.00	(1.4)	(0.00)	0.00
Paper and paper products	9.0	(2.4)	91.0	0.9	47.8	2.7	0.00	0.00	12.3	0.00	0.00
Coke and refined petroleum products	(0.3)	(0.3)	(29.5)	250.8	0.5	-	-	0.00	-	-	0.00
Chemicals and chemical products	57.4	32.7	722.7	815.3	674.7	443.5	0.02	0.13	0.8	0.00	0.00
Basic pharmaceutical products &	(0.7)	0.1	(169.3)	64.9	(1.3)	0.1	0.00	0.00	0.6	0.00	0.00
Rubber and plastics products	1,287.7	17.6	1,934.7	8,901.9	8,391.5	9,184.0	0.44	2.79	9,531.5	0.56	3.65
Computer, electronic &	2,081.7	345.7	170.6	896.2	49.2	907.7	0.04	0.28	110.4	0.01	0.04
Electrical equipment	(10.6)	979.2	2,574.4	770.9	357.0	480.2	0.02	0.15	546.2	0.03	0.21
Machinery and equipment n.e.c.	142.7	44.5	399.3	1,097.5	507.0	270.0	0.01	0.08	870.5	0.05	0.33
Motor vehicles, trailers &	3,022.3	3,891.4	3,857.5	6,403.0	7,216.5	6,482.7	0.31	1.97	4,000.8	0.23	1.53
Furniture	1.0	(0.0)	20.9	742.4	566.7	13.6	0.00	0.00	(48.2)	(0.00)	-0.02
Electricity, gas, steam	1,254.8	1.3	1,214.6	372.5	158.5	322.9	0.02	0.10	314.3	0.02	0.12
Construction	(2,624.3)	122.5	1,000.5	1,170.6	1,264.2	97.1	0.00	0.03	366.1	0.02	0.14
Wholesale and retail trade	3,859.6	289.5	2,225.7	5,719.2	3,061.8	1,961.2	0.09	0.59	2,605.2	0.15	1.00
Transportation and storage	173.5	(635.9)	(1,463.3)	(1,490.7)	(234.5)	(2.4)	(0.00)	0.00	252.0	0.01	0.10
Accommodation and food service activities	24,887.1	48.9	138.5	303.4	(65.7)	(2.9)	(0.00)	0.00	0.1	0.00	0.00
Financial and insurance activities	1,601.9	2,306.3	2,078.9	3,467.2	1,499.9	2,882.5	0.14	0.87	3,865.5	0.23	1.48
Real estate activities	3,492.2	5,311.1	11,838.9	7,278.3	1,968.5	858.5	0.04	0.26	964.2	0.06	0.37

Source: BOT, Krungsri Research

Key takeaways:

- **Tourism:** Thailand remains a popular tourist destination for Chinese tourists and arrivals from China will rise following the decision to allow outbound group tours to 20 countries including Thailand, starting February 6th.
  - Recovery in the tourism sector will only accelerate from 2Q23 given limited flights from China currently.
  - More opportunities for related industries such as **Shopping & Souvenirs, Accommodation, and Food & Beverage.**
- **Trade:** Anticipate gains in four of the top 10 Thai exports to China - **Fresh, frozen & dried fruit, Rubber products, Cars & parts, and Computers & parts**; overall export growth would be limited by the still-weak global economy
- **Chinese investment in Thailand:** Chinese investors accounted for the largest share of applications (by investment value) for BOI privileges in 2022 led by the following industries: electric vehicles (EVs), clean energy, data centers and electronics
  - Foreign Direct Investment (FDI) from China: positive for businesses in **Rubber & plastics products, Motor vehicles, trailers & semi-trailers, Financial & insurance, and Wholesale & retail trade,** will promote growth in the medium-to-long term.
- **Major concerns:**
  - Chinese aviation activity would take time to recover given tight labor conditions in that industry.
  - Global inflation would accelerate if a surge in Chinese demand offsets the slowdown in major economies.
  - Despite the recovering tourism sector, **domestic income will be concentrated** in only 5-6 provinces in Thailand.
  - **Risks of labor shortage and higher labor costs** would raise costs for businesses and limit growth in the tourism sector.
  - Currently, tourists (such as those from India) continue to be subject to tight requirements (e.g. Covid tests) upon returning to their home countries due to lingering concerns over a resurgence in Covid-19 cases.

KRUNGSRI RESEARCH

Macroeconomic Team

Sujit Chaivichayachat	Head of Macroeconomic Research Team
Churailuk Pholsri	Senior Economist (Forecasting)
Thansin Klinthanom	Economist
Supasyn Itthiphatwong	Economist

Industry Team

Pimnara Hirankasi, Ph.D.	Head of Industry Research Team
Taned Mahattanalai	Senior Analyst (Digital)
Poonsuk Ninkitsaranont	Senior Analyst (Healthcare, Mobile Operators)
Piyanuch Sathapongpakdee	Senior Analyst (Transport & Logistics)
Narin Tunpaiboon	Senior Analyst (Power Generation, Modern Trade, Chemicals, Medical Devices)
Thian Thiumsak	Senior Analyst (Energy, Petrochemicals)
Puttachard Lunkam	Senior Analyst (Construction Contractors, Construction Materials, Hotels, Industrial Estate)
Patchara Klinchuanchun	Senior Analyst (Real Estate)
Chaiwat Sowcharoensuk	Senior Analyst (Agriculture)
Wanna Yongpisanphob	Analyst (Automobile, Electronics & Electrical Appliances, Food & Beverages)
Suppakorn Kornboontritos	Analyst (Agriculture)

Analytics and Intelligence Team

Pimnara Hirankasi, Ph.D.	Acting Head of Analytics and Intelligence Research Team
Nathanon Ratanathamwat	Senior Analyst
Sathit Talaengsatya	Senior Analyst
Chinnakrit Ampornpannawat	Analyst
Parinya Mingsakul	Analyst

MIS and Reporting Team

Thamon Sernsuksakul	Administrator
Chirdsak Srichaiton	MIS Officer
Wongsagon Keawuttung	MIS Officer

Subscribe Us

For research subscription, contact ***krungsri.research@krungsri.com***

Disclaimer

All material presented in this report, unless specifically indicated otherwise, is under copyright to Krungsri Research. None of the material, nor its content, nor any copy of it, may be altered in anyway, or copied to any other party, without the prior express written permission of Krungsri Research. This document is based on public information believed to be reliable. Nevertheless, Krungsri Research would not affirm the accuracy and completeness of this information. We accept no liability whatsoever for any direct or consequential loss arising from any use of this document or its content. Information, opinions and estimates contained in this report are our own, which are not necessarily the opinions of Bank of Ayudhya Public Company Limited and its affiliates. It reflects a judgment at its original date of publication by Krungsri Research and are subject to change without notice.