

As a country with economic links to China, Thailand will be heavily affected by Covid 19

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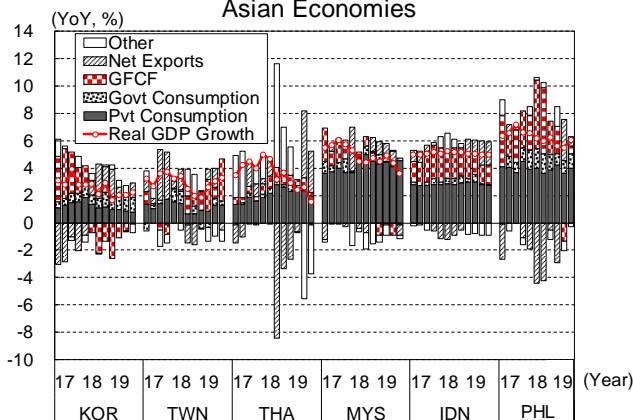
By mid-February, all countries and regions across ASEAN and NIEs had all announced their real GDP growth rates for the October-December 2019 quarter. According to the data for ASEAN, growth accelerated in the Philippines from the previous quarter, but it remained the same or slowed in other countries causing overall growth to decelerate to around 4.5% YoY (Chart 1). On the other hand, of the NIEs, Hong Kong experienced a large fall in growth of -2.9% YoY – its second consecutive quarter of negative growth – due to prolonged demonstrations, whereas it once again appears the economic situations in South Korea and Taiwan are recovering as their growth accelerated further. In addition to robust domestic demand, particularly private consumption, there appears to be signs that exports are rebounding in some countries in line with the recovery in the global manufacturing sector. At the start of the year, Asian economies were firm on the whole and can be expected to recover in the future. However, the current situation is unpredictable as Covid 19 could spread further at any time.

Asia is easily affected by the Chinese economy as China lies at the epicentre of the continent and it has strong economic links with nearby countries. This is increasingly becoming the case for Thailand, where the number of Chinese tourists (excluding Hong Kong) was approximately 11 million in 2019 (accounting for a third of foreign tourists to Thailand). This equates to around twenty times more than in 2003 during the SARS (severe acute respiratory syndrome) outbreak (Chart 2). The number of Chinese tourists fell by 90% YoY at the peak of the SARS outbreak, yet based on the size of current estimations and situation at present (group tours prohibited, many airlines cancelling and reducing flights to and from China), the size of downward pressure on the economy from the decrease in inbound consumption appears notably more serious now than before. Given that a considerable amount of Thailand's exports is sent to China (third largest amount of ASEAN countries after Vietnam and Malaysia) and taking into account the additional impact of reduced demand and disruption to supply chains from an economic slowdown in China, there is likely to be a sharp deceleration of Thailand's economy, even if only temporary.

Thailand is currently facing a drought as well as disruption to this year's fiscal budget, and its potential growth rate is low compared to neighbouring countries, which means it has little capacity to absorb sudden shocks. With Covid 19 hitting now of all times, there will be a direct impact on the tourism industry and exports, which account for a comparatively large

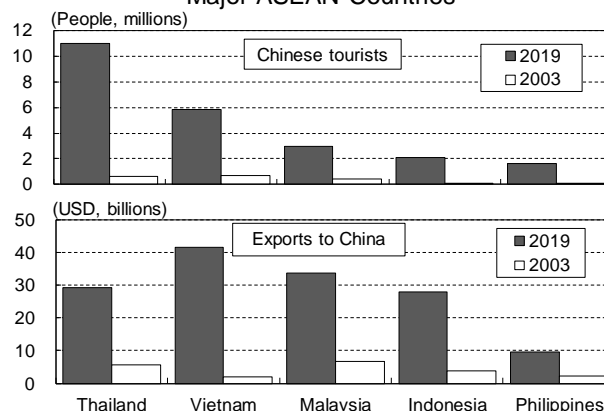
percentage of GDP. Due to this strong headwind facing the Thai economy, in addition to the headwinds it is already facing, it is important to keep an eye on the situation, including the duration of the outbreak.

Chart 1: Real GDP Growth Rates in Major Asian Economies



Source: Each country's national statistics, MUFG Bank Economic Research Office

Chart 2: Chinese Tourists to and Exports to China of Major ASEAN Countries



Source: Each country's national statistics, MUFG Bank Economic Research Office

(Translated by Elizabeth Foster)

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