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EXPORT-IMPORT BANK OF THAILAND

EXIM Thailand Reveals the Illusion of High-tech Driven Export Growth : Time to Standardize and Relocate

Thailand's burgeoning export growth despite the rising baht is unlikely to be sustained since the phenomenon has been driven by the growth of foreign-based high-tech export products with high import content. Thai exporters, especially SMEs, are losing profits and have to concentrate on increasing the volume of export to maintain their diminishing market shares as well as expanding into emerging markets. In the long run, Thai exporters will have to significantly improve production efficiency, accelerate machinery import to take advantage of the rising baht and declining interest rates or relocate to other countries with lower wages and more readily available raw materials and market opportunities.

According to Dr. Apichai Boontherawara, President of Export-Import Bank of Thailand (EXIM Thailand), the expansion of Thailand's export value in US dollar terms by 18.4% during the first five months of 2007 in spite of the continual appreciation of the baht has yet to secure Thailand a strong position in the international trade arena. This is due to the fact that the growth rate has been fueled by high-tech products which constitute 11.6% of such increase while representing 64% of the country's total export value. Over 80% of high-tech exporters, however, are foreign enterprises registered in Thailand and have only been marginally affected by the strong baht due to the high import content and an effective hedging strategy against the currency fluctuation already in place.

On the contrary, Thai SME exporters are harder hit by the strengthening baht due to their lower bargaining powers in terms of export price setting. Their strategy, thus, has focused on increasing export quantity rather price to maintain market shares and business relations. Their profit margins have been squeezed as reflected in the 18.4% growth in dollar terms which translates into only 7% increase in baht.

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The financial crisis in 1997 has given Thai exporters essential lessons and necessary immunity against future currency crises. The export sector has consequently learned how to better manage exchange rate risks, enhance production capability to be able to compete in higher-end markets and increase exports to emerging markets. However, the continual strengthening of the baht will result in steeper price cuts in the agricultural sector to lower production costs which will adversely affect the upstream industries, the real sector and the overall export sector. Should this happen, Thailand's overall export growth may eventually sluggish, both in terms of volume and price.

In addition to exchange rate risk management through forward position and hedging, it is time for Thai exporters to seriously upgrade their production standard and quality while remaining competitive cost-wise. Pricing alone will no longer serve as the only leverage in the world export arena. In the strong baht and low interest rate scenario, exporters should increase their import of new machinery to boost their production capability. Another alternative is to relocate to other countries to take advantage of the abundant labor, raw materials and market opportunities there. The goal is to fuel the growth of exports, which constitute over 60% of Thailand's GDP, on a sustainable basis, especially while the country's consumption and investments slacken as is currently the case.

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Public Relations Division
Office of Top Management

For further information, please contact Public Relations Division, Office of Top Management
Tel. 0 2271 3700, 0 2278 0047, 0 2617 2111 ext. 1140-6