The Baht's Lost Decade

Thailand's Structural Stagnation and Why We Stay Underweight

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Abstract

Thailand enters 2026 as the clearest structural laggard in a region we otherwise judge to be the primary engine of global growth. While Asia-Pacific expands at roughly 4.4% and contributes close to 60% of world GDP growth, we expect Thailand to manage only 1.8 to 2.5%, the fourth consecutive year of sub-trend performance. The problem is not cyclical. It is the simultaneous erosion of three pillars that carried the economy for two decades: an automotive export base now caught in a disorderly ICE to EV transition led by Chinese entrants, a Chinese inbound tourism recovery that has stalled well below pre-pandemic peaks, and a household sector carrying debt near 90% of GDP that structurally caps domestic demand. Layered on top is a fiscally constrained state and a contested March 2026 election. We reiterate an Underweight on Thai equities, duration, and the baht relative to regional peers, and we frame the risks around what would make us reconsider.

1. The Laggard Thesis in a Growth Region

The central discomfort of any Thailand call in 2026 is that it is a bearish thesis inside a bullish region. Our house baseline holds that Asia-Pacific grows around 4.4% this year, remains above the global average, and accounts for close to 60% of world GDP growth even as WTO global merchandise trade volume growth slows to roughly 0.5%. India runs near 6.5%, Indonesia and the Philippines near 5%, Vietnam between 6.0 and 6.5%, and even Singapore, off a remarkable 5.0% print in 2025, carries a 2.0 to 4.0% official forecast for 2026. Against that backdrop Thailand's 1.8 to 2.5% is not a rounding difference. It is a persistent gap of two to four percentage points against the regional median, sustained now into a fourth year.

The IMF Regional Economic Outlook for Asia and Pacific (October 2025) and the World Bank East Asia and Pacific Update (October 2025) both flag Thailand as the notable underperformer among the larger ASEAN economies, and both attribute the shortfall to structural rather than transitory factors. This matters for how we position. A cyclical laggard is a value opportunity once the cycle turns. A structural laggard is a value trap, because the multiple looks cheap precisely because forward earnings and nominal GDP keep disappointing. The Thai SET has spent much of the past decade being cheap and staying cheap, and we do not see the 2026 catalysts that break that pattern.

> **Our view:** Thailand is the one large ASEAN market where we would rather own the currency of a slower European economy than the local index. The regional growth story is real, but Thailand is levered to the parts of it that are fading (Chinese demand, legacy auto) and starved of the parts that are compounding (AI capex, downstreaming, young domestic consumers).

2. The Automotive Transition: Detroit of Asia in Reverse

Automotive manufacturing is the single most important lens on Thai stagnation because it is where a genuine competitive advantage is being dismantled in real time. Thailand built itself into the Detroit of Asia over three decades, hosting the assembly and export operations of Toyota, Honda, Isuzu, Mitsubishi and Nissan, and reaching annual production near 1.9 million vehicles at the prior peak. The sector, direct and indirect, has historically represented around 10% of GDP and employs close to three-quarters of a million workers across manufacturers and the parts supply chain. That base was built almost entirely on the internal combustion engine (ICE).

2.1 A transition that subtracts more than it adds

The EV shift, which is a tailwind almost everywhere else, is a net negative for Thailand in the medium term, and the reason is the identity of the winners. The new entrants are Chinese: BYD, Great Wall Motor (GWM), and a lengthening list of others drawn by aggressive Board of Investment incentives. They are building local plants, but an EV powertrain requires roughly 40% fewer parts than an ICE drivetrain, which hollows out the deep domestic parts ecosystem that was the real source of Thai value-add. The Japanese incumbents, who anchored that ecosystem, are losing domestic and export share simultaneously. Nissan has already reduced Thai capacity, and Honda has consolidated production. What replaces them assembles more and localizes less.

The result is a double squeeze. Domestic vehicle sales fell sharply through 2024 and 2025 as tightened auto lending (a direct consequence of household leverage, discussed below) crushed pickup and passenger demand, with the market running well below two-thirds of its prior peak. At the same time, Chinese EV oversupply, the mirror image of the deflation and export surge in our China baseline, is flooding the region with discounted product and compressing the margins of any local assembler. Thailand is importing China's overcapacity and exporting less of its own manufacturing value-add.

Metric	Prior peak	2025 estimate	Read-through
Vehicle production (units, mn)	~1.9	~1.4	Export base eroding
Domestic vehicle sales (units, mn)	~1.0	~0.57	Credit-driven demand collapse
ICE share of new registrations	>90%	~60-65%	Fast but disruptive EV shift
Auto sector share of GDP (%)	~10	~9	Structural downshift underway
Parts count, EV vs ICE powertrain	1.0x	~0.6x	Local value-add hollowing

Figures are Darmine estimates synthesized from Federation of Thai Industries, Deloitte Automotive, and Nikkei Asia coverage (2025). Ranges rounded for exposition.

> **Our view:** We do not view Thai auto as a cyclical trough to buy. The EV transition permanently reduces the domestic value-add per vehicle, transfers the OEM rent from Japanese partners who localized to Chinese entrants who assemble, and coincides with a credit environment that caps domestic units. This is a structural derating of Thailand's most important tradable sector.

3. Household Debt: The Ceiling on Domestic Demand

If auto explains why the export engine is fading, household debt explains why domestic demand cannot fill the gap. Thai household debt sits near 90% of GDP, among the highest in emerging Asia and roughly double the ratio of Indonesia or the Philippines. This is the mechanism that turns any external shock into a domestic demand shortfall, and it is the reason the Bank of Thailand's rate cuts have transmitted so weakly.

The composition is as important as the level. A large share is non-mortgage: auto loans, credit cards, and personal and informal borrowing. Non-performing and special-mention loans have been grinding higher, which has pushed banks into a defensive credit stance precisely when the economy needs credit to expand. This is why easier policy has not produced easier conditions. The Bank of Thailand can lower the policy rate, but if banks are de-risking auto and consumer books, the marginal Thai household still cannot borrow to buy the pickup truck that anchors both consumption and the domestic auto market. Lower rates in a balance-sheet-constrained economy support debt service, not new demand.

Debt at this level also changes the marginal propensity to consume for years, not quarters. Deleveraging is slow, socially painful, and politically fraught, which feeds directly into the fiscal and electoral dynamics in Section 5. Every serious Thai policy proposal of the past two years, from debt relief schemes to the cash-handout digital wallet, has been an attempt to work around this ceiling rather than lift it.

> **Our view:** Household leverage near 90% of GDP is the binding constraint on the entire Thai macro story. It neutralizes monetary easing, caps the auto recovery, and forces fiscal policy into low-multiplier transfers. Until this ratio is meaningfully lower, we treat Thai domestic demand as structurally supply-constrained on the credit side.

4. Tourism: A Recovery That Stalled Below the Peak

Tourism was supposed to be the offset. It is instead a partial and uneven one, and the shortfall is specifically Chinese. Total arrivals have recovered toward the mid-30-millions, respectable in aggregate, but the mix has deteriorated in value terms. The pre-pandemic model rested on Chinese visitors approaching 11 million a year at the peak, the highest-spending and most reliable cohort. That cohort has not come back at scale.

4.1 Why the Chinese traveler is not returning

- Weaker Chinese household demand consistent with our China baseline: persistent deflation, a property overhang, and cautious consumers who travel less and spend less abroad.
- A structural shift toward domestic Chinese tourism and nearer, cheaper destinations, redirecting outbound volume away from Thailand.
- Persistent safety perception damage following high-profile scam-compound and trafficking stories in the Mekong region, which Chinese social media amplified and which no marketing campaign has fully reversed.
- Intense regional competition for the Chinese traveler from Japan, where a weaker yen environment earlier in the cycle and strong inbound positioning captured share, and from Vietnam and Malaysia.

Mastercard Economics Institute and Bloomberg travel data through 2025 both show Thai per-visitor spending recovering more slowly than headcount, which is the worst combination for a tourism-dependent current account:

the country absorbs the congestion and infrastructure cost of volume without capturing the historical revenue per head. Tourism is roughly a fifth of GDP on a broad measure, so a value-mix that runs 15 to 20% below the old model is a direct and recurring drag on nominal growth.

> **Our view:** We size the Chinese tourism shortfall as a semi-permanent regime change, not a delayed rebound. Betting on Thailand is partly a bet on the Chinese consumer, and our house view on that consumer is Underweight. The two calls are the same trade.

5. Politics and Fiscal Space: The March 2026 Election

Thailand goes to the polls in March 2026 against a backdrop of chronic institutional instability, with the familiar tension between elected populist blocs, the conservative establishment, and a judiciary that has repeatedly reshaped electoral outcomes. For markets the specific personalities matter less than the pattern: recurring uncertainty over government formation, policy continuity, and the durability of any fiscal program. Foreign direct investment and long-horizon capital do not price a single election; they price a decade of coups, dissolutions, and reversals, and that risk premium is embedded in Thai assets.

5.1 Fiscal constraints and the low-multiplier trap

The fiscal position leaves little room to grow out of the problem. Public debt has risen toward the low-to-mid 60s as a share of GDP, near the ceiling under the fiscal framework, after successive stimulus rounds including the large digital-wallet cash transfer. The difficulty is that the multiplier on these transfers is structurally low: a heavily indebted household receiving a handout uses a large portion to service or pay down existing debt rather than to consume at the margin. So the spending raises the debt stock and the political stakes without durably lifting the growth path. That is the fiscal expression of the household-debt ceiling in Section 3.

This is the box Thailand is in. Monetary easing does not transmit because balance sheets are stretched. Fiscal easing does not multiply because the recipients are deleveraging. Structural reform, the only real exit, requires exactly the political continuity that the electoral cycle keeps interrupting. A contested March result that delays government formation would push any 2026 reform or budget agenda into the second half of the year at the earliest.

> **Our view:** We assign a meaningful probability to a messy post-election period that stalls fiscal and reform momentum. Even a clean result inherits an economy where both policy levers are partially disabled. Political risk here is not a tail; it is the base case reason structural problems stay unaddressed.

6. Currency, Rates, and Relative Value

The baht is caught between two opposing forces, and neither favors sustained strength. On the supportive side, a persistent goods-trade and (diminished) tourism surplus plus large FX reserves give the currency a real anchor and periods of carry appeal. On the negative side, the structural growth shortfall, the weak Chinese-demand linkage, and political risk cap the upside and expose the baht to sharp risk-off episodes. Our regional framing is the more relevant point: in a world of central-bank divergence, where the BOJ is normalizing toward a 0.75 to 1.0% policy rate with 10Y JGB yields above 2.3%, the Fed is cutting, and MAS is guiding gradual S NEER appreciation, the baht lacks a compelling story on either the growth or the policy leg. It is neither a high-growth currency like the rupee nor a quality-appreciation currency like the Singapore dollar.

On rates, the Bank of Thailand is easing into weak transmission, which argues for owning some Thai duration on a pure carry-and-cut basis. We are not there. We would rather express the regional rates view where the growth-inflation mix is cleaner and the currency is not a structural short, and where we are not underwriting a contested election in the same position. The relative-value case is the whole case: nothing about Thailand is uninvestable in isolation, but everything about it looks second-best once the rest of the region is on the screen.

Economy	2026 GDP (house)	Policy direction	Darmine stance
India	~6.5%	Easing bias, fiscal prudence	Overweight
Indonesia	~5.0%	Bank Indonesia data-dependent	Overweight / accumulate
Singapore	2.0-4.0%	MAS S NEER appreciation	Overweight (quality)
Philippines	~5.6%	BSP easing	Constructive
Vietnam	6.0-6.5%	Accommodative	Market weight
Thailand	1.8-2.5%	BoT easing, weak transmission	Underweight

House baseline figures. Thailand's growth gap versus the ASEAN median is the core of the relative-value underweight.

> **Our view:** We hold an Underweight on the baht and Thai duration on a relative basis. The currency has a floor from reserves and the external surplus, which is why we favor an underweight versus regional peers rather than an outright bearish standalone short.

7. What Would Change Our Mind

Underweight is a conviction, not a religion. We would move Thailand toward Market weight on evidence that the structural constraints are lifting rather than merely being managed. The bar is specific because the problems are specific.

- A sustained decline in household debt to GDP back toward the low 80s or below, accompanied by falling special-mention and non-performing consumer loans, which would restore monetary transmission and unlock the auto and consumption channels.
- A durable Chinese arrivals recovery back toward 8 to 10 million with per-visitor spend normalizing, signaling the tourism regime change is reversing rather than entrenching.
- A credible, funded EV localization strategy that pulls battery, electronics, and high-value component manufacturing onshore, turning the transition into value-add capture instead of assembly-only displacement.
- A clean March 2026 result producing a stable government with a coherent, multi-year reform and fiscal-consolidation agenda, and early legislative delivery on it.
- A clear inflection in nominal GDP and forward SET earnings that breaks the decade-long cheap-and-staying-cheap pattern, rather than another quarter of a low multiple on a falling estimate.

Our view: None of these triggers is imminent as of March 2026. We will revisit at the post-election government-formation milestone and again at mid-year, when the 2026 tourism season and the first full budget of the new administration will show whether Thailand is turning or simply resetting the same constraints.

Portfolio Positioning Summary

Overweight: India (highest structural conviction, ~6.5% domestic-demand growth, S&P upgrade to BBB), Indonesia (nickel downstreaming and EV batteries, 270m consumers, strong FDI), and Singapore (quality defense, MAS appreciation, 2.0 to 4.0% forecast off a 5.0% 2025). Within the AI-capex chain, Taiwan and Korea semiconductors remain the regional earnings driver.

Market weight: Vietnam (6.0 to 6.5% but transshipment-enforcement risk), Malaysia (semiconductor packaging beneficiary offset by China oversupply), Japan (selective financials into BOJ normalization), and Korea (tactical, high-beta memory-chip recovery off a 1.1% 2025 collapse).

Underweight: Thailand across equities, duration, and the baht on a relative basis. The 1.8 to 2.5% growth gap is structural: hollowing auto value-add under the Chinese EV entry, household debt near 90% of GDP capping demand and neutralizing easing, a semi-permanent Chinese-tourism shortfall, and low-multiplier fiscal constraints. Also Underweight China domestic demand, the shared root of Thailand's tourism and auto-oversupply problems.

Key catalysts to reassess: Reassess on: household debt to GDP falling toward the low 80s with improving consumer loan quality; Chinese arrivals recovering toward 8 to 10 million with normalized spend; a funded EV localization program capturing battery and component value; a stable, reform-oriented government after the March 2026 election; and a genuine inflection in nominal GDP and forward SET earnings. Milestones to watch: post-election government formation and the mid-2026 budget and tourism season.

Conclusion

Thailand's lost decade is not the product of one bad year or one bad government. It is the compounding of three structural erosions arriving at once: an automotive base whose value-add is being hollowed out by a Chinese-led EV transition, a household sector so leveraged near 90% of GDP that neither monetary nor fiscal easing can lift demand, and a Chinese tourism engine that has downshifted into a new and lower regime. A fiscally constrained, politically unstable state heading into a contested March 2026 election has neither the room nor the continuity to reform its way out at speed.

In a region we believe will drive close to 60% of global growth in 2026, Thailand is the market most exposed to the fading themes (Chinese demand, legacy manufacturing) and least exposed to the compounding ones (AI capex, downstreaming, young domestic consumers). That is the definition of a value trap rather than a value opportunity. We reiterate our Underweight on Thai equities, duration, and the baht relative to regional peers, and we would rather redeploy that risk into India, Indonesia, and Singapore. We stand ready to upgrade, but only on evidence that the constraints are lifting, not merely being managed.

Sources and Further Reading

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