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The WTO's 2020 Trade Policy Review for Indonesia and Thailand: A Comparative Assessment

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Abstract

This paper provides an analytical survey of trade policy in Indonesia and Thailand, in the context of the key findings of the WTO's 2020 Trade Policy Reviews. These are historically dynamic economies that are integrated within the outward-looking ASEAN protocols and the China-centred East Asian trade and investment networks. Over the past decade, there have been no major changes in the two countries' trade and commercial policy settings, with Thailand maintaining its more open economic settings and Indonesia continuing its more hesitant embrace of globalization. The major drivers of domestic policy settings have therefore been global factors, including the continuing rise both of China in the regional and global economies and of the increasingly China-centred global supply chains. Both WTO reports provide comprehensive examinations of trade patterns and policies, although there is room to strengthen the analytical foundations of future reports.

Keywords: Trade Policy, Global Supply Chains, ASEAN, Indonesia, Thailand

JEL Classifications: F13, N45, O24

The WTO's 2020 Trade Policy Review for Indonesia and Thailand: A Comparative Assessment[1]

Hal Hill and Jayant Menon

1. Introduction

Indonesia and Thailand are historically dynamic economies that are deeply integrated within the outward-looking East Asian trade and investment networks. They are founding members of the 10-nation ASEAN, the Association of Southeast Asian Nations, with a population of 670 million people and the most durable regional grouping in the developing world. They are also significant players in the increasingly China-centred global supply chains (GSCs) that straddle national boundaries in vertically integrated production operations in the electronics, automotive, machine goods and related industries.

The paper highlights the similarities and differences between the two countries. The former include geographic proximity, their key roles in ASEAN as its two largest economies, generally prudent macroeconomic management, and their increasing economic openness in the long sweep of economic history. The latter includes their contrasting approaches to globalization; Thailand an 'always open economy', alongside Indonesia's more hesitant embrace of economic openness and with episodes of both major trade liberalizations as well as a return to economic nationalism. The two economies are also at different stages of development and have different economic structures: Indonesia is a relatively resource-rich economy, whereas Thailand is a more strongly services-oriented economy with a very large tourism sector. In addition, Thailand is a significant labour importer whereas Indonesia is a labour exporter.

The paper provides an analytical survey of the trade patterns and policies of the two countries, based on the 2020 World Trade Organisation (WTO) Trade Policy Reviews (TPRs). Section 2 provides some scene-setting observations on the two economies as well as their general commercial policy settings and orientation. Sections 3 and 4 examine their trade patterns and policies in more detail, drawing on the two WTO (2020a, 2020b) reports. Section 5 summarizes the main findings and makes some suggestions for future trade policy reviews. The two TPRs, and this paper, focus on the pre-Covid era, mainly the period 2012-19. Both surveys were written as the Covid-19 pandemic was unfolding, and therefore some further remarks on its economic impact are included, while noting that thus far it has not had any discernible effect on trade policy.

[1] This paper was commissioned by the editor of The World Economy for the 2021 Global Policy Review. With the usual caveat, we thank Prema-Chandra Athukorala and Arianto Patunru for assistance in the preparation of this paper.

2. The Two Economies

With a combined population of 345 million people, Indonesia and Thailand are the two largest economies of Southeast Asia. They are upper-middle income, historically dynamic economies.[2] They were among the seven East Asian 'miracle' economies in the World Bank's 1993 study. Out of the 150 economies examined by the 2008 Growth Commission, they were also grouped with just 11 other high-growth economies. Table 1 presents a range of economic and institutional indicators for the two countries, including also for comparative purposes two neighbours, higher-income Malaysia and lower-income the Philippines.

The countries' economic dynamism is indicated by the fact that Thai per capita income has risen some eleven-fold since 1960 and more than six-fold for Indonesia. By comparison, per capita income in the Philippines rose three times over this period, which also approximated the global figure. In other words, both economies, and especially Thailand, have grown much faster than the global average. As a result, living standards have risen and poverty has fallen rapidly in both countries.

Table 1: The Indonesian and Thai Economies in Comparative Perspective: Various Indicators

	Indonesia	Thailand	Malaysia	Philippin
Per Cap GDP, PPP $'000, 2019	12.3	19.3	29.6	9.3
GDP decline, 2020, %	2.1	6.1	5.6	9.6
PCI 2019/1960	6.5	11.4	9.2	3
% Poverty ($3.20 PPP)	30.5	0.5	0.2	25.8
Trade/GDP, 2019	37.50	109.6	123	68.8
Weighted average tariff, 2019	2.00	3.5	4	1.7
FDI stock/GDP, 2019	20.50	46.9	46.1	24.1
Index of Econ Freedom, 2021	66.00	69.7	74.4	64.1
Electronics P&C, global share, %	0.40	1.9	2.4	1.1
GPN products in total exports, %	28.40	44.6	57.5	68.2
OECD FDI restrictiveness	0.35	0.27	0.25	0.37
Tourism/GDP, %	1.70	12.1	6.1	2.8
ITU, % of pop internet access	47.70	66.7	84.2	43
World Bank EODB (/190)	73	21	12	95
Transparency International (/180)	85	101	51	113
Polity 4, 2018	9	-3	7	8

Source and notes: See text.

This economic buoyancy has been maintained during the 21st century, with per capita income almost doubling again between 2000 and 2019. But growth has slowed somewhat in both countries, for a variety of reasons associated with the literature on the so-called middle-income trap. Both countries have been adversely affected by the Covid pandemic, Thailand in particular, in part owing to its greater international orientation, including heavy reliance on

[2] Technically Indonesia dropped out of this income group as a result of the 2020 Covid crisis, but it will shortly resume membership.

international tourism. It is still too early to reliably forecast their post-pandemic recovery trajectories, but there are reasonable prospects that they will return to their earlier growth paths.

The two countries' economic structures differ in several important respects. Thailand continues to be a major food exporter and, combined with its greater international orientation, it is the home to several major agribusiness conglomerates. It also has successfully adopted an export-oriented manufacturing strategy, with large electronics and automotive sectors that are deeply integrated within GSCs. Moreover, it has an internationally-oriented services economy, as discussed further below. Indonesia, the world's largest archipelagic nation-state, is a resource-rich energy-exporting economy, and it is also one of the world's largest exporters of tropical cash crops. As a result, Indonesia has experienced episodes of volatile terms of trade, and the so-called Dutch Disease during periods of high commodity prices. Nevertheless, it has generally managed the macroeconomy prudently, as has Thailand. In fact, prior to the Covid pandemic, over the past half-century, the two countries have experienced just one major economic recession, the 1997-98 Asian Financial Crisis (AFC). The general absence of serious exchange rate misalignment has removed a frequent trigger for rising trade protectionism that is evident in many developing countries.

The two countries' trade and commercial policies have been shaped by the interplay of a diverse set of factors, including geography, natural resource endowments, history, ideology, institutions, and the global economy. In response to centuries of colonial rule and the struggle for independence, strong opposition to economic liberalism has been evident for periods in Indonesia, resulting in the early 1960s in its withdrawal from all major international organizations and the nationalization of all foreign property. However, since the late 1960s, it has been a broadly open economy, albeit with continuing ambivalence about the merits of globalization. Thailand by contrast was never colonized, and it has never experienced major swings in its trade and commercial policies. It was one of just six developing economies classified as 'always open' in the pioneering Sachs and Warner (1995) study. It has remained outward-looking if somewhat less trade-dependent over time and notwithstanding some pockets of trade protectionism.

These policy settings are reflected in the summary indicators in Table 1. Thailand is significantly more trade-oriented than Indonesia, though not as open as Malaysia. The two countries score reasonably highly on various indicators of economic freedom. They are also significant recipients of foreign direct investment (FDI), again more so in the case of Thailand, as a result of its more open policy regime. Both countries have low average weighted tariffs on imported goods. The Thai average is slightly higher, but as will be discussed in the following two sections Indonesia has higher dispersion of tariff rates and greater reliance on non-tariff barriers. Thailand's greater and more durable international orientation has bequeathed a strong and politically influential export constituency that has in turn constrained trade policy protectionist pressures.

Thailand is also more open to services trade and in particular the cross-border movement of people. It is one of the developing world's major tourist destinations, temporarily disrupted owing to the Covid pandemic, and tourism accounts for 12% of its GDP. Bangkok is in addition a major regional and international civil aviation hub. Its international borders are also porous, and open to extensive labour in-migration from poorer neighbouring countries, much of it quasi-legal, and both temporary and permanent flows. While open to tourists, Indonesia adopts a much more restrictive approach to inward labour mobility. It is also a significant labour exporter, particularly to neighbouring Malaysia. Thailand is also better positioned to participate in the rapidly growing global electronic commerce and digital trade, as indicated by its substantially higher internet penetration.

There are also institutional and political differences between the two countries that have implications for the conduct of trade and commercial policy. Indonesia ranks more highly on various democratic indicators, with the implication that the political market for trade interventions is more open and contestable. It also has a complex business regulatory environment and ranks less favourably on the various international surveys of corruption. This suggests that there is greater scope for rent-seeking behaviour, included as it affects trade policy. Indonesia also has a larger state enterprise sector, which in certain tradable sectors increases the pressure for import protection. We return to these issues below in the country surveys.

Trade and commercial policy in Indonesia and Thailand are also shaped by two major factors – ASEAN membership and participation in GSCs. Indonesia and Thailand are important members of ASEAN, and ASEAN has been important to them not just for trade but in shaping their international commercial policies. Thailand played a prominent role from the start, hosting the signing of the Bangkok Declaration that established ASEAN in August 1967. A decade later, the ASEAN Secretariat was set up in Jakarta. The influence of ASEAN membership on trade and investment policies started with the ASEAN Free Trade Area in 1992 through to the ASEAN Trade in Goods Agreement (ATIGA) in 2009 and finally the ASEAN Economic Community (AEC) in 2015, to be concluded in 2025. They are also party to various "ASEAN+1" FTAs, some of which will be consolidated within the Regional Comprehensive Economic Partnership (RCEP), which Thailand has ratified but Indonesia has not. Both are members of Asia-Pacific Economic Cooperation (APEC) but not the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) although both have indicated an interest in joining. Thailand has an additional 6 bilateral FTAs in force, 3 of which are with countries already covered in the ASEAN+1 agreements, while Indonesia has 2 non-overlapping agreements.

These agreements have forced Indonesia and Thailand to speed up domestic and trade reforms to comply with their commitments. With vested interests resisting reforms at home, these agreements have enabled difficult policies to be pursued by invoking the so-called "our hands are tied" argument and minimised backtracking on reforms during periods of low growth or crises. There are pressures for what is sometimes termed 'competitive liberalization', of countries opening up after observing the success of neighbours. Initially, this was the key role of Singapore and to a lesser extent Malaysia. This century, the latecomers Cambodia and Vietnam have opened up aggressively, in some respects overtaking some of the original ASEAN member countries.

Most of the ASEAN-related agreements have served as building rather than stumbling blocks in opening up their economies in a non-discriminatory manner (Hill and Menon, 2012). Preferential tariffs have been almost fully multilateralized; for more than 95% of the ATIGA tariff lines for Indonesia and Thailand, the margin of preference is zero (ERIA, 2021). In this way, ASEAN has helped globalize more than regionalize these economies. Given Thailand's already heavy involvement in GSCs in the electronics and automotive sectors, the non-discriminatory and outward-looking aspect of these regional agreements has been critical. This is also true for Indonesia, which is trying to increase its engagement in GSCs in electronics, starting from a low base, and moving beyond simple assembly in the automotive sector.

For FTAs to be useful to GSCs, they need to go beyond just tariffs, however. This is because the firms involved in GSCs are usually located in Special Economic Zones (SEZs) or Industrial Estates (as they are known in Thailand), where tariff duties are waived on most of their imports through various duty exemption schemes. For GSCs associated with electronics, the Information Technology Agreement (ITA) and its expansion (ITA2) removes the duty on 97% of information technology and communications products traded (WTO, 2021). To support GSC trade, FTAs must deal with the plethora of trade rules and regulations and other non-tariff barriers that can substantially raise trade costs. Apart from trade facilitation relating to customs procedures and the like, the ASEAN agreements have not progressed very far in these other areas (see Menon, 2018).

It is perhaps through modern trade agreements such as RCEP, or CPTPP in the future, that the various WTO+ and WTO-X issues can be addressed in these countries to support their participation in GSCs. Although the "small numbers" approach to complex issues like digital trade involving bilateral and trilateral agreements is being gainfully pursued by Singapore with some of its CPTPP partners, it is unlikely that the bilateral agreements that either Indonesia or Thailand are involved in will or can do the same. It is not just about modality either; while Thailand has been more proactive than Indonesia in embracing digitalisation, attention has focused on e-commerce more than sensitive issues relating to data transfer and localisation. Rather than reduce trade costs, the proliferation of bilateral agreements that Indonesia and Thailand are involved in is creating a noodle-bowl of overlapping deals that is not GSC-friendly. As noted, RCEP may remove some of these contradictions and overlaps, but the rest has to be neutralized through a process of unilateral multilateralization (Menon, 2014).

3. Indonesia

As noted, Indonesia is a moderately open economy in spite of reservations about globalization from influential sections of the polity and community. From being a member of the 'Peking-Pyongyang-Hanoi-Phnom Penh-Jakarta axis of newly emerging forces' in the early 1960s, the trade and commercial policy pendulum has since swung back and forth, from periods of very open economic policies to episodes of economic nationalism and more inward-looking postures. During the authoritarian Soeharto era, 1966-98, the policy battles were broadly between the more market-oriented 'technocrats', and groups of economic nationalists, industry planners and 'technologists', each with affiliated rent-seekers. The technocrats were generally empowered during more difficult economic times, when reform became the imperative to sustain growth, hence the popularity of the phrase that 'bad times make for good policies' (Basri and Hill, 2004). In fact, the major policy reforms of the 1980s resulted in relatively uniform effective rates of protection and limited reliance on non-tariff barriers (Fane and Condon, 1996), apart from the increasingly egregious corruption associated with the Soeharto family business interests.

During the democratic era, from 1999 onwards, these tensions and pendulum swings have persisted, in addition to the pressure of electoral politics in the making of trade policy.[3] Nevertheless, even in the 'good times' of booming commodity prices over this period, the rising economic nationalism has been tempered by three factors: ASEAN and other regional and international commitments; technocratic control over the key Ministry of Finance; and the reality that beyond some threshold high import barriers attract extensive physical and technical smuggling.[4]

There are three immediate implications of this swinging policy pendulum. First, apart from the major 1994 APEC 'Bogor Declaration', Indonesia has generally not been a major player in regional and international trade policy initiatives, preferring in the words of one influential policy maker to 'sit on the fence' (Basri, 2012). Second, the trade minister is a presidential appointment, and there has been frequent turnover of the position. Over the past decade, for example, there have been no fewer seven trade ministers, each with a variety of political backgrounds and technical expertise, and they have held widely divergent (and in some cases controversial) views of trade issues, from broadly liberal and international to strongly protectionist.[5] Third, and partly in consequence, trade and industrial policy have tended towards incoherence. One frequently recurring illustration of this proposition is the strategy of enforced local content measures in manufacturing alongside the professed desire of policy

[3] There is a large literature that surveys and analyzes Indonesian trade policy during the democratic era. See for example Pangestu, Rahardja and Ing (2015), Patunru (2019), Patunru, Pangestu and Basri (eds, 2018), and Patunru and Rahardja (2015). Note that Pangestu was Indonesian trade minister 2004-11.

[4] Hence the popular saying in the country that 'Indonesia was made by God for free trade'. The 'reality' here refers to the fact that Indonesia comprises 17,000 islands in very close proximity to free-trade Singapore (Singapore still does not release its bilateral trade statistics with Indonesia owing to the sensitivity of the smuggling issue), and a corruption prone customs service.

[5] Since 2010 the ministers have been Pangestu (-2011), Wirjawan (2011-14), Gobel (2014-15), Lembong (2015-16), Lukita (2016-19), Suparmanto (2019-20), and Lutfi (2020 -).

makers to participate more actively in GSCs. As observed in the previous section, and also mentioned in the WTO report, Indonesia's role in these activities is surprisingly small, especially considering the active role that several of its neighbours play, including even latecomer reformers like Vietnam. The reason for this under-performance is principally the domestic policy environment.[6]

The WTO (2020b) Trade Policy Review (TPR) of Indonesia, the first in seven years, comprehensively examines these and many other issues. After a general economic survey, including deserved praise for the country's moderately strong pre-Covid economic performance, and the comparatively moderate economic impacts of Covid in 2020, it investigates many aspects of trade policy and performance. Appropriately, it locates the study in the broader context of Indonesia's trading relationships. These include its diversified export structure (Table 2). In 2019, fuels (20.8%) and other agriculture (17.0%) were the two largest export groups, while a further 10 items each contributed in the range 5-10%. Manufactures as a group constituted 45.8% of the total. These shares were broadly similar in 2012, except for the higher share of fuels and the lower share of manufactures. Recall that in the earlier year commodity prices were at historically high levels, and the higher fuel shares were therefore explained by buoyant coal and gas prices.

Table 2: The Composition of Indonesian Merchandise Exports, 2012 and 2019 (Percentage of total)

	2012	2019
Fuels	33.3	20.8
Other Agriculture	14.4	17.0
Palm Oil	9.3	8.8
Machinery	8.5	7.5
Other Semi Manufactures	7.0	6.8
Textiles and Clothing	6.3	7.4
Other Mining	6.3	5.5
Chemicals	5.6	6.2
Other Consumer Goods	4.7	7.4
Transport Equipment	3.5	5.9
Gold	1.1	2.1
Iron and Steel	na	4.7
(Manufactures)	35.6	45.8
Total	100	100
Total USD billion	190	167

Source: WTO (2020b), Chart 1.1.

[6] See for example the studies by Patunru and Surianta (2021) and Soejachmoen (2012).

Indonesia's trade patterns across countries and regions are also diversified. Even though the other nine ASEAN members, China and the USA account for slightly over half of merchandise exports (and imports), Indonesia has significant trading relationships with many other countries, particularly in East and South Asia. Here too the shares have been reasonably stable, with the principal exception of the rising China share, much of it at the expense of Japan. These patterns draw attention to two key features of Indonesia's trade. First, its diversified structure both by product and destination, which has, in turn, contributed to the country's resilience in the face of external shocks. The second is the country's relative natural resource abundance, in both mining and agriculture, which distinguishes it from the many resource-poor economies of East and Southeast Asia, and which results in strong economic complementarities between them.

The TPR also highlights Indonesia's limited participation in various regional and bilateral trade agreements. In fact, of the 11 in operation as of 2020, all but two are ASEAN-wide agreements to which Indonesia has acceded. The two bilaterals are with Japan (extending to 9.5% of total imports) and Pakistan (a 'political' agreement extending to a trivial 0.3% of total imports). As noted, Indonesia's principal motivation for the Japan agreement was to facilitate labour market access to that country. However, it has not yet led to any appreciable increase in Indonesian labour exports to that country.

The main original contribution of the report is the very detailed survey of Indonesian tariffs and associated trade regulations. Table 3 provides a summary picture of the tariff schedule in 2012 and 2020. Several features warrant emphasis. First, tariffs are now a minor source of government revenue, generating just 2.6% of total tax revenue in 2018. The (unstated) implication is that further trade liberalization, ie, lowering of tariffs, would not have any significant adverse fiscal implications. In fact, *ceteris paribus*, the tariffication of the various NTB's and other trade restrictions would probably actually <u>increase</u> tariff revenue. Second, although the average applied tariff is low, there is a multiplicity of rates, comprising 17 ad valorem duties, and five specific duties. These are summarized in Charts 3.1 and 3.2 of the TPR. This is a slight increase from the 2013 review. Tariff dispersion has also increased, and tariff escalation across the stages of production has become more pronounced. The multiplicity of tariff rates has the implication (again unstated) that it enhances the possibility of technical smuggling through reassignment of incoming goods to lower tariff lines.

A third feature is that the intersectoral distribution of rates reflects government priorities, which in turn partly reflect political lobbying for protection.[7] Thus, the tariffs are highest for certain agricultural protection, rice in particular, where periodic import bans have been imposed. Tariff protection for some manufactures has also increased, mainly associated with

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[7] Nevertheless, the phenomenon of 'protection for sale', that is, lobbying for sector- or firm-specific trade protection in exchange for political donations, does not appear to be particularly widespread in Indonesia, at least as compared to other forms of rent-seeking behaviour (see Aspinall and Berenschot, 2019). An earlier study by Basri (2001) attempting to explain inter-sectoral variations in manufacturing during the Soeharto era found that 'cronyism', proxied by the closeness to the Soeharto family business interests, had some explanatory power.

the government’s 2018 initiative known as ‘Making Indonesia 4.0’. Fourth, the report draws attention to a range of non-tariff measures, including various NTB’s, export taxes (mainly to support downstream processing activities), and export bans, the latter including the controversial decision to prohibit the export of nickel ore. However, no attempt is made to measure the tariff-equivalence of these many interventions.

Table 3: The Structure of the Indonesian Tariff Schedule, 2012 and 2020

	MFN Applied	MFN Applied2	Bound Rate
	2012	**2020**	
Bound tariff lines (% total lines)	na	89.5	89.5
Simple average rate, %	7.8	10.1	37.9
HS 01-24	**9.5**	**10.2**	47.8
HS 25-97	**7.5**	**10.1**	35.7
WTO agricultural products	**10.5**	**11.2**	49.8
WTO non-agricultural products	**7.4**	**9.9**	35.9
Duty-free tariff lines (% of lines)	**12.5**	**12.0**	2.9
Simple avg of dutiable lines	**9.0**	**11.5**	39.1
Tariff quotas (% of all lines)	**0.0**	**0.0**	0.0
Non-ad valorem tariffs (%)	**0.6**	**0.2**	0.0
Domestic tariff peaks (%)	**2.6**	**4.7**	0.8
International tariff peaks (%)	**3.4**	**13.5**	84.7
Nuisance applied tariffs (%)	**0.0**	**0.0**	0.0
Standard deviation	11.4	13.2	14.8
Total number of tariff lines	10,012	10,813	10,813
Ad valorem rates (>0%)	8,696	9,487	9,368
Duty-free rates	1,251	1,299	310
Specific rates	65	27	0
Unbound tariff lines	na	na	1,135

Source: WTO (2020b), Table 3.2.
Notes: See original source for additional explanations.

In addition to these formal trade interventions, the report documents various additional policies that have implications for the conduct of trade policy. One is the various export zones – Indonesia has both ‘special economic zones’ and ‘free trade zones’, both with designated regulatory arrangements. Historically these were a quite significant feature of Indonesian trade policy at various periods, especially the Singapore-connected Batam export zone. For several years the Batam zone accounted for about half of the increment to the country’s manufactured exports, as Singapore transferred some of its labour-intensive manufacturing and service activities to this closely adjacent island. It was also included in Singapore’s customs zone in that country’s free trade agreement with the USA. However, Indonesia has dismantled much of these customs arrangements and replaced them with a regulatory environment that was largely incompatible with fast and efficient cross-border trade (Hutchison, 2017).

The report also documents Indonesia’s state-owned enterprise (SOE) sector and also the various government procurement programs. Indonesia has always had a substantial SOE sector for a variety of historical, ideological and pragmatic reasons. They are found in most sectors of the economy, with a significant presence in banking, utilities, telecommunications, transport, and heavy industry. There are generally no major implications for trade policy, apart from the direct and indirect subsidies they receive, and the typically higher barriers to entry in sectors where they are significant.[8] The government procurement programs are mostly minor in scale and mainly directed at support for small and medium enterprises.

4. Thailand

Thailand is an outstanding example of how openness to trade and investment combined with strong macroeconomic fundamentals can sharply reduce poverty and improve living standards even in a relatively large and populous country. While there are many examples of small economies with modest populations using similar policies to achieve these outcomes, very few populous nations have been able to do this as effectively as Thailand. Following its recovery from the AFC in 1997-98 and then the milder Global Financial Crisis (GFC) of 2008-09, and despite several episodes of political instability, trade, investment and macroeconomic policies have remained remarkably consistent. It is against this backdrop that the WTO completed its eighth TPR of Thailand in September 2020. Although the TPR covers the period from 2015 to 2019, it includes some discussion of the impacts of the pandemic in 2020 as well.

Tariffs in Thailand have been falling consistently since the AFC, dropping to a trade-weighted average of just 4% by 2019, as presented earlier in Table 1. Table 4 shows Thailand's average MFN tariff to be much higher at 14.4% in 2020, however, with the difference between the two due to the proliferation of FTAs with non-negligible MOPs. While Thailand’s trade policy before the AFC was characterized by non-discriminatory unilateral liberalisation, reinforced by the Uruguay Round Agreements, it has since shifted decisively towards preferential trade agreements, especially bilateral ones (Sally, 2007).

Also concerning is the complexity and dispersion of rates within its tariff structure, as the TPR highlights. Tariff rates range from zero to 226% when ad valorem equivalents are excluded, and 557% when they are included. Table 4 also shows how agricultural products face considerably higher tariff rates (averaging 32.7%) and non-tariff barriers (NTBs) than non-agricultural products (averaging 11.8%). Most of the NTBs apply to sensitive agricultural products such as soybean, palm seed, silk and milk (Jongwanich, 2021). Finally, it is worth noting that there is significant ‘water in the tariff’, with a substantial gap between bound and applied rates.

[8] For a detailed examination of SOEs in Indonesia in comparative Asian context, see Ginting and Naqvi (eds, 2020).

During the TPR period, the economy grew at a modest annual average of 3.4%, driven mainly by private consumption and net exports. On the supply side, the services sector increased its contribution to GDP to reach 61% in 2019, while the shares of manufacturing and agriculture declined slightly. Nominal GDP per capita approached USD 8,000 in 2019, crossing the upper-middle-income country threshold several years ago.

Thailand’s GDP growth started to slow before the pandemic in 2019, and the general lockdown introduced in early 2020 greatly exacerbated the downturn. In fact, Thailand was already in a technical recession before the first lockdown started, with year-on-year growth having contracted by 0.3% in the fourth quarter of 2019 and 2.5% in the first quarter of 2020. The almost two-month general lockdown from the end of March to the middle of May produced the biggest quarterly drop in GDP in 22 years of 12.2% in the second quarter. This was only marginally less than the worst quarterly contraction witnessed during the AFC of 12.5%.

Table 4: The Structure of the Thai Tariff Schedule, 2014 and 2020

	MFN Applied	MFN Applied2	Bound Rate
	2014	2020	
Bound tariff lines (% total lines)	na	76.3	76.3
Simple average rate, %	13.4	14.4	31.3
WTO agricultural products	**34.7**	**32.7**	41.7
WTO non-agricultural products	**10.1**	**11.8**	29.2
Duty-free tarrif lines (% of lines)	**17.6**	**30.4**	3.3
Simple ave of dutiable lines	**16.3**	**20.8**	32.7
Tariff quotas (% of all lines)	**1.2**	**1.2**	1.2
Non-ad valorem tariffs (%)	**7.8**	**8**	17.7
Domestic tariff peaks (%)	**4.1**	**7.1**	0.7
International tariff peaks (%)	**27.4**	**26.8**	67
Nuisance applied tariffs (%)	**9.3**	**0.6**	0.1
Standard deviation	23.7	23.7	23.2
Total number of tariff lines	9,558	10,813	10,813
Ad valorem rates (>0%)	7,129	6,664	5,990
Duty-free rates	1,683	3,289	355
Specific rates	39	37	7
Unbound tariff lines	na	na	2,557

Source: WTO (2020a), Table 3.2.
Notes: See original source for additional explanations.

Thailand is the ASEAN country that is most reliant on tourism, as noted earlier. Hotels and restaurants alone accounted for 5.9% of GDP (out of 12.1) and 7.6% of employment in 2019. Tourism is also the country's main foreign exchange earner, with travel services generating USD 60.5 billion, or 73.8% of total services exports, in 2019. Not surprisingly, international travel restrictions and domestic border closures have decimated the sector, leading to a 28.3% contraction in exports of goods and services in the second quarter of 2020. This combined with social distancing measures that continued throughout the year led to an overall GDP contraction of 6.1% in 2020 (Table 1).

Despite the highly transmissible Delta variant producing a substantially bigger and longer outbreak in 2021, economic recovery has slowed but has not been derailed. The bottom that was hit in the second quarter of 2020 is unlikely to be retested and the quarterly contractions have been narrowing ever since, before it turned strongly positive in the second quarter of 2021. Growth went from -2.6% in the first quarter to 7.5% in the second quarter of 2021, although this was boosted by the trough in the same quarter of a year ago. There are a number of reasons why a more severe community outbreak is not having as much of an impact on the economy this time around. A less draconian response from the government with more targeted restrictions, better adaptability by businesses and an increase in stimulus spending account for the resilience of growth this time around.[9]

Thailand has also been experimenting with unilaterally removing border restrictions in a calibrated manner, employing the "sandbox" or micro herd immunity approach allowing quarantine-free travel from select countries to tourist destinations like Phuket and Koh Samui. Although it is still early days, these attempts have produced somewhat disappointing results due to a limited uptake caused by cumbersome procedures and risk aversion, the latter made worse by mini outbreaks resulting from domestic rather than international travellers. These moves help limit the growing disparity between restrictions on intra- versus inter-country movement of people. While borders remain largely closed, domestic restrictions were further eased in September 2021 despite community cases remaining high. As it ramps up its vaccination drive, Thailand is planning to open up more tourist destinations to vaccinated foreign visitors by November.

Although Thailand remains a highly open and outward-oriented economy, it has been rebalancing its sources of growth between domestic and foreign following the GFC. Total trade as a share of GDP has fallen from a peak of 150% in 2008 to 110% in 2019 (Table 1). Manufactured goods made up almost three-quarters of Thailand's exports with electrical machinery and transport equipment accounting for almost half of that (Table 5). Agriculture still made up about a fifth of total exports in 2019. Imports are also concentrated in manufactured goods, reflecting the two-way trade characteristic of GSCs, although fuels and other mining products are also important. About a third of total trade is conducted with China, with imports about double that of exports. ASEAN and China are the biggest trading partners followed by Japan, Korea, the US and the EU.

[9] The government is spending an unprecedented 1.5 trillion baht or 9.6% of GDP to support growth and the policy rate has been reduced from 1.25 to 0.5%.

Thailand has run a current account surplus throughout the TPR period, leading to a substantial accumulation of foreign exchange reserves. Such reserves reached an all-time high of USD 258 billion in 2020. This has led to strong appreciation of the baht and concerns over competitiveness, alleviated somewhat by the depreciation during the pandemic.

Trade and FDI are increasingly interlinked given Thailand's growing involvement in GSCs. The country is highly receptive to FDI, with various investment incentives provided to select industries and regions, with a more recent focus on the Eastern Economic Corridor. FDI has played a critical role in transforming Thailand from a largely agrarian economy to a manufacturing export hub. Japan has continued to be the main source of FDI and the key driver of its integration into GSCs in the electronic and automotive sectors. Inflows from China, Hong Kong and the US continue to be significant, although flows from the EU have been falling. Despite large FDI inflows, Thailand has become a net capital exporter with a significant share of greenfield investments going to neighbouring Mekong countries.

Table 5: The Composition of Thai Merchandise Exports and Imports, 2019 (Percentage of total)

	Exports	Imports
Agriculture	17.5	7.9
Fuels	3.4	15.5
Other Mining	1.7	3.9
Iron and steel	-	5.4
Chemicals	9.8	10.7
Other semi-manfactures	10.3	7.2
Non-electrical machinery	7.1	8.9
Electrical machinery	20.8	19.2
Transport Equipment	15	7.6
Textiles and Clothing	3.1	-
Consumer goods	7.2	9.4
Gold	3.4	3.2
(Manufactures)	73.3	68.4
Total	100	100
Total USD billion	246.2	236.6

Source: WTO (2020a), Chart 1.3.
Notes: See original source for additional explanations.

The ILO estimates that there were about 2.8 million documented migrant workers in mid- to late-2019, half of whom were from Myanmar, while the UN International Organisation for Migration puts the figure at between 4 and 5 million if undocumented workers are included (United Nations Thematic Working Group on Migration in Thailand, 2019). Migrant workers are generally younger than their local peers and are spread across both tradable (manufacturing and seafood industries) and non-tradable (construction) sectors. These workers have been key to maintaining Thailand's international competitiveness by moderating appreciation of the real exchange rate, especially given the strengthening baht during the TPR period, and in ensuring a sufficient supply of low-skilled, low-cost labour.

The recent recession has seen massive retrenchment and repatriation of both documented and undocumented workers. The plight of migrant workers has been made worse after they were targeted as carrying a higher risk of spreading the coronavirus and were shunned by both host and home country. There is concern that restrictions raised during the pandemic on migrant workers will remain in place long after they are warranted and may eventually spill over into an increase in undocumented flows across porous borders.[10] Such an increase appears almost inevitable, given both push and pull factors, unless heightened protectionist and nationalist sentiments are overcome and restrictions are lowered.

Thailand's heavy reliance on tourism and travel-related services trade, as well trade in goods associated with manufacturing supply chains means that it cannot afford to turn inward or succumb to anti-globalisation pressures at home. This is the immediate challenge facing Thailand in a post-pandemic adjustment phase. Although the ongoing political uncertainty and social tensions have raised concerns over governance, so far it has not affected trade policy. The fact that Thailand was the first ASEAN country to ratify the RCEP is testimony to that.

Looking forward, Thailand needs to address a number of long-term challenges if it is to continue to reap benefits from trade, and ensure that there is sufficient social and political buy-in to remain open and outward-looking. This is particularly important given the rising anti-globalisation tide that the pandemic has fuelled, as mentioned earlier. The first of these relates to the various kinds of inequalities that persist. Although income inequality as measured by the Gini index appears to have fallen sharply from 47.9 in 1992 to 36.4 in 2019, this figure remains quite high and has likely worsened considerably as a result of the pandemic. Furthermore, while income inequality has been falling, wealth inequality has been increasing. A Credit Suisse (2018) report found that the wealth gap in Thailand was the highest in the world in 2018, with the top 1% controlling 67% of the country's wealth.[11] Social unrest is likely to increase unless these inequality gaps are narrowed.

Looking even further ahead, Thailand's rapidly ageing population and shrinking labour force will place new pressures on growth and its fiscal position. It will also affect productivity and competitiveness without significant investments in reskilling its workforce and rebuilding physical infrastructure - a situation made more challenging by declining public and private investment. These factors combine to increase the need to remain open to trade and receptive to labour, capital and technology flows, more than ever.

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[10] Undocumented workers face a much higher risk of exploitation and abuse, and any increase in such flows will not serve the interests of sending or receiving countries.

[11] Between 2007 and 2018, the share of wealth held by the bottom 50% fell from 8.5% to 1.7%, which the share of the top 10% increased from 51% to 85.7%. Although there are issues relating to measurement and disclosure that may affect the accuracy of these estimates, there are other signs of growing, underlying disparities.

5. Conclusion

Trade and commercial policies in the two countries reflect the interplay of geography, history, and domestic institutions and political economy, together with a range of regional and global factors. Arguably the latter have been the main drivers of international economic policy over the past decade, as there have been only minor changes in discretionary trade policy settings. First, both countries signed on to the 2015 ASEAN Economic Community protocols, which continued the trend of rising ASEAN economic integration, importantly in the context of outward-looking policy settings where intra-regional concessions are generally multilateralized.

Second, both countries but Thailand in particular, are significant players in GSCs which for their effective operation require the fast and unimpeded movement of goods (mainly intermediate components) across international borders. Third, over this period China has emerged as the undisputed regional economic superpower, including as trader, investor, and source of tourists. Its scale is such that it has lowered the global price of manufactures in which it specializes, substantially influenced trends in global commodity prices, and reshaped the structures of GSCs. The rise of China has also had different effects on the two economies. For example, its impact on global energy and mineral prices transmits to greater volatility in Indonesia's terms of trade, while China's rising prominence as a source of global tourism and as the centre of GSCs impacts more directly on Thailand.

These two WTO reports provide comprehensive surveys of the trade and commercial policy settings of Indonesia and Thailand. Following a standard format, they commence with a general economic survey, including trade and investment patterns. The primary original material relates to very detailed examinations of the tariff structures and schedules, in addition to a range of trade-related measures including membership of various preferential trading arrangements, the existence of special economic zones and related partial reform measures, and the roles of state enterprises and government procurement programs.

For future reviews, three additional topics warrant consideration. First, there is an extensive academic literature on both countries' trade policy, a small fraction of which is cited in this paper. It would be useful if these reports could source beyond the official government material and reports by major international agencies, useful as they are. Second, there have been several major studies of effective protection in the two countries, especially in the manufacturing sector, and these give a more accurate picture of the policy regime's intersectoral structure of incentives. Third, while it is recognized that the WTO is not in a position to make political commentary, some sense of the political economy of trade policy, and the practical implementation of the many policies discussed in the report, perhaps along the lines adumbrated above, would have assisted the reader.

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