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Thailand and New Regionalism

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Introduction

The world economy has been increasingly integrated through trade, investment and financial markets over the last three decades. The degree of synchronization of economic activities in the world has become more pronounced. Consequently, developing economies have been adversely affected by fluctuations of the world business cycle. Nevertheless, there is no doubt that high economic growth in developing countries can be attributed to outward-oriented policy which relies on export growth as a driving force. Pro-trade and pro-investment policy has led to continued expansion of industries and increased inflows of foreign direct investment in developing countries. High growth also enables developing countries to successfully reduce their poverty levels.

For Thailand, the process of globalization or closer integration with world commodity markets has been on-going for the last three decades. The share of international trade to GDP also increased tremendously, partly due to the reduction of the government’s dependence on international trade taxes. As shown in Figure 7.1, the value of exports and imports has exceeded GDP since 1996. The increasing degree of globalization continues unabated despite the recession of 1998. By 2005, the degree of trade openness had reached 250 per cent of GDP.¹ The size of the international trade sector has doubled the size of GDP, thanks to the economic expansion generated by export growth and importation of capital and intermediate goods for the manufacturing sector. In addition, the fragmentation production processes has led to more trade volume in parts and components of manufactures (Deardorff, 2001).
Thailand’s exports of manufactures also responded to tariff reductions in industrial countries through GATT liberalization. According to Abreu (1966), the high tariff wall on manufactures of industrial countries of around 50 per cent in the 1940s was reduced to only 4 per cent by 1988 at the early stage of the Uruguay Round. Similarly between the early 1980s and the late 1990s, the average tariff rates in developing countries were cut in half; by 1999 the average tariff rates of developing countries were only 11 per cent (Martin, 2003). In Thailand, trade reform through the dismantling of tariff walls employed to protect infant industries in the 1960s was undertaken earnestly in the 1980s and continued throughout the 1990s.

The Thai government has relied less on tariff revenue and depended more on revenue collected from direct taxation and value-added taxes. The percentage of international trade tax revenues in total international trade value, a proxy for the tariff rate, had been declining until it became stagnant around 3 per cent between 2000 and 2003 (Figure 7.1). Thailand has reached the stage where it is difficult to further reduce tariff rates, unless further reform is forced by liberalization through commitment imposed by regional trade blocks. Integration into the global economy requires that the tariff rate must fall further. If Thailand cannot do so, it would miss the opportunity to grow, since the structure of world trade has substantially changed from the past decade. Developing countries have shifted from dependence on exports of commodities to relying more on exports of manufactures to developed countries (Martin, 2003). Thailand must open more to take

![Figure 7.1 Degree of trade openness and average trade tariff](source: Bank of Thailand and Customs Department.)