SUMMARY

1. Since its previous Trade Policy Review in 2011, Thailand's strong fundamentals and appropriate policy mix have helped maintain macro-financial stability and ensure the resilience of its economy despite several endogenous and exogenous challenges that slowed the pace of recovery from the global financial crisis. After rising to 7.3% in 2012 as a result of robust domestic consumption, real GDP growth decreased progressively to 0.9% in 2014; monetary and fiscal stimulus measures are expected to help raise growth in 2015 and 2016. Developments in Thailand's position among the most competitive economies in the world reflect slight improvements in total factor productivity growth, but also weaknesses in several areas where reforms are either under way or under consideration. Whereas in 2014 headline inflation dropped progressively to 1.9% (half of its 2011 level), the unemployment rate has hardly changed (0.8%).

2. During the review period limited trade and trade-related structural reforms (e.g. rice and energy pricing) were undertaken. Long-awaited reforms aimed at spurring productivity growth, thereby improving Thailand's international competitiveness, and enhancing growth are under consideration in areas such as taxation, competition policy, transport infrastructure, management of state enterprises, and promotion of innovation and industries in high value-added sectors. To facilitate economic recovery monetary and fiscal stimuli are being put in place. More specifically, since April 2013 the Bank of Thailand (BOT) has gradually cut its policy interest rate from 2.75% to 1.5%, and fiscal deficit has been on the rise to accommodate additional government spending including on infrastructure investment.

3. The responsiveness of the managed-float exchange rate to economic developments contributed to maintaining macroeconomic stability and remains an effective buffer against balance-of-payments shocks. The nominal exchange rate has slightly depreciated (except in 2013) while the effective exchange rates appreciated owing to, *inter alia*, the domestic political situation, uncertainty in the global economic outlook, divergent monetary policy actions by some major central banks, economic developments in the United States and the eurozone economies, and the volatility of capital inflows into the region's bond and stock markets. The current account surplus (2011) shifted to a rising deficit (2012, 2013), due, *inter alia*, to net gold imports and repatriation of profits and dividends by foreign businesses. In 2014 however, the current account returned to surplus owing mainly to a decline in imports following the economic slowdown and the fall in oil prices towards the end of the year, which more than offset the impact of declines in the prices of export commodities, notably rice and rubber. Thailand's gross official reserves dropped primarily due to valuation changes. Gross external debt increased.

4. The openness of the Thai economy to international trade, and its integration into the world economy continued to be reflected by the high, but slightly lower, ratio of its trade (exports plus imports) in goods and services to GDP that stood at 131.8% in 2014. International trade and foreign direct investment (FDI) trends reflect the continued importance of Asia as Thailand's main regional market and supplier, though China, the United States, the European Union, and Japan remain its major individual trading and inward FDI partners; the intensification of its trade and investment ties with Cambodia, Lao PDR, Myanmar, and Viet Nam and China is noticeable. Although merchandise trade has remained largely and increasingly dependent on manufactures due to the decline of commodity prices and domestic rice policy measures, structural constraints affecting adversely Thailand's competitiveness emerged. Thailand's policy on foreign direct investment remains unchanged. FDI caps are in place in several subsectors, including: media; agriculture; forestry; fisheries; transportation; mining; various businesses relating to arts, handicraft and culture; financial services; telecommunications and tourism. In various other subsectors, official approval is required before foreign investment may proceed.

5. Political issues have continued to dominate the national agenda since Thailand's last review. Following a military coup in 2014, new executive and legislative bodies have been put in place, operating under an interim constitution while a new constitution is being prepared. A new partial-scope regional trade agreement (RTA) has entered into force with Peru and an RTA has been signed with Chile. Various other new, and changes to existing, RTAs are under negotiation. There has been significant progress within ASEAN to realize the ASEAN Economic Community by 2015. Since April 2015, Thailand has provided duty-free quota-free market access for least developed countries (LDCs). Thailand's GSP preferences in the US, EU and Turkish markets were terminated, which may have a negative impact on the automotive industry in particular. Thailand

has not been party to any new WTO dispute settlement cases as complainant or respondent since 2012.

6. The tariff remains one of Thailand's main trade policy instruments, and a relatively significant, albeit declining, source of tax revenue. Thailand undertook unilateral MFN tariff reductions on certain seafood products in 2014, and considers proceeding with further cuts and to simplify its tariff structure in the course of 2015. Nevertheless, as a consequence of tariff line changes relating to the introduction of the HS2012 tariff nomenclature (which resulted in 1,258 more lines) and higher *ad valorem* equivalent (AVE) rates, the average applied MFN tariff rate rose from 11.2% in 2011 to 13.4% in 2014. Non-agricultural products continue to face considerably lower tariff rates (averaging 10.1%) than agriculture items (WTO definition) (34.7%). Some 41% of applied MFN tariff rates are currently in the range zero to 5%. Peak *ad valorem* rates stood at 218% (out-of-quota rate, onion seeds) and 80% (motor vehicles). The tariff structure has become relatively less complex owing to the slight reduction in the number of applied MFN rates, which in 2014 stood at 100 (42 *ad valorem*, 13 specific rates, 45 alternate rates). An increasing number of tariff lines (74.6%) are subject to *ad valorem* rates, which contributes to the transparency of the tariff. Nevertheless, the numerous non-*ad valorem* rates affecting the remaining lines tend to conceal relatively high tariff rates, particularly on tamarind (AVE of 1,091.9%). For most activities, the tariff is characterized by escalation, which means that effective rates of tariff protection can be considerably higher than nominal rates. The fact that 73.6% of tariff lines (as of 2011) are bound imparts a degree of predictability to the tariff. However, the simple average of bound MFN rates could considerably exceed the average applied MFN rate (possibly by about 23 percentage points), providing the authorities with extensive scope for increasing applied tariffs within bindings. The passing to the HS2012 nomenclature involved tariff rate increases for around 600 tariff lines and reductions for 25 tariff lines; however, as Thailand's tariff Schedule of Concessions has remained based on the Harmonized Commodity Description and Coding System 2002 it is virtually impossible to compare its bindings' status with the currently applied HS2012 tariff schedule, thus, making the transposition of binding commitments to HS2012 another pressing task. Tariff rate quotas have remained in place for 22 agricultural items.

7. During the review period, trade facilitation improvements included the replacement of the "gold card" system of importers' benefits by the Authorized Economic Operator (AEO) Programme which was extended to importers. Thailand has become a signatory to the Revised Kyoto Convention as of June 2015 and is to complete the internal process necessary to ratify the WTO Agreement on Trade Facilitation by the end of 2015. No changes were made in the areas of customs valuation and rules of origin.

8. Import licensing and prohibitions on various items for, *inter alia*, economic reasons (infant industry protection) have remained generally unchanged during the review period. New import requirements for automotive tyre imports were imposed and notified to the WTO upon their date of entry into force. The share of national standards that are identical or similar to international standards remains at 32.3%. The maximum residue limits for pesticides in agricultural products was revised in 2013. During the review period, certain Members raised specific trade concerns (STCs) regarding certain standards- and labelling-related measures (pertaining, for example, to meat, food inspection fees, alcoholic beverages, pneumatic tyres of rubber, and ceramic tiles). Thailand remains a relatively infrequent user of anti-dumping measures, taken only in the form of duties, with most of them relating to items originating in Asia. No initiation of any investigation or application of any countervailing duty measures has occurred yet. However, recourse to safeguard measures intensified. Several contingency measures affected steel products.

9. Relatively high statutory export taxes on a few commodities (sawn wood and articles thereof, and hides) and the possibility of re-instating others continue to assist the downstream processing of such commodities, thereby distorting competition and thus the allocation of resources, and imparting an element of uncertainty to Thailand's trade and investment regime. No changes were made to export prohibitions, restrictions, or the licensing regime. Thailand maintains unchanged several schemes aimed mainly at facilitating exports, including bonded warehouses, duty drawback, "tax and duty compensation" as well as tax and non-tax privileges under the Industrial Estate Authority of Thailand Act and the customs free zones scheme. The self-financed and profitable state-owned Export-Import Bank of Thailand (EXIM Bank), which provides financial services in a competitive environment with commercial banks, has launched five new credit facilities for small and medium enterprise (SME) exporters.

10. Support for investment in priority sectors and remote areas continued through several relatively complex tax and non-tax incentives, whose cost-effectiveness is questionable and not rigorously or systematically evaluated. Support for SMEs was reinforced, *inter alia*, through a promotional tax exemption package to upgrade their machinery. Concerns about allegedly discretionary excise tax practices and plans affecting alcoholic beverages and automobiles were raised by certain Members during the review period. Activity-specific support with significant budgetary impact was provided to, *inter alia*, agriculture (e.g., rice-pledging programme) and energy where consumer subsidies and wide-ranging cross-subsidization (possibly equivalent to 1.7% of GDP) remain in place although subject to ongoing reform. State involvement in nine broad sectors of the economy (agriculture and natural resources, energy, manufacturing, financial, telecoms, transportation, infrastructure, social and technology, and other services activities) persists with public enterprises making losses, privatization efforts stalled and "corporatization" plans under way or being considered.

11. Thailand has continued to use government procurement as an important instrument of economic policy, with price preferences of 7% being accorded to domestic suppliers. Its e-Auction, part of the electronic government procurement (e-GP) system, was fully implemented as of late 2014. The Government is drawing up legislation to manage the risk of corruption in this area. Thailand, a non-signatory to the WTO Plurilateral Agreement on Government Procurement, became an observer at the WTO Committee on Government Procurement as of June 2015.

12. During the review period, Thailand continued to consider ways to strengthen protection of intellectual property rights by preparing new laws or legal amendments in several areas to, *inter alia*, align its legislative framework to the provisions of several international treaties (including those of the WTO on compulsory licensing) that it has not yet signed. No new compulsory licences have been issued though one extended licence for HIV/AIDS medication is to remain in place until 2016. Despite some legislative and institutional improvement, effective IPR enforcement remains a concern. The competition policy framework, which does not cover public administration, state-owned enterprises, or farmers' cooperatives, remains unchanged though proposed amendments to, *inter alia*, expand its legislative scope are under consideration; enforcement remains moderate. Many goods and services remain subject to varying degrees of price controls/surveillance. Thailand's relatively comprehensive corporate governance framework and high levels of compliance with international standards in a number of key areas remains unchanged.

13. Thailand remains a major global producer and exporter of various agricultural products and processed foods and maintains a trade surplus in these areas. Thailand continued to pursue a costly and controversial price intervention scheme for rice up until 2014, when it was discontinued by the Interim Government. While various short-term support measures were taken over the period 2014/15, a long-term strategy for the rice sector has yet to be fully determined. Tariff rate quotas remain in place for 118 tariff lines and in a number of cases fill rates have been low. A new Fisheries Act entered into force in 2015, adjusting fisheries resources management measures to be more compatible with international fisheries laws and standards as well as new fisheries technologies. Thailand's commercial forestry sector is small; however, incentives are being provided to grow it as well as to prevent illegal logging.

14. Despite its significant energy endowment and energy policy being focused on becoming energy independent, Thailand remains a net and growing energy importer, reflecting robust domestic demand. Various incentives are being offered to support renewable energy products. The State retains a significant presence in the sector and has a monopoly on the transmission and distribution of electricity. Reforms in the natural gas sector are under way to promote competition and ensure non-discriminatory treatment in the use of natural gas pipeline services. Thailand has developed a policy framework and guidelines on restructuring energy prices so that they reflect actual costs. As a consequence, it no longer subsidizes the consumption of diesel and liquefied petroleum gas, which had been extremely costly. As at mid-2015, only ethanol blended gasolines E20 and E85 and compressed natural gas for vehicles (NGV) remained subsidized.

15. Thailand's has a diverse manufacturing sector which continues to be supported by fiscal incentives as well as high tariff protection on certain products, including completely built-up motorcycles and cars. Over the review period manufacturing was hit by a major earthquake in Japan, which disrupted supply chain activity, and severe flooding. Challenges facing the sector include rising costs, partly as a result of the introduction of a minimum wage in 2013, the limited

production of high-technology products by Thai manufacturers and increased competition from other economies in the region. In 2014, the Government approved a guideline to develop the rubber sector in the face of oversupply and falling international prices. This includes various support measures, including the creation of a buffer stock to stabilize rubber prices and soft loans to farmers.

16. Thailand's services sector has continued to grow. The State maintains a significant presence in banking, telecommunications and transportation through equity stakes in companies or the operation of state-owned enterprises. The banking sector has remained robust and stable throughout the review period and the Bank of Thailand's supervisory mandate has been strengthened to cover government-owned specialized financial institutions (SFIs). There has been some liberalization of banking services; and in both banking and insurance, legal flexibilities allowing greater foreign participation in these subsectors have been used. In telecommunications the launch of 3G services, following a delayed auction process, has resulted in a huge increase in the take-up of mobile and wireless broadband services. Competition between the three key players in the mobile segment has led to retail price decreases. Eight bills designed to transform Thailand into a digital economy are being drafted. In the air transport sector, key challenges are to address safety concerns highlighted in a recent ICAO report and to address capacity constraints at major airports. The Government is actively promoting Thailand as a centre for aircraft maintenance, repair and overhaul services. Key maritime laws are under review and a cargo reservation policy remains in place requiring that goods imported into Thailand by government agencies or public enterprises must be transported by Thai vessels, where they are available. Tourism remains Thailand's main source of foreign exchange. Thailand continues to offer fiscal incentives for various tourism-related activities and to promote itself as the medical hub of Asia.

17. Thailand's economic growth is expected to pick up in 2015 and rise further in 2016. Despite its solid economic fundamentals, downside risks to the economic outlook are posed by, *inter alia*, possible policy slippages, weaker-than-expected domestic spending and private demand, limited production capability in high-technology products, and political uncertainty notwithstanding improvements in this area. The economy also remains vulnerable to exogenous shocks to global growth or risk aversion related to international trade, commodity prices, and global financial volatility. A major economic challenge confronting Thailand, with potential trade policy implications, is to formulate appropriate macroeconomic policies and undertake total factor productivity-enhancing structural reforms to address, *inter alia*, a rapidly aging population, the stalled reallocation of resources from agriculture to higher value-added sectors, and government expenditure-related distortions (e.g., subsidies, SOEs losses). These and related reforms would increase the flexibility of the Thai economy and its ability to respond to external competition, thus enabling it to continue meeting its economic and welfare objectives.