



Clearing the Runway for Intra-Asia Trade

Summary of Insights: Thailand

Thailand's strengthening manufacturing base, wealthier and more urbanised population, and green growth policies will aid in capturing regional trade opportunities in the coming decade, with the value of its trade with 11 other top Asian markets potentially more than doubling from USD255 billion in 2020 to USD554 billion in 2030.

This market summary provides an overview of some of the main insights on intra-Asia trade for Thailand as part of a larger study commissioned by UPS and developed by AlphaBeta entitled: "Clearing the Runway for Intra-Asia Trade: Key insights for unleashing the potential for intra-Asia trade by 2030." The 12 markets (i.e., "Asia-12") covered in this report are Australia, China, Hong Kong, Indonesia, Japan, Malaysia, Philippines, Singapore, South Korea, Taiwan, Thailand, and Vietnam. The purpose of this research is to offer key critical insights on the rise of intra-Asia trade and prospects for future growth through 2030, in the context of Asia's continuing economic growth and against the backdrop of increasing volatility in global trade relationships today. The findings from this research showcase the potential for intra-Asia trade to continue its rapid growth over the coming decade, and support governments and businesses in identifying key enablers for this opportunity and steps to capture the potential. This summary is without prejudice to the status of or sovereignty over any territory or boundary. In cases where China is referred, it predominantly refers to mainland China. For the full set of insights, including data sources and methodology, please refer to the full report at <https://about.ups.com/sg/en/home.html>



Top 3 insights on intra-Asia trade prospects for Thailand

- 1 Thailand is poised to become a key intra-Asia trade hub, with its strong manufacturing sector and growing domestic consumer demand.** Buoyed by these trends, Thailand's trade with 11 other major markets (together, the "Asia-12") could more than double from USD255 billion in 2020 to USD554 billion by 2030.
- 2 Trade in the industrial manufacturing and automotive (IM&A) and high-tech segments is expected to drive Thailand's trade growth with the rest of Asia-12.** The high-tech segment, which constitutes around 21% of Thailand's intra-Asia trade, will drive future growth, supported by the wave of digitalisation across the region. This opportunity will also be underpinned by its IM&A segment, which takes up 37% of its intra-Asia trade.
- 3 Businesses in Thailand can capture the intra-Asia trade opportunity through three areas of multistakeholder action that could address major barriers to regional trade.** (1) Build resilience into supply chains; (2) Collaborate on harmonising product standards across the region; (3) Improve logistics serving intra-Asia trade lanes by developing investment and skills roadmaps.

Top 3 takeaways for businesses in Thailand

- 1 Digitalise operations end-to-end.** While the pandemic has accelerated adoption of digital technologies within Thailand, firms can leverage new solutions to improve the efficiency of their operations and supply chains, including real-time logistics tracking and artificial intelligence (AI) tools to smoothen customs and shipping processes.
- 2 Plan for both headwinds and opportunities by diversifying supply chains.** This includes exploring resilient trade routes, such as with Malaysia, and targeting high-value and high-growth trade routes, such as with China or the rest of ASEAN. Diversifying supply chains is critical to building resilience in trade flows.
- 3 Partner with and promote deep integration of micro-, small-, and medium-sized enterprises (MSMEs) into regional supply chains.** Larger firms can provide MSMEs a platform to participate further in trade to improve their trade competitiveness, including providing finance, consolidating supply chains, promoting e-commerce, and creating tools to help navigate customs and shipping requirements.



Thailand is poised to become a key intra-Asia trade hub, with its strong manufacturing sector and growing domestic consumer demand

Asia is a critical component of global trade. Over the past half century, Asia has developed into the world's largest manufacturing hub, with economies like Thailand contributing to the vast supply of manufactured goods that journeyed from Asian factories to Western shores. However, as Thailand and other markets become the global epicentre for new consumer demand, building off a sustained period of economic growth and improvements in standards of living, trade lanes within Asia will gain importance. Already, intra-Asia trade accounts for two-thirds of the region's trade with the world.

While Thailand plays a relatively modest role in intra-Asia trade today, the value of its trade with the Asia-12 could more than double. Thailand has historically been an important manufacturing hub for multinational and domestic conglomerates, in particular being an important player in the automotive production value chain. Driven by favourable trends around the region, Thailand's trade with 11 other major markets (together, the "Asia-12") could more than double from USD255 billion in 2020 to USD554 billion by 2030 (Exhibit 1).

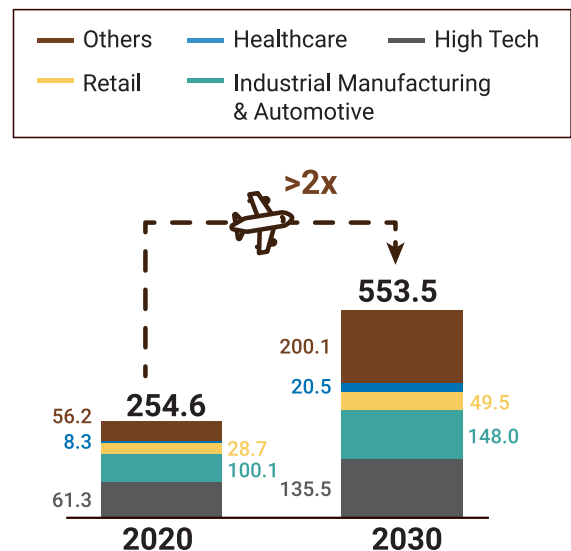
Asia's increasingly wealthy and urbanised population is expected to support Thailand's trade growth, fuelled by ambitious new trade deals and greener growth models. Export markets within Asia will continue to grow as the consuming population grows both in wealth and size. Within the Asia-12 markets, 567 million new entrants will be added to the middle class between 2020 and 2030.¹ Thailand itself is expected to have 17 million people join its middle class population by 2030 together with around 5 million new urban residents, increasing demand in the retail and high-tech segments. Regional trade agreements within the region such as the Regional Comprehensive Economic Partnership (RCEP) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) will deepen economic integration within the region. Thailand may also become a leading innovator in environmentally-friendly and socially responsible trade, driven by its Bio-Circular-Green (BCG) national development model which promotes sustainable economic growth. Greener trade will be of critical importance as consumers and regulators become more aware of the negative externalities of global trade and consumer products.

Trade in four key product segments is expected to drive this growth: (1) retail; (2) industrial manufacturing and automotive (IM&A); (3) high-tech; (4) healthcare – which together constitute 73% of Thailand's trade in Asia. Among these four, trade in the high-tech category, which constitutes 21% of its intra-Asia trade, could more than

Exhibit 1

Thailand's trade with the Asia-12 can more than double by 2030

Thailand's trade with the rest of Asia-12 USD billions



Note: The methodology for these estimates can be found in the Appendix of the main report.

SOURCE: ITC; AlphaBeta analysis

double in value, riding Asia's wave of digitalisation which will create significant demand in this segment. Asia-12 economies are already more digitalised than the global average while also advancing on digital adoption metrics at a faster rate.³ Nearly 700 million people in Asia Pacific will join its Internet population by 2025, creating a new generation of e-commerce consumers.⁴ Key trade lanes will facilitate this growth. For instance, Thailand and South Korea's interdependence for machinery and electronics will continue to drive trade in this segment in the future. In addition, the IM&A segment, which constitutes the largest share of Thailand's total intra-Asia trade at 37%, could grow by nearly 50%.

Increased investment in supply chain innovation and high-quality infrastructure will also contribute to long-term resilience. Digital innovation will contribute to the development of Thailand's supply chains, with key technologies that improve supply chain productivity expected to be deployed at scale in the coming years. This includes robotics and automation in warehouses, blockchain-based inventory management, and smart tracking of cargo. The "Thailand 4.0" policy initiative launched by the national government is expected to boost the Thai logistics sector's capabilities in these areas, with specific initiatives developed across the value chain such as prioritisation of smart packaging technologies for the packaging industry.⁵

Uneven development in infrastructure and intensifying geopolitical tensions could hinder Thailand's trade growth

Despite the significant potential that intra-Asia trade holds for Thailand, there exist a range of barriers to greater trade today that may intensify over the coming decade. Thai businesses surveyed for this study indicated tariffs and other punitive measures as the top barrier to trade, among five other barriers identified (Exhibit 2). These six barriers remain largely unaddressed by policy and business action due to trade tensions, supply chain shifts, and uneven investment and engagement of MSMEs in supply chains.

As a result of these barriers, Thailand's growth in trade with the Asia-12 may stagnate by 2030. Trade could total USD287 billion in this "Deglobalisation" scenario (Exhibit 3) – equivalent to an annual growth rate of just over 1% from 2020 levels due to intensifying barriers to trade, compared to a rapid 8.1% growth rate in the previous scenario.

Intensifying geopolitical tensions contribute significantly to these trade barriers. Geopolitical risks such as territorial, economic, and political disputes between other economies have proven detrimental to trade in the past, particularly in the high-tech and retail segments. ASEAN's consensus-building and decision-making norms further stymie economic progress and cooperation – despite deeper economic integration over the past few decades, trade remains hindered by ASEAN members' reluctance to harmonise their standards and practices. Such geopolitical tensions that create strict or restrictive trade policies in ASEAN and across Asia could damage Thailand's long-term trade prospects.

Progress on developing logistics infrastructure remains uneven across the Asia-12, which could constrain Thailand's ability to serve centres of demand across Asia. Plans to integrate transport networks into regional initiatives have also faced roadblocks. For instance, China's plans to build rail links into Southeast Asia (increasingly referred to as the "Pan-Asia Railway Network") have suffered delays, most recently including the connection to Thailand which is affected by the deteriorating ties and diverging policy priorities of the two economies.⁶

Finally, pressures caused by the COVID-19 pandemic, and rapid advances in robotics and automation limit the flow of trade. These trends could expose a shortage of labour, skills, and shorten supply chains due to shifting cost competitiveness, preventing trade from scaling

Exhibit 2

Businesses in Thailand face six barriers to regional trade in Asia

Top barriers to trade beyond Thailand

Ranking based on respondents conducting trade in Thailand

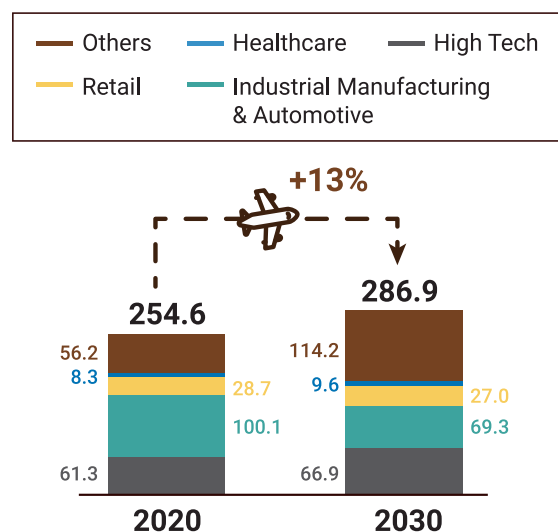


SOURCE: Industry survey of 198 businesses that conduct trade in the Asia-12 economies; AlphaBeta analysis

Exhibit 3

Thailand's trade growth with the Asia-12 may slow down due to headwinds

Thailand's trade with the rest of Asia-12 USD billions



Note: The methodology for these estimates can be found in the Appendix of the main report.

SOURCE: ITC; AlphaBeta analysis

up and lifting Thailand's potential. Two-thirds of Asian businesses surveyed by the Asian Development Bank (ADB) in 2021 stated that they planned to source more goods locally in the coming years – constraining the potential for Thailand to trade more intensively with markets more distant from home.⁷

Proactive effort by governments and businesses is needed to capitalise on the intra-Asia trade opportunity

Multistakeholder action is required to reduce impediments to regional trade and harness the opportunities to steer intra-Asia trade towards take-off. Action by businesses or government alone is not enough to address the key barriers to trade – active involvement by all stakeholders within the region and across the supply chain is key. Thai stakeholders must contribute to three main areas for multistakeholder action across the region: (1) Build resilience into supply chains via public-private investment and new solutions for businesses to navigate trade barriers; (2) Collaborate on harmonising product standards by creating meaningful partnerships between business leaders, trade associations, certification bodies, and regulators; (3) Improve logistics

serving intra-Asia trade lanes by developing investment and skills roadmaps that support businesses and individuals to make investment and education decisions that match the economy's needs.

Businesses with trade interests in Thailand and those in the logistics sector must proactively account for opportunities from intra-Asia trade and build resilience against potential headwinds. Three key actions that can be taken by businesses include digitalising completely, diversifying supply chains, and promoting integration of MSMEs into regional supply chains.



Digitalise operations end-to-end. The pandemic has pushed many organisations to digitalise their operations for greater connectivity and efficiency. However, Thai businesses still face challenges to overcome in implementation – while 93% of surveyed businesses by Deloitte in 2021 had planned digital transformation initiatives, only 52% were in the implementation stage.⁸ Adopting advanced technologies such as artificial intelligence (AI) or Internet of Things (IoT) can drive productivity and mitigate disruptions. Businesses can leverage big data analytics for its supplier and customer data points to create demand

forecasting tools to identify the best potential customers.⁹ Transportation companies can install GPS tracking systems or integrate real-time fleet management solutions to track vehicle movement, conduct predictive maintenance, and promote transportation efficiencies.¹⁰ AI-enabled tools that can analyse and identify tariff codes or automatically input customs data could also smoothen regulatory import-export procedures for businesses, making trade simpler and more efficient. For instance, UPS uses AI to learn individual shipping patterns and behaviour to simplify the shipping process and make it much easier for small businesses to ship. A range of plug-and-play application programming interfaces (APIs) allow businesses to get estimated duties, taxes, and brokerage fees for cross-border shipments. This leads to fewer customs delays and enables businesses to accurately estimate their costs.



Plan for both headwinds and opportunities by diversifying supply chains into resilient trade routes and targeting high-value and high-growth trade routes. Diversifying supply chains has become critical to building resilience in trade flows that faced severe disruptions during the COVID-19 crisis. Many trade routes offer opportunities for resilient growth when considering trade in Thailand (Exhibit 4). Trade between Thailand and Singapore could prove resilient, driven by automotive and electronic goods, as well as smoother cross-border transactions facilitated by the integration of the two economies' PromptPay and

PayNow payment systems. In a scenario where trade grows unimpeded, a range of high-value and high-growth trade routes are also available for Thai businesses (Exhibit 5). China is expected to remain Thailand's largest trade partner across all key segments, similar to today. Thailand's trade with South Korea is expected to experience rapid growth, building off mutual investment in electronics, manufacturing, and automotive sectors across both economies. Continued economic integration with other ASEAN markets, particularly with the Philippines, Malaysia, Vietnam, and Indonesia, could also present Thai businesses with rapid growth opportunities by providing a wider range of manufacturing bases to outsource production across parts of their value chains. With Thailand being part of RCEP, consultancy tools like UPS's Trade Assist™ help businesses to look at ways to optimise their supply chains while reaping the benefits such free trade agreements offer.

03



Partner with and integrate MSMEs

Partner with and promote deep integration of MSMEs into regional supply chains to improve their competitiveness.

MSMEs typically face higher costs in navigating trade barriers and often lack the scale of operations needed for trade profitability. To reduce these costs and increase scale, larger Thai companies can partner with MSMEs to provide resources or develop tools that enable them to export overseas. For example, digital tools such as e-commerce or online marketing platforms developed by larger

enterprises can uplift local MSMEs by providing them access to a wider market without significant costs. However, there is opportunity for better utilisation – for instance, only 35% of MSMEs that transact online use Facebook for marketing, while only 17% use other digital tools.¹¹ Training initiatives by larger businesses on how to better adopt these tools have shown to assist these MSMEs in engaging with international markets.¹² Adopting digital tools made available by international logistics players allows for quick and easy integration to e-commerce platforms. For businesses selling online, UPS's Digital Access Program works with e-commerce platforms to integrate shipping into the customer purchasing journey, enabling small businesses to focus more on selling while leveraging their logistics partners. In addition, MSMEs in Thailand face financial difficulties that hinder them from participating in global value chains.¹³ To mitigate these problems, local MSMEs can tap into loan matching schemes or training developed by the Export-Import Bank of Thailand and the Thai Credit Guarantee Corporation to aid them in becoming export-oriented.¹⁴

Exhibit 4

Firms can invest in resilient trade routes within each segment to hedge against supply chain shocks

Share of Thailand's trade with the Asia-12 sensitive to geopolitical shocks, by segments¹

Share of each priority segment trade value in 2020 (%)



1. Each figure represents a share of trade value in 2020 that is forecasted to be under either the resilient, sensitive, or decline category in 2030. Resilient trade refers to trade routes that may expect positive growth in either worst-case or optimistic scenarios, while sensitive trade refers to trade routes that may see positive growth only within the optimistic scenario. Declining trade refers to trade routes that may see slight contractions regardless of either.
SOURCE: ITC; AlphaBeta analysis

Exhibit 5

China will remain Thailand's largest trade partner across all segments, while ASEAN markets offer growth opportunities

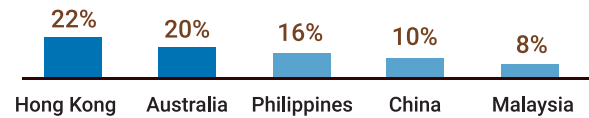
Top 5 projected trade routes in 2030 by value, USD bn¹



Healthcare



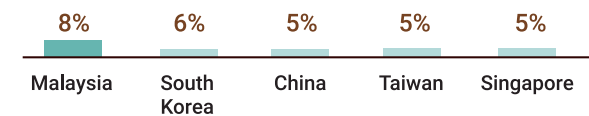
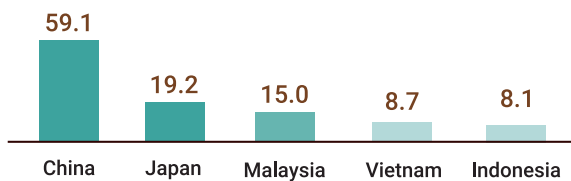
Top 5 projected trade route partners, by growth rate till 2030, %¹



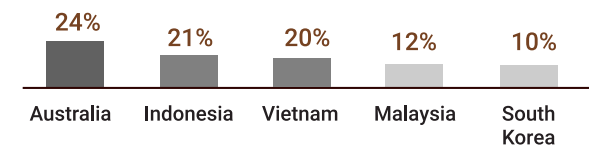
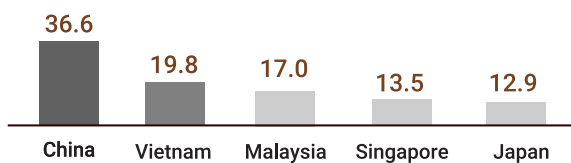
Retail



Industrial manufacturing & automotive



High-tech



1. Projections are based on an optimistic scenario of Asia's trade environment, as outlined in Chapter 1 of the main report, where intra-Asia trade will take off and be driven by trends such as regional trade agreements, supply chain innovations, and a rise in digitalisation. These projections should be taken as an ideal outcome rather than guidance.

SOURCE: ITC; AlphaBeta analysis

Endnotes

1. Middle class refers to households with incomes between USD10 and USD100 per day per capita after accounting for purchasing power Source: World Economic Forum (2020), "This chart shows the rise of the Asian Middle Class." Available at: <https://www.weforum.org/agenda/2020/07/the-rise-of-the-asian-middle-class>
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3. The World Bank's Digital Adoption Index (DAI) for businesses, with an index of 0 to 1, measures businesses' use of digital tools to increase productivity (with 1 being the highest). See World Bank (2016), *Digital Adoption Index*. Available at: <https://www.worldbank.org/en/publication/wdr2016/Digital-Adoption-Index>
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14. Bangkok Post (2022), "Loan matching aids SMEs with exports." Available at: <https://www.bangkokpost.com/business/2262371/loan-matching-aids-smes-with-exports>

