Trade in Indonesia and Thailand: A Double-Edged Sword

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Abstract

For the past several decades, trade in Indonesia and Thailand have been challenged by China’s burgeoning development and trade evolution. Albeit Thailand’s open economic attitude and Indonesia's increased participation in East Asian trade the two nations’ trade development has remained stagnant as a result of the China-centered trade in the region and beyond. Trade and globalization in Indonesia and Thailand can be characterized using two terms: dependency and competition. Both nations lack a strong economic base and economic policies to rival that of China but both nations face great opportunity to notably improve trade and commerce. Both nations rely heavily on their exports to foreign nations, most notably China and the United States, making for unrealized opportunities in the realm of trade and globalization. This article analyzes the key factors of trade and globalization that have hindered the economic development of Indonesia and Thailand as well as some ethical aspects of trade and globalization that each country faces.

I. Introduction

Trade has a significant relationship with a nation’s development, being one of the main drivers of growth. A nation’s economy is dependent on its international trade patterns and can greatly benefit from taking advantage of its many opportunities but also faces grave challenges and setbacks due to its uncontrollable and changing nature. International trade is largely controlled by the principle of comparative advantage, allowing countries to specialize in the goods and services that lead to the most efficient net use of resources, labor, and capital for global trade. Comparative advantage allows a country to consume outside of their own production capabilities and be introduced to other products and goods, creating more diverse options and higher standards of production for all.

With international trade also comes integrated economies. Modern day economies are not self-sustaining, are highly reliant on their trading partners, and the flow of goods and services in global markets. In an integrated world, the ethics of trade and globalization are contested and have various impacts on the economies of the developing countries. Some developing countries are at risk of facing the consequences of international trade at the same rate as they see its benefits, while many
advanced countries continue to see exponential reward from the rigged rules and double standards as Oxfam (2002) referred to the international trading system.

This article compares and contrasts the impacts of international trade between Indonesia and Thailand. The two countries were chosen due not only to their geographic closeness but additionally due to the high level of economic exchange with one another and their membership in regional trade agreements like with the Association of Southeast Asian Nations (ASEAN). Indonesia and Thailand share a similar economic history where both countries were limited to economic growth as a result of colonialism and imperialism but have seen impressive growth in recent decades. While neither country has surpassed its title of being a developing country, the trajectories of both are potentially promising, but, as this article will illustrate, will not be achieved easily.

This article is organized into six sections. Following this introduction, the next section provides an overview of the current literature regarding international trade and alike phenomena in Indonesia and Thailand. Following the literature review is a socio-economic background section that illustrates development over-time in both Indonesia and Thailand according to three indicators. The fourth section is an analysis of facts of trade in both nations that illustrate some of the ramifications of trade that each are facing, which connects to the ethical analysis that will follow. In the ethical analysis section, the issues of trade and their ethical implications related to Thailand and Indonesia. The concluding section will go over the main ideas and issues presented and present a perspective on the future economies and development of Indonesia and Thailand.

II. Literature Review

The general conclusion of the current literature assessing trade in Indonesia and Thailand is positive, but with stipulations. While recent trends have shown a continuing increase in trade, mobility, and its corresponding effect of lowering inequality for the people of Indonesia and Thailand inequality is being perpetuated and sustained through the same practices of trade. Trade has simultaneously lifted the two nations out of severe levels of poverty and created increased levels of inequality for those who were already considered to be living in poverty before both countries saw the benefits of global trade. Among the many publications examining trade in Indonesia and Thailand, this literature review focuses on literature that examines the implications of globalization, especially trade liberalization, and more narrowly the impact of the U.S.-China trade war on Indonesia and Thailand.

II.1. Implications of Globalization and Trade Liberalization

As explained by Hill and Menon (2021), trade policy has followed a consistent pattern of openness in Thailand in the past two decades but this same confidence in globalization and trade liberalization is waning in Indonesia. Despite having deep economic integration with ASEAN protocols and China-centered trade networks, trade policy in Indonesia remains averse to following the trends of globalization while Thailand welcomes and embraces its open policies. Hill and Menon (2021) identify the main drivers of trade policy in both countries as macro trends of supply chains and export destinations. They also point out the key implications of their different stages of development: Indonesia leads the two with a large resource base that drives their economy while Thailand relies heavily on their tourism sector. Within Southeast Asia, the two nations lead in
terms of economic development and power but are not exempt from the trade implications on inequality.

Verico and Pangestu (2020) look at the overall benefits of globalization illustrate the reduced wage inequality, increased female participation in the labor market, and reduced levels of poverty as a direct result of the increase in trade and investment created by globalization. They also identify the importance of the Indonesian tourism industry, a phenomenon that would not be possible without globalization and its consequent technology transfer.

According to Donghyun (2022), Thailand was able to reach upper middle-income status by 2001 because of economic globalization. Donghyun (2022) distinguishes the Thai relationship with globalization from that of Indonesia, explaining that Thailand’s development has been largely dependent on their own domestic demands, contributing to their well-diversified economy.

Purwono et al. (2022) argue that trade integration has also led to the establishment of the many regional trade agreements in East Asia, many of which comprise a large share of trade for Thailand and Indonesia. Both are primary members of ASEAN, increasing their access to international markets, lines of credit, and cheaper imports. Indonesia and Thailand play directly into each other’s economies by specializing in their respective export industries and exerting pressure on the other, creating increased competition and the need for economic efficiency.

II.2. Impact of the U.S.-China Trade War

The trade war between the United States and China has been manifesting an abundance of trade-related implications for Thailand and Indonesia. The most prominent of these issues, arguably, is the development of an overdependence on China in both nations. The Thailand Development Research Institute (2019) acknowledges that Thai economic dependence has brought upon an inevitable slowdown in their economy but identifies key areas of improvement that the nation can undertake. These measures are meant to turn the trade war between the United States and China into a multitude of opportunities for development, including expanding trade in their largest export market, ASEAN. According to the Thailand Development Research Institute (2019), Thailand relies currently heavily on its exports, 25 percent of which go to ASEAN partners. This overdependence on exports is one of the biggest pitfalls of the Thai economy.

According to Iqbal, Elianda, Akbar and Nurhadiyanti (2020), commodity prices fell as a result of the trade war, which was key to Indonesia’s economic development. They also predict that economic growth will continue to increase in Indonesia, though at a slower rate than the recent average of five percent. Lee and Majuca (2019) suggest that the trade war also has multifaceted impacts on Thailand, facing both challenges and opportunities. Lee and Majuca (2019) identify the main consequences being an overall reduction in imports from both China and the United States thus their slowdown in GDP growth. They also identified that certain Thai industries benefited from the conflict as the United States and China began to import substitute products from Thailand during the trade war as a means of getting around tariffs on domestic exports. Industries that focus on final products are winning at the expense of the industries specializing in intermediate goods.

Ing and Vadila (2019) point out that the narrowing of trade liberalization resulting from the U.S.-China trade war has led to the exit of many mobile factors of production out of Indonesia. This movement includes the outward displacement of skilled workers, relocated due to specialization, leaving Indonesia with an abundance of unskilled labor that increased inequality in Indonesia.
III. Socioeconomic Background

This section reviews the evolution of three socioeconomic indicators to get a better understanding on the progress and current level of development in Indonesia and Thailand. Figure 1 charts GDP per capita, adjusted for purchasing power parity (PPP), in constant international dollars for Indonesia and Thailand. The data starts from 1990 and continues until the most recently collected data in 2020. As Figure 1 shows, Indonesia has consistently surpassed Thailand in terms of GDP per capita. Both countries have seen a general rise in their respective GDP per capita, the fall around the time of the COVID-19 pandemic being the largest outlier in this trend. Important to note is the parallel growth in GDP per capita between Indonesia and Thailand. If put on top of each other, the two GDP per capita lines would be almost identical, except that the one for Indonesia is much smoother, meaning that Thailand had more volatile GDP per capita growth.

![Figure 1: PPP-Adjusted GDP per capita, 1990–2020](source: Created by author based on World Bank (2022)).

As shown in Figure 2, life expectancy follows overall similar trends as GDP per capita in Indonesia and Thailand shown in Figure 1. Indonesia has a continuous increase in life expectancy since 1970, while saw a stagnation in their life expectancy from 1990 to 1997. Consistent with Thailand’s higher GDP per capita, Thailand also leads Indonesia in terms of life expectancy with an average difference of 6.1 years for the 1970 to 2019 period. From 1970-2019, Thailand has seen a growth in life expectancy from 59.4 years to 77.2 years, which is an increase of 17.8 years over the 49 year-time period. For Indonesia, life expectancy advanced from 52.6 years in 1970 to 71.7 in 2019, implying a 19.1 year-increase over the same period.
Figure 2: Life Expectancy at Birth, 1970–2019

Source: Created by author based on World Bank (2022).

Figure 3: Adult Literacy Rate (percent)

Source: Created by author based on World Bank (2022).

Figure 3 plots the available literacy rates of adults (ages 15 and over) among Indonesia and Thailand for females, males, and total (both, female and male). Indonesia has seen a very meager increase in its literacy rate since 1980 but at a seemingly constant growth rate. In contrast, Thailand sees a bit more fluctuation in its literacy rates, including a drop of 5.2 years for females, a drop of 1.7 years for males, and an overall drop of 3.5 from 2010 to 2015. Omitting 1980, the literacy rates of Thailand and Indonesia are relatively close to each other. In 1980, Indonesia’s gender gap was 19.8 years, while Thailand’s gender gap was 12.8 years. The gender gap declined over time in both
countries, with Indonesia’s gender gap decreasing to 3.5 years in 2018, which Thailand’s gender gap was 2.8 years in the same year.

**IV. Analysis of Facts**

This section examines the shares of Indonesia and Thailand in world GDP, their shares in world exports, their net inflows of foreign direct investment (as a percent of GDP), and their exports to GDP ratios, all from 1970 until the latest year such data is available, typically 2020.

**IV.1. Share in World GDP**

As illustrated in Figure 4, Indonesia and Thailand share the fact that their economies are relatively marginal in the world economy, with both countries never surpassing the 1.3 percentage share in world GDP. However, their shares have grown over time. Indonesia increased its share in world GDP from 0.31 percent in 1970 to 1.25 percent in 2020, which is huge increase of 0.94 percentage points. Thailand also increased its share in world GDP from 0.24 percent in 1970 to 0.59 percent in 2020, which is more moderate increase of 0.36 percentage points. Indonesia’s share in world GDP fluctuated from 1970 to 2005, but then increased more steadily from 2005 to 2020. Thailand’s share in world GDP fluctuated over the last five decades, reaching a temporary high of 0.57 percent in 1996, but then dropped sharply during the East Asian crisis. It only surpassed its 1996-level more than 20 years later in 2018. The impact of the East Asian crisis is also visible for Indonesia, which experienced an even sharper decline but then also recovered much earlier than Thailand in terms of its share in world GDP.

**Figure 4: Share in World GDP (percent), 1970–2020**

![Graph showing share in world GDP (percent) from 1970 to 2020 for Indonesia and Thailand.](source: Created by author based on World Bank (2022)).
IV.2. Share in World Exports

Figure 5 shows the share in world exports for Indonesia and Thailand from 1970 to 2020, which is in terms of overall trends the complete opposite to these countries’ shares in world GDP. While Indonesia experienced an overall increase in its share of world GDP, Indonesia shows an overall fluctuation in its share of world exports over the last five decades. Modern day Indonesia is sitting at a share level of about the same they had in the mid-1970s. Indonesia has not been able to reach its early 1980s level in terms of world exports. On the other hand, while Thailand’s share in world GDP fluctuated overall during the last five decades, Thailand experienced a significant increase in its share of world exports during the last five decades. Indonesia had a higher share than Thailand in world exports from 1970 until 1989, but Thailand then surpassed Indonesia in the early 1990s and stayed above Indonesia ever since.

Figure 5: Share in World Exports (percent), 1970–2020

Source: Created by author based on World Bank (2022).

IV.3. Net Inflows in Foreign Direct Investment

Figure 6 plots the foreign direct investment (FDI) net inflows of Indonesia and Thailand from 1970 to 2020. Since the mid-1990s, the net inflows of FDI have been extremely volatile for both Indonesia and Thailand. Thailand saw a massive jump from 1997-1998 increasing from 2.59 percent to 6.43 percent. On the other hand, Indonesia saw a massive decrease in their FDI net inflow from 1997-2000, starting at 2.17 percent and ending at -2.76 percent. Both countries see a change of almost 4 percentage points within similar time frames but in different directions. Despite the vast divergence in the late 1990s and early 2000s, the two countries have slowly come within fairly equal levels and evolutions of net inflows of FDI inflow during the last five years.
FDI can and has played an important role in the sustainable development priorities of both countries in recent decades, specifically gender equality, productivity, and wages.\textsuperscript{1} In the aftermath of the COVID-19 pandemic, both countries have fallen behind on their development goals and have faced forms of social and economic crises. FDI inflows provide a path to getting back on track for these goals. An increase in FDI has been directly linked to higher levels of empowerment amongst women in the nation receiving the FDI, as FDI often expands the number of jobs in an economy through technology spillover.\textsuperscript{2}

\begin{figure}[h]
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\includegraphics[width=\textwidth]{figure6.png}
\caption{Foreign Direct Investment, Net Inflows (percent of GDP), 1970–2019}
\end{figure}

\textbf{Figure 6: Foreign Direct Investment, Net Inflows (percent of GDP), 1970–2019}

\begin{figure}[h]
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\includegraphics[width=\textwidth]{figure7.png}
\caption{Evolution of Exports of Goods and Services}
\end{figure}

\textbf{IV.4. Evolution of Exports of Goods and Services}

Figure 7 illustrates the exports of goods and services as a percentage of GDP for both Indonesia and Thailand from 1970 until 2020. While Indonesia experienced some volatility in its exports to GDP ratio, especially in the late 1990s and early 2000s, Indonesia ended up in 2020 at about the same level it already had in the early 1970s. Thailand also stagnated with its exports to GDP ratio during the 1970s and the early 1980s, but then increased moderately from 1985 to 1996. The East Asian Crisis caused a temporary decline in Thailand’s exports to GDP ratio, but it then increased very sharply from 39.0 percent in 1996 to 57.9 percent in 1998. While Thailand’s export to GDP ratio decreased slightly from 1998 to 1999, it then increased again sharply in 2000, reaching an export to GDP ratio of 64.8 percent. Thailand’s export to GDP ratio has then been relatively volatile during the last two decades.

Thailand has a more open economy than Indonesia because they have a larger percentage of exports to GDP. Thailand specializes in the export of technology and industrial inputs. Currently,

\begin{itemize}
\item \textsuperscript{1} OECD (2021).
\item \textsuperscript{2} Ouedraogo and Marlet (2018).
\end{itemize}
the main exports of Thailand are office machine parts, gold, integrated circuits, and cars.³ In contrast to Thailand, Indonesia specializes in the export of natural resources. Indonesia’s main exports include steel, palm oil, coal briquettes, gold, petroleum gas, and ferroalloys.⁴

Figure 7: Exports of Goods and Services (as a percentage of GDP), 1970–2020

Source: Created by author based on World Bank (2022).

V. Ethical Analysis

The state of international trade has been driven by globalization since the early 20th century, though without being a continuous process. Without globalization there would be no international lines of communication, large scale exchange of goods and services, and a lack of foreign investment, all of which are key to the development and trade of Indonesia and Thailand. While globalization has produced a plethora of benefits for the countries of the world it has also produced some ethical dilemmas as detailed by Barry and Wisor (2015). This section examines the ethical complaints related to (1) the process by which trade has come about, and (2) the ethical complaints of trade causing unjustified harm, both applied to Indonesia and Thailand.

V.1. Process by Which Trade has Come About

In Asia many countries are economically dependent on their exports, making ethical trade an easy bypass if it means that the country will increase their production, thus increasing the amount of goods and services that they are exporting. This means producers may not always prioritize the well-being of their workers and use abusive means to generate their goods and services.

³ Observatory of Economic Complexity (OEC) (2022b).
⁴ Observatory of Economic Complexity (OEC) (2022a).
In Indonesia, many of the workers in the natural resource industry, which is the top export industry of the nation, are migrants and female: 51 percent of the working population are female, and 24.8 percent of the working population are migrant workers.\(^5\) Just within the migrant working population, multiple incidents of traumatic incidents and abusive practices have taken place in the last decade: 73 percent of all workers not being granted overtime allowance, 25 percent reported working long-hours consistently in a year, 36 percent without days off from working, and 28 percent reporting instances of late salary payments within the year.\(^6\)

There have also been extreme cases of gender discrimination amongst workers in Indonesia, specifically within the female population. In 2017, 80 percent of all migrant workers were female. For most of these female workers, their jobs in Indonesia were their first experience of being paid. Because of this lack of previous experience and knowledge of what ethical work and its compensation should look like, there have been many loopholes taken in Indonesia to underpay their workers and extend their working hours beyond legal limits. For women having paying jobs in Indonesia, the majority of them reported experiencing low wages, underemployment, and workplace discrimination.\(^7\)

Thailand faces similar problems in terms of the identified forced labor and trafficking in their agricultural and construction sectors, as outlined in a statement given by the United Nations (UN) in April of 2018. The UN investigation of Thai business engagement and practices found a large number of reported violations of the Thai Chamber of Commerce code of ethics. Workers reported over 10,824 cases of violations, including forced work without pay and dangerous work environments.\(^8\)

V.2. Unjustified Harm Caused by Trade

The results of trade are not always positive and commonly carry negative consequences in developing countries. These can include environmental damage, health issues, and uncompensated elimination of jobs in certain sectors of the economy.

In the case of Thailand, environmental damage, and pollution, forced evictions of entire communities, and lack of public consultation with communities being directly impacted by development projects of large scales are the main causes of the unjustified harm that trade can cause.\(^9\) Consultations for projects that involved communities were reported to be extremely biased with the consultants being in favor of ensuring projects were to be approved no matter the cost to the community. These meetings were conducted in private, often without the consent or approval of the locals and leaders of the projects were hired from outside of the local community to ensure its execution. Individuals in these communities with these large-scale projects were then subjugated to the environmental damages of the project, causing health issues to arise. In 2017, 10 different provinces in Thailand reported communal complaints about decreasing health due to the environmental damage of development projects aimed to increase trade.\(^10\) Of these health concerns were lung cancer, heart diseases, and pneumonia.

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\(^7\) World Bank Jakarta Office (2017).
In the case of Indonesia, they face unjustified harm in their manufacturing sector, specifically as a result of steel dumping. Steel dumping occurs when a country, in this case China, exports their steel at significantly lower prices than they do in their own domestic markets. What this process does is makes the steel industry of other nations less competitive. Steel is a main export of Indonesia the Indonesian steel industry’s next biggest competitor is China.\textsuperscript{11} As a result of the Chinese steel dumping, Indonesian steel manufacturers are forced to lower their prices in order to maintain a competitive price in the international steel market. This takes a toll on the wages of steel workers as they receive wage cuts in order for the manufacturers to reach profit minimums by decreasing costs.\textsuperscript{12} These manufacturing jobs are put at risk as a result of the uncontrollable trade patterns of foreign nations.

\textbf{VI. Conclusion}

The 21st century has brought upon a new age of economic development for the nations of Indonesia and Thailand. Increases in GDP per capita, literacy rates, and life expectancy are expected to continue and progress in the next few decades. Shares in world GDP have seen significant increases since 1970 and while they are projected to see a slight decline in the next few years it is expected that in the next decades both will see increases. For both countries to not only see but maintain this increase in world GDP, both will have to find solutions to their recently declining share in world exports. Both countries’ economic development and GDP growth are highly dependent on their exports. FDI presents itself as an opportunity for economic growth that is not dependent on finite resources and exports but has seen very little and only gradual success in the past decade. While FDI presents itself as a promising way to improve the gender inequalities of both countries, it represents very little of the GDP of both countries.

The ethical concerns of Indonesia and Thailand share many similarities. The ethical concerns regarding trade in both economies revolve around the unethical means by which trade is conducted and the unjustified harms that are a result of trade. In Indonesia, cases of abuse and unjust compensation are high among their migrant working population and female workers. They face high levels of work in terms of time and are given little if any compensation for it. Thailand faces violations of labor standards, where they have been exposed in many industries of using forced and trafficked labor. The unjustified effects of trade that take form in Indonesia are the harm done to the steel industries as a result of foreign competitors making attempts to make their exports more competitive. Indonesia steel manufacturers are forced to lower their prices below levels that generate enough profit to pay workers fairly. In Thailand, local communities are faced with growing health concerns as a result of development projects meant to better trade and exports in the nation as well as underrepresentation in these projects takin place in their own communities.

Tactical and intense efforts are needed to make trade an ethical practice in both countries as it is the only way to sustain economic growth and development. Social policy innovations along the line described in United Nations Development Program (2013) are needed to better extend the benefits of trade to the population of Indonesia and Thailand as well as more effort to include local communities in development and trade efforts. Tapping into global markets, which has been identified as another driver of development by the United Nations Development Program (2013) is not enough for these countries to see lasting and ethical benefits of engaging in international trade.

\begin{footnotesize}
\textsuperscript{11} OECD (2021).
\textsuperscript{12} World Bank Jakarta Office (2017).
\end{footnotesize}
trade. The least privileged groups need to be recognized, represented, and justly compensated for their contributions to the economies of Indonesia and Thailand. Through these measures, Indonesia and Thailand have the potential to become economic leaders in the region of East Asia and take on larger roles in their regional trade agreements and reap further benefits of trade.

References


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