TRENDS IN SOUTHEAST ASIA

# A SET OF TRUMP CARDS FOR TRUMP'S TARIFFS

## Perspectives from Thailand

Bank Ngamarunchot

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# FOREWORD

The economic, political, strategic and cultural dynamism in Southeast Asia has gained added relevance in recent years with the spectacular rise of giant economies in East and South Asia. This has drawn greater attention to the region and to the enhanced role it now plays in international relations and global economics.

The sustained effort made by Southeast Asian nations since 1967 towards a peaceful and gradual integration of their economies has had indubitable success, and perhaps as a consequence of this, most of these countries are undergoing deep political and social changes domestically and are constructing innovative solutions to meet new international challenges. Big Power tensions continue to be played out in the neighbourhood despite the tradition of neutrality exercised by the Association of Southeast Asian Nations (ASEAN).

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*THE EDITORS*

# A Set of Trump Cards for Trump's Tariffs: Perspectives from Thailand

By Bank Ngamarunchot

## EXECUTIVE SUMMARY


- The United States began imposing tariffs in February 2025, resulting in a clear 19 per cent reciprocal tariff rate for Thailand by August. In return, Thailand is obligated to eliminate tariffs on 99 per cent of US products imported into the country.
- The US tariff will raise prices for Thai goods, consequently reducing US demand for them. But Thailand's zero tariff will have two-pronged effects. On the one hand, it will put pressure on Thai farmers and some local producers. On the other, it will lower costs for Thai manufacturers who use US raw materials, potentially boosting their cost competitiveness.
- The tariffs imposed by the United States on other countries could partly offset the negative effects on Thailand and create opportunities for Thai exporters to expand their market share, particularly where competitors face higher tariff barriers.
- Global competition will intensify as most countries seek non-US markets to offset lost sales. Crucially, the US-China conflict diverts cheap, high-volume Chinese goods into Thailand, harming local manufacturers and creating a severe transshipment risk that could lead to an additional 40 per cent tariff on Thai exports.
- Thailand needs a comprehensive strategy to address its trade challenges. Such a strategy should aim to achieve the following: provide urgent relief for firms directly affected by tariffs; implement measures to manage the influx of Chinese goods and the problem of transshipment; and establish a long-term plan to boost the competitiveness of Thai entrepreneurs in the face of fierce global trade pressure.

# A Set of Trump Cards for Trump's Tariffs: Perspectives from Thailand

Bank Ngamarunchot[1]

## INTRODUCTION

The Trump administration began imposing tariffs aggressively on imports from February 2025. By August, it became increasingly clear that Thai exports to the United States would be subject to a 19 per cent reciprocal tariff rate, while Thailand would also be obliged to reduce its own tariffs on imports from the United States to zero per cent, covering more than ten thousand products. This situation has generated extensive debate regarding the potential impact on the Thai economy and the appropriate policy responses.

The anticipated direct consequence of the tariffs is a rise in the price of Thai goods for US consumers, which will inevitably lead to a reduction in demand for those products. Simultaneously, Thailand's decision to drop its own tariffs on US goods to zero creates a complex domestic situation: while Thai products that are a higher cost or lower quality than their US counterparts face increased risks, Thai goods utilizing US raw materials will see their costs reduced, thus boosting their competitiveness.

Beyond these direct effects, several indirect consequences warrant attention. Primarily, because the United States is also imposing tariffs on other nations, Thailand could see some of the negative effects mitigated. Second, global trade competition is set to intensify significantly. As the

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United States levies its basic 10 per cent tariff on nearly all countries, every one of them will be forced to seek alternative markets outside the United States to offset their lost sales. While short-term front-loading temporarily supported exports, the longer-term effects are expected to be negative as global demand readjusts and trade diversion accelerates. Consequently, countries with weaker competitiveness are very likely to lose further global market share.

A third crucial indirect impact stems from the global competition and US-China trade conflict. Cheap, high-volume Chinese goods that are blocked from the United States are now being diverted into Thailand. This oversupply severely hurts local Thai manufacturers, who cannot match the Chinese cost structure. Furthermore, Chinese producers attempting to circumvent US trade barriers by simply relabelling products in Thailand create a transshipment issue for the country, placing Thailand under intense scrutiny and at risk of future tariffs of up to 40 per cent.

Given these direct and indirect effects, the suggested plan for Thailand to navigate the current trade challenges is multifaceted, encompassing immediate financial relief, enhanced fair-trade protection, and fundamental economic reform.

The strategy begins with *Direct Entrepreneurial Assistance*, which targets sectors immediately hit by the US tariffs. This measure focuses on three vulnerable groups: manufacturers who are highly dependent on the US market for sales (such as furniture, machinery, electronics, jewellery, textiles, and medical devices); sectors where consumer demand is highly sensitive to tariff-driven price changes (including automotive parts, iron and steel, and chemical products); and domestic sectors that face new competitive pressure as a result of Thailand's own tariff reductions (specifically, agricultural and processed foods).

Second, *Fair-Trade Protection* will have to be significantly strengthened to safeguard the home economy. This is to counter the potential influx of cheap Chinese imports and goods illegally rerouted through transshipment. To achieve this, the government must implement stricter customs enforcement, raise product standards, and enact policies that actively encourage the use of higher regional and local content in Thai manufacturing processes.

Finally, *Structural and Capacity Enhancement* addresses the long-term health of the Thai economy. This seeks to improve overall national competitiveness by systematically raising productivity, investing in technological upgrades and innovation, and deliberately developing high-value industries that are inherently more resilient to abrupt shifts and challenges in the global trade landscape.

This article proceeds in the following order: outlining the development of the reciprocal tariff measure; analysing the direct and indirect impacts on the Thai economy; reviewing the existing measures currently undertaken by Thailand; and, finally, offering additional policy recommendations.

## TARIFF: "THE MOST BEAUTIFUL WORD" IN TRUMP'S DICTIONARY

Donald Trump's affection for tariffs runs deep. He has called it "the most beautiful word in the dictionary",[2] putting it above even "love".[3] Throughout his campaigns, he made it clear that increasing tariffs on nations he accused of unfair trade practices was central to his vision for the United States.[4]

Thailand found itself among the nations accused of committing unfair trade. In 2024, the United States imported 63,350 million USD

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[2] "'The Most Beautiful Word in the Dictionary': Donald Trump's Tariff Plan – Podcast", *The Guardian*, 16 December 2024, https://www.theguardian.com/news/audio/2024/dec/16/the-most-beautiful-word-in-the-dictionary-donald-trumps-tariff-plan-podcast.

[3] Caleb Howe, "'It's More Beautiful Than Love!' Trump Tells Rogan Massive Tariffs Could Fix Everything AND Replace Income Tax: 'Why Not?'", 26 October 2024, https://www.mediaite.com/politics/trump/its-more-beautiful-than-love-trump-tells-rogan-massive-tariffs-could-fix-everything-and-replace-income-tax-why-not/.

[4] Trump's tariff strategy targeted three distinct areas: first, close neighbors and economic competitors like Canada, Mexico and China; second, nations having significant trade surpluses at the expense of the United States; and third, crucial domestic industries the United States aims to cultivate and strengthen within its own borders.

worth of goods from Thailand, making Thailand its thirteenth-largest trading partner. In contrast, the United States exported only 17,858 million USD worth of goods to Thailand. This meant a trade deficit of approximately 45.5 billion USD, which ensured intense scrutiny from the US government.[5]

On 13 February 2025, President Trump took decisive action by signing an executive memorandum, titled "Reciprocal Trade and Tariffs". It immediately imposed significant additional tariffs on goods from Canada (25 per cent), Mexico (25 per cent) and China (10 per cent)—the top three suppliers of goods to the United States.[6] He also targeted critical industries, imposing a substantial 25 per cent tariff on imported steel and aluminium, and another 25 per cent on foreign autos and parts.

This sectoral tariff has great significance for the Thai automotive sector; the US market accounts for 4–5 per cent of Thailand's total auto exports and 10 per cent of its automotive parts exports. With an annual export value hovering around 1 billion USD, Thailand had become the ninth-largest automotive exporter to the United States, accounting for roughly 5 per cent of all US automotive imports. This high degree of market penetration means that the new tariffs directly threaten a core component of Thailand's automotive export revenue.[7]

The next big move by Trump came on 2 April 2025, with the dramatic announcement of "The Liberation Day Tariffs". This policy imposed a universal 10 per cent tariff that essentially hit goods from almost every corner of the globe. Furthermore, countries with trade surpluses with the

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[5] The United States Census Bureau, *U.S. International Trade in Goods and Services, Annual Revision*, 5 June 2025, https://www.census.gov/foreign-trade/Press-Release/ft900/final_2024.pdf.

[6] Office of the United States Trade Representative, "Countries and Regions: Goods Exports", n.d., https://ustr.gov/countries-regions (accessed 24 October 2025).

[7] "Thai Auto Sector Frets over US Tariffs", *Bangkok Post*, 27 March 2025, https://www.bangkokpost.com/business/general/2989117/thai-auto-sector-frets-over-us-tariffs.

United States were hit even harder, facing special "reciprocal tariffs" determined by a clear if curious formula:[8]

$$Reciprocal\ tariff\ rate = \frac{(US\ deficits\ from\ country\ x)}{(US\ imports\ from\ country\ x)} \div 2$$

Following a period of uncertainty during which the initially proposed 36–37 per cent tariff was both postponed for negotiation and challenged in the US Court of International Trade, the tariff for Thailand soon became definite. On 31 July 2025, President Trump confirmed in a letter that a 19 per cent reciprocal tariff would be imposed on Thailand, effective 1 August 2025. Because of certain product exemptions, the effective tariff rate, when weighted by the value of imports from Thailand to the United States, has been estimated to be around 16.5 per cent.[9]

The new US tariff rate was a huge shock for Thai businesses; it is over ten times the previous effective rate of 1.6 per cent in 2024. Given that the United States is Thailand's largest export market, this sudden tenfold increase in trade barriers is expected to have a significant overall impact on the Thai economy.

Given the unpredictable and ever-changing nature of the current US administration's trade policies, Thai policymakers need to understand the direct and indirect effects of these tariffs so they can develop the most effective responses.

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[8] These tariffs sparked negative responses from many US trade partners. China, especially, played a tit-for-tat game with the United States and escalated their tariffs to more than 125 per cent within two weeks of Liberation Day. On 12 May 2025, the United States and China reached a consensus to reduce their tariffs. The overall Chinese tariff on US goods was 32.6 per cent, and the US tariff on Chinese goods was 51.1 per cent. Chad P. Bown, "US-China Trade War Tariffs: An Up-to-Date Chart", 14 May 2025, https://www.piie.com/research/piie-charts/2019/us-china-trade-war-tariffs-date-chart.

[9] Fitch Rating, "U.S. Effective Tariff Rate Monitor", 15 August 2025, https://www.fitchratings.com/research/corporate-finance/us-effective-tariff-rate-monitor-23-04-2025.

## DIRECT EFFECTS OF TRUMP'S TARIFF

The direct economic impact of the US tariff measures on Thailand is multifaceted. The following analysis is structured to simplify and unpack these effects.

### *The 19 Per Cent Reciprocal Tariff on Thai Products*

The 19 per cent US tariff on Thai goods is projected to lead to a decrease in Thailand's total exports to the United States by making the goods more expensive to purchase. However, the increased cost caused by the tariff is not entirely passed on to the consumer. Goldman Sachs estimates that US importers would absorb approximately 55 per cent of the added cost, and roughly 22 per cent would be passed on to US consumers; over time, US importers are expected to increasingly transfer the burden to consumers. Thai exporters in turn would absorb about 18 per cent, with about 5 per cent potentially being evaded.[10]

In any case, demand from the US consumer for Thai goods will decline, and this will severely affect Thai exports that are highly reliant on the US market, particularly those with a high elasticity of demand.[11] This negative impact may be delayed because of factors like front-loading or temporary tariff exemptions (as with electronics), but it will nevertheless gradually increase.

To make matters worse, Thai companies exhibit high vulnerability. PIER, for instance, reports that the operating profit margins for Thai companies exporting to the United States are quite low: less than 3 per cent, 4 per cent, and 6 per cent for small, medium, and large firms, respectively.[12] This situation leaves them with limited capacity to reduce

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[10] ABC News, "As New Tariffs Take Effect, US Consumers Footing More than Half the Burden: Report", 15 October 2025, https://abcnews.go.com/Business/new-tariffs-effect-us-consumers-footing-half-burden/story?id=126504280.

[11] PIER (จิรายุ จันทรสาขา, อภิชญา ผู้อุตสาห์, นุวัต หนูขวัญ, เจตวัฒน์ ภัทรรังรอง และ วรินทิพย์ วรศักดิ์), "ภาษีทรัมป์ 2.0 กับความท้าทายต่อภาคการส่งออกไทย: เจาะลึกผลกระทบของภาษีทรัมป์ต่อส่งออกไทย กระทบ Sector ไหน? ผ่านช่องทางใด?", 17 กันยายน 2568, https://www.pier.or.th/abridged/2025/11/.

[12] Ibid.

prices and absorb the tariff burden. These companies are, in short, highly sensitive to changes in tariff rates.

The US tariff enforcement has not immediately halted growth; in fact, SCB EIC research has reported a strong 35.3 per cent year-on-year expansion in Thailand's exports to the United States during September. That figure, however, represents a highly volatile rebound after three consecutive months of decline; specifically, 42.1 per cent in June, 31.4 per cent in July, and 12.8 per cent in August. The overall outlook remains negative, and Thai exports are still anticipated to face adverse effects in the coming year.[13]

### *Thailand's Tariff Reduction for US Products*

The negotiation to reduce the US Reciprocal Tariff from the initial 36–37 per cent down to 19 per cent necessitated several commitments from the Thai government. Crucially, the concessions entailed agreeing to specific increases in the import of certain products (e.g., higher imports of liquefied natural gas and aeroplanes) and the wholesale elimination of import tariffs on over ten thousand product lines, which collectively account for 99 per cent of all goods imported from the United States to Thailand.[14]

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[13] The overall export expansion was sustained by the gold and electronics categories, which saw increased shipments during August 2025; the electronics category remains exempt from the specific tariffs. For example, exports of computers, equipment and components expanded by 65.8 per cent; telephones, equipment and components grew by 17.5 per cent; and printed circuit boards (PCBs) increased by 34.6 per cent. See SCB EIC, "The U.S. Tariff Barriers Are Becoming More Apparent, Leading to a Significant Slowdown in Exports in August", 24 September 2025, https://www.scbeic.com/en/detail/product/trade-290925; and SCB EIC, "Exports in September Surged to the Highest Growth in 42 Months, with Full-Year Performance Expected to Exceed Earlier Projections, While Imports Also Expanded Sharply", 3 November 2025, https://www.scbeic.com/en/detail/product/trade-031125.

[14] The White House, "Joint Statement on a Framework for a United States–Thailand Agreement on Reciprocal Trade", 26 October 2025, https://www.whitehouse.gov/briefings-statements/2025/10/joint-statement-on-a-frameowkr-for-a-united-states-thailand-agreement-on-recipricol-trade/.

The granting of full market access for US goods into Thailand is projected to create four major consequences:

- The vulnerability of Thai entrepreneurs whose production costs are higher or whose product quality is lower than that of US competitors will be heightened. Their businesses will face intense competitive pressure, and they will be at risk of closure. Such vulnerable sectors include the current major importers of US products and agricultural products.[15]
- Thai intermediate products that remain cost-effective and possess sufficient quality to compete will become stronger. This is because the competitive pressure will stimulate continuous development and self-improvement.
- The lower costs of high-quality intermediate products from the United States will reduce production costs for Thai manufacturers, consequently increasing their competitiveness in the downstream product market.
- If the government implements appropriate measures, labour and other factors of production should shift towards more competitive sectors. This structural reallocation should ultimately lead to the expansion of the Thai economy in the medium to long term.

In sum, although the tariff reduction for imported goods from the United States is expected to reduce Thailand's economic growth in the short run, it nevertheless holds the potential to drive long-term growth, provided that appropriate policies are implemented for structural reallocation of resources. An assessment using the GTAP (Global Trade Analysis Project) model reveals that:

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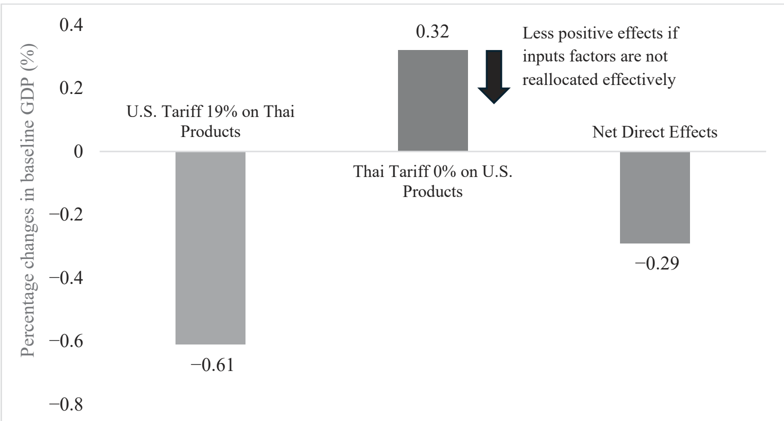
[15] For instance, the liberalization of pork imports is estimated to affect between 80,000 and 150,000 farmers, while increased corn imports could affect 520,000 farmers. Furthermore, opening the market to ethanol imports is expected to pose risks to approximately 1.2 million cassava and sugarcane growers. See กรุงเทพธุรกิจ, "สิทธิพล แนะรัฐบาลเร่ง 5 มาตรการเร่งด่วน รับมือผลเจรจาภาษีทรัมป์", 1 สิงหาคม 2568, https://www.bangkokbiznews.com/business/economic/1192414.

- The 19 per cent tariff hike could trim Thailand's potential GDP growth by about −0.61 per cent compared with the baseline scenario.[16] The contraction could deepen if Thai firms struggle to replace lost US orders, as the model assumes that market substitution occurs efficiently.
- The complete opening of the Thai market to US products will lead to an additional +0.32 per cent growth in Thai GDP. This positive effect could be smaller if input factors such as workers and capital are not reallocated to more efficient sectors. For example, when a Thai company with high production costs closes its operations, labour should be transferred to jobs in closely related sectors (minimizing skill losses), and capital invested in the economy should be reallocated to sectors with higher rates of return. Facilitating such a shift can lead to economic growth.

***Figure 1: Direct GDP Impact of Reciprocal Tariffs and Thai Tariff Removal***




*Source*: GTAP Model, calculated by Supanutt Sasiwuttiwat.

[16] The static GTAP model cannot specify the exact timeline for the transmission of the impact; it can only determine the magnitude of the effect once the impact is fully realized.

- The direct negative impact will be roughly double the size of the positive impact. The US tariff increase and Thailand's tariff reduction combined will see Thailand's net economic growth decrease by *at least* 0.29 per cent of baseline GDP (Figure 1).

# INDIRECT EFFECTS OF TRUMP'S TARIFFS

Beyond the direct effects of the increase in US tariffs and the decrease in Thai tariffs, there are also complex indirect effects on Thailand that stem from the US tariff and trade interactions with other nations.

## *Fierce Global Competition*

The tariff rates imposed by the United States on Thailand's trade competitors represent a crucial variable in determining the overall trade impact. A country facing a higher tariff on similar goods is at a disadvantage relative to Thailand. Conversely, a lower tariff rate gives them a competitive advantage.

A study by Supanutt Sasiwuttiwat[17] found that Asian countries with similar exports to the United States as Thailand include Vietnam, Indonesia and China. Among these nations, Thailand, Indonesia and Vietnam are subjected to similar reciprocal tariffs of approximately 19–20 per cent, while China faces a significantly higher tariff rate. If we consider the effective tariff rates, Thailand gains a better rate (16.5 per cent) than Indonesia (22.5 per cent), Vietnam (19.3 per cent) and China (41.4 per cent).[18] This situation results in three key consequences:

- China's reduced access to the US market opens a "window of opportunity" for other countries with similar export products to the United States. Thailand, Indonesia and Vietnam stand to benefit from increasing sales to the United States to substitute Chinese goods.

[17] Supanutt Sasiwuttiwat, "ประเมินผลกระทบต่อประเทศไทยจากภาษีนำเข้าของทรัมป์", 22 สิงหาคม 2568, https://tdri.or.th/2025/08/trump-tariffs-thai-impact-review/.

[18] Fitch Rating, "U.S. Effective Tariff Rate Monitor".

But this positive effect will not be uniform, and it depends on the US tariff rate on Thailand and on its competitive capacity relative to competitors' products.

- Simultaneously, oversupplied products from China (that cannot enter the US market) are likely to flow into Asian regional markets, including Thailand. This will have a negative effect on domestic firms producing similar goods;[19] the oversupplied Chinese goods are often extremely low-priced because of aggressive industry promotion measures, making it impossible for Thai businesses to compete on cost.
- The US tariff hikes hit virtually every country. This forces nations with a high dependency on the US market to seek new export destinations, thereby intensifying competition on the global market. Consequently, a country's relative competitiveness will more clearly determine its share of total global exports.

The key competitors in Asia all face comparable tariff burdens, with China being subjected to a much higher tariff.[20] The determining factor of the indirect impact lies, therefore, in the "competitive capability" of Thailand's manufacturing sector compared with other rivals in the same product groups, both in the US market and the global market.

Supanutt's study also found that during 2017–22, the Product Complexity Index (PCI) for Thailand's automotive and electronics sectors—two of the country's most prominent export industries—declined by 13 per cent and 2.75 per cent, respectively. The PCI is calculated relative to competing economies worldwide, indicating a

[19] At the same time, the severity of the impact resulting from the influx of Chinese goods is contingent upon the defensive measures implemented by individual importing countries. For instance, the presence of robust quality standards and anti-dumping measures can mitigate severe negative effects, ensuring that Chinese goods imported into Thailand are appropriately priced and of high quality.

[20] Another country that exports similar products to the US market is Mexico. While Mexico encounters higher reciprocal tariff rates compared with Thailand and Vietnam, it may have advantages in seeking more US market share via the US-Mexico free trade agreement.

gradual erosion of Thailand's relative capacity to produce complex products. The combined effects of this declining competitiveness and the reciprocal tariff regime are likely to increasingly affect Thailand's export performance negatively over time.

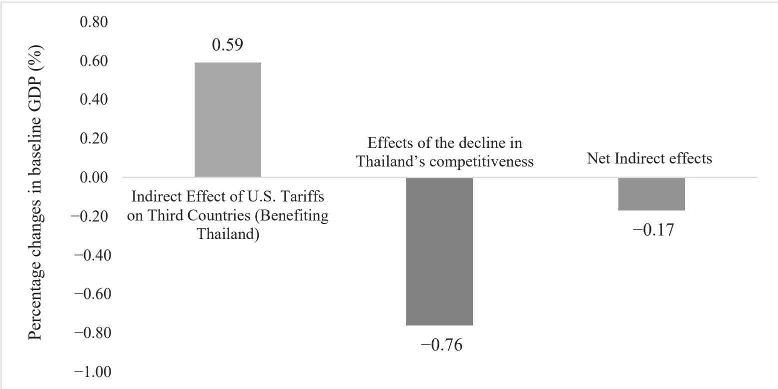
A comparison of the indirect effects—evaluating a scenario where Thailand maintains its competitive capability against one where it does not—reveals a stark difference. The evaluation by the GTAP model (Figure 2) indicates the following:

- The fact that the US-imposed tariffs not only on Thailand but also on countries globally provides a positive effect for Thailand, estimated at approximately +0.59 per cent of baseline GDP.
- With various countries facing reduced access to the United States, their surplus goods simultaneously enter the global market, intensifying competition. In this context, Thailand's comparative competitiveness plays a critical role. When the model incorporates the observed decline in the PCI for the automotive and electronics sectors, Thailand's two leading export industries, the resulting impact shows a potential GDP loss of approximately 0.76 per cent relative to the baseline scenario.
- The US tariffs on the rest of the world create a positive window of opportunity for Thailand (+0.59 per cent), which is large enough to cancel out the country's direct tariff losses (−0.29 per cent). But because Thailand is losing competitiveness in key sectors, it cannot fully capitalize on this opportunity. As a result, the total net effect is still a negative hit to GDP of about 0.46 per cent of baseline GDP.
- Focusing solely on the impact on exports, Thailand's export value is estimated to decline by around 13 per cent relative to its baseline equilibrium level prior to the tariff shock.

### *Oversupplied Products and Transshipment from China*

When China is restricted from exporting to the United States and its allied nations, it is compelled to seek new markets. The Thai Customs Department has indicated that, for the first seven months of 2025 alone, Thailand incurred a substantial trade deficit with China, reaching 1.18

***Figure 2: Indirect Effects of the 19 per cent Reciprocal Tariffs on Thailand's GDP***




*Source*: GTAP Model, calculated by Supanutt Sasiwuttiwat.

trillion baht, primarily due to the import of capital goods and components.[21] This trend reflects the fragility of Thai-Chinese trade relations and the risk of Thailand being utilized as a market for oversupplied Chinese goods.

Moreover, China is trying to find new manufacturing bases and invest in production facilities in various countries. In many instances, however, this investment does not constitute real production or significant value addition. It involves importing goods for minor processing (in extreme cases, just repackaging or relabelling new origin) before re-exporting

[21] ฐานเศรษฐกิจ, "รื้อใหญ่ Free Zone สกัดเลี่ยงภาษี ป้องกันสวมสิทธิ์ สินค้าราคาถูกทะลัก", 3 ตุลาคม 2568, https://www.thansettakij.com/ economy/640501.

them to the United States. This practice is termed *bad* or *illegal transshipment*.[22]

The *Economist* magazine estimates that Chinese goods undergoing transshipment through Thailand involving only label changes amounted to 1.8 billion USD. Case studies include an investigation into a Chinese company suspected of transshipping power steering hoses to the United States via Thailand after high tariffs were imposed on Chinese auto parts.[23] Similarly, the rapid increase in the production and export of solar panels following the first round of Trump tariffs led the United States to announce retaliatory tariffs of 300−900 per cent.[24]

To deter transshipment, the Trump administration proposed an additional 40 per cent special tariff on transshiped goods. The criteria for exemption are based on the Rules of Origin (ROO), where the goods are "expected" to have a Local Value Content (LVC) of not less than 40 per cent, or a Regional Value Content (RVC) of not less than 50−60 per cent of the product's value. The exact thresholds remain under negotiation.[25]

The transshipment tariff measure has a negligible effect on the extreme case of producers undertaking virtually no processing before re-

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[22] Transshipment is a process that involves both good and bad forms. The good form is when an efficient logistics system leads to the movement of goods through transloading services by Thai companies using local infrastructure, such as ports in Thailand. This results in the transshipping of goods without any hidden intention of changing the origin of those products. Conversely, bad or illegal transshipment is, for example, when an operator intentionally imports goods and only minimally processes or alters them to bypass the Rules of Origin (ROO) and therefore gain trade benefits or evades tariff liabilities.

[23] The *Economist* magazine estimates that China conducted transshipment, moving and relabeling goods in Vietnam, Thailand and India, amounting to $2 billion, $1.8 billion, and $1.6 billion, respectively (ดู รพีพัฒน์ อิงคสิทธิ์, สินค้าผ่านทางคืออะไร ทำไมปัญหานี้จึงเป็น 'หนามยอกอก' ของสหรัฐฯ, 22 กรกฎาคม 2568, https://www.the101.world/transshipment-to-usa/).

[24] ไทยรัฐออนไลน์, "'สส.สิทธิพล' จี้เร่งช่วย SME ชี้สงครามการค้ารุกไทยหนักรอบด้าน", 29 กันยายน 2568, https://www.thairath.co.th/news/politic /2885972.

[25] กรุงเทพธุรกิจ, "ไทยรับเงื่อนไขสหรัฐ เข้มสวมสิทธิ ใช้เกณฑ์ RCV ทะลุ 50% สกัดสินค้าจีน", 4 สิงหาคม 2568, https:// www.bangkokbiz news.com/business/ economic/1192841.

exporting to the United States. In fact, this measure could be indirectly beneficial as it incentivizes the reform of origin assessment methods and promotes greater value addition through higher LVC and RVC.

However, the imposition of the transshipment tariff negatively affects production sectors or entrepreneurs operating in an ambiguous state, such as those with LVC and RVC levels that are borderline—near the 60 per cent threshold. The Bank of Thailand analysed these at-risk production sectors (characterized by low local content, high foreign content from China, and RVC below 60 per cent). The analysis found that 14 per cent of Thai exporters to the United States, representing employment of about 380,000 workers,[26] are at risk of being affected by the transshipment tariff measure.

## QUICK POLICY RESPONSES AND FURTHER RECOMMENDATIONS

With sound policy implementation, the Trump tariffs, to a certain extent, present an opportunity to restructure the Thai economy. To mitigate the negative effects and effectively seize the opportunities presented, Thailand's national economic strategy must be structured across three distinct areas.

The government should first provide supportive measures tailored for affected entrepreneurs. This aid must be strategically directed at three key vulnerability profiles: those firms heavily dependent on the US market, such as electronics and medical devices; sectors like automotive and steel, where price sensitivity to tariffs is extremely high; and domestic industries, including agricultural and processed foods, that face negative consequences because of Thailand's internal tariff reductions.

Second, domestic market protection must be strengthened to counter the potential surge of low-cost Chinese imports and transshipped goods. This can be achieved through stricter customs enforcement, improved product standards, and policies that encourage higher regional and local content in Thai manufacturing.

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[26] PIER (จิรายุ จันทรสาขา และคณะ), "ภาษีทรัมป์ 2.0 กับความท้าทายต่อภาคการส่งออกไทย".

Finally, enhancing Thailand's long-term competitiveness requires significant structural and capacity improvements, focusing on raising productivity, upgrading technology and innovation, and developing high-value industries resilient to global trade shifts. Although these goals are defined as long-term, they demand urgent action because the benefits of deep structural reforms are only realized after a significant time lag.

### *Immediate Relief Plan for Those Affected*

Approximately one week after the 19 per cent tariff rate was announced, the Thai government declared four short-term measures[27] designed to counteract negative impacts.

- **Soft Loans:** A soft loan scheme totalling no less than 100 billion baht (about 3 billion USD), utilizing state financial institutions to enhance liquidity for entrepreneurs.[28]
- **Corporate Tax Reduction/Credit:** A measure to provide corporate tax reduction or tax credits to assist affected entrepreneurs. The details are currently under study, with consideration given to the proportion of the tax burden borne by the exporter.[29]
- **FTA Fund:** Utilization of the existing Free Trade Agreement Fund (FTA Fund), a mechanism in place since 2006, to assist farmers who are negatively affected by trade liberalization.[30]

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[27] These measures were announced by the government in response to the Trump tariffs and related impacts, but they do not include the 60-billion-baht macroeconomic stimulus package. That separate package was designed to cover approximately 33 million people through the "Khon La Khrueng" (co-payment stimulus package) (20 million people) and to support state welfare card holders (13 million people). See "Thai Government Unveils 60 Billion Baht Stimulus Package for 33 Million Citizens", *The Nation*, 29 September 2025, https://www.nationthailand.com/news/policy/40056088.

[28] ThaiPublica, "คลังสั่งออมสินจัด 'ซอฟต์โลน' อีก 1 แสนล้าน อุ้มส่งออกตลาดสหรัฐ", 15 พฤษภาคม 2568, https://thaipublica.org/2025/05/mof-orders-gsb-to-provide-soft-loans-100-billion-baht-support-exports-us-market/.

[29] ฐานเศรษฐกิจ, "รัฐบาลจัดเต็ม เยียวยาภาษีสหรัฐฯ งัด 4 มาตรการใหญ่ กว่า 2.2 แสนล้าน", 8 สิงหาคม 2568, https://www.thansettakij.com/economy/635418.

[30] Ibid.

- **Phased Liberalization and Quotas:** The implementation of a specific timeline, phased procedures, and quotas for the liberalization of US imports to allow domestic producers time to adjust. Examples include implementing a quota system for corn, where animal feed producers must purchase Thai corn first before sourcing from certified neighbouring countries, and then from the United States;[31] and setting a maximum adjustment period of five years for certain critical industries, such as medical devices and electronics.[32]

The four measures aim to mitigate the negative direct impacts. They include tax exemptions and increased liquidity for entrepreneurs whose exports to the United States are decreasing. Simultaneously, there is access to the FTA Fund, and non-financial measures such as gradual market opening, which aids entrepreneurs who are vulnerable to the influx of cheap US and Chinese products. These measures can, however, be further developed to achieve greater strategic clarity and sharpness in several key areas:

First, Thailand currently possesses limited fiscal space. Public debt stands at 65 per cent of GDP, which is increasingly close to the legal ceiling of 70 per cent. The annual budget for 2026, totalling 116 billion USD, anticipates a fiscal deficit of roughly 4.3 per cent of GDP.[33] Limited funds for addressing the Trump tariffs makes it essential that the government adopts creative and targeted budgetary allocations. Broad and untargeted measures will not be very effective.

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[31] BBC News Thai, "ไทยแลกด้วยอะไรกว่าจะได้อัตราใหม่ 'ภาษีทรัมป์' เท่ากัมพูชาที 19%", 1 สิงหาคม 2568, https://www.bbc.com/thai/articles/c2djxzkrgjwo.

[32] eFinance Thai, "ภาษีทรัมป์ 19% ไทยต้องเสียอะไรบ้างให้สหรัฐอเมริกา", 5 สิงหาคม 2568, https://www.efinancethai.com/recommended-for-you/thai-us-trade-deal-19.

[33] This budget deficit estimate assumes that economic growth will be around 2.3–3.3 per cent. But various private sector agencies and international organizations forecast that the economy might grow by less than 2 per cent. The fiscal deficit is, therefore, likely to be higher than currently estimated. See "Thailand's 2026 Budget, Explained", *The Diplomat*, 2 October 2025, https://thediplomat.com/2025/10/thailands-2026-budget-explained/.

Second, the soft loan programme, which the government uses to provide low-interest loans with low collateral demands via state financial institutions, usually moves slower than anticipated. The reason banks are often reluctant to meet the lending targets is that extending credit to troubled companies with low interest rates and poor collateral is a high-risk operation. The government therefore typically needs to implement supplementary measures, such as offering a partial credit guarantee and interest rate subsidies to compensate financial institutions for the opportunity cost of foregone normal lending.

Because of tight fiscal constraints, the government has not been able to provide partial loan guarantees or interest rate subsidies. The solution has been to have the Government Savings Bank (GSB) use its capital to extend 3 billion USD in loans at a preferential rate of 0.01 per cent per annum to sixteen state and commercial banks. These banks will then re-lend the funds to SMEs at an interest rate of up to 3.5 per cent per annum. This measure specifically targets three SME groups: (1) exporters to the US market, (2) supply chain businesses, and (3) those directly affected by cheaper US imports.[34] While this measure is creative, the government must rigorously monitor the re-lending process to ensure that the funds successfully reach the target groups and are dispersed with sufficient promptness.

Third, while tax measures can certainly help entrepreneurs, critical consideration is warranted: If affected companies are incurring losses, tax relief will not provide a direct benefit since loss-making firms have no tax liability to reduce. The focus should shift, therefore, to implementing sophisticated, yet clear, tax measures that also cover deficit firms; for instance, Qualified Refundable Tax Credits (QRTCs), loss carry-back and carry-forward provisions, transferable tax credits, and payroll tax offsets.

Fourth, the FTA Fund faces two core problems: an insufficient budget, and unclear objectives. The budget is too small; since 2006, the fund has only provided 37 million USD to the agricultural sector. This amount is inadequate for both solving immediate problems and enabling the long-term restructuring needed for Thai agriculture to adapt. The government

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[34] ThaiPublica, "คลังสั่งออมสินจัด 'ซอฟต์โลน' อีก 1 แสนล้าน อุ้มส่งออกตลาดสหรัฐ".

needs, therefore, to inject more resources into this fund and set clear objectives, prioritizing products that will be negatively affected by the reduction of tariffs on imports from the United States.

The FTA Fund should also be coupled with new trade agreements. Trade diplomacy and negotiation must play a central role in securing Thailand's market access and ensuring fair treatment under evolving global tariff regimes. Active engagement in bilateral and regional trade negotiations will be essential to maintain export competitiveness and prevent trade diversion.

The need for additional public resources requires the government to seriously consider expanding fiscal space by re-prioritizing budgets and establishing a strategic central budget to combat the Trump tariff challenges. This must be accompanied by clear communication to ensure the public perceives the response as systematic and coherent, not fragmented or confusing.

If implemented effectively, these measures can help mitigate the direct negative impact, which is estimated at −0.61 per cent of baseline GDP (Figure 1). For instance, in the agricultural sector, additional funding could be directed towards helping farmers and agribusinesses transition to higher-value or climate-resilient crops, upgrade processing capacity, and diversify export destinations. Such support would not only cushion short-term losses from US market disruptions but also strengthen the sector's long-term competitiveness and adaptability to global trade realignments.

### *Addressing Oversupply and Transshipment from China*

Beyond the direct effects of the tariffs, several indirect problems require government policy intervention. These include managing the oversupply of goods from China flooding into Thailand and addressing the scrutiny faced over transshipment because of low domestic value-added content. Recognizing these issues, the government is currently advancing policies designed to address them:[35]

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[35] ฐานเศรษฐกิจ, "รื้อใหญ่ Free Zone สกัดเลียงภาษี ป้องกันสวมสิทธิ์ สินค้าราคาถูกทะลัก".

- **Trade Defence:** The government aims to implement anti-dumping (AD) and countervailing duties (CVD) measures for imported products at abnormally low prices. Additionally, they must utilize anti-circumvention (AC) measures to address cases of inspection evasion.
- **Free Zone Reform:** The Customs Department is proposing reforms for the four types of free zones (airports, investment promotion zones, the Eastern Economic Corridor, and the Bangkok Free Trade Zone). This involves tightening Rules of Origin assessments and enhancing inspections for illegally transshipped goods.
- **Quality & Standards:** The government tends to establish systematic quality and standards requirements for imported products while simultaneously investing to increase these standards for domestic firms.[36]

Simply enforcing stricter scrutiny of transshipment and imposing higher standards for imports will not automatically increase the local content values of Thai products. To genuinely boost local value, measures that promote "production capacity and competitiveness" are necessary. These long-term structural efforts demand urgent action now, since a significant time lag exists before their benefits are realized, as I will discuss in the following section.

### *Structural and Capacity Enhancement*

The above analysis clearly shows that investing now to enhance the competitiveness of Thai entrepreneurs is critical for Thailand to compete in an increasingly fierce global environment. If executed well,

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[36] This measure has already been driven since 2024, when cheap and low-quality goods from China flooded into Thailand. It is likely that the government will continue to enforce this measure to also address the influx of Chinese goods resulting from the Trump tariff. See "Quality Controls to Be Tightened on Cheap Imported Chinese Products", Thai PBS World, 14 August 2024, https://world.thaipbs.or.th/detail/quality-controls-to-be-tightened-on-cheap-imported-chinese-p/54333; and "Thailand to Clamp Down on Cheap, Substandard Imports from China", *The Nation*, 31 October 2024, https://www.nationthailand.com/business/economy/40042848.

this action will largely offset the substantial negative indirect impact, estimated at −0.76 per cent of baseline GDP, while simultaneously boosting Thailand's opportunities to access new markets (Figure 2). The preliminary measures announced by the Thai government are as follows:

- **FDI Promotion:** Attracting and promoting international investment into Thailand's target areas and industries. This utilizes the incentive mechanisms offered by the Board of Investment (BOI) and the Eastern Economic Corridor (EEC) to specifically stimulate greater investment from the United States. This measure is expected to stimulate investment in high-tech production sectors and enhance Thailand's overall competitiveness.
- **High-Tech Investment:** Strategic investment in US advanced technologies, that Thailand is not yet capable of producing. This includes a plan to import approximately eighty Boeing aircraft, totalling 18.8 billion USD, over a ten-year period to support the recovery of the tourism and aviation service sectors, alongside supporting the import of various IT technologies.[37] On one hand, it aims to reduce pressure from the US trade surplus, and on the other, it seeks to increase Thailand's technological capacity.
- **Competitiveness Fund:** A 10-billion-baht investment fund dedicated to boosting the competitiveness of entrepreneurs in targeted industries.
- **Finding New Markets:** The primary mechanism for this is the acceleration of free trade agreements (FTAs) with various countries, particularly those in Europe and the Global South, for instance, Latin America, Africa, and India.[38]

Thailand had laid out a strategy in 2024 to attract approximately 12–15 billion USD in FDI to the high-tech sector, representing a 31 per cent growth from the previous year, concentrated in three fields: data centres, semiconductors, and businesses related to electrical vehicles.[39]

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[37] BBC News Thai, "ไทยแลกด้วยอะไรกว่าจะได้อัตราใหม่".

[38] "Tallying the Tariff Trade-Offs", *Bangkok Post*, 4 August 2025, https://www.bangkokpost.com/business/general/3080736/tallying-the-tariff-trade-offs.

[39] SCB EIC (Thitima Chucherd), "FDI โลกไม่ได้หาย แค่เลือกที่จะไป: โอกาส ASEAN ในโลกแตกแยก", 22 October 2025, https://www.scbeic.com/th/detail/product/FDI-221025.

But much improvement is still required. One issue is closing the gap between investment certifications approved by the Board of Investment (BOI) and the actual investment. This gap occurs because entrepreneurs do not receive adequate facilitation regarding various licences and permits.[40] Implementing regulatory reform to reduce investment barriers will therefore be crucial, and this should be urgently accelerated and improved.

Furthermore, another issue of paramount importance is the mechanism by which incoming foreign direct investment (FDI) can substantially benefit the competitive capabilities of the Thai workforce and economy.

This benefit flows through three primary conduits. The first is the capital channel, realized through joint ventures forged between the FDI entities and domestic Thai capital. The second is the value chain channel, which involves establishing robust connections with local Thai suppliers. The third is the labour channel, which focuses on the strategic utilization of Thai labour, with a particular emphasis on developing and employing skilled workers. Engagement in these three channel activities serves to significantly elevate the local content values generated by Thai people and, concurrently, works to alleviate the persistent problem of bad and illegal transshipment.

Beyond inward FDI, a crucial element for restructuring Thailand's economy is outward foreign direct investment (OFDI), driven by two strategic goals. The first goal is maintaining competitiveness by relocating capital from sectors no longer suited to Thailand's economic structure. Specifically, this means moving labour-intensive industries to countries with abundant, low-cost labour, a necessity as Thailand becomes an aging society. The second goal is technological advancement and market

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[40] The deputy prime minister and finance minister identified a critical bottleneck: seventy-four investment projects amounting to 9.3 billion USD have been stalled despite certificate approval. The delay stems from bureaucratic hurdles, including slow processing for utilities, factory licences, and foreign talent immigration. The government needs to immediately implement a fast-pass programme and leverage the Licensing Facilitation Act to unlock these investments. See "'เอกนิติ' ฉายภาพเศรษฐกิจไทย วางนโยบาย 5 เสาหลัก รองรับ New Economy", Thairath Online, 27 October 2025, https://www.thairath.co.th/news/local/bangkok/2891695.

access. This involves directing technology-intensive capital overseas to be closer to sources of new technology and large consumer markets for high-tech goods.[41]

Regarding high-tech investment, the government must shift its approach from buying final goods (e.g., procuring eighty US airplanes) to strategically acquiring technology licences and general-purpose technologies. This shift aims to boost productivity across broad applications, such as robotics and advanced machinery, and within targeted industries. For necessary final goods purchases, the government should negotiate technology transfer or implement an offset policy. Although challenging, even partial success would transform procurement into a powerful driver of long-term economic growth.

Another relevant mechanism for attracting high-tech investment is increasing competitive capability through the Competition Fund. But for such investment to yield maximum benefit it must be accompanied by other related policies. For example, resources from the Research and Innovation Fund should be used to stimulate concurrent research and development (R&D) alongside the initial investment. This approach will then create tech-absorptive and tech-creative capacity in the Thai economy. Another crucial complementary activity is that the government aggressively secures wider and substantially larger global market shares for Thai high-tech products. East Asian models, such as supporting South Korea's General Trading Companies and Japan's *sogo shosha* for worldwide distribution, offer a blueprint for this expansion. These trade-

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[41] Japan is cited as the key model for successfully executing this dual strategy of capital export. Thailand's economic size and other conditions differ from those of Japan, but we can certainly learn and apply this strategy in "specific production sectors" that aim to expand into the US market. An exemplary case of exporting capital that is no longer aligned with the domestic economic structure can be seen in the Flying Geese Model phenomenon following the Plaza Accord in 1985. As for the case of exporting capital towards high-tech goods markets, this can be observed through Japan's 550-billion-USD investment under the 2025 US-Japan Framework Agreement. See Congress.gov, "U.S. Tariffs and the 2025 U.S.-Japan Framework Agreement", 17 September 2025, https://www.congress.gov/crs-product/IN12608.

boosting strategies well align with the Thai government's current priority of actively pursuing additional FTAs.

## CLOSING REMARKS: POLITICAL ECONOMY AND CAPACITY FOR TRANSFORMATION

While the government has put forward several proposals, their success hinges on two critical dependencies: first, managing the conflicts that will inevitably arise during the transition; and second, substantially increasing the capacity of the government agencies responsible for policy oversight and implementation.

Transitions often entail high social conflict. For example, reducing the flow of resources (both capital and human) into inefficient production sectors and shifting them towards higher-productivity sectors can provoke strong resistance. Business groups that stand to lose benefits may obstruct the transition. Therefore, measures that ensure a fair and smooth transition—such as a just transition fund, reskilling labour to facilitate movement across production sectors, and providing aid packages to entrepreneurs to relocate or switch business lines—are essential.

Furthermore, as the government takes on a proactive role in assisting Thai entrepreneurs directly and indirectly affected by the Trump tariff, it must exhibit sufficiently high capabilities for this to succeed. It otherwise risks causing government failures, which would exacerbate the severity of the problems for the Thai economy. Examples of such failures include the wasteful loss of fiscal space, or a reduction in confidence. Therefore, governance oversight and enhancing the efficiency of the public sector must be intensified.

If the government implements the measures outlined here while having a good conflict management mechanism, with state agencies showing high capabilities, the Trump tariff can become a gateway of opportunity that allows Thai economic actors to adapt and grow. This adaptation includes improving production capabilities, diversifying products towards high-tech sectors, and expanding markets.

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