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By Dipinder S. Randhawa

SYNOPSIS

Indonesia and Thailand's pursuit of OECD membership, amid considerable geopolitical and economic uncertainty, sends a clear message about the two countries' commitment to adhering to stringent norms on transparency and governance. Their membership will augur well for ASEAN and for expanding engagement with like-minded countries and regions, especially the European Union.

COMMENTARY

In February and June 2024, the Organisation for Economic Cooperation and Development (OECD) initiated discussions with Indonesia and Thailand, marking them as the first ASEAN members to become OECD accession candidates. Membership in the OECD sends a strong signal of a country's intent to pursue a growth strategy based on open markets, democratic principles, and conformity to stringent norms on transparency, governance, environmental protection, and investment.

Both countries view OECD membership as a crucial pathway to escape the middle-income trap and achieve their long-term development goals, reflected in Indonesia's "Golden Vision 2045" to become a developed country by 2045 and Thailand's objective to become a high-income country by 2037. Indonesia aims to complete its accession within three to four years. Thailand's accession process is expected to take five to seven years due to the broader scope of reforms required under its roadmap to accession.

The Organisation for Economic Cooperation and Development

Established in 1961 as a successor to the Organisation for European Economic Cooperation (OEEC), the entity tasked with implementing the Marshall Plan, the

OECD is an intergovernmental organisation comprising thirty-eight leading market-oriented economies that work collaboratively to promote sustainable economic growth. Membership in the OECD is considered a hallmark of sound governance and economic policies.

As the performance of fast-growing Asian and other developing economies altered the structure of the global economy, rather than risk becoming a niche “rich countries club”, the OECD began extending membership to high-growth developing economies. Starting with South Korea and Mexico in the 1990s, OECD membership expanded to admit growing market-oriented economies across Latin America and Eastern Europe. China, India, Brazil, South Africa and Indonesia became associate members in 2007.

Benefits of OECD Membership

OECD membership confers distinct benefits. Foremost is the increase in trade and investment flows stemming from domestic and external liberalisation. Accession to the OECD signals members’ adherence to “best practices” across policy domains, resulting in an environment that attracts investors and stimulates competition and innovation, boosting growth potential and resilience. Higher credit ratings resulted in lower borrowing costs, encouraging capital inflows and new investments.

The Accession Process

The road to OECD membership is complex and demanding, requiring sustained commitment. Candidates for accession must demonstrate adherence to a transparent and open free market economy, the rule of law, effective climate policy, democratic principles, and respect for human rights. The process entails rigorous technical reviews by more than twenty-six OECD committees that evaluate alignment with the organisation's standards, policies, and practices, with no fixed deadline for completion.

The accession process is an end in itself. It is initiated following an initial assessment and starts formally once the OECD and the applicant country can, together, envision a path to full accession. The OECD does not refuse membership. However, the review process has no firm deadline and may continue until the OECD determines that the candidate meets the conditions for full membership.

Accession Challenges for Indonesia and Thailand

Meeting OECD standards and ensuring institutional independence may pose significant challenges, particularly in terms of accountability and state governance. In Indonesia, several state agencies, including the Corruption Eradication Commission (KPK) and the Financial Audit Agency, require improvements in performance and independence from government control.

Indonesia's ban on nickel ore exports, while seeking to incentivise domestic downstream investments, was deemed by the WTO as a violation of its rules. Other reforms Indonesia needs to implement are a more open trade and investment regime, strengthening social and equal opportunity policies to promote inclusive growth, and aligning environmental protection reforms with OECD standards.

Thailand faces challenges in modernising its regulatory framework to align with OECD standards. While recent reforms have established a system of regulatory governance with regulatory oversight and good regulatory practices, implementation remains challenging.

OECD members have scrutinised Thailand's democratic credentials, potentially complicating its accession process. OECD member statements have expressed concerns over the Constitutional Court's decision to dissolve the Move Forward Party for attempting to amend the lese majeste law.

Aligning tax policies with OECD norms enhances fiscal revenues and flexibility. The tax-to-GDP ratio in Thailand is 16.7 per cent. In Indonesia, it is 12.1 per cent, compared to the OECD average of 30 per cent, which constrains fiscal resilience and limits policy options during periods of instability. Both countries must expand the individual income tax base and rationalise their dependence on regressive indirect taxes, such as VAT and excise taxes, which disproportionately affect small and medium-sized enterprises (SMEs).

The depth and breadth of these reforms necessitate a technical capacity and a strong political will to overcome potential resistance from vested interests, demanding a firm political commitment to align with the OECD's rigorous standards. This involves tackling interests manifest in conglomerates, enterprises sheltered by the state, and graft. Both countries are making concerted efforts to address these challenges despite pushbacks from domestic power groups.

OECD and ASEAN

Indonesia and Thailand have long-standing relationships with the OECD. Indonesia has been a key OECD partner since 2007, and Thailand since 2018. The Southeast Asia Regional Programme (SEARP), launched in 2014 through Japan's initiatives, strengthened relations between the OECD and ASEAN through policy dialogue, contributing directly to both countries' membership applications and accession roadmap. The accession process has piqued Vietnam's interest, suggesting a possible domino effect among Southeast Asian states.

Thailand and Indonesia could be crucial bridges between ASEAN and the OECD, facilitating knowledge transfer and policy coordination, benchmarking regulations, and harmonising trade frameworks – initiatives that could accelerate regional integration across ASEAN and complement ongoing initiatives towards the ASEAN economic community. Aside from imparting resilience to the region, these reforms will strengthen ASEAN's case in the ongoing ASEAN-EU FTA discussions. As ASEAN transitions to green energy and reduces emissions, SEARP offers much-needed capacity-building skills that are currently unevenly distributed across ASEAN.

A significant risk associated with accession is the widening of intra-ASEAN disparities. To mitigate this risk, ASEAN needs to be proactive in helping less developed members meet critical gaps in finance and infrastructure. The spinoffs from OECD membership for Indonesia and Thailand could catalyse structural modernisation across ASEAN and take it to the next stages of growth.

Conclusion

Indonesia and Thailand’s commitment to full OECD membership was reiterated following changes in their respective governments. Newly elected President Prabowo Subianto strongly reiterated Indonesia's commitment to OECD membership alongside other economic partnerships, including the CPTPP and the Indo-Pacific Forum. Thailand's new government demonstrated strong determination to accelerate its accession process in February 2025 when its Foreign Affairs minister submitted Thailand's letter of intent to join the OECD.

OECD membership for Indonesia and Thailand sends a strong signal of adherence to global best practices on disclosure and governance, which are particularly helpful during the current geopolitical dislocation and economic uncertainty. It benefits the OECD through its expansion into one of the world’s fastest-growing regions. It will contribute to ASEAN integration and the realisation of the ASEAN Economic Community. The underlying adherence to a rules-based system and the potential for alliances with like-minded countries and groupings could be the first steps towards reinvigorating a rules-based system fit for the times.

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