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**Thailand's Trade Policy: WTO Plus FTA?**

**Fumio Nagai**

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## **List of Abbreviations**

AEM	ASEAN Economic Ministerial Meeting
AFTA	ASEAN Free Trade Area
AIA	ASEAN Investment Area
AICO	ASEAN Industrial Cooperation
APEC	Asia Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
BOT	Board of Trade (of the Thai Business Association)
CEPT	Common Effective Preferential Tariff (of AFTA)
CIEP	Committee for International Economic Policy (of the Thai Government)
EVSL	Early Voluntary Sectoral Liberalization (of APEC)
FDI	Foreign Direct Investment
FTA	Free Trade Area
FTAA	Free Trade Area of Americas
FTI	Federation of Thai Industries
GATT	General Agreement on Tariffs and Trade
GEL	General Exception List (of CEPT)
IL	Inclusion List (of CEPT)
IMF	International Monetary Fund
JETRO	Japan External Trade Organization
JICA	Japan International Cooperation Agency
MITI	Ministry of International Trade and Industry (of the Malaysian Government)
MOC	Ministry of Commerce (of the Thai Government)
MOF	Ministry of Finance (of the Thai Government)
MOIT	Ministry of Industry and Trade (of the Indonesian Government)
MOFA	Ministry of Foreign Affairs (of the Thai Government)
NAFTA	North American Free Trade Area
NESDB	National Economic and Social Development Board (of the Thai Government)
RTA	Regional Trade Arrangement
SEOM	Senior Economic Officials Meeting (of ASEAN)
SME	Small and Medium sized enterprise
TCC	Thai Chamber of Commerce
TEL	Temporary Exclusion List (of CEPT)
TTR	Thailand Trade Representative
WTO	World Trade Organization

## I. Introduction: Agenda Setting

In comparison to major ASEAN (Association of Southeast Asian Nations) member states, such as Indonesia and Malaysia, Thailand has shown a positive attitude towards establishing bilateral Free Trade Areas (FTAs). As of March 2002, Thailand was considering setting up a study group to look into forming various FTAs. So far, the list of potential partners consists of nine states – Australia, the Czech Republic, Chile, Croatia, India, Japan, New Zealand, South Korea, and the United States. Although no FTAs have so far been realized, Thailand's stance towards the FTA idea is remarkable nevertheless. In contrast, Indonesia and Malaysia have not launched any study groups to look at the possibility of setting up FTAs. Moreover, if the comments of those interviewed by the author are any guide, these countries are not even considering FTAs.<sup>1</sup> Why then is it only Thailand, among the major ASEAN member states, that is actively interested in FTAs? The aim of this working paper is to answer that very question.

The first interesting feature of Thailand's FTA policy is the geographical diversity of the potential partners – the list of partners covers various areas of the World. Thailand's attention has not been limited to neighboring countries: the Czech Republic

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<sup>1</sup> Interview with Mr. Alfons Samosir, Deputy Director for International Trade Defense (WTO), at the Ministry of Industry and Trade of the Indonesian Government, 21 March 2002. When the author asked Mr. Samosir why the Indonesian government had not thought of FTAs, his response was quite interesting: 'It is a good idea. I have never thought about it. I will talk about it to my boss. Thank you very much!' On the other hand, Mr. Budi Darmadi, Director of Regional Trade (Ministry of Industry and Trade), told the author on 26 December 2001 that there was no discussion about bilateral FTAs, and that Indonesia was not thinking about FTAs as a government. As for the Malaysian government's stance on bilateral trade deals, Mr. Mutafa Yusof, Principal Assistant Director of the ASEAN Economic Cooperation in the Ministry of International Trade and Industry (MITI), told the author that, as far as he knew, he had never heard of a study group on bilateral FTAs (Interview, 20 March 2002). In fact, Prime Minister Mahathir is worried about Singapore's attempt to negotiate separate free trade agreements: 'This is a worrisome thing because you know, generally in AFTA, we accept that anything that has a 40 percent local content, that must be regarded as national. ... That means they can enter into the markets of other countries. It would be very easy for these other countries to bring in partly completed products and complete them in Singapore and regard that as Singapore products, which would have free access into the other countries. ... We have to watch this very carefully because this can be a backdoor entry into AFTA' (*Bangkok Post* 27 February 2001). The International Trade and Industry Minister Rafidah Aziz explained the situation in the following terms: 'When it comes to bilateral agreements, we have no right to question, but in the case of free-trade agreements [FTAs] where you bargain on tariff concessions ... then it is going against AFTA rules and that cannot be done. ... We must get [an] ASEAN consensus' (*The Nation* 6 July 2002). However, concerning FTAs, Singapore's Permanent Secretary for the Ministry of Trade and Industry, Khaw Boon Wan, said, 'Suitably, designed RTAs [regional trade agreements] and FTAs can stimulate further global trade liberalization' (*Bangkok Post* 24 April 2000).

and Croatia are located in Central Europe, while Chile is located in South America. This approach is in stark contrast to Singapore's FTA policy. So far, Singapore, which is another pro-trade liberalizing state among ASEAN members, has concluded FTAs with New Zealand and Japan, and is now under the process of negotiating an FTA with Australia. Singapore is taking a regional (Asia-Pacific) approach to FTAs, whereas Thailand is trying to create FTAs with countries in different continents.

The second interesting feature of Thailand's FTA policy is its continuity. Despite the change of administration in early 2001 – from the Democrat Party led by the Chuan Cabinet to the Thai Rak Thai Party led by the Taksin Cabinet – Thailand has maintained its positive approach towards the FTA idea. For instance, the initiative to set up FTA study groups with Japan came from the Thai Prime Minister himself, when he visited Japan to meet with Prime Minister Junichiro Koizumi in November 2001. The FTA with the United States was initiated by the Thailand Trade Representative (TTR), which is a newly created body within the Prime Minister's Office. According to one trade-related official in the Thai Government, the first meeting between Thailand and the US is being scheduled for April 2002. Setting up an FTA with India is also considered to have been a top-down initiative from the new Prime Minister.

Surprising as it may seem now, this apparent continuity was not always a given. When Taksin took the portfolio of Prime Minister in February 2001, there had been much speculation that Thailand might become a more inward looking country, less interested in free trade. However, all those interviewed by the author asserted that the emphasis on trade policy has not changed since the Taksin Government came to power. If any further confirmation is needed, it is enough to show that the Taksin Government is opting for FTAs with foreign countries, which tend to have big markets, such as the US, India, and Japan.<sup>2</sup>

The Thai Government has been very positive towards FTAs. Yet, as observers of Thai trade policy we must be moderate in our applause, for the reality is that no actual FTAs have as yet materialized. In fact, half have been halted (though mainly due to the reasons of other countries), while the other half are yet to develop beyond the joint research stage. Nonetheless, despite present successes and failures, two

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<sup>2</sup> However, some Japanese residents in Thailand who are familiar with internal affairs within the Taksin Government contend that Taksin has not changed from his inward-looking policy orientation.

fundamental questions remain to be answered: first, why Thailand has been interested in setting up FTAs; and second, how this should be understood and interpreted in the context of Thailand's overall trade policy.

As such, this paper aims to clarify the following two points. First, how does the Thai Government understand the issue of Article XXIV of GATT as it relates to FTAs? And second, why does the Thai Government pursue bilateral FTAs in such an active way? That is, what is the trade strategy behind this enthusiasm for FTAs?

Before embarking on this study, however, the author would like to draw the reader's attention to some of the methodological limitations inherent in any examination of Thailand's FTA policy today. Simply, because the Thai Government is still in the process of setting up bilateral FTAs, the documentation on the subject (official or otherwise) is still scarce. Thus, most of the data cited in this text comes from the author's own interviews with relevant governmental officials and private sector representatives. In such a situation – that is, when research is based largely on oral sources – it is important to have access to high-ranking governmental officials in order to get a comprehensive picture. However, the author could only get information from Class 6 to Class 8 officials in the Thai Government.<sup>3</sup> Consequently, the opinions are often of a 'personal' rather than 'professional' nature, they are often contradictory, and they often vary from person to person and from section to section.

Do these problems amount to a sufficient reason for abandoning this research? The short answer is: No. Considering this is a working paper, and also because little research has been done in this field until now, this research should be a timely and valuable contribution to the study of Thai trade policy. Nevertheless, as the author has attempted to include as much information as possible, including consistent and contradictory accounts, it is important to acknowledge such limitations. Finally, it should be noted that, due to the nature of the research topic, the names of interviewees are not cited. Moreover, those statements and opinions that have been cited, both in

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<sup>3</sup> Class 8 (C8) officials usually take a position as the director of a division, as head of a provincial field office in provincial hall, or as head of a regional office. For university graduates, who start from Class 3, promotion up to Class 7 is relatively easy. But most Class 8 officials need to pass special examinations, which include both written and oral components. Class 7 (C7) and Class 6 (C6) officials may take positions as assistant directors in divisions or as heads of sub-divisions in central, regional or provincial administrations. It is a Class 9 official that usually occupies the post of director-general in each department or ministry.

English and Thai, represent the author's understanding of the original statements. Therefore, it goes without saying that final responsibility for any inaccuracies or distortions lies solely with the author.

In Section II, the development of Thailand's trade policy is briefly examined, especially as it relates to the ASEAN Free Trade Area (AFTA). Since AFTA is the only existing regional free trade arrangement for Thailand, and has been established for a decade, it should receive most attention. Following Section II, Thailand's trade policy towards FTAs will be discussed in Section III.

## **II. Thailand's Trade Policy**

### **II-1. Thailand's Commitment to AFTA**

#### ***II-1-(1). Thailand as a Co-founder of AFTA in 1992***

As is widely known and often quoted, the idea to set up a 'Free Trade Area' under an ASEAN framework was initiated by Thai Prime Minister Anand Panyarachun, when Singapore Prime Minister Goh Chok Tong visited Thailand in June 1991. This initiative was followed by a series of political and bureaucratic negotiations, which were, in comparison to previous unsuccessful attempts at economic cooperation under ASEAN frameworks, extremely rapid.

The Thai Government called for the formation of the ASEAN Free Trade Area (AFTA) at the ASEAN Senior Officials Meeting (SEOM), held in Kuala Lumpur, Malaysia, between 4 and 5 October 1991. Upon Thailand's initiative, the twenty-third ASEAN Economic Ministers Meeting (AEM) called for the establishment of a free trade area in ASEAN within 15 years.<sup>4</sup> On 8 December, the first working group for setting up AFTA was convened in Jakarta, Indonesia.

Then on 23 January 1992, the twenty-fourth AEM, assumed as a preparatory meeting for the ASEAN Summit, modified a draft agreement on AFTA, which was later

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<sup>4</sup> This initiative is also interpreted as an intention to nullify the idea of the East Asian Economic Grouping (EAEG), which was advocated by Malaysian Prime Minister Mahathir Mohamed. Mahathir's EAEG idea triggered a strong emotional rejection from the United States and a cool response from Japan and South Korea. It also worried other ASEAN member states.



redrafted by senior officials into the more comprehensive agreement. One change that was made, for example, was for the number of goods to be included in the Common Effective Preferential Tariff, or CEPT, to be enlarged. Finally, the fourth ASEAN Summit, the so-called Singapore Summit, endorsed and signed three basic documents concerned with AFTA. These documents, which came into effect on 1 January 1993, were:

- (1) the *Singapore Declaration*
- (2) the *Agreement on the Common Effective Preferential Tariff (CEPT) Scheme for the ASEAN Free Trade Area (AFTA)*
- (3) and the *Framework Agreement on Enhancing ASEAN Economic Cooperation*

In fact, prior to this agreement, the ASEAN economic ministers had already agreed, at the twenty-second AEM in late October 1990, to apply the common effective preferential tariffs to certain kinds of trading goods, such as cement, fertilizer, pulp, and so on, (Yoshino 2000: 200). More interestingly, it is said that the idea to set up a free trade area under an ASEAN framework had been considered in a 1982 report in 1982, which was prepared and submitted by a taskforce team headed by Anand himself (Yamakage 1997: 207). At that time, Anand held the position of chairmanship of the Saha Union textile conglomerate (Suehiro 1993: 113). That taskforce was assigned to review and give recommendations on ASEAN economic cooperation.

The natural question arising from these decisions concerns the reason: why ASEAN was able to reach an agreement to set up the Free Trade Area so promptly. In answering this question, academics seem to have reached a consensus around four major explanations. First, it was thought that AFTA could be a mechanism to tackle the emerging economic blocks and protectionism in the world at the time. The GATT Uruguay Round was facing a deadlock, especially over the issue of agricultural goods, between the European Community (EC) and the US. The EC was deepening its economic cooperation at the time, while the US had already agreed with Canada to set up the North American Free Trade Area (NAFTA) in 1987 and had begun negotiations with Mexico. Second, it was thought that AFTA could revitalize investment in the

region. After the Cold War, newly emerging markets in China, Russia, and Eastern Europe were beginning to attract more capital from international investors, and direct foreign investment (FDI) in ASEAN consequently dropped drastically in the period 1990–1. Third, it was thought that AFTA could stimulate the irresolute mood that had taken over the Uruguay Round. Among ASEAN member states, Thailand was and is competitive enough to export its agricultural goods, and so, naturally, Thailand joined in the so-called ‘Cairns Group,’ which supported trade liberalization in the agricultural sector. Fourth, it was thought that AFTA could overshadow Malaysian Prime Minister Mahathir Mohamed’s plan to set up the East Asian Economic Grouping (EAEG).

### *II-1-(2). Thailand as an Accelerator of the AFTA*

At the outset, AFTA marked a fresh start to regional relations. On 11 September, following the fourth ministerial meeting of the Asia-Pacific Economic Cooperation (APEC) group in Bangkok, Thai Prime Minister Anand proposed that the AFTA Council be convened. Although ministers had already confirmed their commitment to AFTA, the AFTA Council was convened on 23 October to confirm the planned schedule of the CEPT. Since Thailand did not submit the CEPT list in time, however, the AFTA Council, which was originally scheduled to take place before the AEM, could not be called. Since the Malaysian Minister for Industry and International Trade expressed disappointment that the list had not been prepared on time and again affirmed that Malaysia still hoped to realize the East Asian Economic Caucus (EAEC),<sup>5</sup> the AFTA Council was suddenly set for the second day of the AEM. On 11 December 1992, the third AFTA Council held in Jakarta confirmed that the two track approach to tariff reduction – that is, a fast track approach and a normal track approach – would be utilized. After 10 days, the CEPT plan of each member state was made public. According to each plan, trade liberalization was set to start at different times: Singapore would start from 1 January 1993; Malaysia from 1993; Brunei from 1994; Thailand and Indonesia from 1995; and lastly, the Philippines would start from 1996.’

When Deputy Prime Minister and Commerce Minister Supachai Panitchpakdi attended

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<sup>5</sup> After it came up at AFTA, the EAEG concept had been changed into a more moderate form, the East Asian Economic Caucus (EAEC).

the Kuala Lumpur meeting of the Pacific Economic Council Conference (PECC) in March 1994 in Kuala Lumpur, he enthusiastically called for an early realization of the Free Trade Area of ASEAN (*Bangkok Post* March 25, 1994). At that meeting he raised the following five objectives:

- (1) To shorten the AFTA tariff cutting schedule from 15 to 10 years
- (2) To set the tariff end rate under the AFTA from between 0 to 5 percent to 0 percent
- (3) To put agricultural trading goods and petrochemicals into the AFTA tariff list
- (4) To shorten the tariff cutting schedule on the Temporary Exclusion List (TEL) from eight to five years
- (5) To set up the so-called 'AFTA Adjustment Fund'

Supachai's challenging suggestions were interpreted to mean that he intended to make AFTA more attractive than NAFTA and the Uruguay Round. Looking back at the development of AFTA, most of Supachai's ideas have been accepted by fellow ASEAN member states. Supachai also encouraged ASEAN cooperation in areas such as the trade in services, as well as unprocessed agricultural goods (*Bangkok Post* 29 August 1994). In addition, he had already advocated the economic linkage between AFTA and the Closer Economic Relationship (CER) of Australia and New Zealand when he visited Australia in November 1993 (*Bangkok Post* 8 April 1994). On his official visit to Australia on 7 April 1994, Prime Minister Chuan took Supachai's policies further, when he met with Australian Prime Minister Paul Keating. Chuan agreed with Keating that AFTA and the CER should form an economic linkage, and Chuan promised to persuade other ASEAN fellow members to agree to this idea.

Following those discussions, mainly led by Thailand, the twenty-sixth AEM at Chiang Mai set out various issues for discussion (see Table 1).

**Table 1: Major Issues Relating to Trade Liberalization at the twenty-sixth AEM, held at Chiang Mai in April 1994**

	Issues
1	To shorten the AFTA tariff reduction schedule from 15 years
2	To enlarge the AFTA list to include items such as unprocessed agricultural goods
3	To discuss the ASEAN cooperation to set up common procedures and standards in the trade of services, as well as in intellectual property rights (publication rights, patent rights, trademarks, etc)
4	To discuss the Joint Production Ventures of automotive parts (only by Malaysia, the Philippines and Thailand)
5	To discuss the possibility to exploring new linkages with the CER and CEFTA (Czech, Bulgaria, Hungary and Slovakia)
6	To discuss the status of ASEAN in the Asia-Pacific Economic Cooperation (APEC) forum <sup>6</sup>

The opening speech given by Prime Minister Chuan at Chiang Mai AEM on September 22, clearly shows the attitude of leading Thai policy makers towards AFTA.

However, there have also emerged trends not wholly favourable to the developing countries. First and foremost are new types of trade barriers, essentially those which are non-economic in nature, and most evident in some developed nations. A concomitant of these phenomena is the growth of regional economic groupings with inward-looking potentials. How will ASEAN stand up to such challenges? To me the most straightforward answer is that a united ASEAN will be in a far better position to face both the challenges and opportunities of our age than its individual member countries striving on their own. We must deepen and widen cooperation in a mutually beneficial way, and reduce our dependence on traditional export markets. To facilitate trade expansion, we must seek to eliminate tariff and non-tariff barriers. Through our mutual efforts, AFTA will have an important impact on increased intra-ASEAN trade.

*(The Nation, September 23, 1994)*

In fact, Table 1 identifies many of the important issues that would develop under AFTA and so-called 'AFTA Plus'<sup>7</sup> in subsequent years.

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<sup>6</sup> Indonesian President Soeharto, who was to host the second APEC Summit in November 1994, reported that he had set the end year of trade liberalization under APEC for developing economies at 2020. For more discussion on the relationship between AFTA and APEC, please refer to Nagai (2001).

<sup>7</sup> AFTA Plus refers to the comprehensive framework for regional economic cooperation including AFTA (CEPT), AICO, investment liberalization measures (ASEAN Investment Area or AIA), and other trade facilitation measures such as intellectual property protection, mutual recognition of standards, tariff agreement, and coordination in economic policies. Please refer to Aoki (2001: 34).

### **III. Thailand's Attempt to Set Up FTAs**

#### **III-1. Thailand's Motivations in Setting Up FTAs**

As the previous section shows, we can say that Thailand and Singapore have been enthusiastic in setting up, accelerating and deepening free trade through the multilateral schemes of AFTA and AFTA Plus. As a bilateral approach to free trade, an FTA makes it possible to abolish internal tariffs between the two participating parties, and thus, also makes possible further market integration. In addition, FTAs are not limited only to 'traditional' areas of trade such as trade in goods but also other trade-related areas. It is therefore no surprise that Thailand has been active in promoting investment liberalization, as well as trade facilitation, and has even been active in promoting a freer movement of labor among ASEAN member states.<sup>8</sup>

As is widely known, international economic relationships in the East Asia have been undergoing dramatic and rapid changes. In October 2001, ASEAN and China agreed on a closer economic partnership, including the establishment of an FTA within 10 years, a move, which astonished the Japanese Government. China was finally accepted as a member state of the WTO at the end of 2001, which seems likely to give the private sector an incentive to invest in the huge Chinese market. It was under these circumstances that Prime Minister Koizumi recently visited major ASEAN countries, including the Philippines, Singapore, Malaysia, and Thailand, to promote an initiative for a Close Economic Partnership between ASEAN and Japan. Recent developments imply that, as East Asia enters this new era of FTAs, such relationships no longer trigger the kind of emotional resistance from Japan or the United States as they did 12 years ago, when Malaysian Prime Minister Mahathir initiated the concept of the EAEG. In any case, this new approach is a regional one, which tries to maximize the economic benefits to all parties involved by taking advantage of their geographical proximity.

Within this regional approach to integration, Thailand also seems to apply its

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<sup>8</sup> Surakiart Sathirathai, who was then the Dean of Faculty of Law, Chulalongkorn University, said that ASEAN should admit the free movement of labor within the ASEAN region (*The Nation* 16 March 1995). At SEOM, held on 21 July 1995, Thai delegates submitted the idea to liberalize the movement of professionals in the ASEAN region. Krirkkrai, the chairperson of SEOM, said that, although we could not reach an agreement on labor movement, it was the first step in talking about the issue (*The Nation* 14

own kind of trade policy. It is difficult to say exactly when Thailand began its bilateral FTA approach. Some say that Thailand started to think seriously about bilateral FTAs after 1999, when Singapore announced its plan to set up study groups for FTAs with Japan and Australia. According to Thai officials, however, it seems that Thailand had already started considering bilateral FTAs before 1999. Thailand's bilateral FTA approach can be divided into two periods – the Supachai period (December 1997–January 2001) and the Taksin period (February 2001 to the present). During the Supachai era, Thailand initiated FTAs with Australia, Chile, the Czech Republic, Croatia, and South Korea.<sup>9</sup> Subsequently, during the Taksin era, Thailand has initiated FTAs with India, Japan, and the United States.

### ***III-1-(1). Czech and Croatia***

According to those interviewed, Deputy Prime Minister and Minister of Commerce Supachai initiated FTAs with the Czech Republic and Croatia in 1998 or 1999, when he visited Europe.<sup>10</sup> Another source stated that, when Supachai visited Croatia between 1 and 3 June 2000, the idea of setting up a bilateral FTA between the two countries was discussed (JETRO 2001: 22). It is not known why Supachai initiated FTAs with such countries, as they are located far from Thailand,<sup>11</sup> but it seems that Supachai was propelled to take this action for two reasons. The first reason is the possibility for Thailand, by entering into these FTAs, to gain access to the European Union (EU). The Czech Republic and Croatia are located at the 'backdoor' of the EU. The second reason is the flexibility for subsequent policy adjustment that entering into FTAs with small states allows. Since Thailand cannot know the impact that FTAs may have, it might have picked small countries as experimental cases to guide later FTA policy.

When the author discussed this issue with officials in mid-March 2002, it was

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August 1995).

<sup>9</sup> The author identified the names of Australia, Croatia, the Czech Republic, and South Korea as late as 15 February 2001 from a Thai official involved in Thailand's trade policy. At that stage, that official said that the Thai government was studying FTAs and that they could not know the result until August 2001. Another interviewee told the author that the FTA with Chile was initiated by Supachai (Interview 18 March 2002).

<sup>10</sup> The author has not identified the exact date of Supachai's visit to Europe.

<sup>11</sup> At the twenty-sixth AEM, held in Chiang Mai on 21 September 1994, a new linkage between AFTA and the CER and CEFTA (Czech, Bulgaria, Hungary, and Slovenia) seemed to be on the agenda. However, the author does not know whether discussion on the issue of the linkage between AFTA and CEFTA really took place. Since Supachai was Commerce Minister at that time, he might have taken notes of those

reported that the Czech Republic had asked Thailand to cancel the FTA idea, because it had been directed by the EU not to proceed towards FTA negotiation with Thailand. It also seems that the Croatian side did not respond to Thailand's initiative. Subsequently, when the government changed from Chuan to Taksin, the push to conclude FTAs with these two countries disappeared.<sup>12</sup>

### ***III-1-(2). Chile***

According to a trade-related official, Chile was also picked by Deputy Prime Minister Supachai as a possible FTA partner.<sup>13</sup> According to the official, interviewees said that Chile responded positively to the offer and was interested in setting up an FTA with Thailand.

Despite this initial interest, however, both Chile and Thailand are yet to initiate any joint research. Those interviewed suggested that Chile has not paid any significant attention to the matter, so consequently, little progress had been made.

### ***III-1-(3). South Korea***

Thailand and South Korea had completed some joint research on the possibility of setting up an FTA, according to a Thai trade-related official, but this research apparently focused mainly on macro-economic issues. When Thailand asked South Korea to begin further joint research for specific sectors, however, South Korea responded that it would prefer to stay at the macro level for the present.<sup>14</sup>

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countries in Central and Eastern Europe.

<sup>12</sup> Nonetheless, Prime Minister Taksin might be interested in Croatia. He gave a dinner speech to welcome the President of the Republic of Croatia, Mr. Stjepan Mesic, on 11 February 2002. In his speech, he said, 'By virtue of our central geographical location, Thailand is a natural gateway for economic activities in Southeast Asia. At the same time, economic integration is being intensified within the regional grouping of 10 ASEAN countries, which comprises a market of half a billion people. Indeed, we hope that Croatia will look to Thailand as its gateway to expand relations with countries in the Southeast Asia region. Likewise, Thailand views Croatia as a new hub for promoting new business activities in Southeastern Europe.'

<sup>13</sup> However, another source implied that the initiative to set up the FTA between Thailand and Chile might have started after Taksin came to power. According to Surakiart, the current Foreign Minister, that initiative with Chile needed an approval from the National Economic Policy Committee as of mid-July 2001 (*The Nation* 19 July 2001).

<sup>14</sup> The twelfth Trade Ministers Meeting was held between 31 January and 1 February 2002 in Seoul, South Korea. According to the unofficial translation of the Synopsis of the Cabinet Meeting, on 5 March 2002 the Cabinet approved the report of the meeting by the Ministry of Commerce. It said that both the Republic of Korea and Thailand 'agreed to review [any] FTA agreement' between the two countries 'on the suitable condition of both parties.'

Thailand seems to have expected that an FTA with South Korea would allow it to buy industrial goods from and sell agricultural goods to the South Koreans.

#### ***III-1-(4). Australia and New Zealand***

The author could not identify when and how bilateral talks to set up FTAs with Australia and New Zealand commenced. However, the National Economic Policy Committee (NEPC) seems to have approved a study group to look into FTAs between Australia and (possibly) New Zealand (*The Nation* 19 July 2001). In fact, according one trade-related official, on 30 August 2001 at the Committee of International Economic Policy (CIEP), ministers talked about strategy towards FTAs with Australia and New Zealand. Another official suggested that the joint study group looking into this issue is expected to finish its research by the end of March 2002.

#### ***III-1-(5). India***<sup>15</sup>

It is reported that Foreign Minister Surakiart Sathirathai, who visited India, Brunei, and Singapore in 2001, told news reporters that he was personally in favor of India's initiative to conclude a bilateral FTA with Thailand, because he believed that that the scheme would be very beneficial for Thai business (*The Nation* 19 July 2001). Surakiart said that the initiative for a bilateral FTA between the two countries needed approval from the National Economic Policy Committee (NEPC).

When Prime Minister Taksin visited India on September 2001, he asked the Indian Government to set up a joint working group for FTAs. When he visited India again on 27 November 2001, he gave a keynote address at a Business Conference organized by the Confederation of Indian Industry and the Federation of the Indian Chambers of Commerce and Industry, which included the following statement:

Today, our two governments are further expanding our cooperation at both the bilateral and regional levels, namely, by exploring a bilateral Free Trade Area, a rice pool cooperation arrangement, and the possibility of setting up a special payments

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<sup>15</sup> Thailand's interest in India is not new. For instance, *The Nation* reported that deputy Foreign Minister Pitak Indravitayanan had visited Sri Lanka from 9 to 13 March and India and Bangladesh in the following month. These visits were made due to the Thai government's policy of 'Look West', which was suggested by former Prime Minister, Chatichai Chunhawan, then the economic adviser to Prime Minister Chaovalit Yongchaiyut. Quite interestingly, Surakiart was one of the advisory group members to Prime Minister Chatichai from 1988 until 1991.



arrangement or account trade system. My current visit is aimed not only at expanding our economic and political cooperation in general but, more specifically, in the areas of science, technology and IT.

([http://www.thaigov.go.th/index\\_eng.htm](http://www.thaigov.go.th/index_eng.htm))

Taksin also strongly appealed for the establishment of an FTA with India at the official dinner hosted by Indian Prime Minister, Shri Atal Bihari Vajpayee:

We in Thailand share India's desire to increase trade and investment between our two countries. We have been working hard with our ASEAN friends to set up and realize the ASEAN Free Trade Area (AFTA), and we hope to reach a similar bilateral free trade agreement with India in the near future. In the same vein, we will both explore the possibility of an account trade agreement, which should facilitate trade between us as well as reduce our reliance on foreign exchange.

In addition, as we are both the world's major producers and exporters of rice, we wish to establish a rice pool cooperation framework with India to avoid price-undercutting in the world market. This will benefit our agricultural sectors and rice farmers, who still form the backbone of our societies and economies. We already have such an arrangement with Vietnam, which has worked well, and we have begun talks with Pakistan on this matter.

We can both take pride in our joint cooperation in founding the BIMST-EC and Mekong-Ganga cooperation frameworks. We now have the important task to work with our friends in Myanmar to make land travel between South and Southeast Asia a reality by linking our road networks together. This tripartite cooperation on road networks between India, Thailand and Myanmar, with the assistance of the ADB, will be of great value in further promoting trade, investment and tourism among the three countries.

([http://www.thaigov.go.th/index\\_eng.htm](http://www.thaigov.go.th/index_eng.htm))

Taksin is apparently also interested in strengthening bilateral ties between Thailand and India. Besides his intention to set up a bilateral FTA and a rice pool arrangement with India, Taksin may have other reasons to promote better relations with India. For example, Taksin is very interested in India's rising fame in the information technology sector. Since Taksin, a founder of the Shinawatra Group, is a business tycoon in computer appliances and telecommunications, he may be personally interested in exploring business opportunities for the Shinawatra Group.<sup>16</sup>

### ***III-1-(6). Japan***

When Prime Minister Taksin visited Japan in late November 2001, he gave a very

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<sup>16</sup> There exists some speculation about his unofficial visit to India in early January 2002. Taksin has not elaborated why he visited India. It is rumored that he had planned to have a business talk for the Shinawatra Group in India.

interesting speech at the Imperial Hotel. This speech clearly shows the relationship between trade policy and industrial development. Taksin admitted that the East Asian Economic Model (EAEM) ‘had not addressed many of the country’s fundamental problems, particularly the basic inequality in the economic sector.’ As such, his government had embarked on a ‘dual track plus’ policy ‘as the centrepiece [centerpiece] of our [the Thai Government’s] economic strategy.’

To be sure, we will continue to attach importance to the EAEM’s emphasis on foreign direct investment and exports. At the same time, however, we find it necessary to strengthen ourselves internally so that we can stand on our own two feet.

([http://www.thaigov.go.th/index\\_eng.htm](http://www.thaigov.go.th/index_eng.htm))

Taksin then introduced various parts of his domestic economic policies, such as the establishment of the Village Fund program, the People’s Bank, Small and Medium-sized Enterprises (SMEs), the Venture Capital Fund, the ‘One Village One Product’ project and so forth. He defended his trade policies and painted an optimistic picture for trade under AFTA, for the ASEAN-China Free Trade Area, and for Thai-Japan relations:

Despite misconceptions in some quarters, Thai investment policy continues to be based on liberalization and free trade. It has never been otherwise. We continue to welcome foreign investors. In fact, government cooperation is being expanded for those making long-term investment in Thailand.

Thailand, of course, is a member of ASEAN, which has long created an ASEAN Free Trade Area (AFTA). At the recent ASEAN Summit in Brunei Darussalam, ASEAN and China have just announced plans to establish an ASEAN-China Free Trade Area within 10 years. The combination of cost-effective domestic inputs and manufacturing in a FTA offer Japanese SMEs real opportunities to open or expand new markets for their products. We, therefore, have two parallel windows of opportunity for Japanese investment- AFTA and the ASEAN-China Free Trade Area. Two windows of opportunity for Japan, but one partnership- Thailand and Japan.

([http://www.thaigov.go.th/index\\_eng.htm](http://www.thaigov.go.th/index_eng.htm))

### ***III-1-(7). The United States of America***

On 17 December 2001, Commerce Minister Adisai canvassed the USTR (the United States Trade Representative) on the possibility of resuming joint research for an FTA between the US and Thailand (*Nihon Keizai Shinbun* 18 December 2001).

According to a Thai trade-related official, a representative of the USTR is to visit Bangkok to discuss this joint research group, although the official added that the two countries might not reach an agreement to establish a joint research group.

### III-1-(8). Summary

Although the research so far is only provisional, it seems that the new Taksin Government, while continuing the basic FTA policy from the Chuan Government, has at the same time opted for a different approach. The main differences are illustrated in Table 2 below.

**Table 2: The Different Approaches of the Chuan and Taksin Governments towards Bilateral FTAs**

	<b>Chuan Government (December 1997–January 2001)</b>	<b>Taksin Government (January 2002–)</b>
<b>Major decision makers</b>	Supachai Panitchpakdi (Deputy Prime Minister and Commerce Minister) Ministry of Commerce (Department of Business Economics) The Committee of International Economic Policy	Prime Minister Taksin Shinawatra The National Economic Policy Committee
<b>Possible FTA partners</b>	Australia (and possibly New Zealand) Chile Croatia Czech Republic South Korea	India Japan USA

However, the trials for bilateral FTAs set up during the Supachai era did not proceed smoothly. In fact, according to an internal document drafted by a sub-committee of the Department of Business Economics (DBE), which is part of the Ministry of Commerce, entitled ‘Policy Orientation of Bilateral Free Trade Agreements’ (Naew nayooabai khootoklong kaankhaaseeriiphaakhii), ‘As of now, Thailand has not reached any agreement of bilateral or regional Free Trade, except for ASEAN, [although] Thailand has embarked on the conclusion of Bilateral Free Trade Area (BFTA) [agreements] with foreign countries, such as South Korea, the Republic of Croatia, and [the] Czech Republic.’<sup>17</sup>

Even within the DBE, it is possible to uncover senior officials not in favor of bilateral FTAs. According to Karun Kittisataporn,<sup>18</sup> Director-General of the DBE,

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<sup>17</sup> The author obtained this document at the Department of Business Economics on 15 February 2001. The document is written in Thai.

<sup>18</sup> He is also well known for his belief in trade liberalization under the AFTA scheme. In terms of Malaysia’s dropping *automotive* from the original AFTA schedule, which was supposed to start from the

bilateral agreements are flawed because they force countries to conduct more negotiations and because they give influential economic countries more bargaining power over poorer countries. Karun also said that bilateral free-trade agreements would create a cluster of trade blocs in the long run, and that a bilateral-style global trade framework would not provide the highest benefits in terms of the efficient supply of raw materials. In a bilateral system, countries may find themselves importing sub-optimal material simply because they have an FTA with that particular supplier.

Bilateral agreements distort the marketing mechanism. For instance, Thailand may import heavy machines from Japan to enjoy zero import tax under the bilateral agreement, although it is second-best to the US in terms of quality, because an importer from the latter would be charged 10-percent import tax.

(The Nation 17 July 2000)

### **III-2. FTA Networks and the Issue of WTO Consistency**

It is apparent that, in comparison to the Chuan Government, the Taksin Government is becoming more involved in bilateral FTAs. If this is the case, how then does the Thai Government understand the issue of consistency between FTAs and the WTO, especially in terms of Article XXIV of the GATT/WTO? Before analyzing of this issue, however, it might be helpful to review in brief the totality of Thailand's trade policy.

Generally speaking, Thailand has been an ardent supporter of trade liberalization. When asked about which group out of the WTO, AFTA and APEC was the top priority for the Thai Government, one Thai trade-related official responded that: 'It is not a matter of priority. We think that [they operate] in parallel. APEC is a [form of] loose cooperation, and ASEAN will unite in a crisis. ASEAN is a kind of practice.' Thus, the Thai Government can be said to view the WTO as the binding and supreme organ of global trade, while AFTA is viewed as the mechanism for a regional Free Trade arrangement. APEC, meanwhile, is viewed as operating on a non-binding, voluntary

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year 2002, Karun made the following statements: 'Our position is that you cannot force the other members to start tariff reductions if they are not ready, but in doing so they should provide some kind of compensation, otherwise countries would get away scot-free' (*The Nation* 24 April 2000). 'The original [six] members are differently interpreting ASEAN's raison d'etre while the four new members are likely to conform to bad habits of back-tracking on the agreed co-operation... After all, we have yet to come up with a blueprint of common goals. We now do not even have a common position on how and when the next round of the World Trade Organization (WTO) should be resumed' (*Bangkok Post* 23 June 2000).

basis.

Nonetheless, in order to enjoy the maximum benefits from and minimize the possible losses generated by the WTO process, it seems that Thailand has positioned AFTA as the most important mechanism in its international economic policy. Thailand is well known, since the Asian Economic Crisis of 1997, for its attempts to accelerate further trade liberalization under AFTA and for its attempts to deepen ASEAN economic integration through the so-called 'AFTA Plus' measures. Indeed, it is true that both the WTO and AFTA are important and complementary frameworks for Thailand. However, it should be stressed that in a situation where multilateral liberalization does not favor Thailand, it is only upon AFTA that Thailand can rely.

All those interviewed by the author were aware of Article XXIV of the GATT/WTO. Yet, there was little consistency in the way different officials within the Thai Government interpreted the WTO and FTAs. One Thai official involved in WTO matters suggested that the FTA might be harmful to the WTO process in the long run. Nevertheless, even this official reluctantly admitted that Thailand must pursue bilateral FTAs with other countries or it might be left behind. Another Thai trade-related official, while qualifying the statement as merely a personal view, raised doubts about Thailand's FTA policy in the following terms: 'I don't know why there are so many FTAs in the world. I don't know why Thailand is now trying to conclude bilateral FTAs with other countries, because it depends on top leaders. But I think that Thailand must follow the world.'

With the exception of the statement by Karun, as cited above, there appear to have been no public statements made by Thai officials in any way criticizing FTAs for their potential affect on the WTO. Nowadays, even Supachai, who is to become the Director-General of the WTO from September 2002, does not seem to consider there to be any inconsistency between the WTO and FTAs. Supachai was reported as saying in Hong Kong that he had no problems with Singapore negotiating its own free trade agreements (*Bangkok Post* February 27, 2001).

The private sector also seems to welcome the increase of FTAs. One of the members of the Federation of Thai Industries, who is very familiar with the WTO, stated clearly that he did not see any problems between the WTO and FTAs, since the

accumulation of FTAs will eventually lead to global liberalization.<sup>19</sup>

If Prime Minister Taksin's speeches at various occasions are examined, he seems to believe that bilateral FTAs with neighboring countries, such as India, Japan, and the US, will help create a potentially huge market that will attract foreign investment and make Thailand a regional trade hub. Perhaps Taksin lacks a full understanding of the rules relating to consistency between Article XXIV of GATT/WTO and FTAs. According to a Japanese informant who knows the inside affairs of the Taksin Government, Taksin is reported to say repeatedly that Thailand and Japan can treat agricultural goods later, and that the two countries can reach an agreement now where they do not feel injured. Such a view, if true, implies that Taksin does not understand that sectoral agreement is prohibited under the WTO. Just as Taksin may have to change domestic policies following the birthday speech of His Majesty, King Bhumiphon, on 4 December 2001, where Taksin was implicitly cautioned to avoid 'double standards',<sup>20</sup> Taksin may also find he has to change his policy towards the WTO.

#### **IV. Conclusion**

Since this working paper is concerned with the new topic of Thailand's FTA policy, the author has tried to gather the basic information on these policies in the context of Thailand's overall trade policy and WTO stance. Given the incomplete nature of the available information and the fact that the process is an ongoing one, it would be unwise to draw at present any dramatic conclusions. Nevertheless, some provisional conclusions are possible.

First, if the Taksin Government is compared to its predecessor, the Chuan Government, the Taksin Government seems to have a clearer vision in terms of uniting the country's trade policy with its domestic (industrial) policy. By looking at various speeches, it is possible to conclude that Taksin is trying to use FTAs with neighboring

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<sup>19</sup> Interview, 15 March 2002.

<sup>20</sup> 'Double standards' here implies that Taksin's statement differs from time to time, from place to place, is lacking in consistencies in his statements.

countries as a strategy to attract foreign investment and position Thailand as a strategic hub in the transportation (namely, railway) and manufacturing networks of the region.

Second, in terms of developing a trade policy, which is consistent with Article XXIV under the GATT/WTO, the Thai Government seems to be pushing bilateral FTAs in a positive way, although it is acting with great care and caution on this issue.

Finally, based on the research undertaken for this paper, it is possible to offer a preliminary explanation as to why Thailand is so keen to promote bilateral FTAs. The main reasoning that has been driving Taksin's attitude and approach towards establishing FTAs has been the desire to access a bigger market in Asia, a market that is comparable to the European Union and the FTAA (Free Trade Area of Americas).

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