Chapter 8

Thai Firms' Response to the TPP: Results of Interview Survey

Somkiat Tangkitvanich and Saowaruj Rattanakhamfu

Thailand Development Research Institute (TDRI)

1. Introduction

The Trans-Pacific Partnership (TPP) is a trade agreement which encompasses 12 countries in East Asia and the Pacific. Countries that are parties to the TPP negotiation are Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the U.S. and Vietnam. The draft TPP agreement was concluded in February 2016 after seven years of negotiations.

After the inauguration of President Donald Trump, the U.S. announced to withdraw from the TPP on 23 January 2017. For many observers, the TPP is already dead. To become effective, the TPP requires ratification by all negotiating countries within two years, or ratification by at least 6 countries corresponding to 85 percent of the combined gross domestic product (GDP) of the negotiating countries. Without the U.S. ratification, it is impossible for the TPP to become effective as the U.S. alone represents nearly 62 percent of the combined GDP.

However, some countries are still trying to keep the TPP alive in its current or new forms. For example, Japan continues advocating the TPP and tries to convince President Donald Trump of the importance of the agreement. In addition, the Australian government announced that it would try to revive the TPP, possibly as a trade agreement among some or all of the remaining 11 nations. Many TPP negotiating countries also hope that the U.S. might reverse its course again and become a TPP member under a new president.

Although Thailand is located geographically in the East Asia and the Pacific region, it is not a party of the TPP negotiation. As a result, if the TPP is to take effect, Thailand's trade and investment with TPP members risked being diverted towards other TPP members, especially Vietnam and Malaysia.

With the TPP's huge economic potentials, business opportunities and potential risks, the negotiation has brought about discussions among the public, private and civil society sectors in Thailand. The Japan External Trade Organization (JETRO) and the Thailand Development Research Institute (TDRI) have conducted a joint research project on the strategies of local Thai firms on TPP, with the aim to understand their perspectives and to construct a set of well-founded trade policy recommendations.

This paper attempts to assess the potential impacts of the TPP in its original form (with the U.S. being a member) on Thailand. It also analyzes the strategies adopted or planned by leading Thai firms to the deal with these potential impacts. The main research methodology used is to conduct interview with executives of these firms. The TDRI team has carried out survey interviews with 20 individuals from 20 firms between late September 2016 and early February 2017. The team also analyzed the result of the survey and extracted some policy recommendations for the Thai government.

This paper contains five sections. The next section describes the state of play of Thailand’s FTAs to provide the necessary background and context. Section 3 states the hypothesis on which the survey is based. In particular, it discusses potential impacts of the TPP on Thailand. Section 4 provides results of the survey interviews of 20 leading Thai firms. The last section, Section 5, summarizes policy recommendations based on the survey interviews.

2. The State of Play of Thailand’s FTAs

Export has long been Thailand’s main growth engine. As of 2015, the country’s export of goods and services stands at 69 percent of its GDP. As a result, the Thai government always tries very hard to maintain the country’s export growth. One way to increase export opportunities for Thai firms is to conclude free trade agreements (FTAs) with Thailand’s trading partners. In fact, Thailand was one of the most active countries in East Asia in negotiating FTAs during the decade of 2000s. As a result of its FTA efforts, the share of Thailand’s export to FTA partner countries to its total exports raised rapidly from 19.3 percent in 2001 to 53.5 percent in 2010.

Thailand launched FTA negotiations with the U.S. in 2004, the European Free Trade Association (EFTA) in 2005 and the EU in 2013. However, none of these have been successfully concluded. The negotiation with the U.S. was officially terminated after 8 rounds of negotiations, while those with the EFTA and the EU have been suspended.

In addition to negotiating bilateral FTAs with its trading partners, Thailand also forges trade pacts through the so-called “ASEAN+1” FTAs, beginning with China in 2005, Korea in 2007 and Japan FTA in 2008, Australia and New Zealand in 2010, and India also in 2010. Table 1 summarizes the concluded and ongoing FTAs between Thailand and its trading partners.

Since 2010, however, Thailand has not secured any new FTAs with its major trading partners. The most recent effective FTA (implemented in 2015) was the FTA with Chile. The previous one is with Peru, a minor trading partner with a mere trade share of 0.16 percent for Thailand. As a result, the share of exports to FTA partner countries has organically increased to 56.0 percent in 2014. Thailand’s FTAs with Turkey and Pakistan, if successfully concluded, would also have marginal impacts in increasing Thailand’s market access opportunities (See Figure 1).

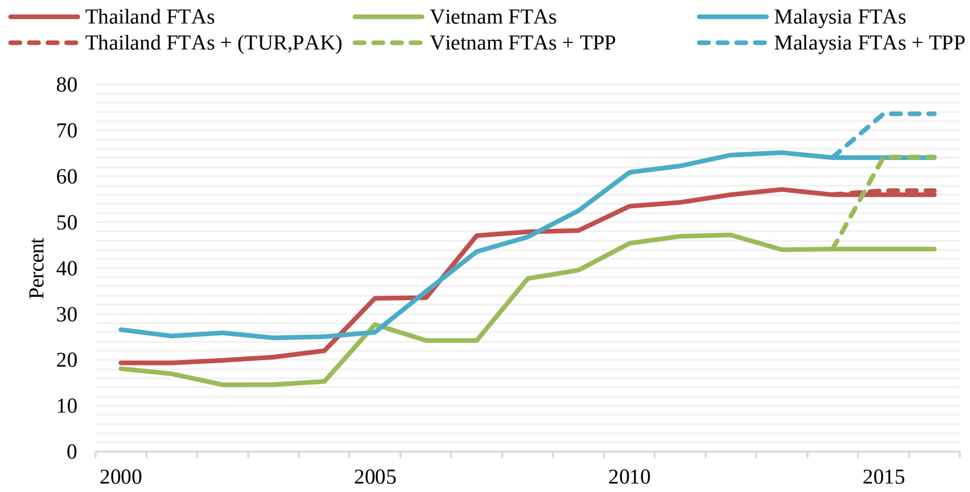
It should be noted that while Thailand have FTAs with most of the TPP negotiating countries, it does not have any free trade agreements with the three countries in North America, namely the U.S., Canada and Mexico.

Table 1 Concluded and ongoing FTAs between Thailand and its trading partners

FTAs	Status
Laos-Thailand Preferential Trading Arrangement (Laos-Thailand PTA)	Signed and In Effect 1991-06-20
ASEAN Free Trade Area (AFTA)	Signed and In Effect 1993-01-01
People's Republic of China-Thailand Free Trade Agreement (PRC-Thailand FTA)	Signed and In Effect 2003-10
Thailand-Australia Free Trade Agreement (TAFTA)	Signed and In Effect 2005-01-01
ASEAN-People's Republic of China Comprehensive Economic Cooperation Agreement (ACFTA)	Signed and In Effect 2005-07-01
Thailand-New Zealand Closer Economic Partnership Agreement (TNZCEP)	Signed and In Effect 2005-07-01
ASEAN-[Republic of] Korea Comprehensive Economic Cooperation Agreement (AKFTA)	Signed and In Effect 2007-06-01
Japan-Thailand Economic Partnership Agreement (JTEPA)	Signed and In Effect 2007-11-01
ASEAN-Japan Comprehensive Economic Partnership (AJCEP)	Signed and In Effect 2008-12-01
ASEAN-Australia and New Zealand Free Trade Agreement (ASEAN-ANZ FTA)	Signed and In Effect 2010-01-01
ASEAN-India Comprehensive Economic Cooperation Agreement (ASEAN-India CECA)	Signed and In Effect 2010-01-01
Thailand-Peru Free Trade Agreement (Thailand-Peru FTA)	Signed and In Effect 2011-12-31
Thailand-Chile Free Trade Agreement (Thailand-Chile FTA)	Signed and In Effect 2015-11-05
United States-Thailand Free Trade Agreement (TUSFTA)	Negotiations launched 2004-06-0 Negotiations suspended in 2006
Thailand-European Free Trade Association Free Trade Agreement (TEFTA)	Negotiations launched 2005-10-15 Negotiations currently on hold
Regional Comprehensive Economic Partnership (RCEP)	Negotiations launched 2013-05-09
Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) Free Trade Area	Negotiations launched 2014
India-Thailand Free Trade Area (India-Thailand FTA)	Negotiations launched 2014-01
Pakistan-Thailand Free Trade Agreement (Pakistan-Thailand FTA)	Negotiations launched 2015-09-27
Thailand-Bahrain Free Trade Agreement	Framework Agreement signed 2002-12-29

Source: Asia Regional Integration Center

Figure 1 Share of exports to existing and future FTA parties

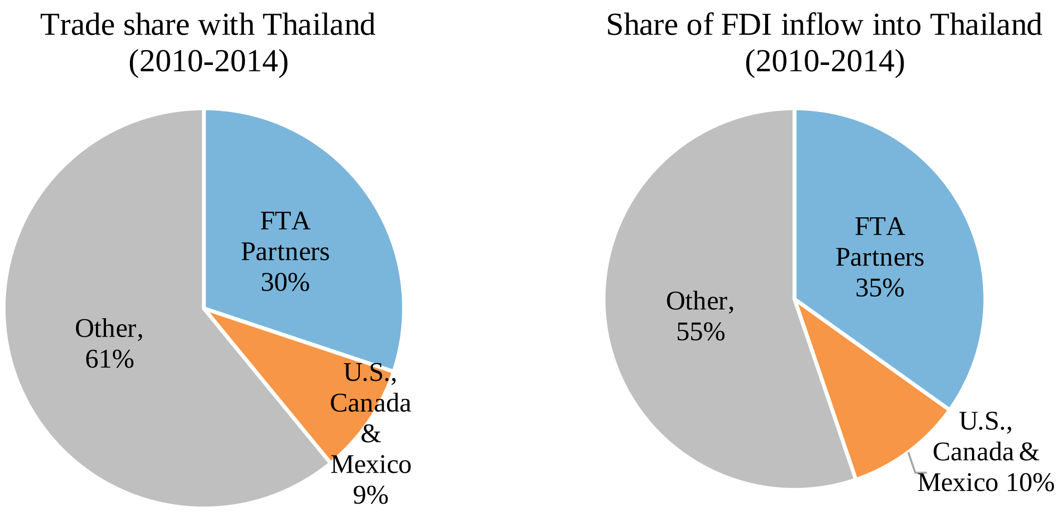


Source: UN Comtrade with TDRI calculation

3. Potential Impacts of TPP on Thailand

The TPP negotiating countries currently contribute to roughly 40 percent of Thailand's trade and 45 percent of its foreign direct investment (FDI) inflow. The three North American countries, which are TPP negotiating partners but not Thailand's FTA partners, contribute to roughly 9 percent of Thailand' s trade and 10 percent of its FDI inflow (See Figure 2). As a result, if the TPP is to take effect, Thailand's trade and investment with North America risked being diverted towards TPP members. Most worryingly, Thailand's export to the U.S. would risk losing its market share to Vietnam and Malaysia in the product items where the U.S. tariff rates remain high.

Figure 2 Thailand's Trade and FDI shares with countries with and without FTAs



Source: Bank of Thailand with TDRI's calculation

Table 2 summarizes potential impacts of the TPP implementation on Thailand, which will be our hypotheses to be tested by firm interviews. However, we will limit the scope of the study only on the impacts on trade in goods and leave the impacts on services, investment and other trade-related issues to future work. Our study will also focus on the potential impacts of Thailand's export to the U.S., the world's largest market.

Table 2 Potential impacts of TPP on Thailand

Sectors	Nature of advantages/disadvantages of TPP members over Thailand	Level of impacts
Goods and services		
Auto and auto parts	Export from TPP members will be charged lower tariff rates than that from Thailand	High impacts with long transition period (25-30 years)
Textiles/ garment	Export from TPP members will be charged lower tariff rates than that from Thailand	High impacts with short transition period
Other products	Export from TPP members will be charged lower tariff rates than that from Thailand	Modest impacts as tariff rates for these items are generally 0% or low
Services	TPP members can attract more FDI in service sectors	Moderate impacts
Agriculture	TPP members will gain better market access for selected agricultural products	Moderate impacts
Trade-related issues		
Investment	Malaysia and Vietnam can attract more FDI due to stronger investment protection	Modest impacts
Intellectual property	Members have to protect IP more stringently, raising costs of business	Significant negative impacts for TPP members
Labor standards	Members will be forced to accept ILO conventions	Modest negative impacts for TPP members

Source: Authors

The export of Thai textile and garment products are expected to be severely affected by the TPP implementation. The former is believed to be negatively affected because the U.S. imposes high MFN-tariff rates on garments. The latter is believed to be affected by TPP's yarn-forward rules of origin imposed on garments.

The export of automotive products from Thailand is also expected to be negatively affected due to high U.S. MFN-tariff rates. However, the transition period of tariff cut for TPP members will take 25-30 years, longer than those of textile and garment products. The export of agricultural, fishery and processed food products from Thailand may also be negatively affected as TPP members will be granted better market access.

Table 3 lists the top 10 export products from Thailand to the U.S. that are charged at least 5 percent tariff rates. As Thailand is not a party to the TPP, it is expected that exports of these products from Thailand to the U.S. would be negatively affected.

Table 3 Top 10 export products from Thailand to the U.S. facing at least 5 percent tariff rates

HS	Products	Average export value 2012-2014 ($million)	U.S. applied tariff rate (%)
160414	Prepared or preserved tunas , both whole and in pieces	518	11.7
401519	Gloves not elsewhere specified of rubber	433	5.7
210690	Other food preparations	153	8.4
621210	Brassieres and parts of textile materials	104	10.3
610343	Men's knitted trousers/shorts made from synthetic fibres	91	21.6
610821	Women's knitted briefs and panties made from of cotton	82	7.6
611120	Babies' knitted garments/clothing accessories from cotton	72	14
200600	Vegetable, fruit, nut, fruit-peel preserved by sugar	70	8.9
200897	Other mixtures, incl. those of subheading 2008.19	49	10.3
640399	Footwear with outer soles of rubber or plastics uppers of leather	47	6.4

Source: WTO and UN Comtrade with TDRI calculation

4. Firm Survey and Results

In this section, we will present the results of our firm interview survey. We initially describe the characteristics of interviewed firms. Then we present the main findings.

4.1 Characteristics of the Firms Interviewed

We conduct firm interviews to examine the impacts of TPP on Thai firms and their strategies to cope with the implementation of the TPP during September 2016-February 2017. The targeted firms are all local firms, except one which is owned by a Taiwanese living in Thailand for a long time. The firms are in the sectors most likely to be affected by the TPP implementation, such as textile, automotive, fishery and processed food sectors, as discussed in the previous section.

To gain high-level insights, we intentionally targeted firms related to leaders of the Thai business communities, such as

- The Thai Chamber of Commerce (TCC),
- The Federation of Thai Industries (FTI),
- The Thai National Shippers' Council (TNSC), also known as "the Export Council", and
- The Joint Foreign Chambers of Commerce (JFCC)

The interviewees are executives (such as CEOs, presidents, vice presidents, managing directors and senior advisors) or chairpersons and members of board of directors of the companies. The representatives of these companies also serve as honorary chairpersons, chairpersons, vice chairpersons, secretary generals or sit in the board of directors of the aforementioned chambers, federation and council.

To complement the above perspectives, we also interviewed firms whose representatives serve in the board of directors of some important industry associations, such as

- The Thai Automotive Parts Manufacturers Association (TAPMA), and
- The Thai Feed Mill Association (TFMA).

The twenty firms interviewed are from the targeted sectors, including food products (6 firms), fashion products (7 firms), automotive parts (2 firms) and others (5 firms), as shown in Table 4.

In each interview, the interviewees were asked to explain a brief overview of their firms, the situation and recent development in their industries, their export market strategies and the trade barriers they are facing. They were also asked whether their firms would gain or lose from the implementation of the TPP, how they would adjust, what kind of supports they expect from the Thai government and what kind of policies they would recommend to the Thai government.

Table 4 Sectors of the Firms Surveyed

Sector	Sub-sector	Number of firms
Food	Processed food (PF1 & PF2)	2
	Poultry and pork meat (PP1)	1
	Processed seafood (SF1)	1
	Fishery (F1)	1
	Sugar Refinery (SR1)	1
Fashion products	Textile (T1 & T2)	2
	Garment (G1 & G2)	2
	Leather shoe (LS1)	1
	Leather bag (LB1)	1
	Jewelry (J1)	1
Automotive parts	Automotive parts (A1 & A2)	2
Others	Children toy (CT1)	1
	Plastic/melamine product (PP1)	1
	Building materials (BM1)	1
	Biochemical product (BP1)	1
	Pharmaceutical Machineries (PM1)	1
Total		**20**

Source: Authors

4.2 Main Findings

Our survey finds that most firms believe that they would not be affected or at most marginally affected by the implementation of the TPP. This is due to the fact that many firms have zero or low export value to the U.S., their products are charged zero or very low U.S.'s MFN-tariff rates, their main competitors are also located in Thailand, or they have production facilities for export to the U.S. in countries that have preferential tariff rates.

We also find a few firms that believe that they would be slightly affected by the TPP as they already have production facilities in at least one TPP negotiating country. These facilities can be adjusted for production for export to the U.S. once the TPP is implemented. Finally, there are firms that believe that they would be moderately affected by the implementation of the TPP as they have main competitors in Vietnam and other TPP negotiating countries. These firms are organized into groups in our analysis according to the nature of their perceived impacts from the implementation of the TPP.

4.2.1 Firms not affected by the implementation of the TPP

Table 5 shows the firms that believe that they would not be affected or at most marginally affected by the TPP implementation because they do not export or export very little to the U.S.

Table 5 Firms that believe that they would not be affected or at most marginally affected by the TPP implementation due to zero or low export value to the U.S.

Firms	Reasons
Fishery (F1)	Main export markets are Cambodia, Laos and Myanmar
Processed seafood (SF1)	Main export market is Japan
Poultry and pork meat (PP1)	Main export markets are the EU and Japan
Building materials (BM1)	Main export markets are ASEAN countries
Pharmaceutical Machinery (PM1)	Main export markets are emerging markets
Leather bag (LB1)	Main export markets are the EU and Japan
Processed Food (PF2)	Value of exports to the U.S. is very low
Sugar refinery (SR1)	Thailand does not have quotas to export to the US

Source: Interview by authors

A. Firms having zero or low export value to the U.S.

Some firms we interviewed have zero or low export value to the U.S. (Table 5). For example,

- The fishery firm (F1) sells mainly in the domestic market and exports mainly to Cambodia, Laos and Myanmar.
- The processed seafood firm (SF1) has shifted its main market from the U.S. to Japan because the U.S. has imposed anti-dumping measures against seafood products from Thailand during the past 15 years. Currently, only large processed seafood companies that export in large quantity continue to export to the U.S. Facing the declining industry, the firm decided to shift its

investment to other businesses such as importing lumber and wood for making furniture from North and South America.

- The poultry and pork meat (PP1) firm would not be affected by the implementation of the TPP as it does not export to the U.S. Its main export markets for chicken products are Japan (40 percent), the EU (40 percent), and Singapore and South Korea (20 percent). Its export of pork is limited by the widespread of foot-and-mouth disease in the border region of Thailand. The majority of its pork is exported to Hong Kong and Japan.
- The building material firm (BM1) exports only to ASEAN countries, in addition to selling 60 percent of its products domestically.
- The leather bag firm (LB1) exports 25 percent of its products and sells the rest in the domestic market. The main export destinations for their products are Europe and Japan.
- The firm in sugar industry (SR1) would not be affected by the TPP implementation. This is because sugar products from Thailand cannot be exported to the U.S. as the U.S. is a closed market. Only sugar from Caribbean countries that have small export quota can enter the U.S. market.

Overall, this group of companies reflects the fact that Thailand's direct export to the U.S. has experienced a long-term decline. Currently, the share of Thailand's direct export to the U.S. is reduced to around 11 percent of its total export. At the same time, the share of the U.S.'s import of Thai products is less than 1.5 percent.

B. Firms facing zero or very low U.S. import tariff rates

There are firms that believe that they would be at most marginally affected by the TPP implementation because their products are charged zero or very low U.S. import tariff rates (Table 6):

- The children toy company (CT1) exports to the U.S. with zero percent tariff rate and no quota imposed.
- The plastic/melamine product company (PM1) exports to the U.S. with zero percent tariff rate.
- A processed food company (PF2) pays very low U.S. import tariff rate of 2 cents for every kilogram of its export.

Table 6 Firms that believe that they would be at most marginally affected by the TPP implementation due to zero or very low U.S. import tariff rates

Firms	Reasons
Children toy (CT1)	Zero percent tariff rate and no quota
Plastic/melamine product (PM1)	Zero percent tariff rate
Processed food (PF2)	Import tariff rate is 2 U.S. cents/kg.

Source: Interview by authors

C. Firms' having competitors only in Thailand

The biochemical company (BP1), which produces antibiotic medicines, pet food, food additives, and digestive supplements, believes that it would be marginally affected by the TPP implementation. This is because even though the firm exports about 40 percent of its products to the U.S., all of its main competitors in the U.S. market are located in Thailand. As a result, the firm would not be at a disadvantage by the TPP implementation.

D. Firms having facilities in countries with preferential tariff rates

We also find firms that believe that they would not be affected by the TPP implementation because they have already set up production facilities in countries with preferential tariff rates granted by the U.S.:

- A garment firm (G1), which supplies its products to leading brand owners in the U.S., already has factories in Lao PDR and Myanmar. It also plans to set up its second factory in Myanmar in the near future. The new factory will have 4-5 times production capacity of the current one nearby.
- The leather shoe firm (LS1), serving as a supplier for the Hush Puppies brand in the U.S., already has a factory in Myanmar near the border of Kanchanaburi province in Thailand. Other shoe companies have also closed down or relocated their factories to neighboring countries. As a result, the total export of leather shoes from Thailand to the U.S. is currently minimal.

As the U.S.'s sanctions on Myanmar are lifted, these firms can enjoy zero tariff rates when exporting their products to the U.S. market.

4.2.2 Firms slightly affected by the implementation of the TPP

We also find some firms that believe that they would be slightly affected by the TPP implementation because they already have production facilities in at least one TPP negotiating country. These facilities can be adjusted for production for exporting to the U.S. once the TPP is implemented. Even those that do not have such facilities believe that Vietnam would take a long time to implement its TPP obligations to enjoy its granted benefits.

- The jewelry firm (J1) already has a factory in Vietnam. The Vietnamese factory is currently used for producing low value-added products, such silverware, while Thai factories are used for high value-added items. If the TPP is implemented, the firm plans to shift more production to its Vietnamese factory for exporting to the U.S. market.
- A garment firm (G2) already has a factory in Vietnam, in addition to other 8 factories in Thailand, Laos PDR and Cambodia. If the TPP is implemented, the firm plans to shift more production to its Vietnamese factory for exporting to the U.S. market.
- A major automotive part company (A2) has factories in many TPP negotiating countries, including the U.S., Japan and Vietnam, in addition to its main factories in Thailand. As a result, if the TPP were to be effective, the firm can

change its production plan by increasing production in the TPP member countries.

Since joining the TPP negotiation, Vietnam has attracted a lot of FDI in the textile and garment industries. The FDI in the textile industry was due to the TPP's yarn-forward rules of origin. Two textile companies (T1 & T2) in Thailand used to consider moving to Vietnam.

- When the TPP was being negotiated, T1 considered investing in Vietnam. However, it gave up the idea after finding many hurdles, such as underdeveloped public utilities, poor water supply and inadequate waste water management in the country.
- T2 also considered investing in Vietnam. However, it believes that Vietnam does not have sufficiently strong rules of law to protect foreign investors, as demonstrated by the case of Taiwan's Formosa Steel, which was heavily fined after Vietnam changed its government in 2016.

These two textile companies also believe that the textile industry in Vietnam would not be able to meet all the demand in the short term or even in the medium term. As a result, textile companies in Thailand could still supply to garment companies in Vietnam even after the implementation of the TPP.

4.2.3 Firms moderately affected by the implementation of the TPP

There are two firms in our survey that believe that they would be moderately affected by the implementation of the TPP. The first one is a food-processing firm (PF2) with high export value to the U.S. and has to face quite high tariff rates.

The second one produces original equipment manufacturing (OEM) parts for Japanese car assemblers. The firm worries that its customers may move to TPP member countries, such as Malaysia or Vietnam, to enjoy preferential tariff benefits from the U.S. It also exports replacement parts to the U.S., currently facing 2-5 percent tariff rates.

Our overall findings are broadly consistent with the findings of Ito (2015) that the TPP would not immediately have significant negative impacts on Thailand's export competitiveness.

5. Policy recommendations

Although not many leading Thai companies we interviewed are likely to be negatively affected by the implementation of the TPP, the Thai business community strongly supports Thailand to become a member. They seem to worry that, without a TPP membership, Thailand would have difficulties attracting foreign direct investment (FDI) and positioning itself to be a major production hub in ASEAN. In its press conference in February 2016, the Joint Standing Committee on Commerce, Industry and Banking, the most powerful Thai business lobby group, urged the Thai government to become a TPP member as soon as possible (The Nation, February 10, 2016). The JSCCIB, which comprises the Federation of

Thai Industries, the Board of Trade of Thailand and the Thai Bankers' Association, said it believed that the benefits of joining the TPP outweigh its costs.

In this section, we summarize certain policy recommendations advanced by the Thai business leaders with regards to Thailand's trade policy strategies.

5.1 FTA Negotiation

Many companies we interviewed believe that Thailand needs to have more FTAs with its major trading partners, which would help them to be more competitive in these countries. For example, the Japan–Thailand Economic Partnership Agreement (JTEPA) has greatly benefited Thai leather product and garment producers in accessing the Japanese market.

The Thai business leaders we interviewed also encourage the government to resume negotiation with the EU once Thailand returns to a democratically elected government. The end of the EU's Generalized System of Preference (GSP) granted to Thailand in 2014 has put pressure on Thai firm's competitiveness in the EU market. The EU currently charges high tariff rates on many Thai products. For example, products with sugar content are charged a 19 percent tariff rate, reflecting the EU's protection of its sugar market. It also imposes high standards on labor and the environment. Thailand should thus try to conclude an FTA with the EU to facilitate better market access of Thai products in the EU market.

Many ASEAN countries have imposed more non-tariff measures (NTMs) on imported products after the launch of the ASEAN Economic Community (AEC) in late 2015. Some of these NTMs are discriminatory against imported products or foreign investors. Other concerns include government's red tapes and unclear standards of operation in many ASEAN member countries. As a result, Thai firms investing in these countries are facing challenges in getting business licenses and complying with domestic regulations. The firms we interviewed suggest that Thailand should strengthen the agreements with ASEAN countries with an aim to reduce discriminatory NTMs and improve the ease of doing business in these countries, including speeding up the issuance of business licenses.

Some Thai business leaders also urge the Thai government to speed up the negotiation of the Regional Comprehensive Economic Partnership (RCEP). While the negotiation details are still kept secret, the progress so far has been reportedly very slow and has already missed the 2016 deadline of conclusion. However, others doubt that the RCEP would bring about significant benefits to Thailand as the country already has FTAs with all RCEP members, either directly through bilateral agreements or through ASEAN+1 FTAs.

A few business leaders suggest that Thailand should try to negotiate bilateral FTAs with the UK, presuming that it is desperately need to forge new FTAs after exiting from the EU. Others also suggest negotiating trade deals with Canada and Mexico as these countries also need to diversify from the U.S. as the latter has become more protectionist under the Trump Administration.

5.2 Trade policy towards the U.S.

As mentioned before, many Thai business leaders believe that Thailand should strive to join the TPP once it is implemented and open for new membership. This would benefit Thailand's many industries, including garment, textile, jewelry and processed food industries. However, the benefits and the costs of joining the TPP should be carefully weighted by the government.

A majority of Thai business leaders view that the U.S.'s withdrawal from the TPP provides breathing space for Thai firms. Still, they worry that rising protectionism under the Trump Administration may reduce global trade in general and Thailand's export to the U.S. in particular. For example, Thailand's frozen shrimps are likely to face trade barriers from the U.S. since the majority of the states with shrimp production bases, such as Louisiana and Florida, have voted for Trump.

Large firms in the food industry, such as Thai Union Frozen Products (not covered in the interview), have discovered a method to penetrate the U.S. markets and protect itself from the rising protectionism by acquiring businesses there. However, this solution is not applicable to small and medium-sized businesses.

Some suggest that Thai firms should diversify away from the U.S. or at least prepare their 'Plan B'. Others suggest that Thailand should export more semi-finished products to the U.S. in addition to finished products. This would respond to the needs of job creation in the U.S. and reduce potential trade frictions.

5.3 Outward investment promotion

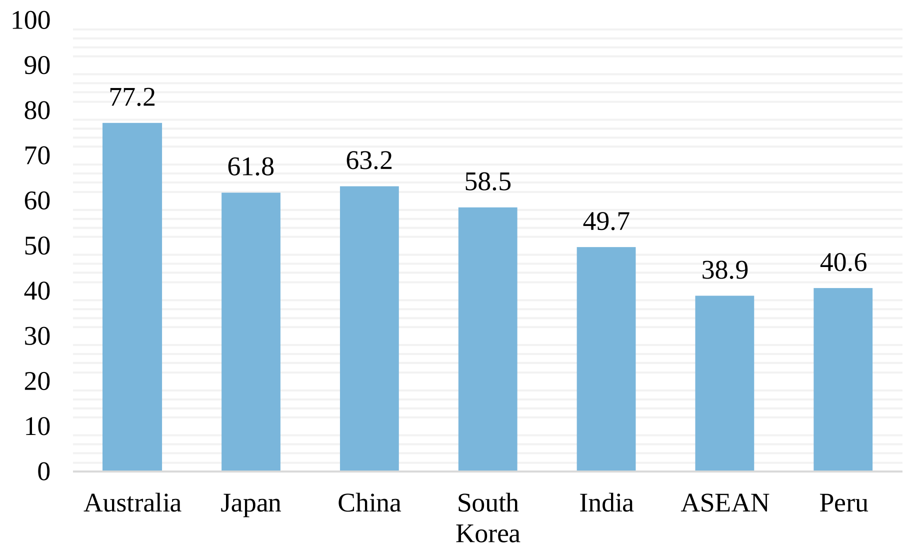
Many large and medium-sized firms have relocated their production base to neighboring countries to reduce labor costs and to enjoy preferential tariffs. Many interviewees believe that Thai firms are better positioned to invest in these countries than those from China, Taiwan, South Korea, and Hong Kong. For example, as Myanmar is close to Thailand, the shipment of raw materials from Thailand to Myanmar takes only 2-3 days while that from China would take 14-15 days.

Some companies find that relocation of its production bases can help attract new customers. For example, there are firms that reported that having factories in neighboring countries help attract new customers due to the lower labor cost and tariff preferences. However, small businesses cannot easily do the same. In particular, small firms find it difficult to invest overseas because they cannot find reliable partners. The government should help them in this regards. Unfortunately, many companies view that the government's current export and investment promotion schemes do not meet the expectation of the private sector. They suggest that the government should set up an agency similar to JETRO to provide information on Thailand's trading partners' markets.

5.4 Active use of existing FTAs

In addition to securing new trade deals, some business leaders affiliated to the Thai Chamber of Commerce also suggest that Thailand should make better use of its existing FTAs. This suggestion is consistent with the findings by TDRI (2013) that Thai exporters have so far utilize only 39-77 percent of the tariff savings available under the implemented FTAs (See Figure 3). The utilization rate is especially low in the case of the export to ASEAN countries. With low utilization rates, a potential tariff saving of over THB 100 billion (USD 30 billion) per year is wasted.

Figure 3 FTA utilization rates of Thai export in 2014 (percent)



Source: TDRI's calculation from Department of Foreign Trade

5.5 Industry upgrading

To be competitive in the long run, Thai industries must upgrade themselves. Many Thai business leaders suggest that the government should support Thai firms in adopting 'lean' production, transforming themselves into ODM or OBM suppliers, and investing in research and development (R&D). To help Thai OEM suppliers to transform themselves into ODM or OBM suppliers, the government should adopt complementary policies. For example, to promote the fashion industries, the government should continue to promote Thailand as a regional hub for jewelry and fashion industries by implementing a marketing campaign similar to the "Bangkok Fashion City" project in the past.

There are also industry-specific measures that should be taken. For example, the government should urgently solve the problem of Illegal, Unreported and Unregulated (IUU) fishing for the fishery industry as it aggravates the problem of raw material shortage. It should also help small firms to cope with increasingly tough safety standards for toy products, which requires expensive testing. The government should also equip Thai toy producers with a capability to design toys with electronic functions to meet the changing market demand.

Reference

Ito, Hirotoshi (2015) Will Thailand be a loser?: The impact on Thailand's export competitiveness by being out of the TPP, unpublished manuscript

TDRI (2013) Increasing the Competitiveness of Thai Industries under Thailand's International Economic Policy, Final report submitted to the Office of Industrial Economics, Ministry of Industry, Thailand Development Research Institute (in Thai)