

## **Chapter 3**

### **Thailand Regional Free Trade Agreements (FTA) and the Effect on Industrial Clustering**

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#### **1. What is Free Trade Area (FTA)?**

Free Trade Area (FTA) is a group of countries that have agreed to eliminate tariffs, quotas and preferences on most goods and services between them. The objective of a free trade area is to reduce the possible barriers to efficiently exchange such that trade can grow as a result of specialization, and division of labor. FTA is the second degree of the preferential trading arrangement or economic integration consists of five forms: the preferential tariff arrangement, free trade area, customs union, common market, and economic union. In adopting a FTA agreement, each member countries must remove trade barriers both tariff and non-tariff among themselves, while continuing keeping the trade barriers with non-member countries.

A FTA is a result of a free trade agreement between two or more countries. The members of a FTA do not have the same policies for quotas and customs with respect to non-members. Free trade areas and agreements (FTAs) might be cascable - if some countries sign agreement to form free trade area and then choose to negotiate together another free trade agreement with some external country or countries - then the new FTA will consist of the old FTA plus the new country or countries.

The countries use the rules of origin or the system of certification of origin to avoid evasion through re-exportation, where there is a requirement for the minimum extent of local material inputs and local transformations adding value to the goods. Goods that do not cover the minimum requirements are not entitled for the special treatment envisioned in the FTA provisions. In general, this agreement is expected to create more intra-regional trade and also to reduce dependence on outside the region. Moreover, due to the expansion of the market, members of a free trade area will become more attractive to foreign direct investors, who may choose to set up plants to produce products within the region for the regional consumer market.

Free Trade Area is based on the Theory of Comparative Advantage described by Robert Torrens in 1815 which refers to the ability of a country to produce a particular

good at a lower opportunity cost than another country. In other word, a country will tend to specialize in the activity where it has comparative advantage. It explains how trade can create value for both parties and the net benefits of such an outcome are called gains from trade. The gains will be an increase in income and ultimately wealth and well-being for every country in the free trade area.

Free trade includes the following features:

- Trade of goods without taxes or tariffs or other trade barriers such as quotas on imports or subsidies for producers
- Trade in services without taxes or other trade barriers
- The absence of "trade-distorting" policies such as taxes, subsidies, regulations or laws that give some firms, households or factors of production an advantage over others
- Free access to markets
- Free access to market information
- Inability of firms to distort markets through government-imposed monopoly or oligopoly power
- The free movement of labor between and within countries
- The free movement of capital between and within countries

A Free Trade Area is a result of agreement between two or more countries where there is no fixed feature. However, there are three common characteristics including:

1. The objective is to ease exchange that trade can grow between the members of the agreement and no fortress effects to the non-members.
2. Substantial coverage of the international trade which is governed by the rules of trade by World Trade Organization (WTO) which protect the effect of the FTA to the non-members.
3. There are the lists of the goods and services to get the tax reduction or tax exempt, how to reduce tax for each goods and services and the timeline.

There are many countries interested in forming the FTA because:

1. The negotiation through WTO is slow because all of the WTO members must agree on that negotiation. Currently there are 147 countries in WTO. FTA is simpler because it is an agreement between only 2 or a group of countries less than WTO.
2. China has higher competitive advantage because it contains the larger demand, huge population and cheap labor. Thus, China can produce, consume and has

high potential for export. Once China has become the member of WTO, many countries must change the policies and economics strategies in order to increase their competitive advantage.

3. FTA can increase the trade and investment between member countries and decrease those trade and investment for the non-member countries. Therefore, it is also the incentive for the other countries to form the FTA.
4. Many countries use FTA as the strategy to form the economic and political alliance. It is the foundation to expand the trade and investment among country or a group of countries in the other area.
5. For the small countries where the free trade is already there such as Singapore and Chili, they fully utilize the FTA strategy because of the better trade agreement. Thus, they gain the higher benefit from the FTA.

## **2. FTA in Thailand**

The first FTA that Thailand has is the ASEAN Free Trade Area in 1992 where there are ten member countries. Currently Thailand signed the free trade agreements with seven countries: China, Japan, Australia, New Zealand, India, Peru, and United States of America; and two groups: BIMSTEC (Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation) including Bangladesh, India, Myanmar, Sri Lanka, Bhutan, Nepal and Thailand; and EFTA (European Free Trade Association) including Switzerland, Principality of Liechtenstein, Norway and Iceland.

There were many studies about the FTA effect to Thai economy conducted by many Thai researchers from many famous educational institutes such as Chulalongkorn University. Thai government has four strategic criteria to select the countries to form FTA including:

1. Maintain the existing market such as United States of America and Japan.
2. Expand to the new market such as China, India, Australia, and New Zealand.
3. The gateway market for the trade and Thai investment such as Bahrain, Peru, Australia, and United States of America.
4. The countries that provide raw materials for Thai industries and they are the strong foundation in ASIA such as BIMST-EC.

Thai government set up the criteria to establish the Free Trade Agreement as follow:

1. The Free Trade Agreement should be comprehensive and govern goods, services, investments and expansion of other economic collaborations. It should be flexible and benefit both parties.

2. The FTA should follow the rules of WTO.
3. The FTA should provide reciprocal benefit to all member of the agreement. In the case that the FTA is done with the developed country, Thai should receive more time to change or get the better agreement.
4. The FTA should also include the healthcare issues and other Non-Tariff Measurement (NTM).
5. There should be the protection for the direct effect on the local industries such as Anti-dumping Measures (AD), Countervailing Measures (CVD), Safeguards and Dispute Settlement.
6. The FTA should be practical as early as possible. It is possible to negotiate on the Early Harvest first.

Thailand expect the gain the following benefits from the FTA:

1. The FTA should increase the trade expansion and the investment. It should distribute the locations of import and export.
2. It can be used as gateways to the neighboring countries such as Bahrain is a gateway to the Gulf Cooperation Council (GCC) countries.
3. It should reduce all of the trade and investment barriers because the FTA will reduce the tariff and Non-Tariff Measurement as much as possible.
4. It is another mean to create the economic alliance which improves the role and power of negotiation of Thailand.

The Thai producers will gain benefit from the cheap raw material which reduce the production cost and increase the competitive advantage. The Thai exporters can increase the volumes of export products or services because of the tax reduction and reduction on the Non-Tariff Measurement. It increases the export market and improves the potential for the Thai exporters. Thai importers can find cheaper raw materials and can import from many countries. The consumers also gain a lot of benefit by getting the better price and there will be variety of products.

However, there will be the negative impact on some industries and services. Those industries who have the lower efficiency or lower competitive advantage must improve their ability and standard including the production cost. If they can not improve themselves, they will be out of business because Thailand is changing the economic structures to where they have the better competitive advantage.

Table 1 show the FTA effective date that Thailand agree with the trade partners.

**Table 1: The FTA effective date between Thailand and FTA partners**

Countries	Effective date
Bahrain	29 Dec 02
China	1 Oct 03
India	1 Sep 04
Australia	1 Jan 05
New Zealand	1 Jul 05
Japan	1 Nov07

Table 2 shows the summary of the trade in year 2008 between Thailand and the FTA partner countries. From this table, Thailand gain positive trade from Australia, New Zealand, India and Peru. The following section will discuss the detail FTA among BIMSTEC.



**Table 2: The trade status between Thailand and the FTA trade partner in 2008 from January to November.**  
 (US Millions Dollar)

	Export		Import		Trade Balance		Total Trade	
	2008 (Jan-Nov)	Growth (%)	2008 (Jan-Nov)	Growth (%)	2008 (Jan-Nov)	Growth (%)	2008 (Jan-Nov)	Growth (%)
Australia	6,932.82	33.38	4,638.01	34.73	2,294.81	-	11,570.82	33.92
New Zealand	655.35	17.45	570.61	65.98	84.74	-	1,225.95	35.95
India	2,975.55	22.98	2,350.74	23.59	624.81	-	5,326.29	23.25
China	14,349.81	8.74	17,832.90	20.46	-3,483.09	-	32,182.70	14.94
Japan	17,601.59	8.22	29,263.51	12.89	-11,661.92	-	46,865.10	11.09
Peru	229.41	137.32	55.29	-35.18	174.12	-	284.69	56.45
BIMSTEC	4,964.25	23.11	5,391.18	26.97	-426.93	-	10,355.42	25.09
EFTA	1,674.32	13.4	4,005.19	146	-2,330.87	-	5,679.51	82.94

### **3. Thailand's FTA Strategy and Trade Policies**

Trade has always propelled Thailand's economic growth and development, at the value of exports always higher than the country's GDP. Also, the role of imports can be considered important, especially for raw materials and intermediate and capital goods, to meet demand arising from both local and foreign firms. Generally speaking, Thailand is benefit from growth of regional trade and her global production networks.

Thailand saw the benefits of the multilateral trading system upon its trade during the double-digit growth years of 1988-90. The linkages between trade, foreign direct investment (FDI), and production had significantly changed the faces of the Thai economy. The manufacturing sector has been linked with the global markets, which gives Thailand more confidence and eagerness to move her economy against the changing world economic conditions.

One reason for the recent proliferation of Thailand's bilateral free trade agreements (FTAs) can be attributed to the need to provide more markets for its own exports after the agonizingly slow pace of the World Trade Organization (WTO) negotiations in the Doha Development Round. Another reason could be a result of the shift in Thai trade policy from multilateralism that Thailand advocated for two decades since it became a GATT member in 1982. Either way, new challenges flourish for all parties due to this recent policy change leaning towards bilateralism and regionalism instead of multilateralism.

Thailand is on its way to build bilateral and regional trade agreements with many trading partners in Asia and the world. The country has accelerated its FTA policy, and there will be implications for Thailand since many are not broadly multilateral. With regards to the impact of the FTAs, costs and benefits, and adjustment mechanisms are still major areas of concern. Nevertheless, key question concerning whether government policy on bilateral and regional FTAs is fundamentally compatible with Thailand's national interests have been raised.

#### **3.1 ASEAN Free Trade Agreement (AFTA)**

At the beginning of 1990s, Asia was totally an FTA vacuum. But to respond to the increasing regionalism in Europe and North America, the idea of creating a "free trade area" had become a reality in the Southeast Asian region by the initiation of ASEAN, upgraded from its former preferential trading arrangements (PTAs) (Chirathivat, 2002). Then, ASEAN members agreed with the proposal to form an ASEAN Free Trade



Agreement (AFTA), which opens a new window of opportunities for countries in the region.

Thailand, as one of the countries, proposed the formation of AFTA to demonstrate its intent and determination to eliminate the country's protective trade regime. Indeed, Thailand had tried its own move from import substitution to export promotion at the beginning of the 1980s when the country still faced the effects of the second oil shock and the world recession. However, the tariff reduction under the multilateral framework was not far-reaching enough to produce substantial results for a more efficient and competitive manufacturing sector. Indeed, Thailand's average tariff rate, by the time of the Common Effective Preferential Tariff (CEPT), was almost 40 percent, the highest among the ASEAN-6 members when AFTA was launched.

Regional pressure, more than its own efforts, has helped the government to tear down the country's high trade barriers and integrate further with the regional economies. Without this, Thailand's custom bureaucracy would not be able to streamline their past practices and adjust to a new dynamic derived from the regional and global economy. More importantly, Thai firms have become more competitive as the regional forum allowed them to learn more about being competitive globally. This is the same case as with AFTA whereby most ASEAN economists and policy-makers see it as a training ground before moving further into the world market.

Thailand has also played an important role to deepen the AFTA process. In 1994, one year after the launch of AFTA and the CEPT, the country confirmed its position to include more areas such as service sectors and unprocessed agricultural products. This met with a certain level of success. The country has been supportive to build a clear plan for tariff and non-tariff elimination which has helped to strengthen the structure of AFTA and the CEPT. In fact, AFTA is seen to be aligned with Thailand's national interests to extend trading opportunities to neighboring countries. In 1995, with the end of the Cold War, Vietnam joined ASEAN as the seventh member, followed by Laos and Myanmar in 1997, and Cambodia in 1999, to make an ASEAN with ten countries within Southeast Asia.

As stated earlier, similar to other ASEAN countries, Thailand views AFTA as an investment-driven integration that would serve as a "training ground" for global competition. As a matter of fact, trade linkages outside ASEAN region are much stronger and far more meaningful than intra-regional trade patterns. It could be stated that the main objective of AFTA, from Thailand's perspective, is not to increase intra-ASEAN trade, but to attract attention to the ASEAN region as an area to invest, produce,

and compete efficiently within the global economy. AFTA is meant to enhance the potential of each country and edge them closer towards an investment-driven area, a concept that has been launched as an ASEAN Investment Area (AIA), in an expanded ASEAN.

From the beginning, Thailand has helped ASEAN set clear objectives to establish with other countries and regional groupings that would create more opportunities and new challenges for the region. Other forums of collaboration could be the Asia-Pacific Economic Co-operation (APEC) is one of the regional trade liberalization in the form of WTO-plus where Thailand has always played an active role from the beginning to promote multilateralism through open regionalism; the Asia-Europe Meeting (ASEM), which Thailand together with Singapore convinced the EU leaders to host the first ASEM meeting in Bangkok in 1996. This inter-regional grouping was formed to complete the missing links between East Asia and the European Union (EU).

### **3.2 Thailand and Multi-level FTAs**

The introduction of many multi-level FTAs by Thailand seems to mystify many. As a developing country, Thailand still has a good potential for linking its trade and production with the global economy. The functioning of the WTO and AFTA processes seem to be going on well to service the country's external linkages up to the present. However, Thailand is pursuing this alternative multilevel FTA strategy aggressively.

Many reasons have been attempted to explain this move. Because of the financial crisis in 1997-98, Thailand and the East Asian region felt the need to promote closer economic co-operation. Although regionalism is regarded as the second-best policy, many countries have started to explore this alternative. The advantages are known as "competitive liberalization" which means an opening up of markets and easing of regulations within the group which would put other countries outside the group in an unfavorable situation. The effect of competitive liberalization is so significant that it contributes to the rise in regionalism worldwide and also in East Asia and Thailand.

Up to now, most Northeast and Southeast Asian countries have concluded at least one or more bilateral or sub-regional FTAs. Within a short period of time, various kinds of trade arrangements have been proposed or are under negotiations, and some have been agreed and are being executed. Moreover, it is for the first time that Japan and China have signed FTAs. There is also a proposal to create the East Asian Free

Trade Area (EAFTA) or ASEAN+3 initiatives that covers the whole East Asia. Many of these new groupings provide strong challenges to participants, outsiders, and the multilateral trading system.

With these trends, bilateral agreements represent the new dynamics towards regional and global free trade. Although it is difficult to know its short-term effects, the long-run effects seem to be positive (Lloyd 2003). Japan, Korea, and Singapore have started to sign several bilateral agreements which are being implemented. China and several Southeast Asian countries like Thailand, Malaysia, and the Philippines have followed quickly. Up to this point, the whole East Asian region seems busy negotiating and signing FTAs with one another.

Among the ASEAN members, Singapore is one of the first to embrace bilateral FTAs. The Singapore option is aimed at being "WTO-plus" rather than a "WTO-substitute" (Rajan, Sen, and Siregar 2001). Unsatisfied with the ASEAN and APEC process of regional and unilateral liberalization, recent initiatives by Singapore reflect such a spirit. Singapore's interests in forging FTAs with Japan and the United States reflect its successfully close trade and investment linkages with and dependence on these two markets. Thailand is the second ASEAN country to actively pursue FTAs and is catching up very quickly in a "competitive liberalization" policy. Although the country is still to conclude a number of bilateral arrangements, it also needs to pay increasing attention to overlapping areas resulting from this.

Within the changing context of the regional and international economic environment, Thailand has started to seriously explore this path towards multi-level FTAs. Thailand's own financial crisis of 1997-98 is one of the major contributing factors in the beginning. It gave the government a strong warning to look for an alternative to guarantee foreign exchange earnings through trade. The Chuan government started to seek the possibility of concluding bilateral FTAs with a number of countries. However, leadership factor and other government preoccupations at that time did not allow the Chuan government to play an active and clear role on this strategy.

Thailand's bilateral FTAs have become more apparent on the agenda development under the Thaksin government. The failure of the WTO ministerial conference and China's engagement into the WTO both have become clear signs for Thailand to form its own response. The Thaksin government from the beginning was not keen on the agenda when he launched the dual track policy. But the fact has been

proven later on that the policy of the government is aligning aggressively with bilateral FTAs.

From an uncertain beginning, Thailand has developed to become a strong advocate of bilateral FTAs in East Asia. The FTAs strategy has also reflected the style of the prime minister. In promoting the FTAs, the prime minister visits potential partners which usually end up with intent on negotiating FTAs. He conceded that negotiations on FTAs consume less time than multilateral trade talks under the WTO.

Eccentric factors such as the strong leadership under the Thaksin government have strongly influenced Thailand's FTAs policy. As things stand, the FTAs movement tops the government agenda on Thailand's international economic relations. Whether the establishment of bilateral FTAs would help to enhance more market access and fair adjustment domestic producers is still to be measured. As often the case, academia, policy-makers and even the business sector have difficulties monitoring the longer term development and progress of this FTA strategy.

Since Thailand went on board on bilateral FTAs, the country has made progress on negotiations with several trading partners. By the end of 2003, the Thai government had signed free trade agreements with Bahrain, China, Peru, and India. An FTA deal with Australia is signed by mid-2004 and New Zealand, subsequently. Similar trade pacts are expected sometime in the near future with Japan, and the United States. There are also tentative proposals with other countries such as South Korea, Chile, and even the EU. With all these, the proposed FTAs would cover a major segment of Thailand's trade with the world.

Bahrain is the first bilateral FTA for Thailand, enforced since the end of December 2002. Under the framework agreement between Thailand and Bahrain on Closer Economic Partnership (CEP), both countries agreed to early harvest tariff liberalization to between 0 and 3 per cent for 626 products, in addition to 5,000 products (except those in the exclusion list) to be also liberalized under different programmes of first track, normal track, and other products, all to be completed by 2010. There are details with regard to notices of fulfillment under Article 10 of the framework agreement where both countries need to work on official approval on rules of origin. The CEP between both countries also cover other areas such as banking, health, information technology, communications, education, construction, tourism, and recreation.

An FTA between India and Thailand reflects the desires of both leaders for closer economic relationship among the two countries. Prime Minister Thaksin had

strong interests in back-office services, which India offers increasingly to the global economy. The Indian government is also looking at opportunities to tie up with Thailand and Southeast Asia. Both countries had set a joint negotiating group to discuss the framework agreement of an FTA. Following several rounds of talks, they had been able to set the framework agreement in October 2003. Under this framework agreement, both sides aim to reduce most tariffs to 0 per cent by 2010. The first round of tariff reductions, involving eighty-four types of agricultural, chemical, industrial components, and manufacturing products, is to start from March 2004. Exports for both countries are expected to increase substantially once barriers are removed. As a matter of fact, India is the third partner to sign an PTA with Thailand.

Peru is the third country to sign a CEP framework agreement with Thailand. Essentially, both parties have planned to negotiate from January 2004 up to 2005 to liberalize all trade in goods by 2015. As for trade in services and investment, it requires more reciprocal information exchange and trade and investment facilitation.

A China-Thailand FTA was firstly initiated under the ASEAN-China economic partnerships following the visit of former Chinese Prime Minister Zhu Rongji at the ASEAN Summit held in Brunei in November 2001. From the beginning, Thailand is one of the few ASEAN countries to strongly support this initiative from the ASEAN side. In November 2002, the initiative ended up with the signing of the framework agreement between ASEAN and China on Comprehensive Economic Partnership (CEP) (Chirathivat 2002). Under such a partnership, the ASEAN-China FTA is scheduled for tariff liberalization with an early harvest programme starting from 2004 and was realized in 2006 a zero tariff rate level for a number of products. As for the rest of products, the ASEAN-China FTA is set to liberalize all tariffs to 0 percent by 2010.

Thailand uses the ASEAN-China CEP framework to liberalize its bilateral trade with China. The first round of China-Thailand Early Harvest Programme has actually started since October 2003. It covers fruits and vegetables of more than 116 items. Both countries are supposed to liberalize tariff barriers to 0 per cent in order to allow free flows of products originating from both countries. Therefore, they also have to work explicitly with regard to the rules of origin and other non-tariff barriers that give constraints to potential trade development.

Among ASEAN countries, Singapore was the first country to officially sign a bilateral FFA with Japan. This has encouraged Indonesia, Malaysia, the Philippines, and Thailand to think of similar deals. For Thailand, the country uses Japan-Singapore Economic Partnership Agreement and the ASEAN-Japan CEP to workout for a

framework agreement of Japan-Thailand Economic Partnership (JTEP). Various meetings are held for further negotiations. It is also expected that results gained will be positive for further bilateral trade liberalization.

The proliferation of FTAs in East Asia has prompted the United States to look at safeguarding its own interests in the region. The ascending role of China in particular prompts the conclusion of FTAs with several Southeast Asian nations. For Thailand and the United States, both will see the expiration of the Thailand-United States Treaty of Amity by the end of 2004. A bilateral FTA between the two will extend special privileges for the U.S. business community and secure the economic interests of the United States in the region. The United States has entered a first bilateral FTA in East Asia with Singapore. For the moment, it is difficult to specify what form Thailand-U.S. FTA would look like.

For the moment, the United States had demanded that negotiations be based on the Singapore-U.S. bilateral free trade framework, a deal which covers trade, investment, intellectual property protection, and services. However, Thailand's economy is different and negotiations are unlikely to go the Singaporean approach. The scope for a Thailand-U.S. FTA has raised concerns about the lack of public and private sector participation in which their role is to specify whether each sub-sector like trade, investment, intellectual property rights, and services is worth for such an agreement as well as the overall benefits. As a matter of fact, Thailand and the United States paved the way for an FTA between the two through the signing of a Trade and Investment Framework Agreement (TIFA) in October 2002. Unfortunately, the FTA initiative between Thailand and the United States has been put to stop at the end of Thaksin administrative. At this moment, the Thai government under Abhisit administration is waiting for a new administration of Barack Obama to decide whether the United States will still want to pursue what has been left behind.

Overall, Thailand has also approached other countries to discuss the signing of FTAs. Chile seems to respond well to the offer. South Korea, on the other hand, sees more complications with regard to the agricultural liberalization with Thailand. The EU is not ready to undertake such an initiative offered by Prime Minister Thaksin. However, there are implications of forming so many FTAs especially since proper policy response to this multi-level FTA strategy has yet to be established.

### **3.3 Thailand FTAs Formation**

In order to analyze the impact of FTAs, the Global Trade Analysis Projects (GTAP) version 4, which is a multi-country, computable, general equilibrium model was utilized. The model consists of forty-five economic regions and fifty production sectors, and uses the 1995 input-output tables as a production structure. It is assumed that import tariff rates in all agricultural and industrial sectors will be cut to 0 per cent with the completion of FTAs. Bilateral, weighted, average import tariffs as of 1999 are used as the basis for calculation.

In Mallikamas (2002), it is found that, based on size and economic growth, there is a strong potential for the development of economic alliances in Asia and the Oceania region. It is also found that between 1990 and 2000, the growth of international trade between Thailand and other countries in Asia and Oceania was higher than trade growth with other regions. For example, the trade value between Thailand and other ASEAN members grew by 5.2 times, while the trade between Thailand and China grew by 7 times. However, Thailand's regional trade value has remained low. In 2001, Thailand's export value to China, India, and Australia was only 4.4 per cent, 0.7 per cent, and 2.1 per cent of Thailand's total export value, while the share of import value from those countries was only 6.0 per cent, 1.1 per cent, and 2.2 per cent respectively.

One of the main reasons for the low intra-regional trade is high trade barriers, both tariff and non-tariff, among countries in the region. For example, in 1999, China and India imposed very high tariff rates of 44.71 per cent and 24.63 per cent respectively on imports from Thailand, while Thailand's tariff rates on imports from China and India were 12.19 per cent and 9.43 per cent respectively. As for non-tariff barriers, the non-tariff incidence rates of China, Australia, and India on Thai products was 77.9 per cent, 34.3 per cent, and 27.2 per cent respectively.

Chirathivat and Mallikamas (2004) believe that the establishment of FTAs will have a substantial effect on Thailand's international trade as follows:

- The value of Thailand's exports to FTA partners will increase sharply. This is particularly true for a India-Thailand FTA, which would boost trade by 113.9 per cent, and a China-Thailand FTA, which would increase exports by 63.3 per cent. Both China and India have very high tariff rates and large domestic markets.
- The value of Thai imports from FTA partners will increase sharply as well. In particular, Australia-Thailand FTA, Korea-Thailand FTA, and ASEAN-Japan FTA will lead to strong import growth from Australia, Korea, and Japan at rates

of 78.5 per cent, 85.4 per cent, and 33.3 per cent respectively, due to Thailand's high tariff barriers and its reliance on imports of capital goods and technology.

- The FTAs will boost exports between Thailand and non-FTA members. Namely, ASEAN-Japan FTA, ASEAN+3 FTA, ASEAN-Korea FTA and ASEAN-CER FTA will result in higher export value from Thailand to the United States and the EU. The main reason for the higher exports is that FTAs will bring about cost reduction and price competitiveness for the Thai products, which will improve the overall competitiveness of the country's exports.
- However, an ASEAN-China FTA will cause change in trade direction of Thailand's exports from the United States and the EU towards China due to China's substantial import tariff cut and large market.
- Under all FTAs, Thailand's trade volume to global markets will expand, especially under ASEAN-Japan FTA and ASEAN+3 FTA.

The magnitude of FTA impact on Thailand's welfare may be divided into three groups: first, the high impact groups consisting of an ASEAN-Japan FTA with welfare and GDP gains of US\$6,848 million and 6.37 percent and an ASEAN+3 FTA with welfare and gains of US\$6,119 million and 5.71 percent; second, the medium impact groups consisting of ASEAN-China FTA with welfare and GDP gains of US\$796 million and 0.32 percent, and India-Thailand FTA with a welfare and GDP gains of US\$545 million and 0.34 percent; third, the low impact groups consisting of ASEAN-CER FTA with the welfare and GDP gains of US\$149 million and 0.18 percent, Australia-Thailand FTA with welfare and GDP gains of US\$349 million.

In addition, it is also found that most of the gains result from greater access to the markets of other FTA members, particularly in the case with India-Thailand FTA, ASEAN-China FTA, Australia-Thailand FTA, and ASEAN+CER FTA.

Surprisingly, most gains from ASEAN-Japan FTA and ASEAN+3 FTA would derive from ASEAN's tariff reductions, rather than market access, which will lead to higher price competitiveness, and increased exports and investment.

It should be noted that the welfare gains to Thailand from country-to-country bilateral FTAs such as between Thailand and China, or Thailand and Australia, are greater than region-to-region bilateral FTAs such as ASEAN-China FTA and ASEAN-CER FTA.

The creation of a free trade area among the three Northeast Asian countries, namely Japan, Korea, and China, will adversely affect Thailand's and ASEAN's welfare due to trade and investment diversion.



Japan will have approximately equal welfare gains from free access to ASEAN markets as from free access into the Korean and Chinese markets. However, Korea and China will have much larger welfare gain from free market access among the three countries than from free market access to ASEAN.

Some studies believe that ASEAN-China and Thailand-China FTAs are likely to increase Thailand's exports of processed rice, chemical, rubber and plastic products, and sugar due to Thailand's lower costs and current high Chinese tariff rates. Due to Thailand's tariff reduction, machinery and other equipments, electrical equipments and vehicles and parts, which are capital-intensive and import-dependent sectors, will benefit from lower cost of production. In addition, the cost reduction in ASEAN's other food products, leather products, textiles and wearing apparels will lead to higher exports in the world market. Imports of vegetables and fruits, oil seeds from China will increase since Thailand currently have very high tariff rate and cost disadvantages.

ASEAN-Japan FTA. Exports of other food products, other meat products and textiles to Japan are likely to increase significantly due to Thailand's lower costs and current high Japanese tariff rates. Elimination of ASEAN's tariff barriers lead to an increase in output of machinery and other equipments, meat products, other food products and textiles. Consequently, the expansion of these sectors will help to create greater demand for steel, livestock, vegetable oil, and plant-based fiber. Imports of motor vehicles from Japan will increase significantly due to Thailand's current high tariff rates and competitiveness of the Japanese auto industry.

As for ASEAN+3 FTA, the exports of other food products, other meat products, and textiles to Japan and exports of processed rice to China will increase significantly. Transport equipment, machinery and other equipments, electronic equipments, which are capital- and technology-intensive sectors are significantly relied on imports of input, will benefit from cost reduction. In addition, leather products and wearing apparels will benefit from lower costs of their input.

Elimination of ASEAN's tariff barriers leads to an increase in output of machinery and other equipments, wearing apparels, textiles, and electronic equipments. Consequently, the expansion will create greater demand for steel, textiles, other metals, chemicals, rubber and plastics respectively. Imports of motor vehicles from Japan will increase significantly due to Thailand's current high tariff rates and competitiveness of Japanese auto industries.

For Australia-Thailand FTA and ASEAN-CER FTA, the export of textiles, apparel, and leather goods to Australia will increase due to the FTAs. These are labor-

intensive sectors in which ASEAN has a comparative advantage. Imports of dairy products, livestock, and meat products will increase substantially due to Thailand's current high tariff rates and competitiveness of Australia and New Zealand's agricultural sector.

It is believed that once India-Thailand FTA takes place, exports of other metals, textiles, chemicals, rubber and plastic products to India will significantly increase due to India's current high tariff rates. On the other hand, imports of other minerals such as salts, tea, pepper, and wearing apparels from India will increase due to Thailand's high tariff rates.

If Thailand-United States FTA could be agreed, some study believes that the exports of leather goods, textiles, and apparels, which are labor-intensive sectors, will significantly increase due to the United States' current high tariff rates and Thailand's cost advantages. However, it is in doubt of how many percent of market share that Thai's products can take back from China's. In any case, Thailand's tariff reduction could lead to an expansion of motor vehicles and parts which consequently could cause a rise in output of steel, metal products and other metals. Imports of beverages and tobacco from the United States will significantly increase due to U.S. competitiveness in these products and Thailand's very high tariff rates.

### **3.4 Policy Framework**

The case of Thailand shows how the country has become involved with different countries' negotiations and signed FTAs with several of them. These new developments point to a new era of bilateralism of Thailand's FTAs, away from the solely multilateral and regional liberalization processes. As discussed, achieving economic benefits from an improved market access and investment environment are often quoted to be basic motivations for the FTA's formation. This has been interpreted as the dynamic effects of FTAs, which include the realization of economies of scale, efficiency gains from increased competition, technology diffusion, and the enhancement of investment flows.

There are also several reasons which could help explain new bilateralism in the Asia-Pacific. However, it is believed that the most important one is fear of exclusion. Because of the country's difficulties within the WTO and the ASEAN FTAs, it has turned to secure market access and investment gains from bilateral and regional FTAs. There are also arguments that these new bilateral and regional FTAs are more easily negotiated as these involve much less countries and in many cases with only bilateral partners.

However, concerns about pursuing with bilateral and regional FTAs could be discussed as follows:

- Discrimination against non-members or trade diversion effect is still intact. Competitive suppliers are unable to participate as they are not part of bilateral FTAs (Chirathivat and Mallikamas, 2004). As a result, global welfare could suffer. Thailand's FTAs prove to be selective in terms of partners the country chose to be with and not conducive to forge the WTO and AFTA trade liberalization.
- Coverage of concluded and proposed FTAs is far from uniform. There is a presence of overlapping systems of bilateral and sub-regional trade liberalization. For instance, concluded FTAs with Bahrain, China and India mean Thailand has to deal with different liberalization schemes and there is no proper mechanism at the moment to track them down.
- Liberalization schemes' outcome depends largely on negotiations and political decisions. There is the question of public and stakeholders' participation. In addition, negotiations in the presence of a number of countries could facilitate more powerful countries to dictate the terms of agreement (Ravenhill 2003, p. 4). For example, in its negotiations with Thailand, Japan could try to avoid agricultural trade liberalization while the United States will pressure Thailand on various intellectual property rights, liberalization of trade in services, and competition policy.
- Multiple FTAs could lead to hubs and spokes (Wannacott, 1996). With major trading partners like China, Japan, and the United States, Thailand will not be in the position to play the role of "hubs" but rather the one of "spokes" where the "give and take" exercises will be complicated ones.
- Thailand's FTA policy, while conforming to the regional pattern, has specific Thai characteristics. The main one is the Prime Minister's CEO style of making lightning-fast decisions and expecting them to be implemented quickly. This has come at some cost and led to unanticipated complications. FTAs have been rushed, driven by fuzzy foreign-policy goals, and had very little sense of economic strategy. Careful preparation has been conspicuously lacking. Too many negotiations have been launched, and they have proceeded too fast. High-level policy direction to negotiators has been found wanting, as has consultation with Parliament, NGOs and the wider public.

- Negotiating and applying multiple bilateral arrangements are known to consume a lot of negotiation resources at the national level. Thailand, in this regard, will be faced with scarce resources with an increasing number of skilled people needed in trade negotiations and various tasks' assignment. Rules of origin, for instance, will represent cumbersome routine works for custom officials and could lead to real complexities in its implementation between concluded trade arrangement partners.

Various concerns should be included in the scope and framework for future FTAs policy formulation. Thailand needs also to look carefully at the economic effects of these FTA arrangements. Followings are some thoughts on other key issues to form multiple FTAs of Thailand:

- On trade creation and trade diversion, this often represents firstly costs and benefits of any efforts of bilateral and regional trade liberalization (Viner 1950). In an FTA, tariff and non-tariff barriers among member states are supposed to be eliminated while maintaining them against outsiders. It seems that Thailand's efforts towards bilateral FTAs are being pursued as a comprehensive FTA that would also mutually recognize member countries' systems and rules like intellectual property right protection and FDI liberalization. The Japan-Thailand ongoing discussions on economic partnership could be cited as a good example for this comprehensive FTA. Costs and benefits from a broad economic partnership need to look closer at potential risks of opening markets and opportunities gained if trading partners are well prepared to achieve their objectives.
- In dynamic terms, transportation costs among prospective members of partnership could be lowered, trade creation would likely to be greater and trade diversion smaller. Impact on transaction costs could foster market widening. Through increased access for trading partners, there is also the case of increasing returns to scale. Thailand is well placed to gain "external economies of scale". With favourable conditions under increasing returns, Thailand's FTAs can be trade creating since they may push the cost of labour to be competitive at the international price levels (Bhagwati and Panagariya 1996).
- There are also issues in which strict FTAs, in many ways, might differ from customs union. Rules of origin can serve as additional trade barriers in an FTA in ways that cannot be under a customs union (Krueger 1997a). Thus, an understanding of differences between FTAs and customs union become

important, especially for issues like overlapping FTAs which Thailand is running into. From a welfare point of view "an FTA cannot lead to any more trade creation than a customs union and when rules of origin distort any protection, an FTA leads to more trade diversion than does a customs union" (Krueger 1997b).

Overall, efforts of Thailand's FTAs which are being pursued merit further discussion on proper policy framework. Whether these FTAs would result in mere regional trading arrangements (RTAs) as complications would anyway keep on rising for real FTAs or whether these FTAs would move more successfully by means of comprehensive economic partnerships are common issues to be resolved. In any case, it is important at this stage for Thailand to address properly these challenges.

As Thailand is underway in building new bilateral and regional trade arrangements with a number of trading partners in Asia and the world, its acceleration in negotiating and concluding FTAs has caused many concerns both domestically and internationally. Whether this new trend already represents a strong shift for the Thai trade policy and in what way these new trade deals will be transformed into are major issues related to Thailand's economic interests.

Long before these bilateral FTAs, Thailand used to advocate strongly with the multilateral framework known as GATT. Then, the country became strongly associated with AFTA once new regionalism took place around the world (Dutta 1999). After the financial crisis, the proliferation of overlapping FTAs in East Asia has occurred. Singapore has been a front-runner of new bilateralism in East Asia. Thailand's late government policy had aggressively followed these pursuits. However, the implications of FTA formation could be far-reaching and tremendous for Thailand. Potential outcome shows much difference for various trading partners depending on FTA coverage, depth of liberalization, time frame, benefits and costs as seen from bilateral trading partners. Through the formation of FTAs, trade value, both exports and imports, will increase sharply, for India-Thailand FTA and China-Thailand FTA, for example. It could cause the change of trade direction of Thailand's exports from the United States and the EU towards China with Thailand's exports more transformed intermediate input and other products to the growing Chinese market. Thailand's welfare and GDP increase is also important, but needs to look closer with regard to specific FTAs and sectoral impact.

These developments pose new challenges for policy framework. There are fundamental questions whether this FTA strategy is economically feasible in the long

run as it is highly motivated by politics and may not be compatible with the WTO and AFTA liberalization schemes. It is not clear how Thailand would match the new bilateral FTAs with the other two paths of multilateral and regional trade liberalization. There are also basic issues like non-uniformity among these deals, negotiation resources, discrimination against non-members, multiple FTAs with hubs and spokes; all of which Thailand has not yet formed a clear response. There are, in addition, theoretical issues like how and whether these FTAs will turn out to be, and also for rules of origin and transaction costs; all of which would need further investigation. In sum, Thailand needs to build proper policy framework and roadmap which could help the country to place better guidance for its future trade policy.

#### **4. Bangladesh, India, Sri Lanka, and Thailand Economic Cooperation (BIMSTEC)**

BIMSTEC (The Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation) is the agreement of the economic cooperation between countries in the South and South East Asia where it was from the Look West Policy of Thailand. The objective of this cooperation is to set Thailand as the center of the economic cooperation to benefit from each other both trade and investment.

BIMSTEC formed up on 6 June 1997 where there were originally four countries including Bangladesh, India, Myanmar, Sri Lanka, and Thailand. Later in December 2004, Bhutan and Nepal became the member as well. The FTA agreement was classified into three groups; Fast Track product, Normal Track product, and Negative List.

##### **4.1. Fast Track Products**

The Fast Track products consist of 10% of all the products. The developing countries (India, Sri Lanka, and Thailand) reduce/eliminate the customs duties between these countries from 1 July 2006 to 30 June 2009. The custom duties will be completely eliminated on 1 July 2009. They reduce/eliminate the customs duties for Bangladesh, Bhutan, Myanmar, and Nepal from 1 July 2006 to 30 June 2007. The custom duties for this group of countries will be completely eliminated on 1 July 2007.

The lesser developing countries (Bangladesh, Bhutan, Myanmar, and Nepal) reduce/eliminate the customs duties for the developing countries (India, Sri Lanka, and Thailand) from 1 July 2006 to 30 June 2011. The custom duties for these countries will be completely eliminated on 1 July 2011. They reduce/eliminate the customs duties

between them from 1 July 2006 to 30 June 2009. The custom duties between them will be completely eliminated on 1 July 2009.

#### **4.2. Normal Track Products**

The Normal Track products can be classified in to two groups:

- 1) Normal Track Elimination (NTE): All of the custom duties will be completely eliminated.
- 2) Normal Track Reduction (NTR): The custom duties will be about 1-5% where the reduction will be equally distributed every year. However, the negotiation to eliminate the tariff will continue.

The developing countries (India, Sri Lanka, and Thailand) reduce/eliminate the customs duties between these countries from 1 July 2007 to 30 June 2012. The custom duties will be 0-5% on 1 July 2012. They reduce/eliminate the customs duties for Bangladesh, Bhutan, Myanmar, and Nepal from 1 July 2007 to 30 June 2010. The custom duties for this group of countries will be 0-5% on 1 July 2010.

The lesser developing countries (Bangladesh, Bhutan, Myanmar, and Nepal) reduce/eliminate the customs duties for the developing countries (India, Sri Lanka, and Thailand) from 1 July 2007 to 30 June 2017. The custom duties for these countries will be 0-5% on 1 July 2017. They reduce/eliminate the customs duties between them from 1 July 2007 to 30 June 2015. The custom duties between them will be 0-5% on 1 July 2015.

#### **4.3. Negative List**

Each country agreed to have the list of products such that the tariffs will not be reduced but the number of the products will be limited. In addition, the developing countries (India, Sri Lanka, and Thailand) must consider to reduce the custom duties to the lesser developing countries (Bangladesh, Bhutan, Myanmar, and Nepal).

The number of products in this group can be at most 20% of all trade products. However, these products will be reconsidered to reduce the tax. Thailand, however, proposed that the product list in this group should be as less as possible. Recently, each country is negotiating to remove the product from the Negative List where the country has the potential to export.

The negotiation for the trade of services in BIMSTEC started in 2005 and finished in 2007. The negotiations used the Positive List Approach (PL) and allow

having the special treatment and differentiation. The flexibility will be provided to the lesser developing countries.

The negotiation for the investment also started in 2005 and finished in 2007. The negotiation followed the approach used in the trade of services which is the Positive List Approach and the special treatment will be provided to the lesser developing countries.

The Rules of Origin (RO) of the trade products can be the Not Wholly Produced or Obtained products where the products must pass through the add-value process and contain certain local content. In addition, there are also the Product Specific Rules (PSRs) and Regional Cumulation that must be discussed among the countries.

In 2005 from January to November the trade between Thailand and BIMSTEC is M\$5,393.90 with the growth of 27.29% from the same period of 2004 which is 2.57% of all trade in Thailand. The Thailand export value to BIMSTEC is M\$2,568.0 with the growth of 32.95% and the import value is M\$2,826.0 with the growth of 22.55. Thus, Thailand still lost in the trade for M\$258.0.

Thailand has the trade value in the order with India, Myanmar, Bangladesh, Sri Lanka, Nepal, and Bhutan in 2005 from January to November. Thailand has the trade value with India for M\$2,518.7 which is 46.69% of all trade with BIMSTEC. The trade value with Myanmar is M\$2,267.2 which is 42.03% of all trade with BIMSTEC. The trade value with Bangladesh is M\$392.7 which is 7.2% of all trade with BIMSTEC. The trade value with Sri Lanka is M\$188.1 which is 3.4% of all trade with BIMSTEC. The trade value with Nepal is M\$24.5 which is 0.45% of all trade with BIMSTEC. The trade value with Bhutan is M\$2.7 which is 0.05% of all trade with BIMSTEC.

#### **4.4 Import and Export Structures of the countries in BIMSTEC**

The Thailand import products from the countries in BIMSTEC are natural gas, jewelry, gem, silver bar and gold bar, other Metallic Mineral, chemical products, oil, log, wood product, iron and steel, machinery and parts, vegetables and products of vegetables, and meat products.

The Thailand export products to the countries in BIMSTEC are plastic granule, iron, steel and steel products, machinery and parts, fabric, radio, TV and parts, chemical products, automobile parts, crude oil, engine, and cement.

The high potential services and investment in Thailand with the high growth are tourism, hotels, restaurant, construction, health care, educations, and transportation.



Table 3 shows Trade value between Thailand and countries in BIMSTEC and the detail of import and export structures of Thailand to global and Thailand to BIMSTEC are shown in Tables 4 and 5, respectively.

### **Bangladesh**

Export products: apparel, knitting apparel, underwear, jute and jute products, shrimp and fish, leather and leather products.

Import products: capital investment, textile, cotton, fiber, wheat, rice and cooking oil.

### **Bhutan**

Export products: electricity, calcium carbide, cement, log, spice, particle board.

Import products: telecommunication devices, food and beverage (rice, wheat, vegetable oil, and beer), fuel (coal, diesel, crude oil).

### **India**

Export products: gem and accessory, apparel, cotton and natural fiber, hand made textile, leather and leather products, equipments and tools, chemical products, oceanic products, rice, tea, cooking oil.

Import products: fuel (mineral and oil), pearl, jewelry, electricity machinery, electronics, chemical products, organic and inorganic, vegetable oil.

### **Myanmar**

Export products: food and live animal (rice and nuts) natural raw material (rubber tree, teak, hard wood).

Import products: machinery and transportation parts, basic industrial products, chemical products, food and live animal, vegetable and animal oil.

**Table 4: Trade value between Thailand and countries in BIMSTEC (US\$M)**

	2001	2002	2003	2004	2005 (Jan-Nov)	% Growth from 2004 Jan-Nov	% of Trade with BIMSTEC	Balance of Trade
India	1154.1	1184.8	1508.5	2049.2	2518.7	32.91	46.69	182.8
Myanmar	1159.3	1226.2	1339.3	1954.5	2267.2	28.09	42.03	-966.8
Bangladesh	260.7	253.9	301.6	388.2	392.7	10.71	7.2	337.1
Sri Lanka	180.6	158.8	168	192.7	188.1	5.56	3.4	165.1
Nepal	30.9	22.2	29.3	39.3	24.5	-33.42	0.45	22.2
Bhutan	1	1.5	1.6	2.9	2.7	0	0.05	1.7
Thailand- BIMSTEC	2786.7	2847.5	3348.3	4626.8	5393.9	27.29	2.57	-258

(Source) “Fact Book, BIMSTEC FTA”, <http://www.thaifta.com/>

## **Nepal**

Export products: basic industrial products, food and live animal, chemical products and medicine, vegetable and animal oil.

Import products: basic industrial products, transportation equipments and machinery, chemical products and medicine, food and live animal, beverage and tobacco, vegetable and animal oil.

## **Sri Lanka**

Export products: food and live animal (tea, dry coconut), basic industrial products.

Import products: basic industrial products, transportation equipments and machinery, food and live animal.

**Table 4: Trade value between Thailand and Global**

	Values (Million US dollars)					Growth rate (%)			Ratio (%)				
List	2005	2006	2007	2007	2008	2006	2007	2008	2005	2006	2007	2007	2008
				(Jan-Aug)	(Jan-Aug)			(Jan-Aug)				(Jan-Aug)	(Jan-Aug)
Total Trade	229,112.90	258,492.80	292,054.10	187,269.30	242,990.80	12.8	13	29.8	100	100	100	100	100
Export	110,937.70	129,720.40	152,095.20	96,460.50	120,057.50	16.9	17.2	24.5	100	100	100	100	100
Import	118,175.20	128,772.30	139,958.90	90,808.80	122,933.30	9	8.7	35.4	100	100	100	100	100
Balance of Trade	-7,237.60	948.1	12,136.30	5,651.80	-2,875.70								

(Source) <http://www.thaifta.com/>

**Table 4: (continued) Trade value between Thailand and Global**

	Values (Million US dollars)					Growth rate (%)			Ratio (%)				
List	2005	2006	2007	2007	2008	2006	2007	2008	2005	2006	2007	2007	2008
Export Structure													
Total Export	110,937.70	129,720.40	152,095.20	96,460.50	120,057.50	16.9	17.2	24.5	100	100	100	100	100
Agricultural Product	10,447.30	13,131.20	15,167.60	9,362.80	14,269.00	25.7	15.5	52.4	9.4	10.1	10	9.7	11.9
Agro-industrial products	7,008.80	7,970.60	9,489.50	6,232.50	7,879.10	13.7	19.1	26.4	6.3	6.1	6.2	6.5	6.6
Industrial products	86,764.90	100,068.10	118,789.90	75,390.30	89,047.60	15.3	18.7	18.1	78.2	77.1	78.1	78.2	74.2
Mining and Energy	5,128.00	6,894.90	7,510.90	4,406.30	8,861.50	34.5	8.9	101.1	4.6	5.3	4.9	4.6	7.4
Other products	1,588.70	1,655.60	1,137.40	1,068.60	0.3	4.2	-31.3	-100	1.4	1.3	0.7	1.1	0

(Source) <http://www.thaifita.com/>

**Table 4 (continued) Trade value between Thailand and Global**

	Values (Million US dollars)					Growth rate (%)			Ratio (%)				
List	2005	2006	2007	2007	2008	2006	2007	2008	2005	2006	2007	2007	2008
				(Jan-Aug)	(Jan-Aug)			(Jan-Aug)				(Jan-Aug)	(Jan-Aug)
Import Structure													
Total Import	118,175.20	128,772.30	139,958.90	90,808.80	122,933.30	9	8.7	35.4	100	100	100	100	100
Fuel products	20,918.90	25,328.10	25,879.50	16,541.00	26,663.00	21.1	2.2	61.2	17.7	19.7	18.5	18.2	21.7
Capital goods	33,655.00	36,425.50	36,713.40	23,484.30	29,306.50	8.2	0.8	24.8	28.5	28.3	26.2	25.9	23.8
Raw materials and Semi-ready Products	49,840.50	52,287.10	60,028.20	39,716.00	53,145.80	4.9	14.8	33.8	42.2	40.6	42.9	43.7	43.2
Consumer goods	8,229.90	9,437.10	11,759.40	7,380.90	10,059.60	14.7	24.6	36.3	7	7.3	8.4	8.1	8.2
Vehicles and vehicle parts	4,073.70	3,923.60	4,404.90	2,780.40	3,688.50	-3.7	12.3	32.7	3.4	3	3.1	3.1	3
Other products	1,457.20	1,371.00	1,173.60	906.2	69.8	-5.9	-14.4	-92.3	1.2	1.1	0.8	1	0.1

(Source) <http://www.thaifta.com/>

**Table 5 Trade value between Thailand - BIMSTEC**

	Values (Million US dollars)					Growth rate (%)			Ratio (%)				
List	2005	2006	2007	2007	2008	2006	2007	2008	2005	2006	2007	2007	2008
				(Jan-Aug)	(Jan-Aug)			(Jan-Aug)				(Jan-Aug)	(Jan-Aug)
Total Trade	5,965.70	7,359.40	8,887.30	5,945.80	8,114.60	23.4	20.8	36.5	2.6	2.8	3	3.2	3.3
Export	2,859.20	3,355.60	4,444.60	2,942.30	3,911.70	17.4	32.5	32.9	2.6	2.6	2.9	3.1	3.3
Import	3,106.50	4,003.80	4,442.80	3,003.50	4,202.90	28.9	11	39.9	2.6	3.1	3.2	3.3	3.4
Balance of Trade	-247.2	-648.2	1.8	-61.2	-291.2								

(Source) <http://www.thaifita.com/>

**Table 5(continued) Trade value between Thailand - BIMSTEC**

	Values (Million US dollars)						Growth rate (%)				Ratio (%)				
List	2005	2006	2007	2007	2008		2006	2007	2008		2005	2006	2007	2007	2008
				(Jan-Aug)	(Jan-Aug)				(Jan-Aug)					(Jan-Aug)	(Jan-Aug)
Export Structure															
Total Export	2,859.20	3,355.60	4,444.60	2,942.30	3,911.70		17.4	32.5	32.9		2.6	2.6	2.9	3.1	3.3
Agricultural Product	101	131.1	224.5	151.8	163.7		29.8	71.3	7.8		0.1	0.1	0.1	0.2	0.1
Agro-industrial products	220	287.4	308.1	203.3	362.1		30.6	7.2	78.1		0.2	0.2	0.2	0.2	0.3
Industrial products	2,229.20	2,660.90	3,619.50	2,380.10	3,081.60		19.4	36	29.5		2	2.1	2.4	2.5	2.6
Mining and Energy	284.3	242.3	264.1	180.3	304.2		-14.8	9	68.7		0.3	0.2	0.2	0.2	0.3
Other products	24.6	33.9	28.3	26.8	0		37.7	-16.5	-99.8		0	0	0	0	0

(Source) <http://www.thaifta.com/>



**Table 5(continued) Trade value between Thailand - BIMSTEC**

	Values (Million US dollars)						Growth rate (%)				Ratio (%)				
List	2005	2006	2007	2007	2008		2006	2007	2008		2005	2006	2007	2007	2008
				(Jan-Aug)	(Jan-Aug)				(Jan-Aug)					(Jan-Aug)	(Jan-Aug)
Import Structure															
Total Import	3,106.50	4,003.80	4,442.80	3,003.50	4,202.90		28.9	11	39.9		2.6	3.1	3.2	3.3	3.4
Fuel products	1,624.40	2,227.60	2,349.70	1,611.30	2,157.90		37.1	5.5	33.9		1.4	1.7	1.7	1.8	1.8
Capital goods	114.8	200.5	177.6	113.2	135.1		74.6	-11.4	19.3		0.1	0.2	0.1	0.1	0.1
Raw materials and Semi-ready Products	1,163.10	1,349.00	1,489.70	1,012.50	1,520.90		16	10.4	50.2		1	1	1.1	1.1	1.2
Consumer goods	162.8	171.4	340.4	204.8	331.5		5.3	98.6	61.9		0.1	0.1	0.2	0.2	0.3
Vehicles and vehicle parts	36.5	46	51.7	29.4	56.7		25.7	12.6	92.9		0	0	0	0	0
Other products	4.8	9.4	33.6	32.4	0.8		93.1	258.9	-97.4		0	0	0	0	0

(Source) <http://www.thaifita.com/>

## 5. ASEAN Free Trade Agreement (AFTA)

At the 4<sup>th</sup> ASEAN Summit in Singapore in 1992, the ASEAN heads of government formally agreed to establish an ASEAN Free Trade Area (AFTA). The Agreement on the Common Effective Preferential Tariff (CEPT) Scheme was the main implementing of AFTA. Under CEPT the member countries (original six ASEAN countries) gradually lower tariff on the each other's imports. Within 15 years period (by the year 2008), taxes or tariffs on goods traded among member countries are reduced to zero to five percent under the Common Effective Preferential Tariff (CEPT) scheme. Table 6 shows the timetable for accelerating AFTA.

**Table 6 Timetable for accelerating AFTA for the original six ASEAN countries**

YEAR	COMMITMENT
2000	A minimum of 90% of the six countries' total tariff lines must have tariffs of 0-5%. Individually, each country would commit to achieve a minimum of 85% of the Inclusion List with tariffs of 0-5%.
2001	Each country would achieve a minimum of 90% of the Inclusion list in the 0-5% tariff range.
2002	100% of items in the Inclusion List would have tariffs of 0-5%, but with some flexibility.

(Source) Department of Foreign Trade

There are two forms of tariff reductions under the CEPT:

1. **Fast Track.** Fifteen products identified at the Fourth ASEAN Summit shall be covered by a fast track scheme, which sees a lowering of tariffs to 0-5 percent within 7-10 years and Tariffs above 20 percent will be reduced to 0-5 percent within ten years. Tariffs 20 percent and below will be reduced to 0-5 percent within seven years. Product-groups under the fast-track program are the followings.
  - vegetable oils
  - cement
  - chemicals
  - pharmaceuticals
  - fertilizer

- plastics
- rubber products
- leather products
- pulp
- textiles
- ceramic and glass products
- gems and jewelry
- copper cathodes
- electronics
- wooden and rattan furniture

Table 7 shows Tariff Reduction for Fast Track products with tariff rates 20% and below and Table 8 Tariff Reduction for Fast Track products with tariff rates more than 20%.

2. **Normal Track.** Products under the normal track will see their tariffs reduced over a period between 10-15 years. For Tariffs above 20%, they will be reduced in two stages

- a reduction within 5-8 years
- a final reduction to 0-5 percent after another seven years,

For Tariffs of 20 percent and below, they will be reduced to 0-5 percent in ten years.

However, each member may exclude certain products from CEPT coverage under the various exclusion lists.

- General Exclusion List (GEL)
- Temporary Exclusion List (TEL)
- Sensitive List (SL)

Table 9 shows Tariff Reduction for Normal Track products with tariff rates 20% and below and Table 10 Tariff Reduction for Normal Track products with tariff rates more than 20%.

For the countries who becomes the ASAEN member later, the period of reduction on taxes and tariffs are extended.

**Table 7 Tariff Reduction (Fast Track)**  
**for products with tariff rates 20% and below**

Country	Existing Tariff Rates	1993	1994	1995	1996	1997	1998	1999	2000
Brunei	20	20	20	15	15	15	10	10	0-5
	15	15	15	10	10	10	10	10	0-5
	10	10	10	5	5	5	5	5	0-5
Indonesia	20	20	20	15	15	15	10	10	0-5
	15	15	15	10	10	5	5	5	0-5
	10	10	10	5	5	5	5	5	0-5
Malaysia	20	17.86	15.72	13.58	11.44	9.30	7.16	5.02	
	10	9.3	8.6	7.9	7.2	6.5	5.8	5.0	
Philippines	16-20				15	15	10	10	0-5
	11-15				10	10	0-5	0-5	0-5
	6-10				0-5	0-5			
	0-5	0-5	0-5	0-5	0-5				
Singapore	0-2.5	0							
Thailand	20	20	20	15	15	10	10	10	0-5
	15-19			15	15	15	10	10	0-5
	10-14			10	10	10	0-5		
	5-9			0-5					
	0-5	0-5							

(Source) The Ministry of Commerce, Royal Thai Government.

**Table 8 Tariff Reduction (Fast Track) for products with tariff rates above 20%**

Country	Existing Tariff Rates	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Brunei	No products with tariffs above 20%											
Indonesia	40	40	40	30	30	20	20	15	15	10	10	0-5
	30	30	30	20	20	20	20	15	15	10	10	0-5
	25	25	25	20	20	20	20	15	15	10	10	0-5
Malaysia	50	45.5	41.0	36.5	32.0	27.5	23.0	18.5	14.0	9.5	5.0	
	40	36.5	33.0	29.5	26.0	22.5	19.0	15.5	12.0	8.5	5.0	
	30	27.5	25.0	22.5	20.0	17.5	15.0	12.5	10.0	7.5	5.0	
Philippines	46-50				45	40	35	30	25	20	15	0-5
	41-45				40	35	30	25	20	15	10	0-5
	36-40				35	30	25	20	15	10	10	0-5
	31-35				30	25	20	20	15	15	10	0-5
	26-30				25	25	20	20	15	15	10	0-5
	21-25				20	20	15	15	15	10	10	0-5

(Source) The Ministry of Commerce, Royal Thai Government.

**Table 8 (continued) Tariff Reduction (Fast Track)**

**for products with tariff rates above 20%**

Country	Existing Tariff Rates	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Singapore	Above 20	0										
Thailand	Above 30	30	30	25	25	20	20	15	15	10	10	0-5
	26-30			25	25	20	20	15	15	10	10	0-5
	21-25			20	20	15	15	10	10	0-5		

(Source) The Ministry of Commerce, Royal Thai Government.

**Table 9: Tariff Reduction (Normal Track)**  
**for products with tariff rates 20% and below)**

Country	Existing Tariff Rates	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Brunei	20	20	20	20	15	15	15	10	10	10	0-5	
	15	15	15	15	10	10	10	5	5	5	0-5	
	10	10	10	10	5	5	5	5	5	5	0-5	
Indonesia	20	20	20	20	15	15	15	10	10	5	5	0-5
	15	15	15	15	10	10	10	5	5	5	5	0-5
	10	10	10	10	5	5	5	5	5	5	5	0-5
Malaysia	20	18.5	17.0	15.5	14.0	12.5	11.0	9.5	8.0	6.5	5.0	
	10	9.5	9.0	8.5	8.0	7.5	7.0	6.5	6.0	5.5	5	
Philippines	16-20				15	15	15	15	10	10	10	0-5
	11-15				10	10	10	10	10	10	0-5	0-5
	6-10				0-5	0-5	0-5	0-5	0-5			
	0-5	0-5	0-5	0-5	0-5	0-5	0-5	0-5				

(Source) The Ministry of Commerce, Royal Thai Government.

**Table 9 (continued) Tariff Reduction (Normal Track)**  
**for products with tariff rates 20% and below)**

Country	Existing Tariff Rates	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Singapore	0-2.5	0										
Thailand	20				20	20	15	15	10	10	10	0-5
	15-19						15	15	15	10	10	0-5
	10-14						10	10	10	0-5		
	5-9			0-5								
	0-5	0-5										

(Source) The Ministry of Commerce, Royal Thai Government.

**Table 10 Tariff Reduction (Normal Track) for products with tariff rates above 20%)**

Country	Existing Tariff Rates	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Brunei	30	30	28	26	24	22	20	15	15	10	10	10	0-5				
Indonesia	50	50	50	50	50	50	40	30	30	20	20	20	15	15	10	10	0-5
	40	40	40	40	40	40	30	30	30	20	20	20	15	15	10	10	0-5
	30	30	30	30	30	30	20	20	20	20	20	20	15	15	10	10	0-5
	25	25	25	25	25	25	20	20	20	20	20	20	15	15	10	10	0-5
Malaysia	50	46.25	42.50	38.75	35.00	31.25	27.50	23.75	20.00			15		10		5	
	30	28.75	27.50	26.25	25.00	23.75	22.50	21.25	20.00			15		10		5	

(Source) The Ministry of Commerce, Royal Thai Government.

**Table 10 (continued) Tariff Reduction (Normal Track) for products with tariff rates above 20%)**

Country	Existing Tariff Rates	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Philippines	46-50				45	40	35	30	20	20	20	15	15	10	10	0-5	
	41-45				40	35	30	25	20	20	20	15	15	10	10	0-5	
	36-40				35	30	25	25	20	20	20	15	15	10	10	0-5	
	31-35				30	30	25	25	20	20	20	15	15	10	10	5	
	26-30				25	25	25	25	20	20	20	15	15	10	10	0-5	
	21-25				20	20	20	20	20	20	20	15	15	10	10	0-5	

(Source) The Ministry of Commerce, Royal Thai Government.



**Table 10 (continued) Tariff Reduction (Normal Track) for products with tariff rates above 20%)**

Country	Existing Tariff Rates	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Singapore	NA																
Thailand	Above 30	30	30	30	30	30	25	25	20	20	20	20	15	15	10	10	0-5
	26-30						25	25	20	20	20	20	15	15	10	10	0-5
	21-25								20	20	20	20	15	15	10	10	0-5

(Source) The Ministry of Commerce, Royal Thai Government.

## **6. Thai Industrial Clustering**

As realizing the importance of industrial clustering, Thai government has tried very hard to support emerge of industrial clustering. In the first state, the government tried to set industrial estates all over the country, which offered superior infrastructure and provided the investment incentives for FDI. Although, these industrial estates did not initially constitute industrial clusters in the sense of Flowchart Approach [Kuchiki, A., and M. Tsuji, (2005)], they possessed some characteristics of clusters. For example, the same type of industry was grouped together in the same area. Also, they had the potential to develop into true clusters over time. In 2005, Office of the National Economic and Social Development Board (NESDB) commissioned the Kenan Institute Asia (K.I.ASIA) to conduct the Cluster Mapping Project. The goal of the project was to review the situations and to provide the suggestions regarding to the cluster development in Thailand. The project studied many clusters currently existing in Thailand and analyzed their performance, strength, and growth potential. By sending the questionnaires and conducting the interview, several of data from many potential clusters, private companies and government offices could be obtained. In this project, the cluster was defined by the following qualifications.

- The location of cluster must able to be identified.
- The people who have direct advantages or disadvantages from the existence of this cluster must be clearly identifiable.
- This cluster must regularly hold formal or informal events, such as meetings or seminars.

In the preliminary stage, KIASIA collected data on 322 clusters, 282 clusters in the production sector and 40 in the service sector. The following tables categorizes these 322 clusters into regions and industry types.

**Table 11 Number of Clusters Categorized by Regions**

<b>Region</b>	<b>Number of Clusters</b>
North	60
Central	91
East	46
North East	60
South	46
Bangkok	9
Total	322

(Source) The Kenan Institute of Asia

Based on the study of Kenan, it could be seen that there were two groups of Thai clusters based on the way of cluster development. Those were the clusters developed from the local industries and developed from FDI. As Thailand originally was the agricultural country, the clusters in agriculture production, food and beverages, poultry and livestock, marine food, handicraft & gems and service & tourism were developed based on the local skills and local industrial. From generation to generation and the support from government, the clusters were slow developed. Another group of clusters were the cluster in industrial manufacturing. As mentioned before that Thailand were the agricultural country, the industrial manufacturing clusters were developed from FDI starting large investment in Thailand and all the supported industries were followed and finally formed the group as the cluster. The interesting industries in this cluster were automobile manufacturing and electronic industry.

**Table 12 Number of Clusters Categorized by Product Types**

<b>Product Type</b>	<b>Number of Clusters</b>
Agriculture production	95
Handicraft and gems	88
Service and tourism	40
Food and beverages	36
Industrial manufacturing	33
Poultry and livestock	16
Marine food	14
Total	322

(Source) The Kenan Institute of Asia

Beside the study of Kenan, Federation of Thai Industries (FTI) used to point that nine industries were determined as having potential for cluster development as follows.

- food and pharmaceuticals
- automobiles and parts
- fashion
- electrical appliances
- electronics and air conditioning
- building materials
- petroleum
- machines and metallurgy
- pulp and printing, and
- materials and supporting products

## **7. Effect of AFTA and BIMSTEC to Thai Industrial Clusters**

1. In the short-term effect, the result of AFTA and BIMSTEC will make the same products from the member countries can be exported to Thailand with less taxes and tariffs. Since the member countries usually produce the similar group of products, the high competitiveness will be the result. This can make the cluster developed from local industries have to improve themselves to be able to survive in the market
2. With the high competitiveness, this will force Thai clusters to improve their efficiency and technology development
3. With less taxes and tariffs in the member countries, this can make the products from Thai clusters have more opportunity to export.
4. Thai clusters can import raw materials with lower cost since less taxes and tariffs
5. Economic of Scale will be larger and this can make FDI interested in Thailand. As the result, the Thai clusters will be strengthen. Thailand's Board of Investment (BOI) indicates of the types of sectors that the ASEAN governments are targeting. These include:
  - Agriculture and agricultural products
  - Minerals, metals, and ceramics
  - Light industry
  - Manufacture of metal products, machinery, and transport equipment
  - Electronics and electrical industry

- Chemical industry, paper and plastics

In conclusion, AFTA and BIMSTEC will have an effect on the weak clusters in the short term. In the long term, AFTA and BIMSTEC can help strengtning of the cluster. Also, with larger econonic of scale in the member countries, this will attract FDI to invest more in Thailand.

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