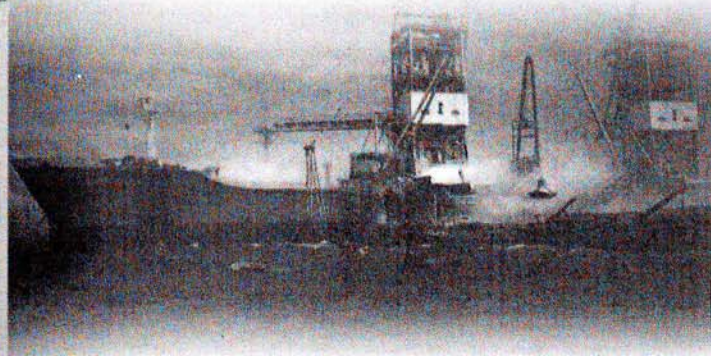


Free Trade Area: Benefits for



Tapioca Business

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The proliferation of economic integration to exchange trade benefits has become a trend in the world economy. The pattern of economic integration is however different from the past in which geo-political and long-established trading contacts led to the creation of the FTA covering all trade in goods. While the current formation of FTA is not only limited to geo-political factors, but it also include the countries outside the region. Moreover, the new age FTA is comprehensive liberalisation, covering trade in goods, trade in services, investment and cooperation in other areas such as tourism, education, human resource development, environment, labour, etc. For trade in goods, the basic concept of FTA is the elimination of tariffs and covering substantially all trade. However, FTA members apply different tariff rates to non-FTA members.

There is a fundamental difference between FTA, namely NAFTA and AFTA, and custom union such as the European Union (EU). While the latter offers a deep and wide integration in the sense that members in custom unions apply no tariffs with each other, but apply the same external tariff level to non-members.

This reciprocal trade liberalisation between FTA members results in discrimination by offering more trade preferences for members than non-members. Therefore, countries wishing to benefits from the FTA have the option of joining the FTA.

FTA has been served as a tool to form economic and political alliance. It also serves as a network to expand trade and investment with some countries and other economic blocs. Small countries with open economies such as Singapore and Chile have been major users of FTA. Singapore, with its the negligible agricultural exports, recently concluded an Economic Partnership Agreement with Japan.

The proliferation of FTA is a chain reaction caused by the fears that not being a member would forego benefits offered by FTA. This is because FTA offers trade and investment opportunities for parties. However, it should be noted not only economic factors are vital for the successful formation of FTA, but also the presences of political will.



Thailand's FTA Strategy

For the past few years, Thai government has implemented an offensive policy to expand trade and investment by using FTA as its main strategy. The government aims to make Thailand as a hub of the ASEAN so as to link the region with other countries or economic groupings. Moreover, the government has given a priority to the big and new emerging markets. In the period of

2002-2003, the Prime Minister of Thailand proposed to the Leaders of Bahrain, Australia, China and Japan to begin talks on FTA and those countries welcomed the proposal. Since then, Thailand has begun the negotiations with Australia and other countries. In the ASEAN-Japan Commemorative Summit held in December 11-12, leaders of Thailand and Japan declared that negotiations between Thailand and Japan will commence in the beginning of 2004.

So far, Thailand has progressed its FTA with many countries as follows:

Agreed in principles to Proceed		Commence the Negotiations
November 2001 : Thailand - Australia		May 2002 : October 2003 - Negotiating framework was concluded. Beginning of 2004 - Draft Agreement is expected to be completed by both sides.
November 2001 : Thailand - India		December 2002 : (1) Framework Agreement was signed in October 2003 and agreed to lower tariffs for the Early Harvest Scheme (2) Next step is to negotiate a complete FTA Agreement as a whole
April 2002 : Thailand - Japan		Beginning of 2004 : -Mid of 2004 - Complete the negotiations.
June 2002 : Thailand - Bahrain		August - December 2002 : -Complete the Framework Agreement and continue on to negotiate a complete FTA Agreement as a whole
April 2003 : Thailand - China		June 2003 : -Agreement to the free flow of vegetables and agricultural products was signed in 1 October 2003. (The Agreement is under the ASEAN-China's Early Harvest Scheme)
April 2002 : Thailand - USA		Trade and Investment Framework Agreement was signed in October 2002. FTA negotiations will commence in the beginning of 2004

Asia is one of the regions that has joined the proliferation of FTA. Compared to other countries in Asia, Singapore is the most heavy-user of FTA as its main economic strategy and Thailand is ranked second. ASEAN also collectively pursue its FTA by accepting the Chinese proposal to being talks on FTA. The negotiations with China, which has commenced since 2002, has received interests from many other countries since the successful negotiations will have a wide-ranging implication by creating the largest free trade area, with the population of 1.7 billion.

ASEAN's strategy to create economic partnership with China has motivated other countries, particularly Japan, to engage with ASEAN more seriously. Therefore, in 2002, Japan proposed to expand her relations with ASEAN by proposing comprehensive economic partnership (CEP). The basic approach of CEP between ASEAN and Japan is that Japan will negotiate bilaterally with some ASEAN

countries, which are ready to pursue FTA with Japan. Currently, only Singapore has concluded the talks with Japan under the Japan-Singapore New Age Economic Partnership. Negotiations with Thailand, Malaysia and the Philippines will commence next year. Japan's FTA initiative with other countries has shifted her negotiating strategy, which was predominantly based on negotiations in WTO context.

Thailand has been undertaking FTA negotiations with China, India and the US under Trade and Investment Framework Agreement (TIFA). Meanwhile, ASEAN as a whole has also been conducting the negotiations with China, India and the US. Therefore, to reap the benefits from the FTA negotiations, Thailand should conclude its bilateral negotiations with these dialogue partners before moving onto region-wide negotiations.

ASEAN's FTA negotiations with dialogue partners

Agreed in principles to implement		Commence the Negotiations
November 2000 : ASEAN - China		November 2001 : <u>Step 1</u> - A Framework Agreement was signed in November 2002. This Agreement also covers agreed elimination of a number of agricultural products (HS 01-08) within 3 years. <u>Step 2</u> - Detailed negotiations are on going and set to be concluded by mid 2004.
November 2001 : ASEAN - India		November 2001 : <u>Step 1</u> - A Framework Agreement was signed in October 2003. This Agreement also covers agreed elimination of a number of industrial products within 3 years. <u>Step 2</u> - Detailed negotiations is to be started in early 2004.
April 2002 : ASEAN - US		ASEAN and the US plan to finalize and sign Trade and Investment Framework Agreement (TIFA) focusing on economic cooperation in early 2004. Progress in TIFA implementation will be assessed before taking joint decision to form ASEAN-US FTA in the future.
April 2003 : ASEAN - EU		In 2003, the EU introduced "Trans regional EU-ASEAN Trade Initiative (TREATI) focusing on economic cooperation. Progress in TREATI implementation will be assessed before taking joint decision to form ASEAN-EU FTA in the future.

How would Tapioca business benefit from FTAs?

Tapioca is one of Thailand's staple crops and results in ancillary industries. Thailand is ranked the third largest producer of cassava roots after Nigeria and Brazil. Total export volumes and values are 4-5 million tons and over 20,000 million baht, respectively. Tapioca products are used in various industries such as animal feed, beverages, medicines, cosmetics, etc. Thailand's major export markets are China (28.2%), Japan (16.4%), the Netherlands (9.1%), Indonesia (8.6%), the United States (2.6%), and Australia (1.5%).

Generally speaking, FTA provides special and differential treatment and members enjoy the benefits from being parties to the FTA. This is because FTA offers WTO Plus preferences. Private sectors in the parties of the FTA accordingly gain better market access: lower tariffs and non-tariff barriers, and enjoy the advantages of cooperation activities on a reciprocal basis. FTA also offers the dispute settlement mechanism to prevent and solve any trade disputes. It also enhances the relations between countries, thus forging more closer economic partnership than it otherwise would have been without FTA.

The immediate benefits for tapioca business is lower tariff barriers which would result in a lower cost of production. This will improve the price competitiveness of producers.

On October 1, 2003, Thailand signed an agreement with China aiming at the elimination of tariffs (tariff lines: HS

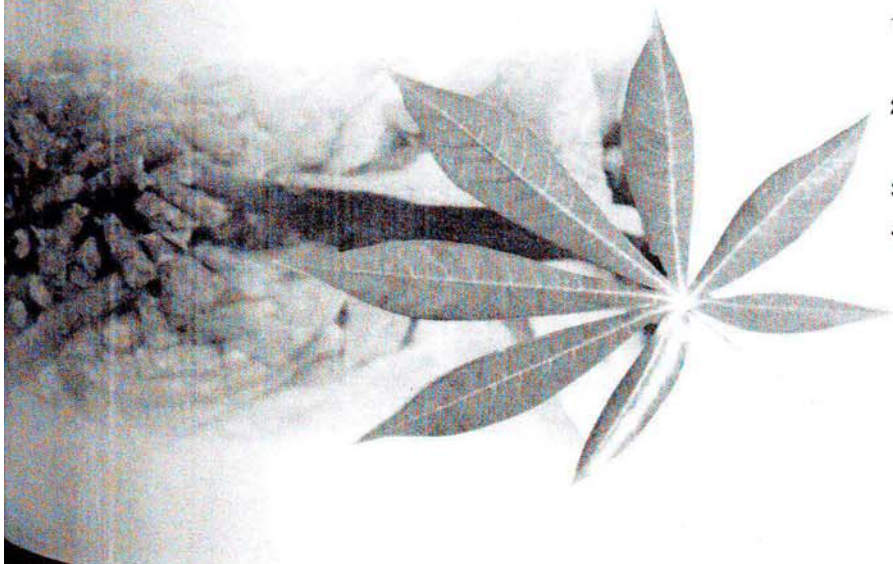
07-08). Thai tapioca pellets and chips which are in the HS 07, consequently receives benefits of zero tariff. (Before October, tariff rates for Thai tapioca pellets and chips were 8%). Statistics illustrate that Thailand exports tapioca chips to China more than 90% on a yearly basis. Those tapioca chips is being used in alcohol and citric acid manufacturing which annual demand of 1,250,000 - 1,450,000 tones per year. For animal feed, tapioca is not widely used as a raw material, but the recent study reveals the possibility of its uses as a raw material. Moreover, the recent expansion in MSG and sweetener manufacturing, pulp and paper industry also increase the opportunities for Thai tapioca products in Chinese market.

For India, Thailand's tapioca is new and in its infancy. Therefore, export value is low and tapioca is not in the Early Harvest Scheme in which the parties agree to apply zero tariff within three years. Although India has started to liberalise its tapioca markets, the tariff rate is still at 30%. It is recommended that tapioca be included in the list of fast-track tariff reduction when negotiating with India.

For Australia, although Thailand's export value is less than 2 % of the total export value, the export tends to increase.

Japan is the export market of Thailand's tapioca pellets, chips and tapioca starch which account for 16.5 percent of total export value. Japan applies tariff rates for Thai tapioca as follows:

1. Tapioca chips and pellets : zero tariff for animal feed and 15 percent for other industries
2. Tapioca flour : 2 percent for animal feed and 15 percent for other industries
3. Tapioca starch : 25 percent
4. Modified Starch : 6.8 percent. However, this product is also included in Japan's GSP Scheme under which an import quota of up to 12,000 million Yen (4,700 million Baht) is subject to duty free treatment. Any import amount beyond this quota is to be subject to MFN tariff of 6.8 percent.





In negotiating FTA with Thailand, Japan regards tapioca starch as its sensitive products and wants to exclude it from tariff reductions. Therefore, Thailand should push for this issue to be clearly specified in a negotiating mandate.

The United States is also a potential market for Thailand's tapioca. The vital product is dextrin. However, the export decreased from 13,788 tones in 2541 to 7,584 tones in 2545. Thailand's main competitors are the Netherlands, Canada and France. It is believed that Thailand-US FTA will increase the opportunities of Thai's exports of tapioca products.

It should be noted that not only tariff barriers hinder market access, but non-tariff barriers, product's quality, and competitiveness of Thai's producer also constitute a hurdle for Thai tapioca's export. Private sector in Thailand will benefit from FTA in terms of business opportunities and privileges. Moreover, as a main producer and exporter of tapioca, Thailand should not worry about being affected by other countries' tapioca exports.

Finally, to realise the benefits of FTAs, tapioca's producers and exporters should take the followings actions:

(1) Supply side: Improve the quality of the product to meet international standard as well as meeting the demand of the market.

(2) Demand side: Focus on the market by using marketing strategy in predicting demand and conduct public relation campaign to inform consumers regarding the benefits of tapioca.