

# Bilateral Free Trade Area

## The Solutions for Thailand Free Trade

Bilateral Free Trade Area (FTA):  
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After having signed the legally binding Framework Agreement on bilateral parties free trade area (FTA) with Bahrain, China and India, the Government of Thailand is likely to further make the same binding agreement with Japan, the United States of America, Australia and other countries. The attempt to promote bilateral parties free trade of Thailand is mainly due to the failures of the policy of the World Trade Organization (WTO) on multilateral trade liberalization, which was officially originated at the fifth meeting among Ministers organized by WTO in mid September 2003 in Cancun, Mexico. The policy on multilateral trade liberalization has been obstructed and failed to be in progress on account of the protests against the policy of people in many countries. However, the member countries of WTO have endeavored to continue negotiations in the beginning of 2005. Trade liberalization is still becoming more vigorous although the negotiations among WTO members have betoken a tendency of chaos. Therefore, it is hard to assert that negotiations be finalized at the next meeting. However, the benefit from trade liberalization depends on readiness of Thailand to support a blend of bilateral parties and regional free trade area.

The paper mainly presents the comprehensive content of bilateral parties free trade area which is divided into 3 sections including obstacles of WTO negotiations failures, agreement on bilateral parties free trade area and summary of impacts from free trade area and solutions.



### 1. Negotiation failures of the WTO

The World Trade Organization (WTO) was unsuccessful in multilateral trade negotiations, the main issues of which concerned liberalization in agriculture focusing on reduction of export subsidy, tariffs reduction. Due to considerable differences in suggestions among powerful countries, it caused more obstacles in negotiations. Formerly, the countries with great power in negotiations included the United States of America, European Union and Japan, but at the recent meeting China, which entered into the WTO membership in November 2001, took part in the negotiations. As a result, given considerably different suggestions, the negotiations seemed to be in chaotic conditions and hard to be finalized on account of the rigid reaction of each country towards their benefit protection.

It can be seen that the multilateral negotiations on trade liberalization in agriculture tends to encounter difficulties at a multilateral forum. The negotiations on the same issues were previously impeded and unable to be finalized, thereby causing delay in the negotiations for over 3 years. The negotiations at this forum are likely to become unsuccessful, which will significantly affect agriculture as it is considered a vital economic field to all countries that require agricultural protection for their people. Moreover, agricultural product is highly sensitive goods in economic, social and political aspects because it is a source of carriers and job opportunities, which contributes to income creation for people in the country. Agriculture is also a source of food production which strengthens the country stability. With these reasons, all countries realize the importance and vigilance with their reaction towards trade liberalization in agriculture.



The protests against trade liberalization of people from many countries took place mainly due to the accusation against trade liberalization of demolishing job opportunities and careers of the poor worldwide. This is because the free trade system emphasizes efficient production system and low cost so as to create competitive capacity. The development of production system to enhance the competitive capacity will lead to gigantic businesses or transnational corporation (TNC) which consume modern technology and reduce labour. The huge enterprises with high efficiency are able to merge both medium and small enterprises or the so-called SMEs, which require a great amount of labour until these enterprises are wiped out from the economic system. Since the economic crisis in Thailand, over 200,000 small retail business has ceased their operations. According to Department of Enterprise Promotion, The small retail business were merged by large retail department stores owned by alien investors who have run business in Thailand in regard to free trade agreements under the rights to operate business according to Alien Business Act. B.E. 2542, which is one among the so called "National Betrayal Laws".



Moreover, in developed countries trade liberalization has been opposed by their people. In particular American labourers accused the free trade system of causing lack of patriotism among American investors or entrepreneurs. This is because trade liberalization leads to borderless trade. Thus, entrepreneurs aim to invest in any places that are more



advantageous and provide good profit for them. But foreign investment of the investors seems to be neglect of job opportunities creation into the country: thus, lots of American labourers made a protest against negotiations on trade liberalization. Presently, the negotiations on trade liberalization have been somewhat complicated. Eventhough the objectives of trade liberalization negotiations focus on agricultural products with high export capacity, the export of these products has been impeded by strict inspection measures of good quality and standards including food safety, animal welfare and GMOs, exercised by importers. These measures have definitely affected Thai exported agricultural products which have been entered into trade liberalization agreements. Consequently, Thailand Government has to exercise its capable in artfully interpreting international binding agreements to best benefit the whole country and Thai people, and to prevent from disadvantageous agreements, which affect Thai people. Despite difficulties of the WTO negotiations foreboded to emerge, trade liberalization has remained more furious, which will lead to bilateral Free Trade Area while the free trade system of Free Trade Area at regional level has still been in progress. There is no exact response if the next WTO negotiations will be finalized. However, to sustain the country benefit from the agreement on Free Trade Area, the Government has to readily perform two guidelines in support of agriculturists both with high and lower capacity in competitiveness and those expectedly to be affected by Free Trade Area agreements.

## 2. The progress of Thailand's Bilateral Free Trade Area

The Thai Government has operated the policy on bilateral trade liberalization with counterparts from many countries. All binding agreements on Free Trade Area officially made between Thailand and its counterparts include:

The Free Trade Area Agreement between Thailand-Bahren (officially made on December 29, 2502)



The Free Trade Area Agreement between Thailand-China (officially made on June 18, 2503 and effective on October 01, 2508)

The Free Trade Area Agreement between Thailand-India (officially made on October 09, 2503)  
Moreover, the Government has agreed to make binding agreements on Free Trade Area with many countries, some of which will possibly be implemented include:

The Free Trade Area Agreement between Thailand-Japan On December 12-16, 2503 Thailand Premier partook in negotiations on Free Trade Area Agreement in Japan.

The Free Trade Area Agreement between Thailand-the U.S. The U.S. Government has asked approval the Congress for making the Free Trade Area Agreements with its counterparts. The Congress has been expected to endorse the Government request due to economic advantages towards the U.S. itself.

The Free Trade Area Agreement between Thailand-Australia The negotiations on Free Trade Area Agreement with Australia has been in progress but unable to be finalized as the Agreement aims to specially focus on liberalization in goods upon the requirement of each counterpart. Therefore, both counterparts have been unable to manage the selection of goods items that will be entered into the Agreement. In particular, in the beginning of trade liberalization Australia expressed interests in liberalizing only dairy products, while in the next phases other goods will further be liberalized.

However, Either the bilateral Free Trade Area Agreements that have been made by the Government and or those in progress which are likely to be finalized, both are national binding agreements to be practiced by Thailand and its counterparts. As a result, some questions were raised for insistence how the bilateral Free Trade Area Agreements made between Thailand and its counterparts would benefit more or less the country and Thai people. To clarify these question, the following assumption of effects from the Free Trade Area agreements on the countrys economy and Thai people has



been set forth, including:

The Free Trade Area Agreement between Thailand-China China, compared to Thailand, has higher production capacity of agricultural products such as vegetables, fruit, coffee, tea, silk and industrial products. However, with a great number of population in country, food or agricultural products have remained inadequate to local consumption. Also, Chinese goods quality have still been below international standards; thus, the outlook of Thailand exportation becomes more advantageous. According to statistical data of trade balance between Thailand and China, Thailand balance of trade has been found exceeding, which marks export capacity beyond China. Given the agreement on Free Trade Area between Thailand-China, it enables Thailand to expand more exportation opportunities due to its superior capacity. In addition, Thailand is more advantageous in that the market exchange has been performed between a smaller size market with 62 million people and a larger one with 1,300 million people. However, the data used for the assumption are based on the facts of legal trade or the so-called "land trading" whereas the data of illegal trade or the so-called "underground trading" have not been brought into consideration. Therefore, the evaluation of trade advantages has been distorted.

The free Trade Area Agreement between Thailand - India India needs various kinds of Thai goods like rubber, mung bean, peanut, cassava, food processing. In the meantime, Indian goods that meet Thai needs include jewelry, fertilizer, cotton and cloth. However, the trade between Thailand and India have been impeded by India shortage of foreign currency, which has been solved by practices of Counter Trade or Account Trade. Though, the Free Trade Area is able to lessen trade obstacles, the Government has to make itself ready to facilitate trading means, acting as House Clearing to provide services for the people and arrange the negotiations with India on goods exchange projects.

The Free Trade Area Agreement between Thailand-Bahren The expansion of Thai agricultural products is likely to be possible. In case that Bahren can be the trade gateway for Thailand to Middle East, it will brighten the future outlook of exportation of Thai agricultural products.

The Free Trade Area Agreement between Thailand-Japan The Free Trade Area between Thailand-Japan represents the opportunities for Thailand in the export expansion of agricultural products. However, the Free Trade Area can be impeded by high nationalism of Japanese people, which can be solved with the arrangement of Joint Venture investment



between Thailand and Japan in order to locally produce Japanese-like products which will be exported and respond to Japanese nationalism. Besides, Thailand has to develop high quality products in accordance with the needs of Japanese people as well as improve product packaging upon Japanese taste which is swiftly changed on account of high income of Japanese consumers.

The Free Trade Area Agreement between Thailand-The U.S. Assumably, trade volume between Thailand and the U.S. will be considerably rising. Although there have been no tariff measures for mutual trading, the U.S. has exercised the subsidizing measures for local production and exportation via the issuance of "the Farm Bill 2002" with the annual budget not less than 800,000 million Bath. This law was determined to support agricultural sector, which will affect Thailand exportation to the U.S. and trade competitiveness in regional markets.

The Free Trade Area Agreement between Thailand-Australia According to preliminary assumption, if the Thai Government agrees to the Free Trade Area Agreement with Australia, it will instantly affect Thai farmers who raise milk-cows. In the meantime, the exported goods like meat and fruit will be inspected with high measures of quality and standards. Therefore, the free Trade Area Agreement between Thailand-Australia will focus on only some goods items and some more goods will be further increased in the future.

### 3. Effects of the FTA Agreements

On the assumption of effects of the Free Trade Area between Thailand and its counterparts, the Free Trade Area (FTA) will be advantageous to opportunities of exportation expansion and affect local manufacturers in the inferior production lines which are unable to compete with in international markets. Besides, the FTA results in job opportunities destruction for



Thai people.

However, according to the overview of Thailand, which is considered "the World Kitchen", trade liberalization in agricultural products will be benefit to the country and agriculture due to its production capacity of agricultural products with higher capacity than competitors such as rice, corn, cassava, sugar, rubber, chicken, beef, pork and food processing. Meanwhile, trade liberalization will affect Thai agriculturists in the production lines of soy bean, oil palm, potato and milk-cow, which are the products with lower capacity. The effects of the Free Trade Area on Thailand have been considered to be legal matter and economic matter, which widely affect the way of people lives, in particular their careers.

The issues on the effects of trade liberalization to be considered include:

**Legal Matter** – The Free Trade Area Agreement has been made in compliance with the Government authorization under the Thai Constitution B.E. 2540, which affects economic sovereignty changes of the country. As a result, the Parliament as a legislative assembly has to inspect the benefit towards the country and Thai people from the use of the Government authorization in the Free Trade Area Agreement. There are some more questions concerning the international agreements made between counterparts, most of which belong to the WTO membership, which in principles states non-discrimination practice and commitments to be followed in regard to GATT. Section 24 concerning the approval for members of the Free Trade Area establishment. As for the establishment of bilateral Free Trade Area, if the WTO has no endorsement of the bilateral Free Trade Area in the aspect of discrimination practice between counterparts, the binding agreement made between two parties is to be extended to all WTO member in regard to non discrimination principle. Consequently, the counterparts under the Free Trade Area Agreement lose great benefit to the members of the WTO without providing any benefit as agreed in the Free Trade Area Agreement.





Economic Matter – The Free Trade Area Agreement towards this issue has to be carefully studied as it can cause effects on the country economy and people in different careers. Thus, the Government has to set forth measures to support benefit of the people. In the case of the Free Trade Area between Thailand-China, it seems that Thailand is more advantageous than China. However, the prospects for Thailand to be disadvantageous still exist due to the fact that various conditions of Chinese trading system, in particular barrier measures impede Thailand exportation. In the meantime, Thailand has imported a great number of goods from China. The imported goods from China in replacement of local products, which can cause destruction of job opportunities include silk, vegetables, fruit, tea, garlic and industrial goods. Moreover, the trade liberalization results in destruction of job opportunities, for example, many retail shops have been merged by large department stores. Therefore, the Government has to determine directions to prevent from effects on the country economy.

Presently, the Free Trade Area Agreement is important to Thailand as it contributes to sustain trade alliance and export markets for Thailand. Although the WTO negotiations held in Cancun, Mexico in September 2003 became unsuccessful, the expansion of international trade has turned to be bilateral Free Trade Area Agreement. In the Agreement, the goods items offered for exchange must be based on the same conditions. In case of goods exception, both Thailand and its counterparts must be given the same exception.

In making the free Trade Area Agreement, the suggestion position has to be determined based on the facts and data from related agencies like governmental and private sectors and agriculturists. The determination of suggestion position has to be conducted based on transparency in order to prevent investors from access to the Government authorization, which leads to distorted decision making of the Government and unfairness. Due to the effects of the Free Trade Area Agreement, the Government has to set forth mitigation measures for affected people. The package plan covering impact mitigation has to be presented to the Cabinet.

The Free Trade Area Agreement between Thailand-China has significantly affected agriculturists, in particular longan planters who have encountered the decline of longan price and the price of durian is likely to become lower. Many agriculturist have been unable to export their products, which leads to inadequate income to settle their debts with financial institutions, co-operatives and chemical product shops. Given the effects of the Free Trade Area Agreement, agriculturists then make complaints to the Agricultural and Co-operative Council and the Senate for their impact mitigation.







## The Recommendation

The recommendations for the solutions can be summarized in 10 issues as hereunder:

1. The Free Trade Area Agreement is a good policy as it is considered the return of economic sovereignty to the people. However, in practice to ensure the benefit and well-being of the people, the close cooperation from both governmental and public sectors is required for consideration and decision making of transparent economic system management in order to best benefit the country and Thai people.
2. The exporters made complaints against unequal treatment under the Free Trade Area Agreement between Thailand-China. The exporters required for import permission license for the exportation, which did not comply the WTO agreements. This was not the right treatment because both Thailand and China belong to the WTO membership. This case can be proceeded in legal action according to the disputation termination process.
3. Value Added Tax collection of China has been differently treated, which is not the right practice and can be proceeded in legal action.
4. The standards of agricultural products are set as the only one standards in order to enhance acceptance of Thai goods quality from other countries. However, this issue has no effects the exporters.
5. Agriculture is economic sector to most people in the country. Thus the Free Trade Area Agreement has to implemented based on the perspectives of agriculture both in food stability and trade liberalization aspects.
6. The governmental sector has to realize trade system difference. China has implemented the policy on trade liberalization by governmental agencies, which is not the real free trade system as it have been practiced in Thailand.
7. The dissemination of the information on the Free Trade Area Agreement has to be improved in order to relieve panics of the people.
8. The close collaboration of governmental and private sectors for impact mitigation is needed to investigate real problems and design the solutions in order to achieve mutual benefit.
9. The service of inspection measures of quality and standards has to be improved by providing the one stop service to facilitate border trade.
10. The price decline of shrimp, longan has to be considered a vital effect of the Free Trade Area Agreement which requires mitigation measures to relieve difficulties of agriculturists.