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# US Bilateralism in Southeast Asia: A Sectoral Analysis of Market Access Issues in the Proposed Thai-US Free Trade Agreement

Smitha Francis and Murali Kallummal

**Abstract**

*Expected market access gains in the US together with competition for FDI have driven the proposed Thai-US FTA. But the small margins of preference in tariffs Thailand may obtain will not make a significant difference in its market access in the US, especially as the US is simultaneously negotiating comparable FTAs with several of Thailand's competitors within and outside the region and thus existing MNC production configurations are unlikely to be affected. Moreover, the presence of non-tariff measures like TBT and SPS measures applied by the US in its strategic sectors would not only hinder Thailand's market access, but would also lead to a further increase in its technology and capital intensive imports. On the other hand, given the U.S. surplus production in key agricultural products and the impact of liberalised imports on small and medium industries that produce for the domestic and export markets, the costs of domestic production lost to increased imports from the US can become very high for Thailand.*

**JEL Classification**
F150; F140; F230

**Key Words**
Thai-US FTA, bilateral free trade agreements in Southeast Asia, US market access, Thailand's trade and FDI, margin of preference, rules of origin, Non-tariff barriers, technical barriers to trade

The authors are Senior Economist, IDEAs, New Delhi and Consultant, Centre for WTO Studies, Indian Institute for Foreign Trade (IIFT), New Delhi, respectively.
E-mail:smithsfrancis@yahoo.com, muralikallummal@hotmail.com

# US Bilateralism in Southeast Asia: A Sectoral Analysis of Market Access Issues in the Proposed Thai-US Free Trade Agreement[1]

Smitha Francis and Murali Kallummal

## 1. Introduction

For almost a decade since the late 1980s, the Southeast Asian region has been associated almost exclusively with the initiatives of the Association of Southeast Asian Nations (ASEAN). By 1992 ASEAN had in fact agreed on the ASEAN Free Trade Area (AFTA) in order to capture the synergies arising from the international production networks created in the region by foreign investors, by a scheduled stage-wise increase in market access in each other's economies.

With rapidly expanding markets, abundant natural resources and labour supply, the ASEAN region had emerged as one of the most attractive investment locations in the developing world in the 1980s itself and had attracted a disproportionately large amount of foreign direct investment (FDI) to the developing countries, especially during the 1987-91 period.[2] In particular, Singapore, Malaysia and Thailand were among the ten largest FDI recipient developing countries in the 1980s. While investments targeted at the host market characterised the first wave of manufacturing FDI into ASEAN in the 1970s, investments to produce manufactures for export had become increasingly important in the 1980s, particularly following liberalisation of policies after 1985.[3] The United States, European Community (EC) and Japan were the three leading investors in ASEAN until the late 1980s. Subsequently, along with the dramatic growth in Japanese investments, the Asian NIEs also emerged as major investors in the ASEAN in the post-1987 period. Thus, FDI inflows into the major Southeast Asian countries were substantial prior to the introduction of the ASEAN Free Trade Area (AFTA), as part of the East Asian regional production networks developed by multinational companies (MNCs).[4] The US association with the region had also long been driven by the

dominating presence of its MNCs among the top three investors in these countries.[5] By the early 1990s, in addition to Singapore that has been an export-oriented economy historically, FDI-dependent and export-oriented large domestic private sectors had emerged in all the larger ASEAN members.

Around the same time, China's share in developing country FDI began rising dramatically following the removal of several restrictions in 1992. Since 1993, China has been accounting for about half of total FDI flows to Asia, including intra-Asian FDI. Investment competition was also being thrown up by Mexico in the run up to the formation of the North American Free Trade Agreement (NAFTA) by 1994. Against the backdrop of China's and Mexico's emergence as major competitors in attracting export-oriented FDI, the ASEAN countries' increased desire to continue the rapid export-led growth of the late 1980s[6] led them to believe that liberalization of intra-regional trade would enable ASEAN to consolidate their existing trade-investment links and compete with the diversion of investments towards China. Thus, the State and the domestic private sectors in the respective ASEAN countries (especially those depending on export-oriented FDI) had a common interest in promoting a regional free trade area and this became the driving force behind the AFTA project.[7]

However, the slow pace of economic integration within ASEAN[8] has seen accelerated moves towards bilateral free trade agreement (FTAs) projects involving ASEAN member countries since 1998. The first moves were made by Singapore, which launched FTA negotiations with New Zealand and Japan. This provoked other ASEAN members like Thailand and the Philippines to seek bilateral free trade agreements (BTAs) with non-ASEAN countries.

Since then Singapore has signed several FTAs, including those with Australia, US, European Free Trade Association (EFTA), Jordan, New Zealand and Japan. Thailand has signed or is pursuing agreements with the US, New Zealand, India, Australia, China, Japan, etc. While Malaysia and the US agreed to a framework for a bilateral agreement in May 2004, Malaysia and Japan are negotiating a Closer Economic Partnership, and Malaysia and Australia are contemplating a bilateral FTA. Unlike the other original ASEAN members, the Indonesian government has been rather slow in pursuing a BTA policy with non-ASEAN member countries. Nevertheless, due to the proliferation of BTAs in other ASEAN countries' foreign economic policies, it was inevitable that Indonesia would also pursue similar agreements with its non-ASEAN major trading partners.[9]

### 1.1 The Emergence of Bilateralism in Southeast Asia

The tendency of ASEAN member countries to forge BTAs can be considered a part of the broader trend towards the formation of bilateral FTAs in the Asia-Pacific region, whose proliferation has been attributed to the conbined trade institution failures of the Asia-Pacific Economic Cooperation (APEC) forum, the WTO and the ASEAN Free Trade Area to push ahead their respective trade liberalization agendas after the 1997-98 East Asian financial crisis. Apart from an increasing awareness of the weakness of existing regional institutions and initiatives, the new interest in bilateralism has also been explained by perceptions of positive demonstration effects from regional agreements elsewhere and changing configurations of domestic economic interests pursuant to globalisation.[10] The initiation of the negotiations for China's entry into the WTO was also one factor which drove ASEAN members, many of which feared competition with China in third country markets on MFN basis and very much liked to seek preferential access to their major markets.

Even as individual ASEAN member countries are pursuing various bilateral FTA initiatives, ASEAN itself is progressing with "bilateral" FTA proposals with other countries concurrently. Among the initiatives involving ASEAN are (a) the US 'Enterprise for ASEAN Initiative' announced by the US in October 2002, to create a network of bilateral FTAs linking ASEAN with the US; (b) ASEAN-China framework agreement on comprehensive economic cooperation signed on 4 November, 2002, which is expected to conclude an FTA by 2010 for older ASEAN states and 2015 for newer ASEAN states; (c) the ASEAN-Japan framework for comprehensive economic partnership (CEP) signed on 8 October 2003, expected to bring in an FTA by 2012; (d) ASEAN-India agreement signed on 8 October 2003 (to be concluded on 2011); (e) Trans-regional EU-ASEAN trade initiative in which ASEAN and EU trade ministers agreed on 4 April 2003 to enhance ASEAN-EU economic partnership.[11]

But while ASEAN has been looking at FTAs with Japan, India and the US to counterbalance the influence of China, it is also part of the proposed East Asian FTA along with Japan, China and South Korea.[12] There are also looser and less substantial ASEAN partnerships with Australia, New Zealand and South Korea. Thus, even as there has been a proliferation of bilateral agreements involving ASEAN members, bilateral, regional (ASEAN, ASEAN plus Three and APEC) and multilateral arrangements (WTO) which influence and interact with each other seem to form a pattern of multi-layered cooperation frameworks in the region currently.

This inevitably leads us to the question of whether the proliferation of bilateral FTAs will advance regional cooperation and integration in Southeast Asia or not. Given the trade-investment nexus prevailing in the region, the various bilateral FTAs coming into being in Southeast Asia can be seen as the outcome of various negotiating alliances between the State, the export-oriented (domestic and foreign) private sector as well as the FDI-dependent domestic private sector in the ASEAN member countries. As each of these bilateral FTAs hopes to protect the perceived "national" interests of member elites in their own countries, it is bound to lead to conflicts in the ASEAN regional integration project.

Some analysts have indeed contended that the recent developments in intra-ASEAN diplomacy have revealed the emergence of a Singapore-Thailand bilateral axis on matters of Southeast Asian economic regionalism and that based on both the deeper strategic intentions behind Singapore's and Thailand's foreign economic policies and wider international political economy considerations, region-divergent outcomes are more likely to arise within Southeast Asia from the economic bilateralism they are currently championing.[13] Thus, it has been emphasised that should ASEAN members proceed on FTAs with non-ASEAN countries without solidifying internal integration, it may lose bargaining power as a union of states.[14] This may turn out to be true especially in the case of US bilateralism in the region.

### 1.2 The Nature of US Bilateralism in the Region

Under the Enterprise for ASEAN Initiative (EAI) announced by the US, each member of ASEAN must already have concluded a Trade and Investment Framework Agreement (TIFA) with the US in order to launch an FTA negotiation. While the US has currently concluded a bilateral FTA only with Singapore, its BTA with Thailand is under negotiation and it is considering another one with Malaysia.

The EAI explicitly states that the bilateral FTA with each ASEAN country will be based on the model of the US-Singapore FTA. The US-Singapore FTA (signed in May 2003) is a comprehensive economic cooperation agreement, which in addition to trade liberalization and tariff elimination covers issues such as trade in services as well as competition policy, intellectual property rights, investment, environment and labour standards. US bilateralism in Southeast Asia is thus part of the "new regionalism", and mirrors the shift that has occurred in the focus of trade liberalisation globally.

As the focus of national policies across countries shifted to export-oriented economic growth from the 1980s, the underlying assumption has been that liberalisation is the single most important key to achieving growth. But, as manufactured goods trade liberalisation has advanced substantially and the influence of MNCs in the national and international policymaking spaces has increased greater than ever before, the focus of liberalisation has shifted from manufactured goods to include not only services and the agricultural sector, but also investment liberalisation and harmonisation of policies in government procurement, competition policy, bankruptcy laws, intellectual property protection, etc. Thus, multinational capital-driven globalisation has been occurring, both driving the efforts towards liberalization and policy harmonisation, and being driven by the same.[15]

As opposed to shallow integration, which involves reducing or removing tariffs in the case of only goods trade between member countries, the new regionalism since the late 1990s therefore epitomises "deep integration". Issues like labour standards and environment are also included and have the potential to be used for protectionist purposes.[16] Such deep integration, integration involving developing and developed countries and the lack of geographical proximity between the partner countries are three major characteristics of new regionalism.[17] The US bilateral FTAs with ASEAN members reflect all these characteristics of new regionalism. The emergence of these FTAs thus points to the resurgence of the neoliberal ideology in the post-crisis Southeast Asian region, as well as a deepening of the ideological hegemony of the US.

Until the emergence of these bilateral FTAs, the broadly defined APEC forum has been considered the most important example of institutional innovation ("open regionalism") by the US with the express intention of pushing trade liberalization amongst the traditionally protectionist East Asian economies. Even though APEC's minimal achievements and profile have been attributed to its consensual, technocratic approach and lack of organizational leverage, that is also emblematic of a more fundamental disjuncture between the East Asian and Anglo-American members of the more broadly conceived Asia-Pacific region, as argued by Beeson (2005). Many of the East Asian members of APEC have traditionally been far less enthusiastic about the pace and extent of trade liberalization than the Americans and Australians who are its principal champions. The financial crisis became a further critical turning point in the regional attitudes about wholesale liberalisation and deregulation. The unwillingness to simply "leave it to the market", or – more accurately – the agencies and actors that have historically encouraged more radical neoliberal reform, have in fact driven post-crisis regional initiatives such as ASEAN Plus Three.[18] With such growing divergences in ideological bend of minds, the US realized the need to deal with the countries of the region at a bilateral level, in yet another institutional innovation.

It is important to note that while the US is the foremost or the second most dominant sourcing and destination country for most of its bilateral FTA partners, the FTA countries hold no significant position for the US economy as trading partners (in existing goods trade).[19] It has been argued that as countries with small size (relative to the US), high external dependence and high dependence on the American market, US FTA partners would be made to carry out competitive liberalisation as they compete with each other for access to the world's largest market. Indeed, the US FTA initiatives in Southeast Asia are also expected to ultimately contribute to the attainment of the APEC Bogor goals for achieving free and open trade and investment in the Asia Pacific region.[20] Going further, Dhar and Kallummal (2004) have argued that by pursuing bilateral agreements with willing countries to form a "coalition", the US is attempting the numbers game to get the leverage over the negotiating process in the WTO, should some of its key members become intransigent. Indeed, the fact that the US FTA drive accentuated since the collapse of the Seattle Ministerial Conference in 1999 would lend credibility to this view.

From the point of view of the Southeast Asian economies too, access to the U.S. market - the largest in the world, has been the grand allure of FTAs with the United States. Singapore, Malaysia and Thailand are the top three exporters (and importers) within ASEAN and the US has already been the single largest market for these economies. However, even though exports from these countries are increasing, their market shares in the US are declining. This disappointing performance contrasts sharply with those of China and Mexico, whose export shares in the US market have been increasing rapidly. Against this backdrop, bilateral FTAs are put forth as providing the best opportunities to the Southeast Asian economies to improve their market access in the US vis-à-vis these competitors.[21]

Thailand's negotiations on a comprehensive bilateral FTA with the US started in June 2004, following the conclusion of its TIFA with the US. Once again, much hope has been generated in terms of Thailand's scope for improved market access in the US under the bilateral FTA. More crucially, greater and faster liberalisation by Thailand of its agricultural and service sectors (thereby providing increased market access for US companies in these sectors) have been projected as worthy trade-offs to be made by Thailand against the promise of this increased access for Thai manufactured goods in the US market. Against this backdrop, the following sections of this paper analyse and discuss various aspects of the issue of market access in the proposed Thai-US FTA, and attempt to understand the actual prospects for market access for Thai products in the US market.

## 2. Thai-US Bilateral FTA: The Perceived Logic in Market Access Benefits

### 2.1 The Signficance of Thai-US Bilateral Trade

Thailand has been the third largest exporter and importer within ASEAN after Singapore and Malaysia. Thailand's total trade volume has surpassed its GDP since 2000, and its exports and imports have come to account for about 60% each of GDP. This clearly reflects the very high trade dependence of the Thai economy. Over a period of four decades the country also achieved a dramatic transformation of its export structure, with the share of primary products (agriculture, forestry, fishery and mining), which had constituted close to 93 per cent of total exports in the sixties declining to just 7 per cent by 2005. Simultaneously, manufactured exports which constituted a miniscule 3 per cent of total exports in the 1960s have come to account for as much as 88 per cent of total Thai exports.

**Table 1: Distribution of Thai Exports by Country of Destination**

(Percentage share)

| Sl.no. | Country | 1957-59 | 1960-69 | 1970-80 | 1981-86 | 1987-91 | 1992-96 | 1997-98 | 2004 | 2005 |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | **US** | **20.9** | **10.5** | **11.2** | **15.9** | **20.8** | **20.2** | **20.9** | **19.3** | **15.4** |
| 2 | **Japan** | **9.1** | **19.0** | **23.0** | **13.9** | **16.6** | **17.0** | **14.4** | **14.5** | **13.7** |
| 3 | **Singapore** | **13.5** | **8.1** | **7.8** | **8.1** | **7.9** | **12.1** | **9.9** | **8.0** | **6.8** |
| 4 | Netherlands | 2.6 | 4.2 | 10.8 | 10.1 | 5.2 | 3.3 | 3.6 | 3.1 | 2.5 |
| 5 | Germany | 2.1 | 4.6 | 3.3 | 3.6 | 4.8 | 3.5 | 2.7 | 2.3 | 1.8 |
| 6 | Hong Kong | 8.5 | 8.2 | 6.1 | 4.4 | 4.4 | 5.2 | 5.5 | 5.2 | 5.6 |
| 7 | UK | 3.7 | 4.1 | 1.7 | 2.2 | 3.7 | 3.2 | 3.7 | 3.4 | 2.5 |
| 8 | **Malaysia** | **16.6** | **12.6** | **4.9** | **4.7** | **2.8** | **2.7** | **3.8** | **4.4** | **5.2** |
| 9 | France | 0.2 | 0.9 | 1.3 | 1.9 | 2.4 | 1.9 | 1.6 | 1.3 | 1.2 |
| 10 | **China** | **0.0** | **0.0** | **0.0** | **3.0** | **2.3** | **2.2** | **3.1** | **5.2** | **8.3** |
| 11 | Saudi Arabia | 2.5 | 1.6 | 1.4 | 2.5 | 1.9 | 1.1 | 0.7 | 0.6 | 0.9 |
| 12 | Italy | 0.2 | 1.5 | 1.4 | 1.6 | 1.8 | 1.2 | 1.2 | 1.2 | 1.1 |
| 13 | **Australia** | 0.2 | 0.3 | 0.9 | 1.5 | 1.8 | 1.5 | **1.7** | **2.4** | **2.9** |
| 14 | **Taiwan** | 0.2 | 1.7 | 3.3 | 1.4 | 1.6 | 2.2 | 3.0 | 3.1 | 2.4 |
| 15 | UAE | 0.0 | 0.0 | 0.0 | 1.1 | 1.6 | 1.3 | 1.0 | 1.0 | 1.1 |
| 16 | South Korea | 0.0 | 0.0 | 0.0 | 1.8 | 1.5 | 1.5 | 1.5 | 1.9 | 2.0 |
| 17 | Canada | 0.0 | 0.0 | 0.0 | 0.9 | 1.5 | 1.2 | 1.1 | 1.2 | 0.9 |
| 18 | Belgium | 0.4 | 0.7 | 1.1 | 1.0 | 1.3 | 1.4 | 1.5 | 1.7 | 1.2 |
| 19 | Switzerland | 0.0 | 0.0 | 0.0 | 1.1 | 1.1 | 0.9 | 1.0 | 0.9 | 0.6 |
| 20 | **Indonesia** | **4.4** | **4.5** | **3.4** | **1.4** | **0.7** | **1.1** | **2.0** | **2.4** | **3.6** |
| 21 | India | - | - | - | - | - | - | **0.5** | **0.8** | **1.4** |
| 22 | Philippines | 0.0 | 0.0 | 0.0 | 0.5 | 0.5 | 0.7 | 1.3 | 1.8 | 1.9 |
| 23 | **Vietnam** | **0.0** | **0.0** | **0.0** | **0.0** | **0.1** | **0.6** | **1.0** | **1.4** | **2.1** |
| 24 | Others | 15.0 | 17.1 | 17.9 | 13.9 | 12.5 | 12.9 | 6.2 | 6.0 | 5.2 |
| 25 | Total exports | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |

Taiwan refers to Taiwan, Province of China.

Source: Francis (2003) and Bank of Thailand Online Statistics.

The country-wise distribution of Thai exports reveals that absorbing slightly more than 20 per cent of Thai exports on average until 2004, the US has been the single largest market for Thailand's exports (Table 1). The US has also been the second largest supplier of Thailand's imports, contributing on average between 12-14 per cent of its imports until 2001(Table 2). The traditional rationale for regional integration between two or more countries is that it is based on substantial trading interests. But, while the US is the most prominent market and one of the top two source countries for Thailand, Thailand's exports to the US has accounted for just between 1 to 1.6 per cent of total US imports ever since the early 1990s (Table 3). Similarly, Thailand's imports from the US have rarely accounted for over one per cent of total US exports. The dominant US trading partners have been China, Canada, Mexico, Japan and a few European countries, since the mid-1990s. This highly unequal trading relation has been interpreted as implying that an FTA between Thailand and the US could be expected to have a larger positive impact for Thailand than for the US.[22]

**Table 2: Country-wise Origin of Thai Imports**

(Percentage share)

| Countries | 1960-69 | 1970-80 | 1981-86 | 1987-91 | 1992-96 | 1997-98 | 1999-2004 | 2005 |
|---|---|---|---|---|---|---|---|---|
| **Japan** | **32.4** | **32.1** | **25.8** | **29.2** | **29.7** | **24.7** | **23.7** | **22.0** |
| NAFTA | 16.3 | 14.3 | 14.6 | 13.3 | 12.9 | 14.9 | 11.3 | 8.0 |
| **USA** | **16.3** | **14.2** | **13.0** | **11.8** | **12.0** | **13.9** | **10.5** | **7.3** |
| **European Union** | **24.8** | **16.4** | **13.4** | **14.6** | **15.5** | **13.3** | **10.8** | **9.1** |
| Germany | 8.1 | 6.3 | 4.7 | 5.4 | 5.4 | 4.5 | 3.4 | 2.7 |
| UK | 8.6 | 4.8 | 2.6 | 2.7 | 2.2 | 1.9 | 1.4 | 1.1 |
| France | 2.1 | 1.6 | 1.8 | 1.8 | 2.0 | 1.7 | 1.5 | 1.6 |
| Netherlands | 3.4 | 1.3 | 1.1 | 0.9 | 0.9 | 1.0 | 0.8 | 2.5 |
| **I tier NICs #** | **7.4** | **6.7** | **13.1** | **16.9** | **16.3** | **10.0** | **9.5** | **8.4** |
| Singapore | 2.2 | 2.6 | 6.9 | 7.7 | 6.3 | 5.3 | 4.9 | 4.6 |
| Taiwan | 2.2 | 2.7 | 2.9 | 4.6 | 5.0 | 4.9 | 4.4 | 3.8 |
| Korea (South) | 0.0 | 0.2 | 2.1 | 3.1 | 3.9 | 3.5 | 3.7 | 3.3 |
| Hong Kong | 3.1 | 1.2 | 1.2 | 1.5 | 1.2 | 1.5 | 1.4 | 1.3 |
| **ASEAN*** | **4.1** | **1.6** | **5.6** | **4.4** | **5.9** | 7.9 | 9.5 | 11.1 |
| Malaysia | 1.1 | 1.1 | 4.7 | 3.0 | 4.4 | **5.0** | **5.5** | **6.9** |
| Indonesia | 2.9 | 0.4 | 0.5 | 0.8 | 0.9 | **1.7** | **2.3** | **2.7** |
| Philippines | 0.0 | 0.1 | 0.4 | 0.6 | 0.6 | 1.2 | 1.7 | 1.6 |
| **Other ASEAN**** | **0.0** | **0.2** | **2.2** | **1.5** | **1.1** | **0.8** | **2.1** | **2.7** |
| Vietnam | 0.0 | 0.0 | 0.0 | 0.2 | 0.1 | 0.4 | 0.5 | 0.8 |
| **Middle East** | **1.6** | **6.6** | **12.3** | **4.2** | **3.9** | **7.6** | **9.8** | **12.9** |
| **Eastern Europe** | 0.0 | 0.1 | 0.8 | 1.0 | 0.5 | 0.3 | 0.3 | 0.2 |
| **China** | **0.0** | **0.4** | **2.8** | **3.3** | **2.7** | **3.9** | **6.8** | **9.4** |
| Australia | 2.0 | 2.6 | 1.9 | 1.8 | 2.0 | 2.1 | 2.1 | 2.9 |
| Switzerland | 0.0 | 0.1 | 1.2 | 1.7 | 1.3 | 1.3 | 1.1 | 1.1 |
| USSR | 0.0 | 0.0 | 0.2 | 0.4 | 1.4 | 0.6 | 0.7 | 1.4 |
| Others | 11.2 | 18.9 | 6.3 | 7.6 | 6.5 | 14.0 | 16.5 | 18.3 |
| Total imports | 792 | 3,850 | 9,578 | 25,951 | 56,912 | 52,844 | 68,016 | 118,225 |

Note: * ASEAN in this table sums only Indonesia, Malaysia and the Philippines. Singapore is included along with I tier NICs. Other ASEAN sums Vietnam, Laos, Brunei, Cambodia and Myanmar.

Taiwan refers to Taiwan, Province of China.

Source: Francis (2003) and Bank of Thailand Online Statistics.

But, it is important to understand the nature of Thai-US bilateral trade and the underlying dynamics driving the dependence of Thailand's exports and imports on the US market. As discussed in the first section, Thai-US trade has been driven by the investment strategies of the US MNCs (and also of various other home countries), which have created production networks encompassing the entire East Asian region for sales in the region as well as in third country markets. On the Thai side this was driven by the fact that due to its concern for generating hyper export growth, the country had focussed on exports in network-based industries dominated by MNCs and therefore, followed liberal FDI policies without paying adequate attention to domestic linkage and technology capability development issues.[23]

**Table 3: Country-wise Origin of US Imports, 1990-2005**

(Percentage share)

| 2005 Rank | Country | 1990-91 | 1992-96 | 1997-98 | 1999-2004 | 2005 | 1990-91 Rank |
|---|---|---|---|---|---|---|---|
| 1 | Canada | 18.6 | 19.5 | 19.2 | 18.4 | 17.4 | 1 |
| 2 | **China** | **3.5** | **6.0** | **7.5** | **10.2** | **14.5** | **8** |
| 3 | **Mexico** | **6.2** | **8.3** | **10.1** | **11.1** | **10.2** | **3** |
| 4 | Japan | 18.4 | 16.2 | 13.6 | 10.8 | 8.2 | 2 |
| 5 | Germany | 5.5 | 5.0 | 5.2 | 5.2 | 5.1 | 4 |
| 6 | United Kingdom | 3.9 | 3.7 | 3.8 | 3.5 | 3.0 | 6 |
| 7 | Korea, South | 3.6 | 3.0 | 2.6 | 3.1 | 2.6 | 7 |
| 8 | Taiwan | 4.6 | 4.0 | 3.7 | 2.9 | 2.1 | 5 |
| 9 | Venezuela | 1.8 | 1.5 | 1.3 | 1.4 | 2.0 | 14 |
| 10 | France | 2.7 | 2.5 | 2.5 | 2.4 | 2.0 | 9 |
| 11 | **Malaysia** | **1.2** | **2.1** | **2.1** | **2.0** | **2.0** | **17** |
| 12 | Italy | 2.5 | 2.3 | 2.3 | 2.1 | 1.9 | 10 |
| 13 | Ireland | 0.4 | 0.5 | 0.8 | 1.6 | 1.7 | 28 |
| 14 | Saudi Arabia | 2.1 | 1.2 | 0.9 | 1.2 | 1.6 | 11 |
| 15 | Brazil | 1.5 | 1.2 | 1.1 | 1.3 | 1.5 | 15 |
| 16 | Nigeria | 1.2 | 0.8 | 0.6 | 0.8 | 1.4 | 18 |
| 17 | **Thailand** | **1.2** | **1.5** | **1.5** | **1.3** | **1.2** | **16** |
| 18 | **India** | **0.6** | **0.8** | **0.9** | **1.0** | **1.1** | **27** |
| 19 | Israel | 0.7 | 0.8 | 0.9 | 1.0 | 1.0 | 25 |
| 20 | **Singapore** | **2.0** | **2.4** | **2.2** | **1.4** | **0.9** | **12** |
| 21 | Netherlands | 1.0 | 0.9 | 0.8 | 0.8 | 0.9 | 20 |
| 22 | Sweden | 1.0 | 0.9 | 0.8 | 0.8 | 0.8 | 21 |
| 23 | Belgium | 0.8 | 0.9 | 0.9 | 0.9 | 0.8 | 23 |
| 24 | Switzerland | 1.1 | 1.0 | 1.0 | 0.8 | 0.8 | 19 |
| 25 | **Indonesia** | **0.7** | **1.0** | **1.0** | **0.8** | **0.7** | **26** |
| 26 | **Philippines** | **0.7** | **0.9** | **1.3** | **1.0** | **0.6** | **24** |
| 27 | Hong Kong | 1.9 | 1.4 | 1.2 | 0.8 | 0.5 | 13 |
| 28 | Australia | 0.9 | 0.5 | 0.6 | 0.5 | 0.4 | 22 |
| | Total Imports (Mill.$) | 491,691 | 710,545 | 892,049 | 1,211,807 | 1,673,455 | |

Taiwan refers to Taiwan, Province of China.

Source: World Trade Atlas, Online.

Before the sixties, when primary exports such as rice, rubber, tin, teak, etc. were the most prominent revenue earners, the US was the biggest export market for Thailand. In the 1960s and 1970s, however, as the FDI-trade link became prominent, Japan had overtaken the US as the most prominent export market driven by the home-oriented production operations of a large number of export-oriented Japanese firms especially in the textile and food processing industries (and also electrical appliances), which had relocated their production units to Thailand from the early 1960s onwards due to rising wages at home.

But, by the late seventies, US semiconductor manufacturers had made Thailand one of their major bases for exporting assembled semiconductors back to their country. In fact, the US was the single largest foreign direct investor in Thailand in the seventies and until the mid-1980s. These export-oriented investments led Thai exports to the US to overtake those to Japan in 1984, and the US has remained the number one market ever since. Meanwhile, although textile exports had started declining in importance in the beginning of the eighties, the US became the largest market for Thai garments exports which had begun growing very fast driven by export-oriented investments in the garment industry by the I-tier NICs (Hong Kong, Singapore, South Korea and Taiwan Province of China). The growth in exports to the US was further bolstered by increased exports of hard disk drives and other computer parts to their home country by American computer-related firms, which had begun making large investments in Thailand from 1983-84 onwards. This dynamics of the production networks created by the US MNCs in Thailand are similar to the export-oriented production networks established by Japan and the I-tier NICs. Thus, the top most export industries such as electrical machinery, transport equipment, etc. have all been the same sectors in which FDI inflows have concentrated in.[24]

Thus, during Thailand's export boom period (1987-91), the export share of the US increased further and it has been absorbing slightly more than 20 per cent of Thai exports on average until 2004. The US share of Thailand's exports reached its peak (22 per cent) in 1998. However, subsequently, it has shown a continuous decline and at 15 per cent in 2005, the relative importance of the US market has slid back to the pre-export boom average for 1981-86 (Table 1).[25] The countries that have gained in share in Thai exports during 1999-2005 have been China, Malaysia, Indonesia, Australia, Vietnam and India.

Given our focus on Thailand's prospects for increased US market access through the bilateral FTA, we would attempt to answer some of the following questions in this paper. While Thailand is looking at the bilateral FTA with the US to overcome the tariff discrimination faced by their exports in the US

market vis-à-vis Mexico, China, and Singapore, how much margin of preference will Thailand actually gain in its important export sectors? Will any such preferential tariff reduction enable it to improve its actual market access in products where it has superior competitiveness? How will non-tariff barriers such as Sanitary and Phyto-Sanitary Measures (SPS) and Technical Barriers to Trade (TBTs) affect market access for Thailand? In the final analysis, will the inter-sectoral trade-offs which Thailand hopes to make by liberalising services and agriculture sectors to gain reciprocal liberalised access to the US manufacturing sector, pay off?

Even as a study by the Thailand Development Research Institute points out that the increase in exports in many sectors will not be automatic, their CGE model estimates that the FTA would generate a real GDP growth of 1.34 percent once the agreement is implemented (TDRI, 2003). However, the CGE models are usually based on highly limiting assumptions that are far from the reality prevailing in developing countries, in particular.[26] Therefore, rather than following this method, we undertake a sectoral analysis of the bilateral trade between Thailand and the US in the following section towards answering the above questions. The methodology followed would be to: identify the most important current and fast growing Thai exports to the US ; understand their major competitors through US import market share analyses for each of these products; examine the potential for preferential US tariff rates for these Thai products under the proposed FTA vis-à-vis those prevailing under NAFTA, US-China (MFN) and US-Chile FTA. The issue of Rules of Origin will be looked at. We would also look at the prevalence and extent of TBTs and SPS measures in these sectors of export importance for Thailand, which could limit their market access despite the proposed FTA.

### 2.2 The Sectoral Structure of Thai-US Bilateral Trade

In this section, we analyse the composition of bilateral trade between Thailand and the US since 1990. Our attempt is to understand the changes, if any, in the sectoral composition of bilateral trade and whether any specific pattern can be established in these changes related to the introduction of NAFTA in 1994 and to China's entry into the WTO in 2001.

As already discussed, electrical machinery products & parts (HS code Chapter 85) as well as hard disk drives and computer parts (belonging to Chapter 84, non-electrical machinery) have remained the topmost

Thai exports to the US since the late 1980s. Their respective shares were 21% and 11% during 1990-91. Two other important exports were precious stones, metals etc. and prepared meat, fish, etc. Footwear and fish & seafood with about 5% share each, and knit and woven apparel with 4% each have been the other important exports.

**Table 4: Growth Rates and Shares of Selected US Imports from Thailand, 1990-2005 ***

(Ranked based on 1999-2005 average growth rates)

| S. No. | HS | Description | WTO Def. | Growth rate | | Share | |
|---|---|---|---|---|---|---|---|
| | | | | 1990-98 | 1999-2005 | 1990-91 | 2005 |
| 1 | 40 | **Rubber** | Non-Ag. | 10.9 | 28.2 | 2.7 | **4.8** |
| 2 | 39 | Plastic | Non-Ag. | 32.1 | 23.7 | 1.0 | 2.7 |
| 3 | 20 | Preserved Food | Ag. | 10.1 | 14.8 | 3.0 | 1.3 |
| 4 | 16 | Prepared Meat, Fish, etc. | Ag. | 1.4 | 12.8 | **7.2** | 4.2 |
| 5 | 73 | Iron/steel Products | Non-Ag. | 13.9 | 10.5 | 0.7 | 1.3 |
| 6 | 85 | **Electrical Machinery** | Non-Ag. | **13.5** | **9.4** | **21.2** | **28.6** |
| 7 | 94 | Furniture and Bedding | Non-Ag. | 2.1 | 8.7 | 3.3 | 2.4 |
| 8 | 63 | Misc. Textile Articles | Non-Ag. | 9.5 | 8.7 | 0.6 | 0.8 |
| 9 | 71 | **Precious Stones, Metals** | Non-Ag. | 3.5 | 8.6 | **8.0** | **5.9** |
| 10 | 03 | Fish and Seafood | Non-Ag. | 11.3 | 5.2 | **5.2** | 3.5 |
| 11 | 62 | Woven Apparel | Non-Ag. | 15.4 | 3.6 | 4.0 | 4.4 |
| 12 | 61 | **Knit Apparel** | Non-Ag. | 17.2 | 2.6 | 4.3 | **4.8** |
| 13 | 90 | Optic, not incl. 8544; Med. Instr. | Non-Ag. | 28.7 | 2.6 | 0.8 | 1.8 |
| 14 | 84 | **Machinery** | Non-Ag. | **22.7** | **2.4** | **11.1** | **16.8** |
| 15 | 95 | Toys and Sports Equip. | Non-Ag. | 1.7 | 0.9 | 3.3 | 1.1 |
| 16 | 42 | Leather art.;Saddlry;Bags | Non-Ag. | -11.7 | 0.4 | 2.1 | 0.6 |
| 17 | 44 | Wood | Non-Ag. | 4.6 | 0.0 | 1.2 | 0.8 |
| 18 | 64 | **Footwear** | Non-Ag. | 2.0 | -1.3 | **5.3** | 1.5 |
| 19 | T | **Total US Imports from Thailand** | | **12.3** | **5.6** | **100** | **100** |

Note: * The list contains only those products which have a one per cent or more share in US imports from Thailand in either of the periods.

Source: World Trade Atlas.

By 2005, the sectoral concentration of Thai exports to the US has increased further with electrical machinery coming to account for a little less than one-third (29%) and non-electrical machinery accounting for about 17 per cent of total Thai exports. While precious stones and metals remain the third largest export item to the US, its share has declined significantly. On the other hand, knit and woven apparel both have increased

their shares, as has the share of rubber. In fact, rubber has been the fastest growing Thai export sector to the US during 1999-2005 and it has become the fourth largest Thai export. The other sector which grew faster than the others and became part of the top ten products is plastics. However, its share still remains below 5 per cent of the total. Iron & steel products and Optical & medical instruments have been two other fast growing sectors, but their shares are well below 5 per cent of the total. On the other hand, the shares of prepared meat, fish, etc. and preserved food have dropped, despite having high growth rates.[27] The share of fish & seafood has also dropped below 5 per cent.

At the same time, the sectoral concentration has increased with the cumulative share accounted for by top ten products having increased from 73 per cent to 78 per cent. Apart from electrical and non-electrical machineries, sectors with at least a 5 per cent share in 2005 are only precious stones & metals (Chapter 71), rubber (Chap. 40) and knit apparel (Chap. 61). These are followed by woven apparel (Chap. 62 with 4.4%), prepared meat, fish, etc. (Chap. 16 with 4.2%) and fish and seafood (Chap. 03 with 3.5%).

**Table 5: Growth Rates and Shares of Selected US Exports to Thailand, 1990-2005 ***

(Ranked based on 1999-2005 average growth rates)

| S.No. | HS | Description | WTO Def. | 1990-98 | 1999-2005 | | 1990-91 Share | 2005 Share |
|---|---|---|---|---|---|---|---|---|
| 1 | 70 | Glass and Glassware | Non Ag. | 8.6 | 115.1 | | 0.2 | 0.2 |
| 2 | 72 | Iron and Steel | Non Ag. | 33.1 | 73.5 | | 0.9 | 1.2 |
| 3 | 87 | Vehicles, not Railway | Non Ag. | 3.9 | 29.4 | | 2.3 | 1.2 |
| 4 | **71** | **Precious Stones,Metals** | Non Ag. | -4.7 | 28.4 | | 4.2 | **4.8** |
| 5 | 52 | Cotton+Yarn,Fabric | Non Ag. | 7.6 | 27.8 | | 3.6 | 2.6 |
| 6 | **88** | **Aircraft,Spacecraft** | Non Ag. | 24.5 | 22.7 | | **19.1** | **4.6** |
| 7 | 27 | Mineral Fuel, Oil Etc | Non Ag. | 20.0 | 20.6 | | 0.9 | 1.7 |
| 8 | **90** | **Optical Med Instru.'s (not 8544)** | Non Ag. | 15.8 | 16.3 | | 2.4 | **5.8** |
| 9 | 29 | Organic Chemicals | Non Ag. | 4.9 | 13.2 | | 2.7 | 2.8 |
| 10 | 39 | Plastic | Non Ag. | 5.4 | 13.1 | | 2.6 | 3.6 |
| 11 | 47 | Wood pulp, Etc. | Non Ag. | 12.8 | 12.7 | | 0.8 | 1.1 |
| 12 | 10 | Cereals | Ag. | 13.5 | 11.1 | | 0.9 | 1.0 |
| 13 | **84** | **Machinery** | Non Ag. | 9.4 | 8.3 | | **17.2** | **20.1** |
| 14 | **85** | **Electrical Machinery** | Non Ag. | 12.9 | 7.9 | | **23.3** | **29.2** |
| 15 | 38 | Misc. Chemical Products | Non Ag. | 10.1 | 6.0 | | 1.3 | 1.2 |
| 16 | 12 | Misc Grain, Seed, Fruit | Ag. | 367.0 | 5.5 | | 0.0 | 1.2 |
| 17 | 41 | Hides and Skins | Non Ag. | 8.7 | 5.4 | | 0.9 | 0.9 |
| 18 | 98 | Special other | Non Ag. | 10.0 | 3.9 | | 2.2 | 2.3 |
| 19 | 23 | Food Waste; Animal Feed | Ag. | 34.4 | 2.2 | | 0.4 | 1.1 |
| 20 | 31 | Fertilizers | Non Ag. | 41.3 | -9.9 | | 0.4 | 0.5 |
| 21 | | **Total Exports to Thailand** | | **9.1** | **6.1** | | **100.0** | **100.0** |

Note: * The list contains only those products which have a one per cent or more share in US imports from Thailand in either of the periods.

Source: World Trade Atlas.

Meanwhile, Thailand's imports from the US which grew at a lower rate (9%) in comparison to its exports to that country (which was at 12%) during 1990-98, have grown at a slightly faster rate (6%) in the post-crisis period (1999-2005). In the case of Thai imports from the US, only three sectors had a more than five per cent share during 1990-91, namely, electrical machinery, aircrafts & spacecrafts and non-electrical machinery. The combined share of electrical and non-electrical machineries alone stood at 41 per cent already and reflects the very high level of intra-industry trade occurring within these industries. Their combined share has increased further to almost half of total Thai imports from the US since the late 1990s. The share of aircrafts, etc. has declined drastically over the same period. The other significant sectors during 1990-91 were precious stones & metals, cotton yarn & fabric, organic chemicals, plastic, optical & medical instruments, transport equipment, tobacco, etc., with shares between 2 to 4 per cent of the total. Thus, there was significant intra-industry trade in precious stones & metals too.

By 2005, with a 6 per cent share, optical & medical instruments came up to the third position in Thai imports from the US, followed by precious stones & metals and transport equipment with about 5 per cent share each.

It is important to note that imports in a number of other industries like iron & steel, mineral fuels & oil, wood pulp, etc. have grown very fast during 1999-2005 along with organic chemicals and plastic. The equally significant trend is the fast growing agricultural imports from the US in the case of products such as cereals, miscellaneous grains, seeds & fruits, food waste & animal feed, etc., which have grown to reach more than one per cent share each in total Thai imports. The increased dispersion within the top ten category (between the third and the tenth rankers) means that even as the combined share of electrical and non-electrical machineries has increased, the cumulative share of the top ten industries in total imports has declined from 80 per cent in 1990-91 to 77 per cent in 2005. This reflects the rapidly growing imports in a range of other sectors as we just saw.

Indeed, while Thailand has continuously had a trade surplus with the US, the sectoral trade balances tell a different story. During 1990-91, Thailand had trade deficits with the US in organic chemicals, cotton yarn & fabric, miscellaneous chemical products, optical & medical instruments, inorganic chemicals, iron & steel, etc. The biggest trade deficit has continued to be in aircrafts & spacecrafts. But by 2005, trade deficits in all the fast growing import sectors such as organic chemicals, miscellaneous grains, seeds &

fruits, mineral oils & fuels, wood pulp, optical & medical instruments, etc. had increased heavily along with cotton yarn & fabric, fertilisers & pharmaceuticals, as well as agricultural products. This clearly points to an emerging trend of Thailand's intensifying import dependence on the US.

## 2.3 The Market Access Scenario in the Electrical and Non-Electrical Machinery Sectors

With their combined share touching nearly half of total Thai exports to the US as well as its imports from the US, electrical and non-electrical machinery clearly dominates Thai-US trade. Therefore, we would first try to understand the prospects for improved market access in these sectors. These industries are important for Thailand, contributing more than 10 per cent of manufacturing sector value added, almost half of manufactured exports and being the third largest provider of industrial employment after textiles & garments and food products industries. It is important to keep in mind that they are also the ones with rapid technological changes requiring fast catching-up cycles and therefore rapidly moving demand cycles.

**Table 6: US Import Market Share Analysis in Chapter 85- Electrical Machinery, 1990-2005**

(Per cent shares in total US imports in Chapter 85)

| 2005 Rank | Country | 1990-91 | 1992-95 | 1996 | 1997-98 | 1999-2004 | 2005 | 1990-91 Rank |
|---|---|---|---|---|---|---|---|---|
| 1 | **China** | 3.8 | 6.1 | 7.8 | 9.3 | 14.9 | **25.6** | 8 |
| 2 | **Mexico** | 13.4 | 14.5 | 16.3 | 19.1 | 20.5 | **19.2** | 2 |
| 3 | Japan | 32.6 | 28.6 | 22.1 | 19.2 | 14.5 | 10.9 | 1 |
| 4 | **Malaysia** | 5.4 | 8.1 | 8.5 | 7.2 | 6.6 | **7.1** | 6 |
| 5 | Korea, South | 7.6 | 7.7 | 7.7 | 6.8 | 8.1 | 6.6 | 4 |
| 6 | Taiwan | 6.2 | 5.8 | 6.1 | 6.2 | 6.0 | 5.7 | 5 |
| 7 | Canada | 8.0 | 6.5 | 7.3 | 7.6 | 6.8 | 5.2 | 3 |
| 8 | **Thailand** | **2.0** | **2.3** | **2.3** | **2.5** | **2.2** | **2.7** | **12** |
| 9 | Germany | 3.5 | 2.9 | 2.9 | 2.8 | 2.9 | 2.6 | 9 |
| 10 | **Philippines** | 1.7 | 2.3 | 3.2 | 4.0 | 3.0 | **1.8** | 13 |
| 11 | **Singapore** | **4.7** | **4.0** | **3.6** | **2.6** | **1.9** | **1.4** | 7 |
| 12 | United Kingdom | 2.1 | 2.1 | 2.0 | 2.1 | 1.7 | 1.3 | 11 |
| 13 | France | 1.1 | 1.2 | 1.5 | 1.4 | 1.3 | 1.0 | 14 |
| 14 | Indonesia | 0.1 | 0.7 | 1.1 | 1.2 | 1.0 | 0.9 | 27 |
| 15 | Sweden | 0.7 | 0.5 | 0.7 | 0.5 | 0.8 | 0.9 | 15 |
| 16 | Hong Kong | 2.3 | 1.8 | 1.8 | 1.7 | 1.0 | 0.7 | 10 |
| 17 | Israel | 0.7 | 0.7 | 0.7 | 0.8 | 1.0 | 0.7 | 16 |

Taiwan refers to Taiwan, Province of China.

Source: World Trade Atlas Online.

Despite the predominance of electrical machinery industry in Thai exports to the US, Thailand had only a two per cent share in total US imports in this sector during 1990-91 (Table 6). It was ranked twelfth among US suppliers in this sector. Further, it is seen that these Thai exports were concentrated in integrated circuits to a considerable degree, followed by some low and medium technology products like video, telephones, TVs, insulated cable, wire, etc., home heating appliances, etc. While the share of ICs shows a decline in 2005, those of telephone and TV are on an increasing trend. Although computer power supplies & parts; TV, radio & radar parts, light emitting diodes (LEDs), recorders & cassette players, printed circuit boards, etc. have all increased their shares by 2005, their shares accounted for only below 5 per cent in total US imports in this industry.

**Table 7: US Import Market Share Analysis in Chapter 84- Machinery, 1990-2005**

(Per cent shares in total US imports in Chapter 84)

| 2005 Rank | Country | 1990-91 | 1992-95 | 1996 | 1997-98 | 1999-2004 | 2005 | 1990-91 Rank |
|---|---|---|---|---|---|---|---|---|
| 1 | China | 0.8 | 2.1 | 3.4 | 4.6 | 12.3 | 23.7 | 16 |
| 2 | Japan | 30.4 | 29.2 | 24.3 | 21.4 | 16.7 | 13.9 | 1 |
| 3 | Mexico | 3.7 | 4.6 | 6.0 | 7.2 | 10.1 | 9.6 | 8 |
| 4 | Canada | 11.1 | 10.5 | 10.8 | 10.4 | 10.0 | 8.7 | 2 |
| 5 | Germany | 10.7 | 8.7 | 8.0 | 7.8 | 7.5 | 8.0 | 3 |
| 6 | Malaysia | 0.6 | 2.2 | 3.0 | 3.6 | 5.2 | 5.8 | 19 |
| 7 | Taiwan | 7.1 | 7.7 | 7.8 | 8.0 | 6.4 | 3.5 | 5 |
| 8 | United Kingdom | 6.3 | 5.5 | 5.2 | 6.0 | 4.6 | 3.4 | 6 |
| 9 | Singapore | 7.2 | 8.6 | 10.4 | 8.8 | 5.2 | 3.1 | 4 |
| 10 | Korea, South | 2.7 | 3.1 | 3.8 | 3.3 | 4.0 | 3.0 | 10 |
| 11 | Italy | 2.9 | 2.7 | 2.7 | 2.7 | 2.6 | 2.8 | 9 |
| 12 | France | 4.7 | 3.8 | 2.7 | 3.1 | 2.8 | 2.6 | 7 |
| 13 | **Thailand** | **0.9** | **1.6** | **1.8** | **1.9** | **1.6** | **1.5** | **15** |
| 14 | Sweden | 1.5 | 1.2 | 1.2 | 1.1 | 1.0 | 1.2 | 12 |
| 15 | Brazil | 1.4 | 1.0 | 0.9 | 0.9 | 0.8 | 1.1 | 13 |
| 16 | Switzerland | 1.5 | 1.4 | 1.3 | 1.1 | 1.0 | 0.9 | 11 |
| 17 | Ireland | 0.6 | 0.6 | 0.7 | 1.2 | 1.0 | 0.7 | 20 |
| 18 | Netherlands | 0.7 | 0.6 | 0.6 | 0.6 | 0.6 | 0.7 | 17 |
| 19 | Philippines | 0.1 | 0.2 | 0.7 | 1.4 | 1.3 | 0.6 | 28 |

Taiwan refers to Taiwan, Province of China.

Source: World Trade Atlas Online.

Over this period, Thailand has managed to increase its share in total US electrical machinery imports only marginally from 2 per cent to 2.7 per cent, though its rank has improved from 12th to the 8th position. However, much higher growth rates have been registered by China, followed by Mexico, Malaysia and the Philippines. China and Mexico are the top two suppliers to the US currently in this industry. Remarkably,

all developed countries, including Japan, which was the single largest supplier in this industry to the US, have lost their market shares. South Korea and Taiwan Province of China have maintained their shares around 7 per cent and 6 per cent respectively. However, both these countries have lost one position in ranking, with Malaysia (7%) overtaking them and becoming the fourth largest supplier following Japan. Importantly, the present gap between the shares of Thailand and those of other countries is significant. It is also important to note that Singapore's share has declined from about 5 per cent during 1990-91 to just one per cent in 2005, with rapid decline since the late 1990s. This would imply that the FTA with the US has not helped Singapore compete with other exporters in this sector.

In the case of US imports in non-electrical machinery from Thailand, computers (8471) have been the single most important product category and its share has gone up from 70 per cent during 1990-91 to 73 per cent by 2005. Computer peripherals, storage & parts (8473) have been the second significant import, with its share hovering around 10 per cent. Compressor parts (8414) were the third largest category with an eight per cent share, but this has declined to 3 per cent in 2005. The share of electronic calculators (8470), which was significant at 6 per cent during 1990-91 has declined sharply and has become almost nil by 2005.

In terms of share in total US machinery imports, Thailand's share showed an initial rise from less than one per cent in 1990 to a peak of 2 per cent in 1998, after which it has declined to 1.5 per cent again (Table 7). China has gained at the expense of everyone else, while Mexico has also increased its share. The Malaysian share has also increased manifold. China's share increased dramatically from 2002 onwards, reflecting the advantage it gained by obtaining MFN status after entry into the WTO. Once again, as in electrical machinery, Singapore's share is seen to have dropped significantly. Further, the gap between the shares of Thailand and those of other countries is huge.

## 3. The Actual Scenario of Potential Market Access Benefits

### 3.1 Potential Margin of Preference in Tariffs across Major Sectors

Under the bilateral trade agreement, market access benefits are expected to arise to Thailand fundamentally through preferential access given by the US for Thai exports. The FTA would enhance the trade flows

between Thailand and the US if there is a resulting high margin of preference in the tariff rates under the FTA. If there is no scope for a significant tariff reduction under this bilateral agreement as compared to MFN rates currently applicable to Thailand (and China), the FTA will not result in any improvement in export volumes.

Given that the Thai-US FTA is expected to follow the Singapore-US FTA model in principle, we try to assess the extent of tariff reduction that Thailand might be able to gain, based on the Singapore FTA. However, we would also look at the US-Mexico and the US-Chile preferential rates[28] in order to assess the potential improvement in Thailand's competitiveness vis-à-vis Mexico and Chile, apart from Singapore and China. The analysis considers all sectors with at least a 5 per cent share in 2005 or which are among those growing at more than double the total growth rate in imports from Thailand during 1999-2005.

Table 8 below on comparative tariff rates of the US across various FTAs reveals that in both electrical (HS 85) and non-electrical machinery (HS 84) industries, while Mexico has been enjoying zero tariffs, the US-Singapore FTA does offer a slight margin of preference over the 2005 MFN rate. However, even though these two industries dominate US imports from Thailand, with Thailand's current US market share in these industries being very low at 2.7 per cent and 1.5 per cent respectively, and given that the gaps between these shares and those of Thailand's competitors in the US market for these industries are huge as emphasised earlier (Table 6 and Table 7 above), this relatively low margin of preference which *may* be obtained from the US under the proposed FTA might still give scope for only a marginal improvement in the Thai market share in these sectors. However, with the Thai electrical and computer industries almost totally foreign-owned (with a high domination of US firms),[29] whatever gain might arise also will benefit the US firms far greater than Thailand.

The third largest Thai export to the US currently is precious stones & metals (HS 71). The Singapore FTA offers a margin of just one per cent over the MFN rate. In a sector where Thailand's market share in the US shows a marginal decline, and China, Peru and Mexico have gained along with the top two market players Israel and India, a preferential tariff margin of one per cent may not provide much of an improvement in Thailand's share.

Rubber (HS 40) and knit apparel (HS 61) are the next largest US imports from Thailand. In the case of rubber (HS 40), Thailand has doubled its share since 1990-91 and occupied the fifth rank in US market share in 2005. While Japan used to be the largest supplier during 1990-91, Canada has become the number one player in the US rubber import market since NAFTA. However, China is the biggest gainer once again, having jumped in rank from 24 to become the third largest supplier. Mexico has also more than doubled its share and will remain a close competitor for Thailand, both having a 6 per cent share in the US market currently. Meanwhile, although Indonesia and Malaysia have lost their market shares, they will also remain close competitors for Thailand. Given that Malaysia and Indonesia are also considering FTAs with the US, it is likely that they would also demand whatever tariff preference Thailand might get under its bilateral agreement. Thus, Thailand's potential gain in the rubber sector may turn out to be very short-term.

**Table 8: Comparative *Advalorem* Tariffs of the US across Various FTAs: 2005**

| HS Code | Description | MFN | US-Mexico FTA | US-Canada FTA | US- Chile FTA | US-Singapore FTA |
|---|---|---|---|---|---|---|
| 3 | Fish And Seafood | 0.9 | 0.0 | 0.0 | 0.0 | 1.7 |
| 16 | Prepared Meat, Fish, Etc | 4.2 | 0.2 | 0.0 | 1.1 | 3.0 |
| 20 | Preserved Food | 11.1 | 0.0 | 0.0 | 4.2 | 3.3 |
| 39 | Plastic | 4.6 | 0.0 | 0.0 | 0.0 | 1.7 |
| 40 | Rubber | 2.3 | 0.0 | 0.0 | 0.1 | 0.5 |
| 44 | Wood | 2.0 | 0.0 | 0.0 | 0.0 | 2.0 |
| 61 | Knit Apparel | 11.6 | 0.0 | 0.0 | 0.0 | 0.0 |
| 62 | Woven Apparel | 10.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| 63 | Misc. Textile Articles | 6.7 | 0.0 | 0.0 | 0.0 | 0.0 |
| 64 | Footwear | 14.1 | 1.1 | 0.0 | 4.0 | 12.3 |
| 71 | Precious Stones, Metals | 3.0 | 0.0 | 0.0 | 0.0 | 2.0 |
| 73 | Iron/Steel Products | 1.2 | 0.0 | 0.0 | 0.4 | 1.6 |
| 84 | Machinery | 1.3 | 0.0 | 0.0 | 0.0 | 0.3 |
| 85 | Electrical Machinery | 2.0 | 0.0 | 0.0 | 0.0 | 0.5 |
| 90 | Optic, Med Instr. (not incl. 8544) | 1.6 | 0.0 | 0.0 | 0.0 | 0.5 |
| 94 | Furniture and Bedding | 2.3 | 0.1 | 0.0 | 0.0 | 1.7 |
| 95 | Toys and Sports Eqp. | 1.7 | 0.0 | 0.0 | 0.0 | 1.2 |
| ***I*** | ***Avg. of Selected HS Items*** | ***4.9*** | ***0.1*** | ***0.0*** | ***0.7*** | ***1.9*** |
| **II** | **Avg. of All Product** | **4.3** | **0.0** | **0.0** | **0.4** | **1.3** |

Note: The table pertains to those HS Chapters which have more than one per cent share in Thailand's exports to the US.

Source: WITS Online

In knit apparel (as well as in woven apparel), on the other hand, the US offers a zero per cent tariff to Singapore imports, while the MFN rate is as high as 11 per cent and 10 per cent respectively. In this sector, countries such as Honduras, El Salvador, Guatemala and Vietnam have gained in share and have higher shares than Thailand, which is ranked eighth with a 3 per cent share in 2005. Hong Kong's share has almost halved, but it still remains a significant player. Additionally, there were at least 14 players having shares between 2 and 3 per cent in 2005, which reflects the nature of competition in this sector. Further, facing the much higher MFN tariff, China has still been among the top five suppliers. With a share of 20 per cent in 2005 it has become the single largest supplier in knit apparel, overtaking that of Mexico which faces a zero per cent tariff. So, clearly, even if Thailand gets a zero per cent tariff in knit apparel through the FTA, it is unlikely to experience any gain given the severe competition prevailing in the industry.

Further, a pertinent question is whether in sectors of significance to Thailand like apparel, rubber, etc the US would indeed offer low preferential tariff rates to Thailand, similar to those it offered to Singapore. In fact, Singapore which got such preferential rates in rubber did not have significant rubber exports to the US. Singapore's market share in this sector is very revealing indeed of the US "preferential" strategies: Singapore was ranked 18th among US rubber import suppliers during 1990-91. After the FTA, its rank has further slipped to 34. Meanwhile, in apparel in which Singapore was ranked 5th during 1990-91, its rank also has slipped to 34th in 2005. This is clear evidence that its FTA with the US with zero tariff rates in these sectors has not helped Singapore gain any market share in these markets.

Among the fastest growing Thai exports to the US like prepared meat & fish (HS 16) in which Thailand is the leading supplier to the US accounting for one-fourth of the market share, the MFN tariff rate is 4.2 per cent and the US-Singapore FTA rate is 3 per cent, giving rise to a potential margin of preference of about 1.2 percentage points if the US were to give the Singapore FTA rate to Thailand. However, it is crucial to note that Chile (under its bilateral FTA), Canada and Mexico (under NAFTA) already enjoy a clear tariff advantage in this sector with 1.1 and zero per cent tariffs and Canada has been the second largest supplier in this industry. However, it is China that has increased its market share tremendously, jumping from the 30th rank in 1990-91 to the third rank in 2005. In fact, if one looks at the market shares for 1990-2005, it is seen that Thailand's share has shown a declining tendency after China's MFN presence since 2001. Simultaneously, Indonesia, Brazil, Vietnam, Ecuador, Philippines etc. are also increasing their market shares rapidly. Therefore, without a significant margin of preference, the extent to which Thailand's prepared meat

& fish industry will be able to gain competitive advantage of a potential tariff reduction and maintain its leadership position may depend on other competitiveness factors, including comparative labour costs and the ability to meet US technical standards. These will be taken up for discussion later on.

In another fast growing Thai export to the US namely preserved food (HS 20), given that the MFN rate is at 11 per cent, there does exist a significant margin for tariff reduction for Thailand if we go by the Singapore FTA rate (3.3%). In this sector, while Canada has gained in share and has become the largest supplier to the US under NAFTA and Mexico has also gained, China while facing the high MFN rate has gained in share equally and ranks second in market share. Thailand has lost in position by one rank in the meantime. However, compared to the existing market share position, if a substantial tariff reduction is undertaken under the proposed FTA, it might give some advantage to Thailand. But, with a margin of only 1.2 per cent when compared with Chile's FTA, there is competition to be faced, as well as a high presence of NTBs to be dealt with in the sector as we will see later on.

Another sector in which Thailand could experience moderate gains via tariff reduction is plastic (HS 39), given that the MFN rate is 4.6 per cent and the Singapore FTA rate is 1.7 per cent. Thailand has gained in market share in the US, climbing from the 19th to the 10th rank between 1990 and 2005. However, its share is still below 2 per cent, while Canada and China dominated with 33 per cent and 21 per cent respectively in 2005. While their shares are on a declining trend, a number of European countries, as well as South Korea and Taiwan Province of China remain strong players in this sector, far ahead of Thailand. So, it is not unambiguously clear whether a potential tariff reduction alone will enable Thailand to compete with all these countries in this market.

Another fast growing sector among Thai exports is iron and steel (HS 73). However, in this sector ironically, the Singapore FTA presents a slightly higher tariff rate (1.6%) than the MFN rate (1.2%). Meanwhile, Thailand's share in the US market is also just above one per cent.

Three main observations may be made based on the analysis in this section. First of all, except in preserved food, knit apparel, woven apparel and footwear, most of the US MFN tariff rates for the relevant sectors are rather low already, and do not offer scope for any significant margin of preference for Thailand under the proposed FTA. Among the former four with the high tariff rates, the Singapore FTA

offers significant margin of preference in the first three. However, we have discussed the various hurdles involved for expanding Thailand's market share in these sectors. On the other hand, in footwear, at 12.3 % Singapore's tariff is just 1.8 per cent lower than the MFN rate (14.1%). While facing this high MFN rate, China has reached a share of more than 70 per cent of the US footwear imports in 2005, with all traditional players like Brazil, Italy and Indonesia having lost shares.

Secondly, we have seen that even in those sectors like prepared meat & fish, rubber, electrical machinery, precious stones & metals, etc. where Thailand might get a small margin of preference, the gaps between Thailand's current market share in the US for these sectors and those of its competitors like China (which faces the higher MFN rates) and, in some cases Mexico (which already enjoys zero rates), are significantly large that the small margin of preference is unlikely to give any special improvement in Thailand's market share.

**Table 9: Presence of Non-Ad V*alorem* Tariffs in the Selected Chapters, 2005**

(Number)

| Chapter | Description | MFN | US-Mexico FTA | US-Canada FTA | US- Chile FTA | US-Singapore FTA |
|---|---|---|---|---|---|---|
| 3 | Fish And Seafood | 5 | | | | |
| 16 | Prepared Meat, Fish, Etc | 9 | 1 | | | |
| 20 | Preserved Food | 77 | 6 | | 49 | 26 |
| 39 | Plastic | | | | | 3 |
| 40 | Rubber | | | | 2 | |
| 44 | Wood | 2 | | | | 1 |
| 61 | Knit Apparel | 25 | 10 | | | |
| 62 | Woven Apparel | 36 | 11 | | | |
| 63 | Misc. Textile Articles | 1 | | | | |
| 64 | Footwear | 14 | 6 | | 4 | 14 |
| 71 | Precious Stones, Metals | | | | | |
| 73 | Iron/Steel Products | | | | | |
| 84 | Machinery | 1 | | | | |
| 85 | Electrical Machinery | 4 | | | | |
| 90 | Optic, Med Instr. (not incl. 8544) | 9 | | | | 4 |
| 94 | Furniture and Bedding | | | | | |
| 95 | Toys and Sports Eqp. | 1 | | | | 1 |
| ***I*** | **Total of Selected HS Items** | **184** | **34** | **0** | **55** | **49** |
| **II** | **Total of All Product** | **1144** | **51** | **0** | **429** | **589** |

Source: WITS Online database

Thirdly, Thailand may not even get any preferential treatment in certain sectors which are actually among its fastest growing exports during 1999-2005; quite the contrary, it might also be charged a higher rate if we go by the Singapore FTA model. For instance, in the iron and steel sector where the US MFN rate is 1.2 per cent only, the US charges 1.6 per cent on imports from Singapore. Similarly, in fish & seafood (HS 3) also, Singapore is charged a higher tariff than the MFN. In this sector, Canada has the highest market share, while China's share is growing very fast. Meanwhile, Thailand, which has maintained its fourth rank among the US suppliers had lost some market share to Chile also since 2002, which has zero tariff under its bilateral FTA. Indonesia and Vietnam are also close competitors in this sector for Thailand. Therefore, if Thailand is to face higher than MFN rate, then it is only likely to lose market share further.

The other aspect in market access is that the US maintains protectionism in its sectors of importance also through a high presence of non-*advalorem* tariffs or specific duties (in addition to the *advalorem* tariffs), which are varied according to the sector and the trading partner. As Table 9 shows, the US maintained a total of 1144 non-*advalorem* duties on its MFN trading partners in 2005.

When it came to its FTA partners, the total number and their incidence across sectors varied considerably. For instance, whereas the US had no specific duties under the Canadian FTA, it had 51 for Mexico, 429 for Chile and 589 for Singapore. At the sectoral level, in the case of preserved food, while there are 77 specific duties at the MFN level, Mexico and Singapore face only 6 and 26 on the one hand, while Chile faces 49 even under its FTA. On the other hand, in footwear, the Singapore FTA maintains the same number of non-advalorem tariffs as the MFN level (14) whereas Mexico and Chile face 6 and 4 respectively, and there are none for Canada. While there are no specific duties at the MFN level for rubber, Chile faces 2 of them. In knit and woven apparel, while the MFN level non-advalorem duties are 25 and 36 in number, neither Canada, nor Chile, nor Singapore face any. On the other hand, the Mexican FTA has 10 and 11 specific duties respectively. Clearly, the US picks the sectors it chooses to protect and promote, and they vary strategically depending on the trading partner.

**Table 10: Average of *Advalorem* Equivalent of the US under US-Mexico FTA and MFN, 2001.**

(Per cent)

| | Chapter | UNCTAD Method 1 | UNCTAD Method 2 | Average |
|---|---|---|---|---|
| MFN - Ad valorem Equivalent | 1 | 6.6 | 5.0 | 5.8 |
| | 2 | 5.1 | 4.2 | 4.6 |
| | 3 | 1.2 | 1.7 | 1.5 |
| | 4 | 45.0 | 53.4 | 49.2 |
| | 5 | 0.9 | 0.1 | 0.5 |
| | 6 | 2.3 | 1.8 | 2.1 |
| | 7 | 8.6 | 7.7 | 8.1 |
| | 8 | 4.5 | 4.4 | 4.4 |
| | 9 | 3.5 | 7.2 | 5.3 |
| | 10 | 2.9 | 6.5 | 4.7 |
| | 11 | 4.5 | 3.5 | 4.0 |
| | 12 | 5.7 | 5.1 | 5.4 |
| | 13 | 20.5 | 16.2 | 18.3 |
| | 14 | 1.3 | 1.2 | 1.3 |
| | 15 | 11.1 | 11.2 | 11.2 |
| | 16 | 1.7 | 1.6 | 1.7 |
| | 17 | 75.0 | 83.2 | 79.1 |
| | **MFN Total** | **16.4** | **18.2** | **17.3** |
| | **Chapter** | **UNCTAD Method 1** | **UNCTAD Method 2** | **Average** |
| US-Mexico FTAs AVEs | 82 | 44.8 | 66.4 | 55.6 |
| | 83 | 23.1 | 101.2 | 75.2 |
| | 84 | 4.7 | 79.7 | 42.2 |
| | 85 | 16.1 | 16.1 | 16.1 |
| | 86 | 2.1 | 1.7 | 2.0 |
| | 90 | 51.2 | 45.2 | 48.2 |
| | 91 | 47.3 | 47.1 | 47.2 |
| | 93 | 3.1 | 56.9 | 30.0 |
| | 95 | 3.4 | | 3.4 |
| | 96 | 31.9 | 42.0 | 37.2 |
| | **Mexico-US FTA (Average)** | **40.2** | **51.5** | **45.9** |

Source: WITS Online database

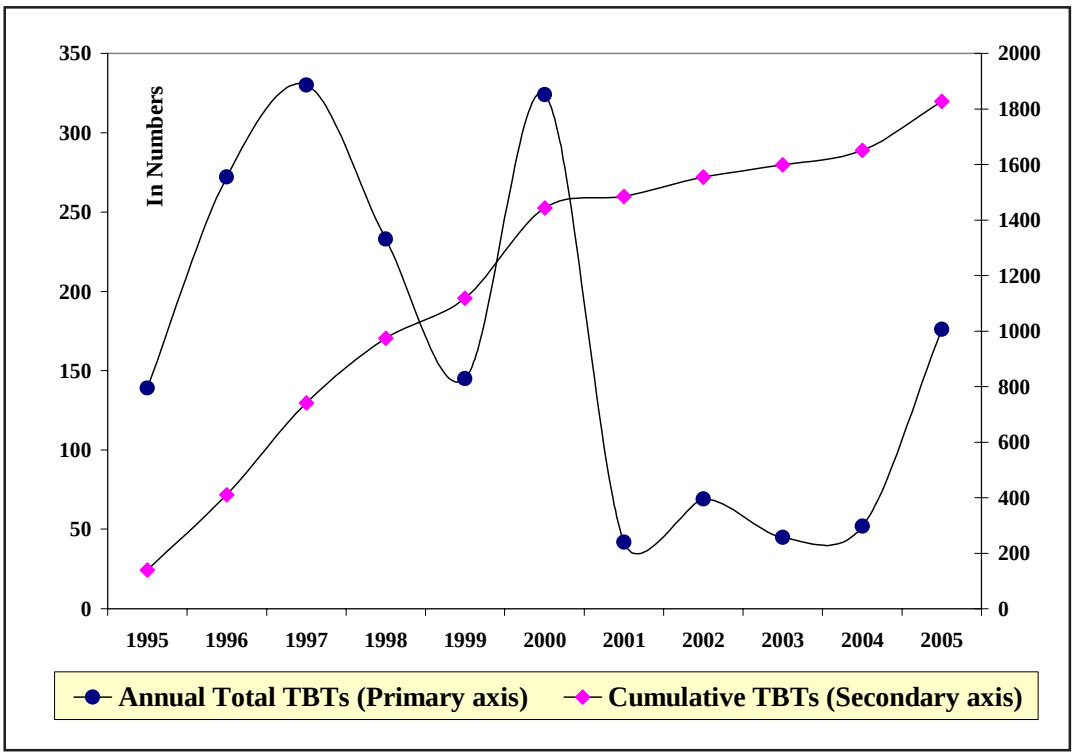
The other important point to note is that when we compare Tables 9 and 10, we appreciate that although in 2005 Mexico did not face any non-*advalorem* duties in several sectors, the 2001 data tell a different story. Based on Table 10, it is seen that when the *advalorem* equivalent (AVE) rates are calculated for the

non-*advalorem* duties existing at the time, the average *advalorem* equivalent at the MFN level was 17 per cent for sectors 1 to 17. On the other hand, in the case of the US-Mexico FTA, the average *advalorem* equivalent rate for sectors 82 to 96 came to 46 per cent. Clearly, the US was continuing to maintain high effective tariff rates against Mexico in its agricultural and manufactured sectors of choice as late as 2001, almost seven years after NAFTA came into being. These were phased out only much slower than the *advalorem* tariffs.

### 3.2 Non-Tariff Issues in Market Access

The US is also observed to maintain protectionism in the form of quotas and non-tariff barriers such as Technical Barriers to Trade (TBTs), Sanitary and Phyto-Sanitary (SPS) measures spread across industries (Figures 1, 2 and 3). For example, there are 21 TBTs in the fish & seafood industry, which are related to standards, labelling and consumer protection.

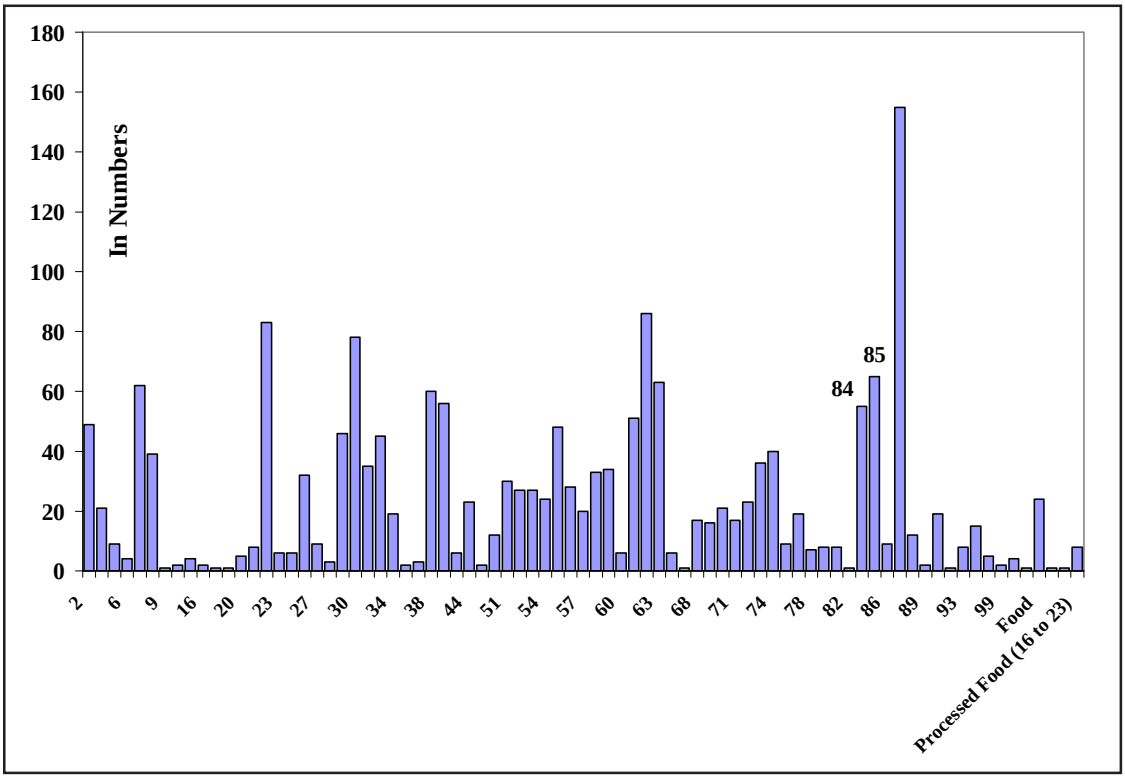
**Figure 1: Technical Barriers to Trade (TBTs) Notifications of the US**




Source: Collated and Compiled by the authors based on WTO notifications.

While rubber has only 6 TBTs, plastics attract a huge number (57) of TBTs. Knit and woven apparel also contain a large number of them (51 and 86 in number respectively) related to consumer protection, labelling and regulation. Precious stones & metals as well as iron and steel products have a moderate presence of TBTs. The maximum number of TBTs appears in the transport equipment industry (chapter 87). The non-electrical and electrical machinery industries have 55 and 65 TBTs each. While regulations regarding consumer protection and energy efficiency are the most dominant, there are TBTs also related to health and environment protection and safety.

**Figure 2: Presence of US TBT Notifications based on HS Chapters**

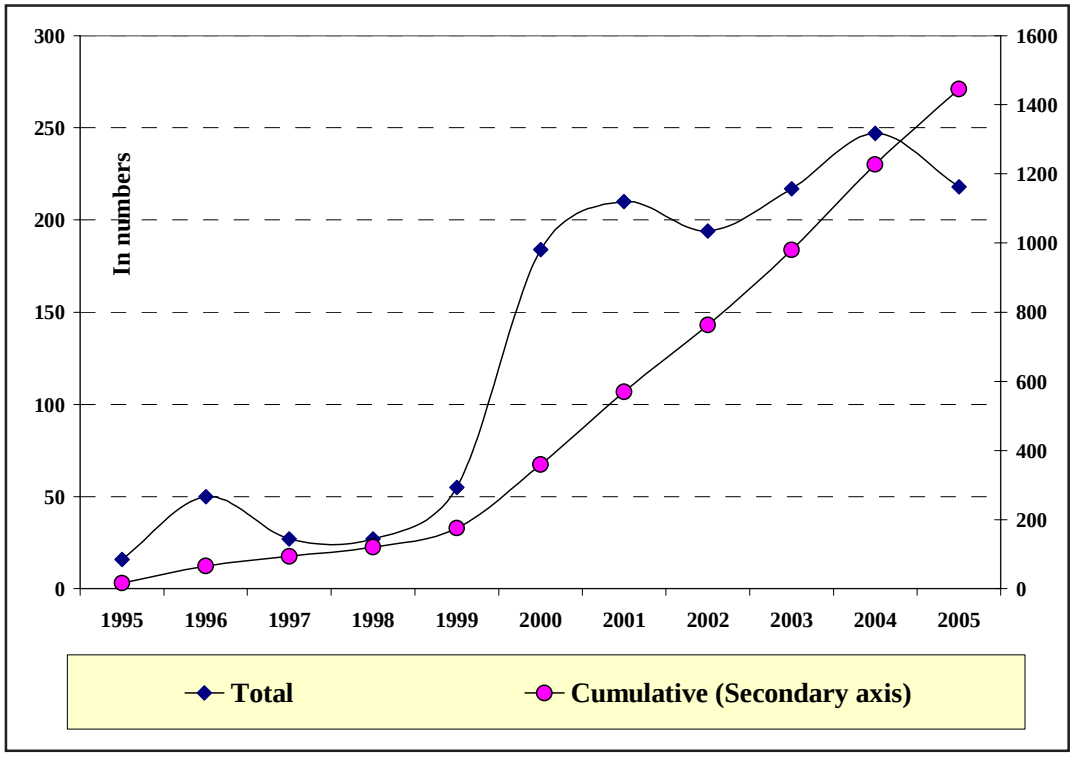



Source: Collated and Compiled by the authors based on WTO notifications.

Meanwhile, although there are only a few TBTs in chapter 16 (prepared meat, fish, etc.) and Chapter 20, these sectors attract a heavy imposition of SPS measures, dominantly related to the usage of pesticides in terms of their allowed maximum residual content limit (MRL). SPS measures are imposed under the objectives of food safety, animal health, plant protection, the protection of humans or territory from animal

or plant diseases, etc. It has been clearly established in the case of NAFTA itself, that the U.S. government also has no qualms about protecting sectors it considers politically strategic. For instance, in key horticultural crops and others, Mexico has met with protectionist measures from the U.S. in the form of dubious sanitary and phyto-sanitary (SPS) measures, antidumping complaints, and other pretexts.

**Figure 3: US Sanitary and Phyto-Sanitary Measures (SPS): 1995 to 2005**




Source: Collated and Compiled by the authors based on WTO notifications.

The fundamental problem would therefore be that the FTA may not bring about a difference in the market access situation since as we established above, there is only a marginal improvement that may occur in terms of tariff reduction. Further, even when exports are rising, prices in real terms may not show an increasing trend and therefore, there may not be any net gains in some sectors.[27] In any case, with margin of preferences so low, market access will be determined by the extent of non-tariff measures. Addressing the non-tariff barriers (NTBs) put up by the US across industries (which it rarely allows for its trade partners) involve dealing with complicated technical aspects in each area that takes considerable time and which may be difficult for a developing country partner like Thailand to deal with.[28] The technical

specifications or maximum residual limits (MRLs in the case of pesticides, etc.) are so high that the developing country partner will need to acquire the higher technological production processes required to meet these standards.

But, if Mutual Recognition Agreements (MRAs) are existing between the US and Thailand, then firms can take advantage of these agreements to overcome SPS and TBT measures. MRAs are signed in specific sectors and involve the process of raising Thailand's production standards to the US level in those sectors. In sectors with a high foreign firm presence, the process of signing MRAs may get accelerated, because MNCs have an obvious advantage in following similar production processes across borders. However, this will negatively affect domestic small and medium firms, if national treatment principle has to be applied. The presence of TBT and SPS measures, with or without MRAs, will also lead to higher technology imports (licensing, patents, etc.), further reinforcing developed country domination in technological arena. Simultaneously, this would also lead to higher imports in capital intensive industries as well, to meet the demand to meet the higher standards set by TBT and SPS measures. Thus, the presence of non-tariff measures like TBT and SPS measures by the US in sectors of particular interest to it will not only hinder Thailand's market access but would also lead to a further increase in its technology and capital intensive imports.

**Rules of Origin**

It is also important to understand the Rules of Origin provisions that are part of FTAs, which are formulated to ensure that a certain minimum level of the manufacturing activity or value addition associated with a specific product takes place within the countries which are members of the relevant FTA. This is to guarantee that the maximum benefits of the expected preferential market access in each other's markets under the FTA will accrue to the FTA members, instead of getting diverted to non-FTA-member trading partners. However, the impact of ROO provisions depend crucially on how they are framed and the way production is organised in particular industries.

The Rules of Origin (ROO) in the Singapore-US FTA have varied depending on the type of product. Three criteria are used in this FTA for defining product origin, these are: Change in Tariff Heading (CTH); Value Addition (VA); and, specific weight of local materials in final good (especially in textiles). While for

products belonging to Chapters 64-67, 73, 78-81, and 83-97, the specific rules incorporated both VA combined with CTH approach, CTH was the specific rule for the remaining products.[32] On the whole, the value addition criteria varied from 30, 45, 55, and 65 percentages.

It can be inferred that in sectors where the ROO specifies low cumulative value addition within the FTA, this could lead to significant trade diversion. For example, in the Singapore-US FTA, the value addition requirement for the automobile sector is one of the lowest levels at 30 per cent. If the proposed Thai-US FTA is to follow the same criterion, this means that auto firms exporting from Thailand will need to show a combined value addition of only 30 per cent between their operations in Thailand and the US, and as much as 70 per cent could be imported from other countries, from their own affiliates in those countries or from un-affiliated firms, and still continue to enjoy preferential tariffs under the FTA. It is perceivable that the US automobile assembly firms in Thailand would prefer to import directly from their own affiliates in China, Mexico, US or Canada and export back to the US under the bilateral FTA. This would not only affect the prospect for fresh auto sector FDI into Thailand (as MNCs can manage with their existing production facilities spread across borders), but would also directly affect the SMEs operating in the Thai auto parts and components sub-sectors and result in potentially significant employment losses. This implies that there may not be any net investment-cum-export benefit from the FTA for such sectors with low value added content provisions, since any potential preferred market access will not impact existing MNC production networking configurations to the benefit of Thailand.

In another sector, textiles and apparel, the US typically wants the FTA partner to apply "rules of origin" that include the "yarn forward rule", where the products must be made from yarn sourced from the partner or the US. As developing countries usually do not have yarn industries or capability in this sector, this in effect means that US yarn has to be used instead of cheaper yarn and fabric sourced from other, non-FTA-member partner countries. Thus, even though textiles and apparel will become duty-free immediately if they meet the FTA's rules of origin, the ROO will ensure that the FTA would promote new opportunities for the U.S. yarn industry rather than the Singaporean one. While annual quotas of textiles and apparel containing non-US or non-Singaporean yarns, fibres or fabrics may also qualify for duty-free treatment based on annual quotas, it is obvious that this is not guaranteed market access. There will be considerable variation in annual quotas, since they will be unilaterally decided and imposed by the US.

While we have considered the examples of only two sectors here, it is clear that the manner in which ROO provisions are framed and the minimum levels prescribed will determine the extent of trade diversion to the dominant partner (in this case, the US) or to third countries. As we saw above, this again would be to the benefit of the MNCs operating in these industries in Thailand.

## 4. US Market Access in Thailand

It is also important to note that whatever Thailand can expect (or hope) to benefit from some market access in goods from the FTA with the US has to be weighed against the market access to be gained by the US to Thailand's domestic market. Bilateral FTAs are on a reciprocal basis, with both sides aiming to eliminate tariffs on "substantially all trade" in line with World Trade Organization (WTO) rules. There is little or no special and differential treatment for the developing country. Further, a developing country in negotiation with a developed country in an FTA already has weaker bargaining power. In particular, US negotiators are also constrained by their Bipartisan Trade Promotion Authority Act of 2002 which prevents FTAs from reducing the rate of duty below that applicable under the Uruguay Round Agreements, on "any import sensitive agricultural product."[33]

Thus, in general, the developing country has to give reciprocal market access to the partner, which is likely to be greater proportionately and greater in value, since on average its industrial tariffs are significantly higher. This is clearly seen in the case of Thailand. It is observed from Table 11 that in almost all sectors of significance in Thai imports, Thai MFN duties are much higher than those of the US. The reciprocal tariff reduction which Thailand will be asked for could therefore see a flooding of US imports into Thailand. Eliminating its tariffs on a wide range of products can then result in significant dislocation of local producers. With manufacturing sector accounting for about 40 per cent of Thailand's GDP and 88 per cent of its total exports, Thailand may therefore have a lot to lose by giving increased and liberal market access to the US. It would therefore be unwise to expect that Thailand can afford to provide increased market access in the agricultural sector as it hopes to gain in the manufacturing sector. Indeed, Thailand may stand to lose heavily in the agricultural sector as well.

**Table 11: Comparison of Thailand's Average Tariffs Across ASEAN, MFNand Non-MFN: 2005**

(Per cent)

| Chapter | Description | ASEAN Rate | Non-MFN Duty | MFN Duty |
|---|---|---|---|---|
| 10 | Cereals | 4.4 | 0.0 | 0.0 |
| 12 | Misc Grain, Seed,Fruit | 5.0 | 40.9 | 19.6 |
| 23 | Food Waste; Animal Feed | 5.0 | 10.0 | 8.1 |
| 27 | Mineral Fuel, Oil Etc | 0.2 | 24.5 | 2.9 |
| 29 | Organic Chemicals | 0.0 | 30.3 | 1.5 |
| 33 | Perfumery,Cosmetic,Etc | 2.6 | 67.3 | 16.1 |
| 38 | Misc. Chemical Products | 0.0 | 30.8 | 5.8 |
| 39 | Plastic | 4.4 | 49.7 | 13.9 |
| 41 | Hides And Skins | 0.0 | 30.3 | 3.6 |
| 47 | Wood pulp, Etc. | 0.0 | 10.0 | 1.0 |
| 52 | Cotton+Yarn,Fabric | 0.0 | 58.4 | 4.8 |
| 71 | Precious Stones,Metals | 0.0 | 33.4 | 5.2 |
| 72 | Iron And Steel | 2.0 | 14.8 | 4.5 |
| 84 | Machinery | 1.0 | 32.7 | 4.5 |
| 85 | Electrical Machinery | 3.4 | 42.3 | 9.4 |
| 87 | Vehicles, Not Railway | 4.7 | 68.2 | 35.2 |
| 88 | Aircraft, Spacecraft | 0.5 | 5.0 | 3.3 |
| 90 | Optic,Nt 8544;Med Instr | 0.8 | 33.5 | 4.9 |
| 97 | Special Other | 0.0 | 31.7 | 10.0 |
| | Average of Selected Products | 1.8 | 34.1 | 8.6 |

Note: Selected sectors are those with a one per cent or more share in total Thai imports in any of the periods.

Source: WITS Online

There is already clear evidence for this in the case of Mexico under NAFTA. Under its FTA with the US, Mexico agreed to eliminate tariffs on agricultural products. Imports of corn (the most widely grown crop in Mexico and the main source of income for subsistence farmers in the poor South) nearly tripled after NAFTA, and imports rose over five times for soybean, wheat, poultry and beef. This more than offset the increase in exports of fruits and vegetables (which largely accrued to multinational companies in the comparatively wealthy North – the only area which can support fruit and vegetable crops), and 1.7 million rural jobs have been lost since NAFTA.[34]

Historically, it has been seen more than in one occasion that the US market is not that freely accessible. A comparison of the US-Singapore and US-Chile FTAs also gives ample evidence for the fact that the United States picks the market access it chooses to give, while demanding near total liberalization for entry

of its own products. If we consider the Singapore-US FTA schedule, it is seen that while most U.S. tariffs on Singaporean goods will be eliminated immediately upon entry into force of the agreement, the remaining tariffs will be phased out only over 3-10 years. On the contrary, Singapore guarantees zero tariffs immediately on all U.S. products. In the case of US-Chile FTA, the tariff reduction schedule is faster in that more than 85% of bilateral trade in consumer and industrial products becomes duty-free immediately upon entry into force of the agreement, with most remaining tariffs eliminated within 4 years. Key U.S. export sectors gain immediate duty-free access to Chile, such as agricultural and construction equipment, autos and auto parts, computers and other information technology products, medical equipment, and paper products. Further, Chile's "luxury tax" on automobiles will be phased out over 4 years with the number of vehicles that are subjected to this tax sharply reduced immediately upon entry into force of the agreement. More than three-quarters of U.S. farm goods will also enter Chile duty-free within 4 years and all duties of U.S. products will be phased out over 12 years.

Additionally, there are quite a few discriminatory conditions in the US-Chile FTA. Key U.S. farm products will benefit from improved market access. While the US-Chile FTA eliminates the use of export subsidies on U.S.-Chilean farm trade, the US preserves the right to respond if third countries use export subsidies to displace U.S. products in the Chilean market. An agricultural safeguard provision will also help protect U.S. farmers and ranchers from sudden surges in imports from Chile.

## 5. Conclusion

In the final analysis, it is more than evident that the small margins of preference in tariffs that Thailand may be offered under the proposed FTA with the US are not going to make the difference in Thailand's market access in that country. The US picks the sectors it chooses to protect and promote, and they vary strategically depending on the trading partner. The presence of non-tariff measures like TBT and SPS measures applied by the US in sectors of particular interest to it will not only hinder Thailand's market access, but would also lead to a further increase in its technology and capital intensive imports.

Even as Thailand will need to deal with the varied US measures related to TBT and SPS, the export advantages of an FTA with the US are likely to be short-lived in the current context, given the kind of competitive pressures Thailand faces in the US market as we saw in the market share analysis. As the

US negotiates FTAs with developing and less developed countries all across the world, including Thailand's neighbours and competitors, even whatever small market access advantages Thailand might gain in a few sectors would also become less of a competitive edge. Not much net benefits may accrue to Thailand from the proposed FTA also if the US were to sign near-similar deals with Thailand's neighbours in the region, since any potential preferred market access may not impact existing MNC configurations as we saw earlier, and therefore, exports from Thailand. On the other hand, given the U.S. surplus production in key agricultural products and the impact of liberalised imports on small and medium industries that produce for the domestic and export markets, the social, economic, and political costs of production lost to cheap, often subsidized imports can become very high. This would be all the more severe given the existing extreme export dependence of the Thai economy. Indeed, then, under such "free trade", investment liberalisation could eventually lead to a significant weakening of the indigenous small and medium entrepreneurial class in Thailand with further implications for sustainable industrial development.

The market share analysis has also clearly established that China is the single biggest competitor which Thailand faces across several export sectors in the US market, which it can outdo only by undercutting the Chinese labour cost advantage. To what extent Thailand's society, which has maintained a relatively higher minimum wage is willing to undertake such an exercise, may provide the answer to the market access question under the current "free trade" paradigm.

Meanwhile, ASEAN's rapidly increasing trade with China, which has gone up significantly for both exports and imports,[35] point towards the incorporation of China into the region's production networks. Indeed then, the proposed bilateral FTAs of the US with various ASEAN member countries including Thailand, which are being driven by a competition for investment vis-à-vis China based on the expected market access gains might only help accelerate the region's "race to the bottom" or "downward levelling" in terms of labour wages and conditions.

In the ultimate analysis, it would help the governments in the region to appreciate the fact that sustained market access would need much more in terms of industrial policy rather than tariff reduction schedules driven by a bilateral trade agreement imposed unilaterally.

## Notes

[1] An earlier version of this paper was presented at 'The 2nd International Workshop on ASEAN Expert Collaboration for FTA Negotiations with the US', Co-Organised by International Development Economics Associates (IDEAs), the Good Governance for Social Development and the Environmental Institute (GSEI), and the Institute of Asian Studies, Faculty of Political Science, Chulalongkorn University, Bangkok, 3-4 August, 2006. The views expressed in this paper are their own and do not represent the views of the organisations to which they belong. Comments are welcome and may be addressed to smithsfrancis@yahoo.com and muralikallummal@hotmail.com

[2] See Yue, 1993.

[3] In fact, until the financial crisis, Southeast Asia's growth pattern has been described to follow the Catching-up Product Cycle (CPC) theory (also known as the "flying geese" model), following on the heels of the East Asian I-tier economies of South Korea, Taiwan Province of China, Hong Kong, as well as Singapore. Although Akamatsu's and the later Japanese studies which substantiated the CPC theory had clearly recorded the continuity of Japanese import substitution policies while pursuing export expansion, and equally significantly, a very low level of dependence of Japan (and later on Taiwan Province of China and South Korea) on external capital (especially FDI) during its period of rapid growth, during the 1980s and 1990s the CPC model was propagated to support the case for trade (import) and investment (FDI) liberalisation in successful export-led industrialisation by the late-industrialising countries of South East Asia. But, these later versions of the flying geese model which puts forth FDI-led industrial catching-up as the ideal strategy for latecomer developing countries were a clear departure from the particular characteristics of indigenously-driven industrialisation strategies that were adopted by Japanese and the first-tier East Asian "developmental states" during their periods of high growth. See Francis, 2003.

[4] By the early 1990s, gross FDI across the four large ASEAN countries had come to be concentrated in specific manufacturing sectors such as electrical & electronics products, transport equipment, chemicals, petrochemical products, etc., apart from food processing, footwear, paper & paper products. Since there was substantial intra-industry trade within these broad product categories because of the leading MNCs' production distribution or division of labour strategies in the region, these were also the industry categories which dominated ASEAN members' exports and imports. For a detailed discussion of the trade-investment linkages in the region, see Francis, 2004.

[5] This was the case except in Malaysia, where Singapore ranked third ahead of the US as the third largest investor. At the same time, it is equally important to remember that US aid also played a significant role in shaping Southeast Asia's post-war economic development against the backdrop of the cold war.

[6] *Ex post,* the rapid export growth in this phase was also due to a combination of favourable external factors including the fact that world trade in those export industries was growing the fastest at the time.

[7] Ravenhill (2002) has argued that support for governmental collaboration to reduce transaction costs has come primarily from companies servicing domestic or regional markets in Southeast Asia. For the most part, export-oriented firms have used their own production networks rather than attempting to seek help from governments to overcome transaction costs of transnational business operations in East Asia. See Ravenhill (2002) quoted in Beeson, 2005. However, even if the regional project in Southeast Asia originated and took shape in the presence of private sector indifference as some have argued, as export-led growth strategy took hold among the governments of the region and a regional division of labour came to be established as foreign investors discovered

the competitive advantages of setting up a production network involving countries at varying levels of development, it can be argued that the very desire of these States to continue and reinforce their competitiveness vis-a-vis rising competitors emerging first from NAFTA, then China and soon from the Eastern European transition economies meant that the Southeast Asian regional project became guided and influenced by international investors' strategies.

[8] In the case of ASEAN that has achieved considerable progress in tariff reduction, the lack of progress in specific sectors has been attributed to certain "nationalistic" projects in particular countries. Two major road blocks are considered to be Malaysia's auto industry and the Philippines's petrochemical industry, which have not been prepared for the elimination of import tariffs. See Naoko, 2005.

[9] See Chandra, 2005.

[10] See Dent (2003), Low (2003) and Ravenhill (2003).

[11] Khor, 2005.

[12] The emergence of 'ASEAN plus Three' is considered evidence of an eventual region-wide reaction and resistance to external political and economic pressures. Researchers like Kim (2004) and Beeson (2005) have argued that although the region has had some difficulty finding a regional identity for itself with its history of ideational diversity and military and economic disparity, the Asian financial crisis and globalization have been foremost among the catalyzing factors that have encouraged regional cooperation between the major Northeastern core states (China, Japan, and South Korea) and their more organized neighbors in Southeast Asia. According to Beeson, while some of the major cooperative initiatives like monetary cooperation may be somewhat arcane and technical, they reflect a continuing desire on the part of East Asian governments to control the manner and pace of economic integration and recognition of the growing importance of capital flows as opposed to trade. But Ravenhill (2003) has countered arguments that emphasise a new sense of collective identity in East Asia post-crises, pointing out that as many agreements have been proposed with prospective partners outside East Asia as with other East Asian countries. Clearly, given the complex and evolving nature of bilateralism in the region, there is ample space for multiple and consistent interpretations.

[13] See Dent, 2006.

[14] Naoko, 2005 and Low, 2003.

[15] See Francis, 2004.

[16] See TWN, 2005.

[17] Although NAFTA formed way back in 1994 seems to be the first member of this new league, the real trend in RTAs involving developing and developed countries surged only from the late 1990s.

[18] See Beeson, 2005.

[19] See Dhar and Kallummal, 2004.

[20] The goal aims at the liberalisation of investment in the APEC region, with the deadline set as 2010 in the case of developed countries and 2020 for developing countries.

[21] It is not without irony that the US interest in the region has been argued to be negatively correlated with its preoccupation with NAFTA and even China (Naoko, 2005). In fact, the crisis-ridden Southeast Asian countries including Thailand were disillusioned with the US apathy towards them at the time of their 1998 crisis, because the US already had its hands full with the Mexican crisis. Later on, the US was preoccupied with China's accession to the WTO. However, once the US took care of both

these contexts to its satisfaction, it became active in the region again, this time trying to negotiate bilateral deals with individual ASEAN members starting with Singapore.

22 See for instance, TDRI 2003.

23 Francis, 2003.

24 Ibid.

25 With its share hovering around 14 per cent, Japan is now not far behind in overtaking the US position as the single largest market for Thailand.

26 For a detailed discussion of the underlying assumptions made in CGE models which make their results unreliable, see Dhar, 2006.

27 However, in prepared meat, fish, etc. Thailand is and has maintained the number one ranking among US suppliers, accounting for one-fourth of total US imports in that sector.

28 US-Chile tariff rates would be compared mainly for agricultural products, since the Singapore FTA is not relevant for agriculture.

29 See Francis, 2003.

30 Comparing the data on farm gate prices and the export prices of rice during 1994-2003, Chomthongdi (2004) has established that the prices in real terms did not show an increasing trend even when exports were rising. Further, farmers, who are mainly small-scale producers, acquired on average only 72.8 percent of the export value, which has not increased in their favour with the rise in export values. See Chomthongdi, 2004.

31 TDRI (2003) emphasizes this problem.

32 In the VA approach, both "built-up" and "built-down" methods were applied for determining origin. The built-up method required a higher percentage requirement, and was 10 percentage points higher than similar requirements under built-down method. For explanation of 'built-up' and 'built-down' approaches, see Kallummal, 2004.

33 See Carlsen, 2005.

34 Ibid.

35 See Francis, 2004.

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