

Thailand's Agricultural Sector and Free Trade Agreements

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ABSTRACT

The agricultural sector has played an important role in developing the Thai economy and the Thai Government has opened up the sector to international competition. As a major agricultural exporting country, Thailand among other Asian countries is relatively ready to open its markets in order to obtain benefits from the liberalization of the agricultural sector.

Thailand has been the most active Asian country in promoting its international trade since the Asian financial crisis erupted in mid-1997. Intensive talks have been held with many developed and developing countries, such as Australia, China, India, Japan and the United States. When signing bilateral free trade agreements (FTAs), the Thai Government should not undermine the bargaining power of countries belonging to the Association of Southeast Asian Nations (ASEAN) as a single entity. In order to improve the terms for free trade, the following considerations should be taken into account: (a) regional deals are more efficient and have more advantages than bilateral ones; (b) steps should be taken on a gradual basis to empower the agricultural production sector and farmers; and (c) FTAs should have comprehensive coverage and depth, and include non-tariff barriers,

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investment, human resources development, intellectual property rights protection and the environment.¹

As an open developing country, Thailand should be aware of the importance of its agricultural sector and yet its farmers have received relatively few benefits from trade liberalization so far and are often poor. In order to maximize the potential benefits of existing FTAs and minimize the possible negative impacts, the Thai Government needs to satisfactorily make the necessary adjustments to its economy and develop the competitiveness of its enterprises in emerging free markets. Restructuring and adjustment processes in the Thai agricultural sector, especially for the empowerment of Thai farmers, are critical in order to keep pace with the rapid changes brought about by globalization and increased trade and to gain more benefits from FTAs for society at large. In addition, Thailand has to be aware of the distribution of benefits to each domestic sector involved. A balanced distribution would create a better-off society and improved acceptance of FTAs by the public. Developing productivity and increasing competitive ability will empower farmers and improve their business potential.

The central Government has to pay due attention to these circumstances prior to the liberalization process and adopt policies which would make farmers more competitive and preserve the sustainability of agricultural development as a whole. The benefits of free trade should be measured first in the national context or in terms of national benefits. For those already suffering losses as a result of free trade, the Government should assist them to improve their productivity and competitiveness.

1. INTRODUCTION

Many developed and developing countries have concluded regional and bilateral FTAs in order to enhance their trade and boost their economic growth over the last two decades. These regional trends have emerged in part due to the slow progress of multilateral trade liberalization under the General Agreement on Tariffs and Trade (GATT) prior to 1995 and the World Trade Organization (WTO) since 1995 (Fabiosa and others, 2005). When WTO was established in 1995, member countries explicitly acknowledged that they needed to do more to help developing countries realize the benefits of trade in order to boost their sustainable development. They could not achieve that goal completely, even after the Uruguay round which, for the first time, led to a multilateral trade agreement on agriculture. Agriculture has long been a controversial issue, yet agreement in this area is crucial for a successful conclusion

¹ While not everybody agrees that the environment should be included in FTAs, it should be noted that agricultural production processes are related directly to natural resources such as land, soil and water. The degradation of those factors because of farming activity should be reduced. The conservation of the environment, which forms the base of agricultural products, should be a priority. Involving environmental issues in the trade negotiation process could guarantee that the degradation of natural resources could be minimized through innovative production processes and investments.

of the Doha round. Its coverage so far in multilateral and FTAs has been limited. This is due to conflicting objectives between developed and developing countries regarding the issue of high tariffs on agricultural products, export subsidies and domestic support which led to a relatively high level of trade protection and undermined effective and fair international competition in the agricultural sector.

Agriculture is the main sector in Thailand and many other Asian countries, especially in terms of its contribution to employment generation, even though its share of gross domestic product (GDP) has been decreasing over the years (Coxhead and Plangpraphan, 1998; Poapongsakorn, Ruhs and Tangjitwisuth, 1998; and World Bank, 1998). As one of Asia's developing countries, Thailand is assumed to have a well-managed and globalized agricultural sector. According to the Food and Agriculture Organization of the United Nations (FAO), Thailand, with fewer natural resources than other Asian countries such as India and Indonesia, was the second largest exporter of agricultural products among Asian countries in 2004.² FAO statistics showed that in 2004, the largest exporter of agricultural products in Asia was China, which accounted for over US\$ 17.3 billion (almost 19 per cent of the total agricultural exports from Asia to the world); it was followed by Thailand with over US\$ 11.9 billion (almost 13.1 per cent of the total) in such exports. This paper discusses considerations in liberalizing agricultural trade in Thailand, in particular through the conclusion of regional and bilateral trade agreements.

2. EMERGING FREE TRADE IN THE ASIAN REGION

Over the last few decades, countries in Asia have concluded or strengthened regional FTAs, which were basically preferential trade agreements. This process was driven to a large extent by the need for those countries to attract foreign direct investment (FDI) and to improve their competitiveness in international trade. Gaining access to overseas markets and thus achieving economies of scale in domestic production were also important driving forces (Josling, 1993). In practice, some countries are member of multiple FTAs, which leads to overlap of such agreements. The main objectives for countries to conclude multiple FTAs are, first, to broaden market access beyond their immediate subregion, especially when there are tendencies for some regional blocs to protect their markets from outsiders and, second, to gain the benefits of the globalization process (Bhalla and Bhalla, 1997; Frankel and Wei, 1998; and Page, 2000).

The ASEAN Free Trade Area (AFTA) has been the most prominent FTA in the region and as such has been at the centre of discussions on FTAs. The commitments under AFTA in agricultural trade were initiated at the Meeting of ASEAN Ministers of Agriculture and Forestry in 1992. That meeting was held to encourage close cooperation in the agricultural sector not only between AFTA member countries, but also with trading partners outside the region. Then, with the adoption of the Common Effective Preferential Tariff (CEPT), ASEAN

² Based on FAO statistics, Thailand was the fifteenth largest exporter of agricultural products in the world in 2004. Among developing countries, Thailand was the third largest agricultural exporter after China and Argentina (FAO, 2005).

established AFTA in 2003, with tariffs on some agricultural products ranging between 0 and 5 per cent. Also, under CEPT, member countries have been trying to gradually eliminate all non-tariff barriers and quantitative restrictions (De Simone, 1996). However, AFTA member countries excluded sensitive agricultural products from the tariff reductions while new members had extended implementation periods.

Many Asian countries are currently WTO members and are active in the global economy, especially in concluding FTAs with the rest of the world. Thailand has been a leading Asian country in this respect, together with India and Singapore. Some Asian countries have also unilaterally liberalized their markets by continually reducing import requirements and tariffs. The integration of the Thai economy in the regional economy is in line with the trend of East Asian economic integration through the formation or consideration of regional agreements. Currently, ideas such as the formation of an East Asian economic community and East Asian free trade area are under consideration (Hew, 2003). The formation of FTAs is, of course, not only based on economic interests but also on the political interests of the countries concerned.

Since the 1997 Asian financial crisis and the failure of WTO to launch a new round of talks on tariff reductions, ASEAN and its neighbouring countries have been promoting an ASEAN+3 regional agreement. The idea of forming ASEAN+3 appeared in 2000.³ ASEAN+3 encompasses all 10 ASEAN member countries plus China, Japan and the Republic of Korea. This regional trade agreement is expected to greatly increase the economic welfare of participating countries. Furthermore, the emergence of ASEAN+3 as a leading trade bloc would have considerable influence on the direction of the multilateral trading system.

Apart from AFTA, there are many other regional trade agreements in Asia, such as the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) FTA and the South Asian Association for Regional Co-operation (SAARC) FTA (SAFTA), apart from many bilateral FTAs. These agreements were all signed to promote and improve standards of living, and to speed up economic growth through mutual trade.

3. ECONOMIC AND TRADE PERFORMANCE OF THAILAND

Since the 1990s, the Thai Government has implemented policies for both rural and urban development with a focus on developing the competitiveness of sectors such as high-technology manufacturing and services. Part of these policies included reducing and eliminating trade barriers to obtain optimum gains from trade.

Until now, the export destinations of Thai agricultural and manufactured products have been concentrated in three regions (see table 1): North America under the North American

³ ASEAN+3 was initiated by the signing of the ASEAN-China initiative in 2002; ASEAN-Japan economic partnership was signed in 2003; ASEAN-Republic of Korea economic partnership was signed in 2004. These efforts were implemented as part of a comprehensive economic integration process among East Asian countries towards the formation of a free trade area among them.

Free Trade Area (NAFTA), ASEAN and the European Union (EU). These three destinations absorbed more than 56 per cent of Thai exports in 1993 worth almost US\$ 20.9 billion. NAFTA absorbed over US\$ 8.6 billion (23.2 per cent) followed by the EU for which the figure was almost US\$ 6.5 billion (17.5 per cent) and ASEAN at almost US\$ 5.8 billion (15.5 per cent) in the same year. Thai exports to NAFTA and the EU had been decreasing until the Asian financial crisis in 1997, while exports to other ASEAN countries gradually increased. However, during the crisis, which affected most ASEAN countries adversely, Thai exports going to ASEAN shrank and reached their lowest level of US\$ 9.9 billion or almost 18.2 per cent of total Thai exports in 1998 but recovered after the crisis to almost US\$ 13.6 billion or 19.9 per cent of total Thai exports in 2002. As a result of stronger regional economic growth and intensive policies to enhance regional integration, Thai exports to ASEAN increased to over US\$ 24.1 billion or almost 21.8 per cent of total Thai exports in 2005.

Table 1. Shares of Thai exports and imports with some regions
(Billions of United States dollars)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Exports													
NAFTA	8.63	10.23	10.78	10.73	12.15	13.05	13.65	16.03	14.42	14.82	14.95	17.03	18.57
EU	6.49	7.10	8.56	8.96	9.30	9.72	9.83	11.00	10.55	10.21	11.75	13.82	14.29
ASEAN	5.76	8.01	12.33	12.11	12.76	9.90	10.87	13.50	12.60	13.57	16.49	21.24	24.14
Middle East	1.69	1.68	2.55	2.14	1.95	1.85	2.04	2.11	2.15	2.45	2.88	3.70	4.48
Total exports	37.13	45.43	56.73	55.98	58.43	54.48	58.50	69.78	65.19	68.16	80.04	96.53	110.88
Imports													
NAFTA	5.85	6.90	9.16	9.72	9.35	6.34	6.87	7.79	7.63	6.68	7.65	7.86	9.41
EU	6.79	7.38	11.28	10.89	8.91	5.28	5.86	6.32	7.57	7.04	7.50	9.07	10.47
ASEAN	5.41	7.05	9.42	9.64	8.14	6.40	7.91	10.35	10.01	10.82	12.49	15.84	21.63
Middle East	1.53	1.98	2.68	4.08	4.61	3.33	4.26	6.35	5.96	5.67	7.45	10.81	15.25
Total imports	45.99	54.34	70.72	72.25	63.29	42.40	49.92	62.18	61.75	64.24	75.04	94.04	118.23

Source: Economic and financial statistics, Bank of Thailand, 5 October 2004 and 28 September 2006.

Abbreviations: NAFTA = North American Free Trade Agreement, EU = European Union, ASEAN = Association of Southeast Asian Nations.

Note: EU is the EU(15): Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden and the United Kingdom.

In examining bilateral trade between Thailand and its partner countries during the period 1993-2005, the United States was the largest export market (see table 2 for details). In 1993, the United States absorbed over US\$ 8 billion or 21.6 per cent of the total Thai exports, followed by Japan and Singapore, which accounted for over 17 per cent and almost 12.1 per cent of the total, respectively. Over the years, however, the import shares of Thai products to these three countries have been decreasing; they amounted to almost 15.4 per cent for the United States, almost 13.7 per cent for Japan and almost 6.8 per cent for Singapore in 2005. The decreasing exports to those countries were partly due to increasing trade within ASEAN and China. In 1993, China absorbed only 1.4 per cent of the total Thai exports but increased to almost 8.3 per cent of the total of Thai exports in 2005. Singapore is still an important

Table 2. Top 20 export destinations for Thai products
(Billions of United States dollars)

Country or area	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
United States	8.02	9.55	10.11	10.06	11.36	12.17	12.66	14.87	13.20	13.51	13.60	15.51	17.06
Japan	6.33	7.76	9.52	9.42	8.85	7.47	8.26	10.28	9.95	9.95	11.36	13.50	15.16
China	0.54	0.93	1.65	1.88	1.78	1.77	1.86	2.84	2.87	3.56	5.69	7.12	9.18
Singapore	4.48	6.19	7.96	6.78	6.52	4.70	5.07	6.07	5.26	5.55	5.85	7.03	7.50
Hong Kong, China	1.97	2.40	2.94	3.26	3.47	2.78	2.98	3.52	3.31	3.69	4.32	4.94	6.16
Malaysia	0.85	1.11	1.56	2.02	2.53	1.78	2.12	2.85	2.73	2.84	3.87	5.31	5.73
Indonesia	0.20	0.44	0.81	0.97	1.26	0.98	0.97	1.35	1.37	1.68	2.27	3.22	4.00
Australia	0.52	0.64	0.78	0.84	0.95	0.98	1.32	1.64	1.36	1.64	2.16	2.47	3.18
United Kingdom	1.19	1.35	1.63	1.85	2.07	2.12	2.09	2.38	2.34	2.39	2.58	3.03	2.81
Netherlands	1.16	1.26	1.81	1.80	1.86	2.18	2.20	2.27	2.04	1.89	2.36	2.60	2.76
Taiwan Province of China	0.74	0.99	1.36	1.43	1.59	1.74	2.04	2.44	1.93	1.97	2.58	2.61	2.71
Viet Nam	0.12	0.26	0.47	0.58	0.55	0.59	0.57	0.85	0.80	0.95	1.26	1.88	2.37
Republic of Korea	0.46	0.57	0.81	1.02	1.03	0.63	0.91	1.28	1.23	1.40	1.58	1.86	2.26
Philippines	0.20	0.22	0.42	0.63	0.71	0.77	0.93	1.10	1.16	1.28	1.62	1.84	2.06
Germany	1.49	1.60	1.65	1.62	1.45	1.56	1.46	1.66	1.57	1.53	1.79	1.80	2.00
India	0.00	0.00	0.29	0.24	0.30	0.28	0.37	0.57	0.48	0.41	0.64	0.91	1.53
France	0.78	0.81	0.98	1.00	0.93	0.88	0.83	0.90	0.84	0.82	0.95	1.21	1.30
Belgium	0.58	0.66	0.75	0.80	0.89	0.78	0.88	1.14	1.42	1.36	1.13	1.19	1.29
Italy	0.46	0.47	0.58	0.57	0.62	0.70	0.71	0.85	0.68	0.70	0.95	1.34	1.26
United Arab Emirates	0.48	0.58	1.01	0.69	0.58	0.55	0.57	0.59	0.64	0.72	0.76	0.97	1.18
Total exports	37.13	45.43	56.73	55.98	58.43	54.48	58.50	69.78	65.19	68.16	80.04	96.53	110.88

Source: Economic and financial statistics, Bank of Thailand, 5 October 2004 and 28 September 2006.

export market for Thai products in ASEAN. Other ASEAN countries that have become increasingly important markets for Thai exports are Indonesia, Malaysia, the Philippines and Viet Nam. However, the value of imports from Thailand of these countries is gradually increasing.

There has also been a tendency for Thai imports to be diversified from North America and the EU to neighbouring Asian countries. After the financial crisis, Thailand imported most products, both finished goods and intermediate goods, from Japan, the United States, and ASEAN countries. However, Japan remains Thailand's biggest trading partner in Asia largely because of its role as the leading supplier, accounting for nearly one quarter of Thai merchandise imports.

As a major agricultural exporting country, Thailand among other Asian countries is ready to open its markets in order to obtain benefits from liberalization of the agricultural sector. The indicators of its readiness can be found in its product competitiveness and the position of Thailand among other exporting countries. Most of Thai agricultural products can compete in the international market and they are expected to drive Thai exports. Since 2000, the trade balance of Thai agricultural products such as rice, maize, soybean, fruit and vegetables, sugar, coffee, dairy products, tea and spices presented a surplus. Exports of agricultural products amounted to over 10.6 per cent of the total Thai exports in 2003, almost 10.3 per cent in 2004

and over 8.9 per cent in 2005. The decreasing amounts of Thai agricultural products over years have been compensated by the increasing export values of Thai manufactured products.

For some agricultural products, Thailand has been among the top five exporters in the world (see table 3). For instance, Thailand ranked among the top five of exporters of rice, sugar and chicken in the world. In 2004, Thailand was the top exporter of rice among other major exporters such as India, Viet Nam and the United States. Thai exports of rice accounted for almost US\$ 2.9 billion or 27.1 per cent of global total exports of rice. For exports of sugar, Thailand was in the second position after Brazil. Total Thai exports of sugar amounted to almost US\$ 919.3 million or almost 11.3 per cent of global total exports of sugar. In the global chicken market, Thailand was ranked fifth, accounting for over 5.6 per cent of the global exports of chicken.

Table 3. Top five exporters of rice, sugar and chicken
(Millions of United States dollars)

<i>Rice</i>	<i>Value</i>	<i>Share (%)</i>	<i>Sugar</i>	<i>Value</i>	<i>Share (%)</i>	<i>Chicken</i>	<i>Value</i>	<i>Share (%)</i>
Thailand	2,898.65	27.10	Brazil	3,103.34	38.09	EU	4,886.78	41.02
India	1,522.31	14.23	Thailand	919.28	11.28	Brazil	2,599.51	21.82
EU	1,383.30	12.93	EU	892.11	10.95	United States	1,944.39	16.32
United States	1,234.44	11.54	Australia	744.38	9.14	China	708.14	5.94
Viet Nam	962.08	9.00	Colombia	308.29	3.78	Thailand	671.58	5.64
World	10,695.64			8,147.53			11,912.78	

Source: FAO statistical database, 26 September 2006 <<http://faostat.fao.org>>.

Thai exporters still face difficulties in exporting agricultural products in terms of tariff and non-tariff barriers in their major markets. In 1996, Thailand was not classified as a developing country under the New Generalized System of Preferences (GSP) of the EU (Cuyvers, 1998).⁴ The consequence is that Thailand will lose its preferential tariff, which means that higher import taxes at most favoured nation rates will be imposed on Thai agricultural products. However, due to concerns for tsunami-affected countries, the EU has changed the status of Thai shrimp. In 2005, the EU reduced its import tariffs on Thai shrimp from 12 per cent to 4.2 per cent, at least until 2008 (EU, 2005). In addition, other developed countries, such as Australia, Japan and the United States, have applied non-tariff barriers based on food safety standards and other sanitary and phytosanitary standards (Phusadee, 2005; Athukorala and others, 2002). Those requirements could adversely affect the cost-competitiveness of Thai agricultural products, as the cost of production would increase owing to longer processing times, and the need for more labour and new technology (Athukorala and others, 2002). In addition to serious efforts to improve the competitiveness of agricultural products, the Thai Government needs to be engaged in intensive talks with such countries to verify that Thai products meet food safety and sanitary requirements and to ensure that such requirements are not overly restrictive in its free trade agreement negotiations.

⁴ For fishery products, Thailand did not receive any preferences under the GSP Scheme of the EU. Then, the EU increased import tariffs on Thai shrimp products from 4-4.5 per cent in 1996 to 12-14 per cent in 1999 (Cuyvers, 1998).

4. THAILAND'S POSITION REGARDING FREE TRADE AGREEMENTS

Thailand has been the most active country in Asia with regard to its involvement in FTAs since the 1997 Asian crisis. Thailand is currently making efforts to improve its international competitive advantage in agricultural products, including through the gradual reduction of import tariffs and improving education, health and social welfare in both urban and rural areas. The Thai Government has argued that Thailand could not wait any longer for progress in WTO, and should go ahead with the negotiation of FTAs with potential partners. These efforts appear to have broadened international markets for Thai agricultural products.

The benefits of an FTA vary according to the different development level of a participating country. There has been a sense of uncertainty whether developing countries would stand to gain any benefits from concluding an FTA with developed countries. While it is understood that the welfare of Thai people depends on the global trading system, the Thai Government must carefully manage bilateral FTAs.

In South-East Asia, Thailand has worked closely with ASEAN members to create AFTA and is currently proceeding with the establishment of an ASEAN economic community. By intensifying its ASEAN commitments, Thailand would get access to a larger market consisting of 500 million people (Soesastro, 2003).

In order to reduce its vulnerability in exports, the Thai Government has announced its intention to pursue bilateral FTAs with countries outside ASEAN. Intensive negotiations have been concluded or are currently being held with many developed and developing countries, such as Australia, China, India, Japan, New Zealand, the United States, and a number of countries in the Middle East and South America.

As one of ASEAN's founding members, Thailand has linked up with other FTAs around the globe, such as the Asia Pacific Economic Cooperation, BIMSTEC, initiatives within the Greater Mekong Subregion and AFTA-ANZCERTA.⁵ In addition, Thailand has signed bilateral agreements with some trading partners. It is recommended that Thailand should adjust its free-trade negotiation strategy by pushing for a whole package deal instead of pushing for immediate tariff cuts for some selected items before completing the entire agreement. To date, the Thai Government has already signed two early-harvest agreements with China and India. The proposals are still under intensive negotiation and are still facing protest from interest groups.

Thailand has been the most active developing country in Asia in promoting its international trade since the country became involved in FTAs. FTAs are concluded to liberalize trade in goods between the two countries that would benefit Thailand in terms of increased access to its counterpart's markets. More details on how this country recently managed and dealt with its trading partners are summarized as follows:

⁵ ANZCERTA stands for Australia-New Zealand Closer Economic Relations Trade Agreement.

- Australia: Thailand's negotiations were completed and the FTA was signed in 2004. The FTA with Australia covered all sectors, such as trade in goods, services, intellectual property and trade facilitation. It covered mostly dairy products. The Thai-Australian FTA, the first agreement Thailand has ever reached with a developed country, took effect on 1 January 2005.
- China: Thailand's FTA with China is a special case, as the trade agreement between Thailand and China was set up under the ASEAN-China relationship and also under the Thailand-China agreement. Under the agreement between ASEAN and China, the participating countries agreed to reduce tariffs on imports of agricultural products. China and ASEAN intend to conclude by 2010 a comprehensive trade and economic agreement (ASEAN-China Free Trade Area). Thailand also signed the Closer Economic Relations Agreement with China under the Early Harvest Programme (EHP). This programme consists mainly of tariff elimination on vegetables and fruit. Import tariffs for 188 types of fruit and vegetables have been eliminated. The Agreement took effect in October 2003.
- India: The Agreement with Thailand was signed in October 2003, with full liberalization by 2010. This agreement is an EHP Agreement covering specific items; it entered into force in September 2004. Both countries agreed to implement early harvest programmes by progressively reducing tariffs on 84 products including food, fruit and canned products. Under the EHP, tariffs would be cut gradually. The final year for eradicating all tariffs is the year of 2010. Service and investment liberalization are subject to further negotiations. The agreement includes trade facilitation such as mutual recognition arrangements and accreditation procedures, standards and technical regulations, and trade and investment promotion.
- Japan: Thailand's FTA with Japan is based more on strengthening bilateral strategic relations on trade and investment opportunities. Regarding trade in goods, intensive negotiations are currently still going on between the two countries, especially on agricultural products.
- New Zealand: The Closer Economic Partnership Agreement with New Zealand was signed in 2005. Under the Agreement, New Zealand would erase duties on 5,878 Thai products, while Thailand would eliminate import duties on 2,978 products from New Zealand by 2005. New Zealand is to write off duties on another 697 items by 2010 and on 858 products on the sensitive list by 2015. Thailand will cut import levies on 1,961 remaining products within five years, while duties on 520 products on the sensitive list, such as milk and butter, will be abolished by 2015.
- The United States: Negotiations on the Thai-United States FTA started in June 2004 and are still in progress. The negotiations cover a range of issues, not only the elimination or reduction of import tariffs but also the elimination of non-trade barriers and issues related to sanitary standards. The United States tariffs have been generally low at an average 7 per cent, compared with an average 23 per cent for Thailand.

- With regard to the regional FTA between ASEAN and the Republic of Korea, Thailand postponed signing the Agreement in May 2006, since there was an unresolved issue related to farm products, especially rice exports from Thailand to the Republic of Korea. Thailand wanted the Agreement to include rice, while the Republic of Korea has strictly refused to liberalize its rice sector.
- In addition to these FTAs, Thailand also has plans to negotiate FTAs with other countries and groupings, such as Pakistan, South Africa, Morocco, Egypt, the European Free Trade Association and the South American Common Market which consists of Brazil, Argentina, Paraguay, Uruguay, and most recently Venezuela. These agreements are intended to strengthen economic partnerships at the global level and liberalize trade in all commodities as well as in services and investment.

The conclusion of bilateral FTAs has been a major policy of the Thai Government when the *CEO-style* of administration was in vogue.⁶ Such a policy has pros and cons. Farmers, selected companies and interest groups want to postpone or reject trade liberalization in order to retain their protection as long as possible, while the Thai Government will not be able to keep on protecting them. On one hand, putting FTAs on the fast track of trade liberalization may expand market access for agricultural products but on the other, imbalances in bargaining power among negotiating partners may lead to a bias in favour of the more powerful country.

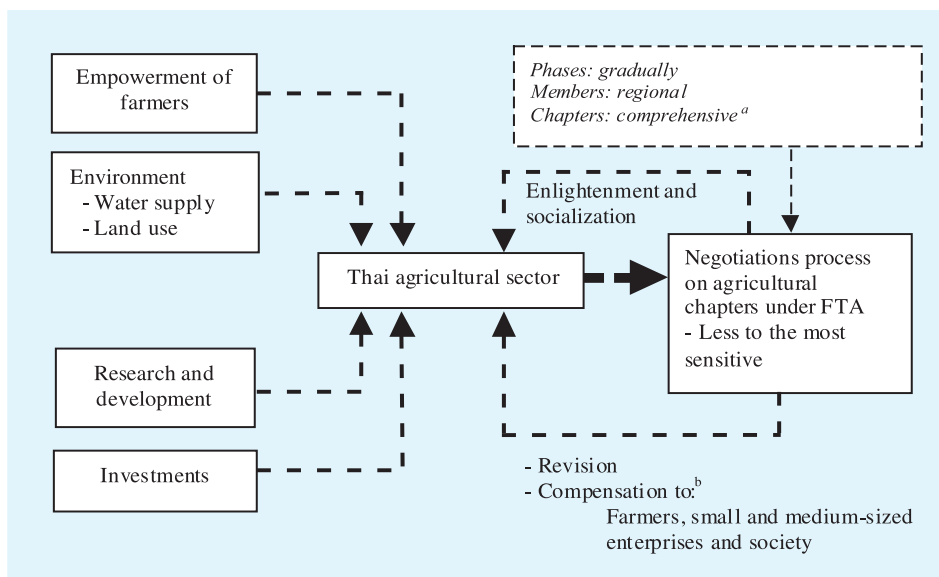
As an open developing country, Thailand should be careful with its agricultural sector and indeed, its farmers, who have not been major beneficiaries of trade liberalization so far and are commonly poor. In addition, too many FTAs between individual Asian countries and developed countries will tend to undermine the goal of AFTA which is to achieve free trade among its 10 members. Action by individual AFTA members would decrease the bargaining power of ASEAN countries under AFTA in dealing with other blocs and countries outside AFTA. In negotiating and concluding FTAs, the Government should take into account the following considerations: (a) regional deals are more efficient and offer more advantages than bilateral ones; (b) steps should be taken on a gradual basis to empower the agricultural production sector and farmers; (c) FTAs should have comprehensive coverage and depth, and include non-tariff barriers, investment, human resources development, intellectual property right protection and the environment (such as water supply service for farmers), apart from tariff reductions or elimination.

In addition, before concluding bilateral free trade agreements, the Thai Government has to develop the pre-conditions in the agricultural sector (as shown in figure 1). The hope is that these efforts would give greater benefits to both agricultural society in particular and consumers in general. Figure 1 provides more details on how free trade in the Thai agricultural sector should be managed firmly.

⁶ Farmers and non-governmental organizations (NGOs) most commonly use this term to criticize the Thai Government; it refers to the operating management style of former Prime Minister Thaksin Shinawatra.

In order to maximize the potential benefits of the existing FTAs and minimize their potential negative impacts, the Thai Government needs to satisfactorily make the necessary adjustments to its economy and encourage its business sector to strengthen competitiveness in the emerging free markets. The Government has to reform and restructure the public sector and expand infrastructure in both urban and rural areas. An effective public sector and good infrastructure are instrumental to facilitate business activities and to lower costs of production and trade. These are essential conditions before concluding an FTA.

Figure 1. Free trade process in the Thai agricultural sector



^a This covers not only tariff elimination but also other subjects such as investment, human resources development and the environment (including water supply service for farmers).

^b Compensation to economic losers can be given through the creation of social safety nets, upgrading the educational systems and facilities, and developing a social and health-care system. The strengthening of small and medium-sized enterprises is also needed to compensate them for the conditions of free trade through practical training, technology transfer, marketing and skill development in order to raise their productivity and their international competitiveness.

Thai farmers should be prepared and be empowered through practical training in skills and technology in agricultural production, and the promotion of a modern, productive and innovative workforce. Important conditions such as open and easy access to soft loans for production, good quality seeds, easy-to-obtain and cheap fertilizers, good irrigation, cultivation and marketing processes, have to be met. The central Government has to pay great attention to these conditions prior to the liberalization of the agricultural sector.

In order to improve the availability of good quality seeds, agricultural research and development has to be strengthened. Historically, Thai farmers have received good will on these matters from King Bhumibol Adulyadej. To date, the Thai Government and its institutions have worked hard always to reinvent and improve technology in the agricultural sector.

In the production process of any goods, including agricultural products, negative externalities always become evident. Farming activity tends to lead to the degradation of soil and land from over-use of fertilizer or irrigation. In this case, how to conserve the environment for future productive use is also a critical aspect. Investment in the agricultural sector and the environment is another aspect to consider, as this would sustain agricultural development. The degradation of soil, for example, needs new investment and technology to maintain its productivity.

If the proper conditions in the Thai agricultural sector are met, then free trade negotiations in agriculture could be the next step. In addition, proper consultation with and training of farmers and other stakeholders must be carried out consistently to reduce the adverse effects of free trade and increase the legitimacy of FTAs. In doing so, the Thai Government has already created at least three bodies to manage the Thai FTA negotiations with trading partners. These three institutions are the Negotiation Committee, the Steering Committee on International Trade Negotiations, and the FTA Supporting Committee. These centres are to ensure maximum benefits from FTAs by coordinating Thailand's interests across all FTAs. These bodies would be responsible for bilateral FTA and multilateral agreements such as negotiation under WTO and ASEAN, and trade-related legal affairs.

To date, conflicts regarding Thai FTAs are related mostly to domestic problems and stem from opposition groups such as farmers and NGOs or from parliament which considers that FTAs such as the Thai-Australia Free Trade Agreement (TAFTA) and the signing process of the United States-Thai FTA are unconstitutional (Silp, 2006; Ashayagachat, 2006).⁷ In particular, negotiations on the free trade agreement with the United States have been subject to political pressures and public protests regarding controversial subjects contained in the agreement.⁸ The recent problems arising from TAFTA concern Thai tuna and canned pineapple, which suffered safeguard measures imposed by Australia (Colebatch, 2005).

5. COSTS AND BENEFITS OF FREE TRADE AGREEMENTS FOR THAILAND'S AGRICULTURAL SECTOR

With the removal of tariffs and non-tariff measures and the creation of a more open trading environment, FTAs can greatly expand international trade and induce economic growth and other economic opportunities provided that they are broad in scope and deep in commitment and do not lead to undue trade diversion. Big companies can also expand and diversify their

⁷ This agreement was never debated in the parliament and it should have obtained approval from the parliament as required under the Thai Constitution (Silp, 2006; Ashayagachat, 2006).

⁸ Sensitive subjects include financial sector liberalization, liberalization of trade in the agricultural sector including the use of genetically modified organisms, and patent requirements for medicine (Silp, 2006; Chantanusornsiri, 2005).

supply chains and production bases and therefore gain economies of scale, boost their productivity, and obtain specialization in order to develop their business. However, there are also costs associated with freer trade (Kawasaki, 2003; Fabiosa and others, 2005; and Beghin and Aksoy, 2003) as presented in table 4.

Table 4. Benefits of selected FTAs for the Thai agricultural sector

<i>FTA</i>	<i>Trade effects</i>
ASEAN-China FTA and Thailand-China FTA	Exports of processed rice and rubber to China are likely to increase significantly due to Thailand's lower costs and currently high Chinese tariff rates. Imports of vegetables, fruit and oil seeds from China will increase, since Thailand currently has a very high tariff rate and cost disadvantages.
ASEAN-Japan FTA	Exported meat and other food products to Japan are likely to increase significantly due to Thailand's lower costs and currently high Japanese tariff rates. Food products, tobacco, beverages and other crops are likely to benefit significantly from a reduction of Japanese non-tariff barriers.
ASEAN+3 FTA	Exports of food products, meat products and textiles to Japan and exports of processed rice to China will increase significantly.
Thailand-Australia FTA and ASEAN-CER FTA	Food products and vegetable oils are likely to benefit significantly from a reduction in non-tariff barriers in the CER. Imports of dairy products, livestock and meat products will increase substantially due to Thailand's currently high tariff rates on these products and the competitiveness of Australia and New Zealand's agricultural sectors.
Thailand-New Zealand FTA	Thailand is expected to gain low benefits from market access to New Zealand due to its already low tariff rates as well as its small market size.
Thailand-India FTA	Thailand will benefit from products such as rubber and plastic products, and these will significantly increase due to India's currently high tariff rates. Imports of salt, tea, pepper, and apparel from India will increase due to currently high Thai tariff rates.
Thailand-USA FTA ^a	Thailand will be the winner on products such as rice, shrimp, frozen seafood, rubber, fruit and vegetables, sugar and canned fish, while the United States will get benefits from soybean, corn, potatoes and peanuts.

Source: S. Mallikamas, *A Study of Thailand's Readiness to Establish Free Trade Areas*, CAMGEM Development Project, Faculty of Economics, Chulalongkorn University (Bangkok, 2002).

^a Thailand Development Research Institute, *Thailand-US Free Trade Agreement*. (Bangkok, 2003).

During the liberalization of trade, only strong, competitive companies will survive and gain benefits from the liberalization process, while non-competitive firms are likely to collapse. Under certain conditions, liberalization could therefore entail poverty and unemployment in the uncompetitive sectors, which poses a challenge to policymakers and international institutions (Panitchpakdi, 2001). This case also applies to the Thai economy.

In Asian countries farming (livestock and crops) is characterized by small farmers who are endowed land which is usually less than a hectare in size (Sharma, 2001). Farmers are the

main players in agricultural production, but they have been marginalized in terms of getting their fair share of benefits among other players such as companies, traders, distributors, exporters and importers. In some cases, small farmers with poor land and technology tend to get a small portion of the subsidies and other support from the Government. The opening up of trade has the potential to create better market access and increase the exports of farmers' products, but the share of profit margins commonly is unequally distributed to farmers.

FTAs including agricultural products tend to give more benefits to big or corporate agribusiness, while small farmers in rural areas are often marginalized. Most of the small farmers around the world, including Thai farmers, are worse off with free trade. The exceptions to this matter could be the farmers from developed countries such as the United States, the European Union and Japan, in which farmers have enjoyed subsidies and other non-trade-related protection from their Governments (Fabiosa and others, 2005; Raman, 2005), so that their products can compete often unfairly both in domestic and international markets.

The bilateral trade agreement between China and Thailand, in which tariffs were removed on a significant number of fruits and vegetables traded between the two countries, has created a flood of cheaper imports of fruit and vegetables into Thailand (Chantasawat, 2006). Accordingly, Thai farmers and other traders have questioned the logic of agricultural liberalization under bilateral FTAs as they have been displaced and destroyed by such deals. In the case of the FTA with Australia, for example, the highly competitive dairy industry of Australia would make Thai farmers of similar products likely to be losers.

It is understood that trade and free trade agreements are based on mutual understandings and national welfare benefits derived from the resulting trade creation. However, national welfare benefits do not imply that all producers (including farmers) will be better off, as in some cases, a few of them are sometimes worse off. For those who lose as a result of free trade, the Government should assist them to upgrade their competitiveness or diversify into alternative production patterns.

In fact, there was an approved proposal for a 10 billion baht (US\$ 1 = about 36 baht) fund from the Thai Government in order to assist farmers to overcome their losses due to the negative impacts of FTAs. The funds would be aimed at reforming the agricultural sector and strengthening the competitiveness of small-scale Thai farmers by increasing the quantity and quality of their products within the next 10 years. The allocation of these funds would be directed to help local farmers to switch to competitive crops. However, the effectiveness of this policy remains questionable as it has not eliminated the farmers' existing problems and it tends to protect exporters rather than local farmers from the adverse effects of FTAs.⁹

Other policies launched by the Thaksin Administration include the "One Tambon One Product Scheme"¹⁰ and the establishment of a small and medium-sized enterprise bank, and

⁹ The fund was approved on 20 July 2004. See "B10 bn approved for farmers hit by FTA", *Bangkok Post*, 21 July 2004.

¹⁰ The Thai Government launched the One Tambon (subdistrict) One Product (OTOP) scheme in 2001. The target of this policy was to improve incomes of villagers by developing rural communities. Villagers were encouraged to produce a unique product, so that a wide variety of products would be produced. If the scheme succeeds, it would be expanded to both domestic and international markets.

other microfinancial institutions in order to empower rural society (Siripunyawit, 2004 and World Bank, 1998). Even though these policies have been subject to criticism, they have been popular with the public and are still effective in increasing the productivity of the rural sector.¹¹

Many farmers, especially small farmers in Asian countries, face difficulties in raising productivity. As in Thailand, many small rural farmers face obstacles such as availability of seed, fertilizer, irrigation, labour and cultivation. In addition, they also have conventional problems such as those related to financing and marketing, including low prices for their commodities as a result of market distortions, which are not sufficient to cover production costs. Under free trade, many small farmers are becoming worse-off as they do not have enough access to the markets or to Governments to have their voice heard in the negotiations on these matters. The agricultural sector, supported by the Government, needs modern, productive and innovative labour and production techniques, particularly for small farmers, so that farmers and rural enterprises will be able to boost their productivity and produce goods of higher quality. In doing so, innovative thinking and an outward-looking and globalized approach is required.

Government policies that are directed to empower farmers and improve their competitiveness and productivity should include facilitation of access to reasonably priced inputs, research and development on seeds and cultivation, packaging, storage and marketing, skill development for a variety of products, improving infrastructure in rural areas and improvement of social and health-care systems as well. In order to help the Thai farmers and agricultural industry survive in the global economy, the Thai Government has to tackle the problem of increased enforcement by developed countries of non-tariff barriers, in particular sanitary and phytosanitary standards. Indeed, farmers need to have access to modern production technology to produce high quality farming products that meet those standards and consumers' requirements in their export markets. These policies will enable the agricultural sector to be competitive and preserve the sustainability of agricultural development as a whole.

With respect to the agricultural sector, Governments at the national and local levels have to pay due attention to the issue of "food security" for both residents in urban and rural areas and to maintain sustainability of the agricultural sector. In this context, stakeholders have to be concerned about the use of natural resources allotted for efficient production (as natural resource endowments are limited). Income distribution and social welfare are other aspects that the Government must be concerned about. The Government has to ensure that policies on income distribution and social welfare are fair and benefit everybody.

¹¹ Criticism included observations that rural society and small and medium-sized enterprises had insufficient knowledge and skill to run businesses while access to credit was not as easy as the policies made it out to be (Siripunyawit, 2004).

6. CONCLUSIONS

Thailand has a relatively well-managed agricultural sector and has been one of the most active developing countries in Asia to engage in FTA negotiations. These negotiations are believed to have broadened the international markets for Thai products, including agricultural products. In concluding an FTA the Government should have the wisdom not to open the market all at once, but instead adopt a gradual approach towards liberalization of its domestic market. In order to get equally distributed benefits of FTAs, it is imperative to create not only freer but also fairer trade among partner countries under the agreements.

The agricultural sector consists of many players, mostly small farmers, who are impoverished and have poor bargaining power. Restructuring and adjustment processes in the Thai agricultural sector, especially for the empowerment of Thai farmers, are of the essence in order to keep pace with the rapid changes brought about by globalization, such as increased trade, and gain more benefits from FTAs for society at large. The Thai Government also needs to pay greater attention to improving the effectiveness and competitiveness of private businesses to enable them to benefit from freer trade. In addition, in efforts to develop its agricultural sector, Thailand has to be aware of the need for proper and fair distribution of benefits to each domestic sector involved. In addition, several aspects must be significantly enhanced: the bargaining power of farmers, especially small-scale ones, the development of productivity and increased competitiveness in international markets.

It should be recognized that effective trade and FTAs are based on mutual understanding and that the benefits of free trade are national, involving some winners and also some losers. For the losers, the Government should help them shift to alternative means of production and/or improve their competitiveness.

Acknowledgements

The author wishes to thank Marc Proksch (United Nations, ESCAP) for his helpful correction and constructive comments. In particular, the author is very grateful to Prof. Shigeru T. Otsubo, Graduate School of International Development (GSID), Nagoya University, and all his Seminar Members for their helpful comments. The author also wishes to thank Prof. Somsak Tambunlertchai (Ministry of Industry, Thailand) and Prof. Abdul Rahman Embong (IKMAS, Universiti Kebangsaan Malaysia) for their outstanding ideas and comments.

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