Australia-Thailand
Free Trade Agreement
Joint Scoping Study

A joint report coordinated by officials in the Australian Department of Foreign Affairs and Trade and the Thai Ministry of Commerce

May 2002

Table of Contents

Executive Summary

This joint scoping study assesses the impact of a bilateral free trade agreement between Australia and Thailand. It also addresses possibilities for closer cooperation in a number of other areas affecting the economic relationship.

An FTA would bring significant benefits to both countries

The overall conclusion of the study is that a free trade agreement would bring significant economic benefits to both countries. Economic modelling suggests that such an agreement would boost Australia's GDP by US$6.6 billion and Thailand's GDP by US$25.2 billion.[1] Trade and investment between Australia and Thailand would expand substantially. A free trade agreement could also provide a framework to cooperate further on a wide range of issues, ranging from e-commerce to competition policy. The gains from all of these changes would clearly outweigh any adjustment costs which may be incurred.

Relations are already close …

A free trade agreement would build on a relationship between the two countries which is already close. Bilateral trade in goods is around US$2.6 billion per year and the two countries share similar perspectives on major trade issues. They have cooperated closely in the World Trade Organization (WTO), Asia Pacific Economic Cooperation (APEC) and the AFTA-CER arrangement which links Australia, New Zealand and ASEAN economies. They have worked together closely on issues such as regional security, for example through close diplomatic and military cooperation on East Timor. There are strong people-to-people links and close educational ties.

… but there are significant impediments to trade and investment

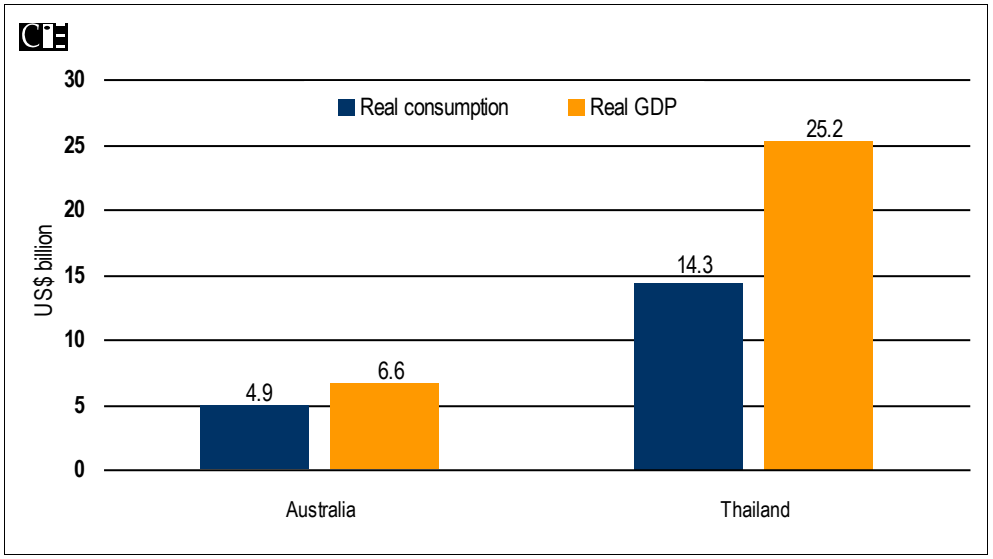
Although both countries have undergone trade liberalisation over the past decade, there are still important impediments to trade and investment. Tariff barriers are significant in some sectors for both Australia (for passenger motor vehicles, textiles, clothing and footwear) and Thailand (e.g. motor vehicles and a range of agricultural and manufactured products). There are also significant barriers to services trade. Investment in both directions is low, with Australian investment in Thailand only a fraction of its investment in some other East Asian economies.

Under an FTA, Australian exports to Thailand which could be expected to increase would include dairy and other agricultural products, pharmaceutical goods, aluminium and large passenger motor vehicles and components. Thailand would have good export expansion prospects in areas such as small motor vehicles (both passenger and commercial), plastic products, iron and steel products, pulp and paper products and agricultural products.

[1] In net present value terms, over 20 years. Assumes immediate implementation.

Gains from Immediate Implementation of an FTA: Modelling Results

Net Present Value 2002 $US billion[a]



[a] Discounted by model generated real interest rate.

Trade would increase in both the goods and services sectors

The gains from liberalising the services sector are also likely to be significant. Australian firms would stand to benefit from being able to operate more freely in the Thai market – areas of particular potential could include banking and professional services. For Thailand, there would be an appreciable impetus to investment, growth and competitiveness from a more open services sector – this is the main reason why the boost to Thailand's GDP would be so significant. In banking, stronger representation from foreign firms appears to be already strengthening this aspect of the Thai economy, with improvements in such areas as accounting, auditing, customer service and risk management. These gains would develop further under the more open access arrangements which could be part of an FTA with Australia. There would be similar benefits in areas like insurance (where Thai firms would gain added access to capital, management expertise and technology) and professional services.

An FTA would also give each country access to cheaper inputs and expertise, thus helping each to penetrate third markets.

Investment flows to Thailand would tend to increase

A free trade agreement could, depending on the provisions it contained, lead to an increase in foreign direct investment into both countries, for example, if restrictions which currently exist on foreign investment were reduced or if the FTA made joint ventures between Australian and Thai firms easier to develop. In addition to any stimulus to bilateral investment, an FTA could stimulate the interest of investors from third countries, who would see increased opportunities flowing from the creation of a larger market. Also, the greater efficiencies in the Thai services sector noted above should act as a stimulus to further foreign investment.

The faster the FTA was implemented, the greater would be the gains

The economic modelling carried out by an independent consultant (using the APG-Cubed Model) suggests that an FTA would lead to increases in real consumption of US$4.9 billion for Australia and US$14.3 billion for Thailand.[2] GDP gains, as noted above, would be US$6.6 billion for Australia and $US25.2 billion for Thailand. These are conservative estimates, which do not take into account a number of potential gains (for example, the gains from greater cooperation in areas like standards and conformance and e-commerce). Output in each of the six sectors covered by the model – energy, mining, agriculture, durable manufacturing, non-durable manufacturing and services – is expected to expand under an FTA. Importantly, the gains to the free trade area would be bigger the faster liberalisation proceeds, even after taking into account adjustment costs. Liberalisation "overnight" would increase the gains to Thailand by almost US$10 billion compared with the alternative of liberalisation over 5 years for Australia and 10 years for Thailand.

Liberalisation in agriculture would benefit both economies

Case studies on particular sectors confirm substantial gains from an FTA. In agriculture, freeing up trade – mainly through lower tariffs – would bring substantial improvements in market access for Australian exporters. Thailand would gain improved access to a market of 19 million consumers with a disposable income equivalent to the highest strata of Thai food consumers. Thai consumers would benefit from cheaper food, while the Thai food processing industry would gain cheaper inputs (which would lead to improved competitiveness and increased exports). Australian investment in Thai agriculture could increase.

There would be gains from closer integration in the automobile and auto parts sectors

In the auto sector, gains would be expected from closer integration of the Australian and Thai markets. The complementary nature of the two vehicle industries (with Thailand focusing on small cars and light commercial vehicles and Australia on larger cars) would encourage closer integration, leading to significant economies of scale. There would also be a positive impact on component manufacturers in both countries, with Thailand expected to increase its share of the Australian market in existing product lines such as tyres, radio broadcast receivers and lighting/signalling equipment, and to develop new business in other areas. Australian suppliers of products such as engines, transmissions, brakes, mirrors, lighting equipment, wheels and seat belts would have greater potential in the Thai market. For both motor vehicles and components, there would be greater two-way flows of investment, as well as increased investment from third countries.

In textiles and clothing, a free trade agreement would provide new opportunities for Thai exports to Australia. This would intensify

[2] In net present value terms, over 20 years.

An FTA would open up new opportunities in textiles and clothing

business links between Australian clothing wholesalers and retailers and Thai textile and clothing makers, and would provide new opportunities for growth in Thailand's clothing exports. While the gains to Australia would be smaller than for Thailand, an FTA would strengthen demand for Australian raw products such as wool and cotton, and provide greater access in the Thai market for niche, lifestyle products (such as swimwear) as well as more general exports like carpets. It could also provide Australian industry with new opportunities for supplying related services (such as fashion design) to the Thai market.

… and intensify existing links in sectors like education and tourism

In education and tourism, there are already strong links between Australia and Thailand, with Australia one of the main destinations for Thai students. Both countries would benefit from an intensification of these links. An FTA could encourage Australian educational institutions to develop further their presence in Thailand, including by removing impediments to establishing and operating there. In tourism, it would provide a framework for increasing awareness of both countries as tourism destinations, promoting two-way movement of tourists and addressing key challenges facing tourism over the decade. In health, there could be possibilities for expanded trade in services provided by health-related service providers such as nurses, physiotherapists and para-medical personnel.

Adjustment costs would be small

An FTA would, by definition, change the economic relationship between the two countries. Just as many firms would have increased opportunities, some firms – in both countries – could face tougher competition. However the study found that the adjustment costs associated with an FTA are likely to be modest, given that the value of international trade between the two countries is only around 2 per cent of the total international trade of each and that the two economies are relatively complementary and have different specialisations. In agriculture, for example, differing specialisations are illustrated by grains (rice versus wheat), seafood (processed versus fresh) and horticulture (tropical versus temperate). It is possible that the adjustment costs, while small, would be borne more heavily by Thailand than Australia.

The precise impact of a free trade agreement on merchandise trade flows would depend on rules of origin implemented as part of the agreement. Thailand already has in place a rules of origin regime though its arrangement with the ASEAN Free Trade Area, while Australia applies a regime in its trade with New Zealand under the Closer Economic Relations Trade Agreement (CER). The content of rules of origin would need to be addressed in FTA negotiations.

A free trade agreement would provide a framework in which to promote cooperation on other issues which can have an impact on the economic relationship. For example, differing standards and

procedures for assessing conformity to them can be significant obstacles to trade. It would be possible for Australia and Thailand to undertake, within the framework of an FTA, further joint efforts towards an objective of harmonisation or equivalence of standards, as well as strengthening mutual recognition of procedures for assessing conformity to them.

Electronic commerce (including business-to-business and business-to-consumer) is likely to assume greater importance over the next decade. Australia and Thailand could work within the framework of an FTA to develop and apply core principles which would minimise the regulatory burden on electronic commerce and allow industry-led development of it, with the aim of allowing Internet-based trade to expand. Technology transfer is another issue where there would be advantages from closer cooperation and an FTA could act as a catalyst for this.

An FTA would provide a framework for improved cooperation in many areas

Other issues where there would be benefits from greater cooperation include competition policy, anti-dumping, quarantine, government procurement, intellectual property, the movement of people, cooperation in the finance sector, transportation, including air services, and joint ventures. In many of these areas, there is already a high level of cooperation.

Among these areas there are two – quarantine and anti-dumping – which have caused difficulties in the bilateral trade relationship. On quarantine, the conservative measures Australia has adopted affect a number of Thailand's agricultural exports. With regard to anti-dumping, Australia's application of anti-dumping measures against products believed dumped, has led to a loss of market share by Thailand. To strengthen market perceptions that members are willing to cooperate in all trade issues, bilateral mechanisms and efforts to resolve these concerns could be addressed in any FTA negotiations.

The study concludes that, in light of the potential benefits noted above, the Governments of Australia and Thailand should give close consideration to entering into negotiations to establish an FTA. Australia and Thailand are at different stages of economic development, would bear different adjustment costs and gain different benefits from an FTA – all these factors should be taken into account in any negotiations.

It argues (in accord with earlier agreements reached by Australia's Trade Minister Mr Vaile and Thailand's Minister for Commerce Dr Adisai) that any FTA should be comprehensive in scope and underpin both countries' support for the WTO multilateral trading system. It should also be consistent with APEC's goals and principles (and specifically the Bogor goal of free and open trade and investment for industrialised economies by 2010 and

developing economies by 2020). The more comprehensive an FTA, the greater the gains that can be expected from it.

Close consideration should be given to entering negotiations for an FTA which is comprehensive and WTO-consistent

The report also recommends that any FTA address a range of issues extending beyond trade and investment liberalisation in order to maximise the gains from integration. These include standards and conformance, quarantine procedures, anti-dumping, e-commerce, competition policy, government procurement, intellectual property, people movement, joint ventures, transport and technology transfer. Regular Ministerial level review under an FTA could encourage the development of closer ties by creating a regular forum for advancing new initiatives and dealing with trade and investment problems between the two countries.

Nothing in the study pre-judges in any way how particular issues might be addressed in FTA negotiations, if and when the two Governments decided to commence negotiations.

1. Introduction

In July 2001, the Australian and Thai Governments agreed to undertake a joint scoping study for an Australia-Thailand free trade agreement (FTA).

Relations between Australia and Thailand are already close. Bilateral merchandise trade between the two economies is currently valued at around A$5 billion (US$2.6 billion) and has been expanding rapidly. Australia and Thailand cooperate closely on trade issues, including through membership of the World Trade Organization (WTO), Asia Pacific Economic Cooperation (APEC) and the Cairns Group. Both are working towards the AFTA-CER Closer Economic Partnership between ASEAN economies, Australian and New Zealand, which was agreed in October 2000. Ministerial and official visits between the two economies are frequent. Australia and Thailand also have a long tradition of development cooperation.

There is scope to strengthen the bilateral trade relationship, however. Although bilateral trade is substantial, it is below the levels achieved with some comparable East Asian economies. Investment links between the two economies are quite limited. There is potential for much closer cooperation between Australian and Thai companies in specific sectors such as automobiles, processed food, and textiles and clothing. There is also much scope for strengthening ties in New Economy areas like electronic commerce, which are likely to assume increasing significance over the next decade.

This study was prepared against the background of a world economic slowdown, slower economic growth or recession in large parts of the Asia Pacific region, and heightened competition for trade opportunities and for foreign direct investment. Many areas of trade have been affected by the global downturn. These developments have confirmed the importance of further efforts at a number of levels to ensure both short-term recovery and sustainable long-term economic growth in both the Australian and Thai economies. A strengthening of our economic relationship can contribute to these shared goals.

The launch of a new round of multilateral trade negotiations at the Fourth Ministerial Conference of the World Trade Organization in Doha has been one crucial step. These negotiations have the potential to deliver a major impetus to global economic growth. Australia and Thailand are committed to them as the highest priority of their trade policy. At the regional level, the movement towards further liberalisation and reform has also been confirmed, most recently by APEC Leaders meeting in Shanghai in October 2001. Both Australia and Thailand are also developing or exploring other regional and bilateral approaches to expanding trade and investment.

A number of Asia Pacific economies are moving to free up trade and investment among themselves. In the case of ASEAN, the Common Effective Preferential Tariff (CEPT) has been broadened and its implementation accelerated, with tariffs on included items for the original ASEAN members scheduled to fall to 0-5 per cent by 2002. Singapore has concluded preferential trade agreements with New Zealand and Japan, and is negotiating further arrangements with Australia, Canada and the United States. ASEAN and China have agreed to undertake negotiations on a free trade area. Some other free trade agreements which have been under study or which are being

negotiated involve Japan and Korea, which have until recently eschewed preferential trading arrangements. Developments in the Asia Pacific are occurring against the background of a broader shift towards regionalism in Europe and the Americas.

Interest in free trade agreements is being driven by several factors. There has been an increasing recognition that regional arrangements of this kind can work to complement the multilateral trading system and that they can lead to important market access gains within a short time frame. It is possible to address a wide range of issues in these discussions, including important new issues such as services, investment and electronic commerce. Within an "FTA-plus" arrangement, other bilateral issues can be brought within the framework of a broader agreement which strengthens bilateral relationships overall. As tariff barriers have been reduced, the potential trade diversion and adjustment costs of preferential arrangements have also fallen. These factors are all relevant in considering an arrangement involving Australia and Thailand.

Aims and Outline of the Study

The aim of this study is to analyse and assess the benefits and costs, including through economic modelling, of entering into negotiations to establish a preferential, bilateral free trade agreement between the two Governments. Both economies have agreed that the free trade agreement subject to study should be consistent with, and supportive of, the multilateral trading system, and that it should be assessed against its potential to advance APEC's Bogor goals of free and open trade and investment.

Australia and Thailand have also agreed that the study should explore not only preferential trade, but a number of other issues which have the potential to develop closer relations. It therefore addresses cooperation on such issues as standards and conformance, e-commerce, competition policy, anti-dumping, quarantine, government procurement, intellectual property, financial sector cooperation, transportation, joint ventures and technology transfer. Inclusion of such issues is increasingly seen as an important aspect of free trade agreements, given their potential to extend and deepen the closer economic ties formed through trade preferences. The inclusion of some of these issues is also consistent with the broader aim within APEC of reshaping trade policy to take account of the broader changes brought about by globalisation and the New Economy.

Consistent with the terms of reference, the study is divided into two parts. Within the first part, a series of chapters seek to examine the economic, trade and commercial impact of a WTO-consistent free trade agreement. Specifically:

- Chapter 2 examines current bilateral trade and investment flows between Australia and Thailand and looks at impediments to closer economic integration between the two economies. It also reviews current economic cooperation.
- Chapter 3 looks at the impact of preferential liberalisation on merchandise trade, services and investment, including the broader strategic gains from closer integration of the two economies and potential areas of trade expansion.

- Chapter 4 discusses the impact of a free trade agreement on key sectors, namely agri-business and processed food, automobiles and auto parts, textiles and clothing, and selected services.
- Chapter 5 explores possible benefits of cooperation in a range of other areas. These include standards and conformance, e-commerce, competition policy, anti-dumping, quarantine, government procurement, intellectual property, cooperation in the finance sector, transportation, joint ventures and technology transfer.
- Chapter 6 summarises the results of economic modelling of an Australia-Thailand free trade agreement carried out with the Asia Pacific G-Cubed (APG-Cubed) Model developed by Professor Warwick McKibbin.

Part 2 of the study (Chapter 7 and Chapter 8) draws together the findings of the first part, and makes broad recommendations which aim to maximise the benefits and minimise the potential costs of a free trade agreement. It includes sections on the architecture of a possible free trade agreement, on its scope and coverage and on adjustment issues. It also proposes other steps with a view to further improving and intensifying economic, trade and commercial relations between the two economies.

2. Australia-Thailand Trade and Investment Links

Australia and Thailand are important economies in East Asia. Australia is the fourth largest economy in the region, with its GDP of almost US$400 billion roughly comparable to all of Thailand's ASEAN partners combined. Thailand, with its GDP of US$122 billion, is second only to Indonesia among the ASEAN economies. Both are very substantial markets, with imports of goods and services for each over US$80 billion.

Both economies have enjoyed periods of remarkable success over the past two decades. Thailand's growth in the period up to its 1997 economic crisis was spectacular, with GDP increasing at around 8 per cent annually in the period 1980-96. Australia's growth has been more modest, partly reflecting its position as a developed economy with slower growth in the labour force and more limited opportunities for productivity growth. But there is substantial evidence that the potential long term growth rate of the Australian economy has increased, with productivity growth now substantially above the historical rate. To a large extent, this has resulted from sweeping microeconomic and structural reforms undertaken since the early 1980s.

2.1 The Australian and Thai Economies

The Australian economy has expanded strongly in recent years, with GDP growth at an average annual rate of over 4 per cent since 1995. The momentum of economic growth remains strong, with Treasury projections suggesting that GDP is likely to increase by around 3 per cent in 2001-02 and 3½ per cent in 2002-03, in spite of subdued world economic growth. Domestic demand (and particularly a huge rebound in dwelling construction) is expected to drive economic growth in 2001-02 rather than net exports (which are expected to have a negative impact on GDP growth).[1]

Thailand emerged from the East Asian economic crisis to produce GDP growth of 4.2 per cent in 1999. Recovery was sustained in 2000 with GDP growth of 4.3 per cent, a rate which would have been stronger, but for depressed domestic demand following a surge in oil prices and a less expansive fiscal policy. In 2001, global economic slowdown retarded Thailand's export-induced recovery, with a simultaneous drop in exports to many of Thailand's major markets. GDP growth that year was a modest 1.5 per cent. Tourism dropped off sharply in 2001, following the September 11 terrorist attacks, cutting into the current account surplus. The pace of Thailand's economic recovery is likely to decelerate in the short term, owing to the harsh external environment. Long term prospects are brighter, although they depend on continued progress in financial sector reform and corporate debt restructuring. GDP growth in 2002 is forecast to be 2.0 per cent.

Current projections suggest that Australia's economy might expand in the long term at something like 3½ per cent per annum. On this basis, a decade of growth would increase Australia's imports of goods and services by over 50 per cent, even without policy changes. Thailand's prospects, while somewhat less certain in the short term, are also good in the longer term. Projections by Consensus Economics suggest that

[1] These forecasts are from *Mid-Year Economic and Fiscal Outlook: 2001-02*, Statement by the Treasurer and Minister for Finance, October 2001.

its GDP growth might recover to better than 4 per cent annually from around 2004, with an average growth over the decade of around 3.6 per cent annually. This in turn could boost imports of goods by around 40-53 per cent in the long run based on historically estimated relationships.[2] An FTA would, however, be expected to boost economic growth and trade for both Australia and Thailand appreciably (see Chapter 3 and Chapter 6).

Box 2.1.1
Impact of Financial Crisis on Thailand

The 1997 East Asian financial and economic crisis drove Thailand into deep recession. Before this, Thailand was one of the region's most vibrant economies. In 1997, GDP growth dropped to -1.7 per cent compared to 5.9 per cent in the previous year. In the third quarter of 1997, the International Monetary Fund granted a US$17 billion credit line to Thailand on condition it implemented the prescribed structural adjustment program, featuring fiscal austerity and tight money stances. After the lapse of six months, however, the economy showed little sign of recovery. In 1998, GDP growth decreased to -10.8 per cent and the rate of unemployment hit a record high of 6.1 per cent.

The economic downturn was largely due to a sharp contraction in domestic demand, resulting from negative income shifts; excess production capacity in the industrial sector; debt overhang and a liquidity crunch in the private sector; and asset price deterioration. Output in the non-agricultural sector contracted almost across the board.

The export sector helped ease the severity of economic contraction, with export volumes expanding at a rate of 8.1 per cent in 1998. Export volumes of agricultural products, such as rice, rubber and frozen fowl, and high-tech manufacturing products, such as electronics and automobile parts increased substantially. However, in value terms exports decreased by 6.8 per cent from 1997 as a result of declining export prices caused by intense price competition. Imports fell sharply across the board with a total year on year reduction of 33.8 per cent. The services and transfers surplus increased by 35.9 per cent, due in part to a substantial reduction in Thais travelling overseas.

Thailand introduced a range of economic reforms in response to the financial crisis. These included opening its financial services market to foreign competition and easing import restrictions on other service sectors. It strengthened accountability standards, by introducing new requirements for listed firms, such as establishing audit committees, and issuing good governance standards for company directors. Addressing further financial sector reform, persistent high levels of corporate debt, and market opening will be required to consolidate Thailand's recovery, particularly in a harsh international economic environment.

[2] Estimates for import growth are based on long run import elasticities from Sawyer, W. and Sprinkle, R., *The Demand for Imports and Exports in the World Economy*, Ashgate, Aldershot, 1999, pp.20,56.

Table 2.1.1: The Australian and Thai Economies

	Australia	Thailand
Population (million, 2000)	19	62
Surface Area ('000s square km)	7,741	513
GDP (US$ billion, 2000, current prices)	395	122
GNP-PPP (US$ billion, 1999)	426.4	345.4
GDP Growth (average annual, %)		
1980-95	3.1	8.1
1995-00	4.1	0.4
Exports goods and services (US$ billiion, 2000)	82.3	80.9
Imports goods and services (US$ billion, 2000)	86.8	71.0
Per capita GDP (US$/person, 2000, current prices)	19,906	1,954
Per capita GNP-PPP (US$/person, 1999)	22,448	5,599
Secondary school enrollment ratio	96	48
(% of relevant age group, 1997)		
Public expenditure on health (% GDP)	5.5	1.7
Infant mortality rate (per 1000 live births, 1998)	5	29

Source: ABS, World Bank, IMF, Department of Foreign Affairs and Trade

The two economies are separated by very substantial differences in economic and social development. Thailand's per capita income is less than a quarter of Australia's in purchasing power parity terms and about 10 per cent of it in current dollar terms. These differences partly reflect highly uneven levels in capital per worker (Australia, for example, has 700 tractors per 1000 agricultural workers whereas Thailand has 7) and in the development of human capital. The proportion of the population engaged in agriculture – often used as an indicator of economic development – is very different. There are large differences in health standards (see Table 2.1.1).

The uneven development of the Australian and Thai economies would present challenges in the negotiation of an FTA, somewhat similar to those encountered by the United States and Canada in negotiating an FTA with Mexico. The historical pattern of negotiating FTAs is shifting, however, with evidence of increasing willingness to negotiate FTAs involving economies at different levels of development. In purely economic terms, the presence of marked differences in levels of development might be expected to increase the scope for trade creation and thus positive benefits to each economy. Research by the World Bank suggests that gains to middle income economies from economies of scale and increased competition in a larger market involving high income economies can also be significant.[3]

The general characteristics of the Australian and Thai economies suggest a reasonably good readiness for closer economic integration.[4] Australia, with a highly stable economy, very low reliance on trade taxes and strong market-oriented policies

[3] See World Bank, *Trade Blocs*, Oxford University Press, New York 2000, pp.66-67.

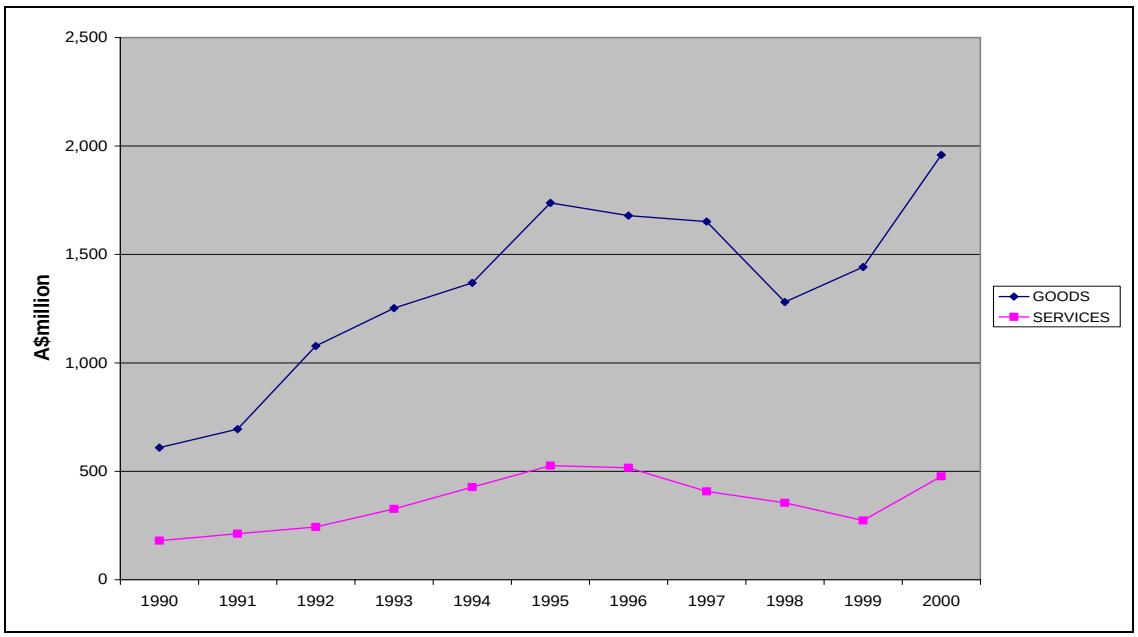
[4] Hufbauer and Schott suggest that 8 criteria are important in assessing the readiness of an economy to become involved in an FTA. These include price stability, budget discipline, national saving, external debt, currency stability, reliance on trade taxes, policy sustainability and market-oriented policies. For an application of this approach to a specific study, see Choi, I. and Schott, J., *Free Trade between Korea and the United States?*, Institute for International Economics, Washington, D.C., 2001, pp.8-11.

perhaps meets the criteria for "FTA readiness" more closely than Thailand. But Thailand has been undergoing massive economic restructuring in recent years, including as a result of its economic crisis. Although major problems remain from the economic crisis, its longer term prospects appear relatively sound and its commitment to market-oriented reform appears strong.

2.2 Australia's Exports to Thailand

Thailand's economic transformation over the last two decades has made it one of Australia's most important trading partners. Australia's merchandise exports rose to A$2.0 billion (US$1.2 billion) in 2000, placing Thailand 12th among Australia's export markets. Thailand is also an important market for Australian services, with those exports valued at over A$476 million (US$277 million) in 2000.

Chart 2.2.1: Growth in Australian Exports of Goods and Services to Thailand



Source: ABS

Australian exports of both goods and services expanded very strongly in the period up to the 1997-98 economic crisis (exports of goods, for example, grew at around double the annual growth rate of all Australian exports in the decade leading up to the crisis). The expansion of trade was driven both by Thailand's increasing role as a supplier of manufactured products to world markets and by rising incomes in Thailand itself.

The immediate impact of Thailand's 1997 economic crisis was to cut Australian exports sharply, as the Thai economy contracted and its exchange rate depreciated. Between 1995 and 1998, merchandise exports slumped by over 26 per cent and services exports declined by 33 per cent. However, merchandise exports have again expanded strongly in the last two years, reaching a record high in 2000. Services exports have also recovered strongly, although they remain below the peak set prior to the crisis.

Australia has had a trade deficit with Thailand since 1998 with the deficit increasing from A$566 million (US$356 million) to almost A$1,075 million (US$626 million) in 2000. In part, this reflects the impact of Thailand's economic crisis and in part the extraordinarily rapid expansion in Thailand's exports to Australia. Preliminary data for the 2001 calendar year suggest that the balance has tipped back into Australia's favour. According to Thai Department of Business Economics data for 2001, Thailand had a US$12 million merchandise trade deficit with Australia; preliminary Australian data for 2001 show an Australian merchandise trade deficit, although one much smaller than in 2000. The bilateral balance of services trade is favourable to Thailand. The balance on both goods and services for years between 1991 and 2000 (estimated from customs data for merchandise trade and balance of payments data for services) is shown in Table 2.2.1.

Table 2.2.1: Total Bilateral Trade in Goods and Services (A$ million)

	1991*	1996*	1997*	1998*	1999*	2000*
Exports	906	2,194	2,058	1,634	1,715	2,435
Imports	887	1,504	1,766	2,200	2,773	3,510
Trade balance	**19**	**690**	**292**	**-566**	**-1,058**	**-1,075**

* Trade in goods and services is derived from separate series on merchandise trade (customs basis) and services trade (balance of payments basis). These series are not fully consistent.

Australia-Thailand trade is complementary in many ways. Thailand has a large surplus in trade in elaborately transformed manufactures (ETMs), while Australia has a surplus in agricultural raw materials, minerals, metals and fuels which are used as intermediate products in Thai industrial production. Thailand maintains a surplus of trade in both unprocessed and processed food.

Partly because of these complementarities, trade between the two economies is stronger than would be expected from the size of their import markets. Australia's merchandise exports to Thailand thus amount to about 1.9 per cent of its exports to all countries, or double the share which might be predicted from Thailand's share of world imports. However, it is also true that bilateral trade is below that with some other East Asian economies. Australia's share of the Thai import market, at around 1.9 per cent, is well under that for Japan (3.9 per cent), the Philippines (2.6 per cent) and Indonesia (5 per cent).

There are good prospects for further expansion of bilateral trade. Thai import demand is projected to decline in the short term (2002-03) according to Economist Intelligence Unit (EIU) forecasts, but increase from 2004 onwards. Australia's export prospects will depend on growth in the export markets which Thailand supplies, and on its competitiveness against other suppliers. Australia's Economic Analytical Unit has argued that exports could exceed A$2.5 billion (US$1.5 billion) by 2005.[5] However, this estimate may prove conservative.

[5] East Asia Analytical Unit (now Economic Analytical Unit), *Transforming Thailand: Choices for the New Millennium*, Department of Foreign Affairs and Trade, Canberra, 2000, p.1.

Merchandise Exports by Sector and Product

Manufactured products have traditionally dominated Australia's exports to Thailand. In 1996, for example, manufactures constituted just over half of merchandise exports while slightly over a quarter were primary products.[6] Manufactures exports were hit hard by the economic crisis, however, with their share of merchandise exports dropping below that of primary products in 1998. Manufactures exports recovered appreciably with improved economic conditions in Thailand reaching over A$844 million (US$491 million) in 2000 or 43 per cent of merchandise exports. In dollar terms, however, manufactures exports are only modestly above pre-crisis levels.

Table 2.2.2: Australian Exports to Thailand by Major Category (A$ million)

Item	1991	1995	1996	1997	1998	1999	2000
Unprocessed food	38.0	14.6	16.2	19.2	15.8	17.6	33.7
Processed food	51.7	143.4	191.6	173.7	184.9	191.6	205.3
Other rural	63.5	139.1	148.1	181.8	240.5	260.6	306.7
Minerals	10.8	50.8	53.2	45.8	45.5	71.2	98.8
Fuels	44.3	40.3	55.5	159.4	13.9	31.3	170.8
STMs*	208.5	453.1	390.9	346.9	272.8	300.5	425.5
ETMs*	214.1	547.2	482.5	450.9	248.2	315.3	418.4
Other exports	63.6	349.0	340.2	273.6	258.8	253.5	299.5
All merch. exports	**694.5**	**1,737.5**	**1,678.3**	**1,651.4**	**1,280.5**	**1,441.6**	**1,958.5**

Source: ABS.

* STMs are simply transformed manufactures, while ETMs are elaborately transformed manufactures.

Exports of primary products were not as badly affected by the 1997 financial crisis as manufactured exports. As a consequence, the share of primary products in merchandise exports has improved. Exports of *fuels* fluctuated dramatically between 1995 and 2000, but were four times higher at the end of the period. Exports of minerals and "other rural products" (a category which includes cotton) have also performed relatively well, growing at an average annual rate of 14 per cent and 17 per cent respectively since 1995. By 2000, exports of primary products to Thailand were worth A$813 million (US$473 million) and accounted for just over 40 per cent of total exports.

Exports of specific products are shown in the accompanying tables. Aluminium has been Australia's highest value export to Thailand for all but two of the last six years. Among Australia's high-value manufactured exports performing strongly in the Thai market in the past five years are copper, medicaments and telecommunications equipment. Cotton has emerged as by far the largest rural export to Thailand in recent years, growing at an average annual rate of over 27 per cent since the 1996. Food exports continue to be dominated by dairy products, which have fluctuated at around A$100 million (US$54 million) in the past five years. Other important food exports include flour, cereal preparations and crustaceans, and vegetables and fruit. Crude petroleum is Australia's largest mineral export to Thailand, but export values have fluctuated enormously in recent years. Exports of "other ores" (which include lead,

[6] The remainder of the merchandise trade consisted of confidential and miscellaneous items.

zinc and tin ores) have grown consistently at an average annual rate of over 10 per cent since 1996.

Table 2.2.3: Australia's Top Ten Rural and Mineral Exports (A$ million)

Item	1996	1997	1998	1999	2000	2001
Cotton	74.7	96.1	173.0	188.4	221.5	247.8
Crude petroleum	43.7	147.2	6.9	26.0	160.9	150.8
Milk & cream	111.7	100.4	105.3	98.6	102.5	108.5
Other ores	44.3	40.4	38.8	63.5	85.1	75.4
Wool	63.2	76.4	52.2	57.6	69.1	71.0
Food & live animals, (nes)	n.a	18.2	15.5	17.5	18.5	24.5
Cereal preparations	10.5	9.4	20.8	21.0	26.0	44.9
Butter	32.2	23.8	20.8	26.3	22.6	23.6
Raw hides and skins	6.8	4.5	10.6	8.2	10.4	20.3
Vegetables and fruit	na	14.1	8.6	9.5	15.2	17.2

Source: ABS

Table 2.2.4: Australia's Top Ten Manufactured Exports (A$ million)

Item	1996	1997	1998	1999	2000	2001
Aluminium	238.7	196.7	168.6	152.2	242.2	377.2
Copper	38.4	38.2	7.4	31.1	73.4	106.0
Medicaments	29.7	37.0	27.6	42.6	64.4	107.2
Telecommunications equipment	7.7	12.2	7.8	13.3	47.3	33.3
Pigments, paints, varnishes	23.7	24.7	16.2	25.7	36.4	36.7
Passenger motor vehicles	31.4	14.6	1.6	28.7	32.7	26.1
Toy games and sporting goods	2.9	1.6	1.5	1.6	9.5	28.1
Leather	13.1	8.5	10.7	31.2	20.3	18.2
Electricity distribution equipment	24.7	21.9	7.9	0.7	1.7	13.8
Electrical equipment for circuits	8.5	9.1	3.2	2.5	5.8	13.3

Source: ABS

Barriers to Merchandise Exports

Tariff Barriers

The current structure of Thailand's tariff policy divides the Thai tariff schedule into a number of tariff rate categories, or bands. The six bands are:

- 0 per cent for most industrial raw materials and essential goods, such as medical equipment
- 1 per cent for selected raw materials, electronic parts and vehicles for international transport
- 5 per cent for primary and capital goods
- 10 per cent for intermediate goods
- 20 per cent for finished products
- 30 per cent for goods needing special protection.

The Thai Government is considering introducing a new tariff structure, which would see tariffs grouped into four broad categories in order to facilitate further tariff

reductions. Raw products would attract a tariff of 1 per cent, semi finished products 5 per cent, finished products 10 per cent, and 'products under special control' 20 per cent.

In reality, tariffs on goods exported by Australia are higher than those suggested by the current tariff structure, due to the exemption of certain sectors or sub-sectors from this structure. Thailand's simple average tariff rate remains high, averaging around 18 per cent. Current applied tariffs exceed 30 per cent for significant import lines. For example, motor vehicles attract tariffs of up to 80 per cent, beef 60 per cent and fish 60 per cent.

Products in which Australia has a special interest often attract higher than average tariffs. These include confectionery (30 per cent), automotive components (from 5 to 42 per cent for parts, or one rate of 33 per cent for all parts), fruit (30 per cent or 25 Baht per kg), and wine (55.2 per cent). Chapter Four examines more fully tariffs and other measures in the agribusiness and processed foods, automobile and auto parts, and textile and clothing sectors.

Imports of minerals and fuels face tariffs of between 0 and 10 per cent. Crude petroleum imports are currently exempt from duty. Excise taxes are imposed on gasoline and on fuel oil.

Australian exports can benefit from the extensive duty exemptions provided by the Board of Investment, which are intended to encourage investment in Thailand. Under these exemptions, investors in a wide range of activities can receive substantial duty reductions or duty exemption for raw materials and machinery used in manufacturing operations. The scope of these exemptions is reflected in the fact that tariff revenue collected amounts to less than 4 per cent of imports, well below the average most favoured nation tariff.

Australian exporters are typically disadvantaged relative to ASEAN suppliers because Thailand is a party to the ASEAN Free Trade Agreement (AFTA). Under the Common Effective Preferential Tariff (CEPT) scheme, ASEAN members agreed to reduce tariffs to between 0 and 5 per cent, initially over a 15 year period and to eliminate other barriers to trade. The original ASEAN members, including Thailand, have since undertaken to reduce tariffs under the CEPT to 0 to 5 per cent by 2002. Coverage of the CEPT has also been extended to unprocessed agricultural products (initially excluded). As a consequence, Thailand's simple average tariff for ASEAN economies in 2000 was reported to average 7.3 per cent, less than half of its 18 per cent MFN simple average applied tariff.

Non-tariff Measures

Consistency in the application of customs regulations, duties and imported product price assessments, and simplicity of tariff classifications has increased significantly through Thailand's implementation of the WTO Agreement on Customs Valuation in January 2000, a customs modernisation program and computerisation of most customs systems. However, there remain concerns about the degree of discretion exercised by Thai officials and the use of minimum import prices in determining transaction values.

Thailand's standards, testing, labelling and certification procedures have been subject to some criticism because of their complexity and the burden which they impose on firms exporting to Thailand.

Thailand's import licensing procedures for many raw materials, petroleum, auto parts and other products can deter some traders, although Thailand is modifying these procedures.

Thailand's excise taxes can discourage exports by significantly increasing the landed price of imports. Excise taxes are 25-31 per cent for gasoline, 50-53 per cent for beer, 50-55 per cent for wine, 50 per cent for luxury items such as yachts and wool carpets, and 35 per cent tax for distilled spirits. In the case of wheat imports, the import tax surcharge and excise tax amount to about US$23 per tonne. For passenger motor vehicles, excise taxes are 35-48 per cent, on top of import tariffs of 80 per cent.[7]

Services Exports

Services trade is by its nature more complex than goods trade, and data are far less readily available. Services trade data generally do not include services traded through the establishment of a commercial presence overseas. Moreover, it depends heavily on company responses to surveys. It is, therefore, likely to significantly understate the actual value of the trade. Available data show Australian exports of services to Thailand totalled A$476 million (US$277 million) in 2000, which represented 1.5 per cent of total Australian services exports. Services exports to Thailand grew strongly in the first half of the 1990s to reach a value of A$526 million (US$390 million) in 1995. The financial crisis of 1997 had a detrimental effect on services exports, with the value of services exports to Thailand declining to A$354 million (US$223 million) in 1998 as the Thai economy contracted.

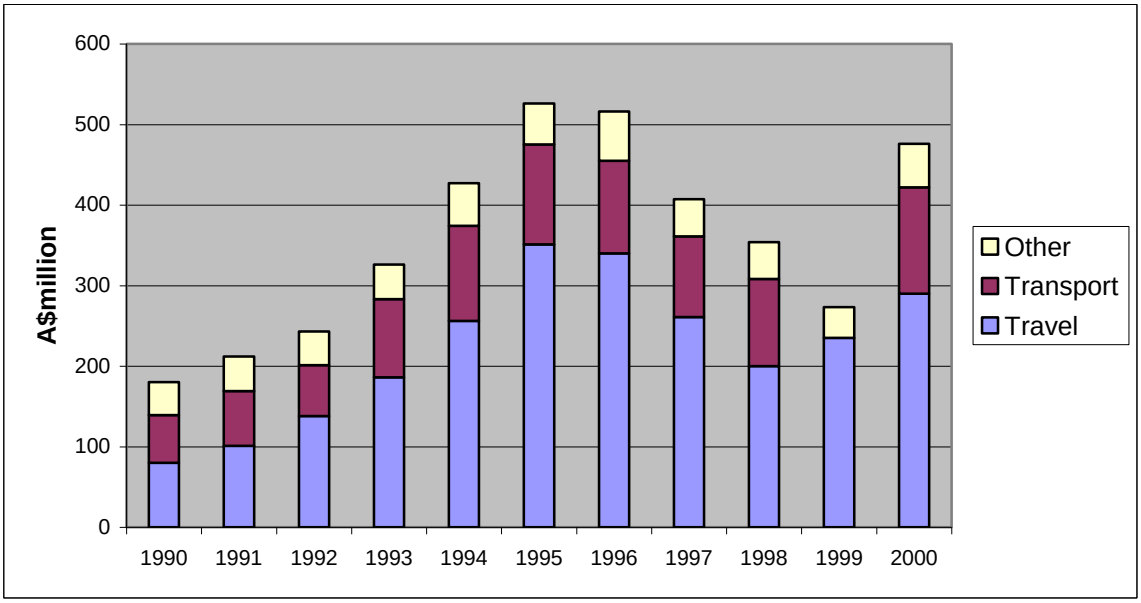
In 2000 Australia exported A$290 million (US$169 million) worth of travel services, A$132 million (US$77 million) worth of transportation services, and A$54 million (US$31million) of other services to Thailand. The travel services figure covers all goods and services purchased for personal use in Australia by Thai travellers and workers. The main reasons Thais make short-term journeys to Australia are for holidays (49 per cent), to visit friends and relatives (15.5 per cent) and education (13.4 per cent). More than 53,000 tourist and transit visas were issued by the Australian Embassy in Bangkok in 2000. Education-related travel exports were worth A$142 million (US$89.3 million) in 1999-2000. This reflects Australia's popularity for Thais seeking an overseas education. In 2000, the number of student visas issued to Thais to study in Australia increased by 40 per cent over the previous year to over 4200, making Australia second only to the United States. Business-related travel services exports accounted for only A$8 million (US$5 million). Transportation services cover services involving the carriage of passengers, the movement of goods and related services provided by Australian-based companies to residents of Thailand.

[7] See USTR, *2001 National Trade Estimate Report on Foreign Trade Barriers*, Washington D.C., pp 427-8.

Australian companies are involved in a wide range of services in Thailand. These include:

- engineering, construction services and materials (eg. Australian Submarine Corporation, Clough (Thailand) Co Ltd, McDonnell Dowell (Thailand) Co Ltd)
- manufacturing (e.g. Ansell (Thailand) Ltd, BHP Steel Building Products (Thailand) Ltd, Loxley CSR Insulation Ltd)
- agriculture and foodstuffs (e.g. Pizza Haven International)
- banking and insurance (e.g. Krungthai AXA Life Insurance Co Ltd, General QBE Insurance Co Ltd)
- education (e.g. AUSTIL, IDP Education Australia Ltd)
- transport (e.g. Linfox Logistics (Thailand) Ltd, Qantas British Airways Ltd)
- legal services (e.g. Deacons)
- distribution and logistics (e.g. Davids Distribution (Thailand) Ltd)

Chart 2.2.2: Australian Exports of Services to Thailand by Type



Barriers to Services Exports

Many Thai service sectors remain subject to trade restrictions, although the financial services sector was the beneficiary of some relaxation of laws during the 1997 financial crisis. Under the GATS, the Thai Government is gradually opening up its financial services sector to foreign investment, particularly banking and insurance. Thailand made new commitments in relation to insurance, banking and other services in its 1995 GATS schedule and subsequently through the WTO services negotiations concluded in 1997. By 2006, it offers to open its basic telecoms sector to foreign competition. However, Thailand continues to restrict imports of professional services such as engineering, accounting, legal and architectural services.

Table 2.2.5: Thailand: Limitations on Market Access

Sector	Domestic Regulation
Banking	The banking sector has been liberalised as a result of the 1997 crisis, so that foreign investors can in effect hold up to 100 per cent of equity for a transitional period of 10 years. However, foreign bank branches are subject to operational restrictions, including limitations on personnel (a limitation of six professionals in full branches), in their use of automatic teller machines and in terms of the number of branches they operate (a limit of 3, with no more than 1 in Bangkok).
Insurance	Foreign insurance companies operate extensively in Thailand, but require a licence to do so. Foreign participation in Thai companies is restricted, with a 25 per cent equity limit (legislation to raise this limit to 49 per cent has not yet been approved). Extensive regulations limit the operations of insurance companies and the products they can offer.
Business services	Accounting (auditing), civil engineering, architectural services, and brokerage are among services which are closed to foreign professionals (though it is possible for them to operate as advisers and consultants under some circumstances).
Accountancy	There are restrictions on foreign equity participation (majority ownership requires special approval) and foreign individuals cannot be licensed as certified public accountants.
Legal services	Majority equity participation in Thai companies requires special approval. Foreign nationals cannot practise law.
Education	Foreign institutions are required to collaborate with Thai partners in the establishment of in-country operations and foreign equity is restricted to a ceiling of 49 per cent. There are no restrictions on Thai students studying abroad.
Air transport	Limitations apply to foreign equity investment (currently, this is 30 per cent). Servicing is limited to local suppliers for larger aircraft. There are significant restrictions on foreign courier services.
Energy services	Foreign companies can participate in the energy sector as independent power producers in partnership with Thai companies, but are not currently able to supply electricity direct to consumers in either retail or wholesale markets.

Sources: Information in the above draws on WTO material, as well as the Market Access Sectoral and Trade Barriers Database prepared by the European Commission (available at http://mkaccdb.eu.int).

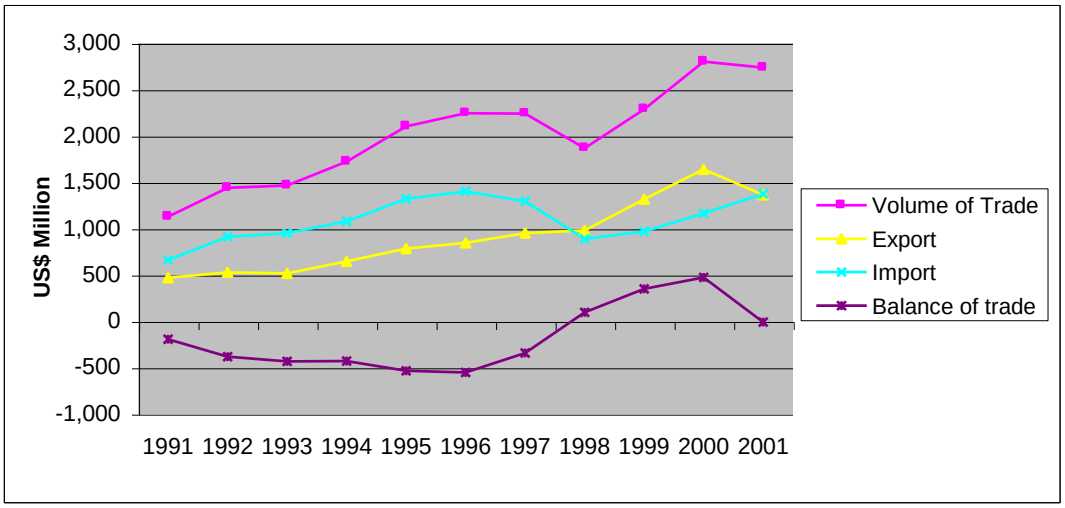
A new Foreign Business Act, which was introduced in 1999, allows foreign investors greater access to Thailand's services sectors. The Act reduced the number of restricted business sectors from 63 to 43, but still extensively restricts foreign majority participation in many economic activities. A major change introduced by this law is that, with the approval of both the Director-General of the Department of Commercial Registration, Ministry of Commerce, and the Alien Business Board, foreign investors may hold over 50 per cent of the shares in a number of different business sectors. These include accounting, legal, engineering and architectural

services, tourism and hotel businesses, retailing and wholesaling, brokerage and construction. There is no restriction on foreign participation in these sectors if foreign ownership is less than 50 per cent.

2.3 Thailand's Exports to Australia

Thailand has recorded substantial growth in bilateral trade in goods and services with Australia over the past decade. The volume of trade (i.e., the value of two-way trade) expanded steadily from 1991 to 1997 before a sharp contraction in 1998. The trade volume has gradually picked up since 1999.

Chart 2.3.1: Thailand's Trade with Australia



Source: DBE. The volume of trade refers here to the value of two-way trade.

Thailand registered trade deficits with Australia in the early 1990s, peaking at around US$555 million in 1996. Persistent trade deficits with Australia partly reflected low market penetration by Thai exporters to the Australian market. Although Thailand recorded trade surpluses with Australia in 1998, 1999 and 2000, these surpluses were mainly attributable to comparatively low import demand in Thailand, rather than growth in the export sector. (See also 2.2 Australia's Exports to Thailand.)

In 2001, Thailand had a trade deficit with Australia - of US$12 million - for the first time since the Asian financial crisis. Thailand exported US$1,362 million worth of merchandise to Australia and imported US$1,374 million. Following trend growth in Thai exports to Australia over the past decade, Australia now accounts for 2 per cent of Thailand's total exports and is Thailand's 11th largest export market.

Merchandise Exports by Sector and Product

Manufactured goods are Thailand's main exports to Australia. Between 1998 and 2000, manufactured products constituted around 69-74 per cent of total merchandise exports whereas agro-industrial and agriculture products constituted around 11-16 per cent and 6-11 per cent respectively.

Table 2.3.1: Structure of Exports from Thailand to Australia (US$million)

Item	1991	1996	1997	1998	1999	2000
		Value: US$million				
Agricultural products	55	100	115	108	110	98
Agro-Industrial products	115	178	180	163	192	183
Manufacturing products	269	524	625	682	980	1,224
Mineral products and fuel	23	39	13	22	26	124
Others	4	3	15	5	8	7
Total	466	844	948	980	1,316	1,636
		Proportion (%)				
Agricultural products	11.72	11.88	12.12	11.02	8.36	5.98
Agro-Industrial products	24.67	21.09	18.95	16.63	14.58	11.16
Manufacturing products	57.68	62.09	65.92	69.93	74.44	74.78
Mineral products and fuel	4.91	4.59	1.36	2.22	2.02	7.58
Others	1.03	0.44	1.65	0.55	0.61	0.47
Total	100	100	100	100	100	100

Source: DBE

As shown in the table above, exports of manufactured and mineral goods have been rising and amounted to US$1.34 billion or almost 82 per cent of total merchandise trade between Australia and Thailand in 2000. Exports of agro-industrial and agricultural products have exhibited a continuous downward trend as a proportion of total Thai exports to Australia from 33 per cent to 17 per cent over 1996-2000.

Manufacturing and mineral products appeared to benefit from a weaker Baht after the financial crisis. During 1996-2000, manufacturing increased two fold to US$1.22 billion and mineral products and fuel increased three fold to US$0.12 billion. Although agricultural and agro-industrial exports have gone up almost two fold over 1991-1996, there has been no growth in agricultural exports earnings recorded since 1996 in the face of lower prices owing to the floating of the baht. This is partly due to Australia's application of anti-dumping measures against products it believes are dumped and non-tariff measures such as quarantine.

Exports of Thailand's principal agricultural and manufacturing products from 1997 to 2001 are shown in the tables below. Vehicles have been Thailand's leading export to Australia in all years with an impressive average growth rate of 19 per cent. Among Thai principal manufactured exports recording impressive growth are air-conditioners, crude oil, chemical, and paper and pulp. Plastic products and iron and steel products showed limited growth rates in recent years as they have been subject to anti-dumping measures. Canned seafood and frozen shrimp have been two top agricultural exports and have taken turns as the largest agricultural export to Australia. All top ten agricultural products, except for rice products and frozen cephalopod, have recorded less impressive or no growth. For example, frozen shrimp fluctuated around US$55 million in the past five years and canned fish around US$65 million in all years but 2001. Other important agricultural exports included pet food, prepared fish and shellfish, fruit, sauce, and rice.

Table 2.3.2 : Thailand's Principal Agricultural Exports to Australia (US$ million)

Item	1997	1998	1999	2000	2001
Frozen shrimp	55.2	60.4	57.8	42.7	54.0
Canned fish	65.8	57.5	75.9	65.5	45.4
Pet food	24.3	18.5	20.4	15.7	20.7
Prepared fish and shellfish	12.0	11.2	13.3	11.7	15.4
Rice	19.4	15.2	17.9	21.6	14.3
Wheat products	13.1	13.7	13.1	12.1	12.7
Prepared and preserved fruits	12.8	10.9	14.6	13.9	10.1
Rice products	3.2	4.8	7.9	10.3	8.8
Sauces	8.9	7.6	8.2	8.2	8.7
Frozen cuttle fish, squid and octopus	5.9	4.8	5.4	5.3	7.5

Source: DBE

Table 2.3.3: Thailand's Principal Manufacturing Exports to Australia (US$ million)

Item	1997	1998	1999	2000	2001
Vehicles	74.4	96.0	331.2	444.7	305.2
Air-conditioners	49.6	72.4	62.8	78.6	93.7
Crude oil	0.0	3.9	7.7	92.8	87.4
Computers	69.8	64.2	63.6	82.5	53.7
Chemicals	10.2	15.8	19.9	40.0	42.1
Iron and steel products	23.1	28.2	37.7	53.1	39.7
Plastic products	42.4	37.7	38.6	40.2	39.6
Paper and pulp	13.2	15.0	23.5	27.6	34.6
Televisions	54.3	46.8	39.2	36.8	31.9
Rubber products	20.6	23.3	22.2	27.1	31.2

Source: DBE

Tariff Barriers

85 per cent of Australian tariff rates vary between a narrow band of 0 to 5 per cent with the simple average tariff rate 4.4 per cent. This implies that the scope for trade diversion as a result of the bilateral FTA from Australia's vantage point is fairly narrow.

Despite the relatively low overall average, tariff rates are not evenly distributed across sectors. Products that face the highest tariff barriers are textiles (25 per cent), clothing and footwear (15 per cent) and automobiles (15 per cent). Tariffs on some of Thailand's top export products are as follows: air conditioners, televisions, and microwave ovens – 5 per cent; automotive air conditioners – 15 per cent; jewellery and accessories – 0-5 per cent; and fruit and vegetable juice – 5 per cent.

Non-tariff Measures

Thai exports to the Australian market have in some cases been affected by non-tariff measures, principally sanitary and phytosanitary measures, anti-dumping measures or investigations, and safety measures. The main measures and products affected are as follows.

Sanitary and Phytosanitary Measures

Australia has a highly conservative quarantine (sanitary and phytosanitary) regime. In some cases this has made it difficult for Thai products to gain access to the Australian market especially for agricultural and food products such as mango, durian, pineapples, mangosteen, frozen chicken, boiled chicken and shrimp.

Anti-Dumping Measures

Australia has imposed anti-dumping duties against goods of Thai origin, namely pineapple concentrate, canned pineapple, polyvinyl chloride, frost free refrigerator-freezers, clear float glass, galvanized steel pipe, and steel shelving kits. Other anti-dumping complaints subject to investigation are steel, certain hot-rolled structural sections, and sodium metabisulfite.

Safety Measures

Safety measures are vigorously applied by the Australian authorities for consumer protection. Food that undergoes biotechnological production process must be approved by Australia-New Zealand Food Authority (ANZFA) and must also fulfil labelling requirements. Electrical appliances and toys are subject to random tests before being put on display. The requirements entail additional costs.

Services Exports

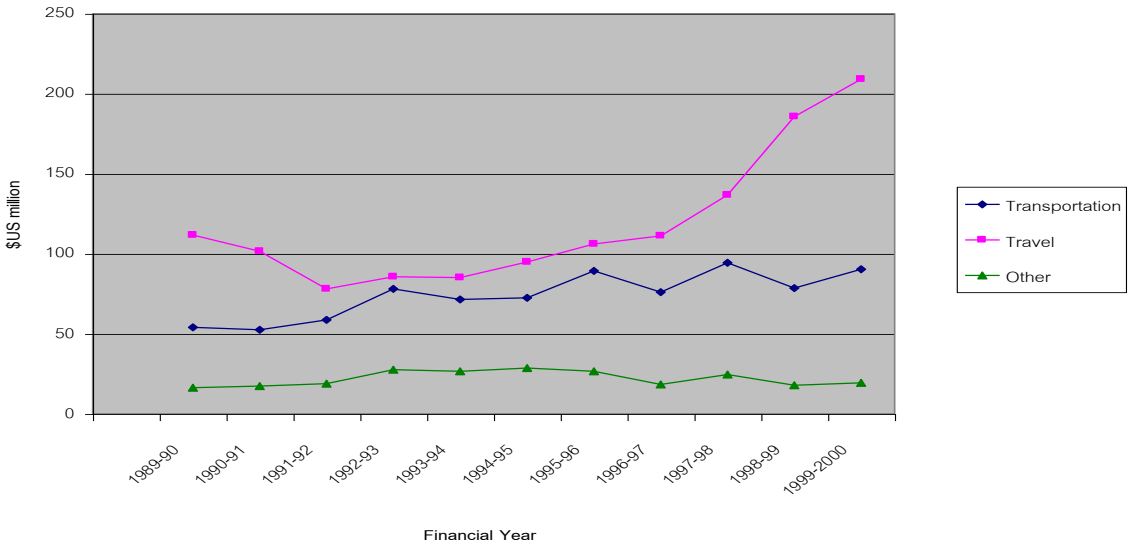
By structure, Thailand is an agriculture-based economy. Its comparative advantage lies in agricultural and manufacturing sectors. The share of services in GDP has ranged from 15 to 20 per cent over the past decade, reflecting the fact that the services sector in Thailand has not been fully developed nor well diversified.

Trade in services between Thailand and Australia has been modest. Thailand's exports of services to Australia cover tourism, transport, cultural and recreational services. Data on the value of services exports from Thailand to Australia are incomplete as detailed services data are hard to come by. The paucity of data means the figures could understate the true status of current services trade.

Chart 2.3.2 shows the flows of services exports to Australia. Trade in services between Thailand and Australia is far more moderate than trade in merchandise. In 1999-2000, exports of services to Australia stood at US$318 million or 2.1 per cent of total Australian services imports.[8] (The number represents almost a 100 per cent increase over the past ten years, with services exports recorded at US$182 million in 1989-90.) Notwithstanding a decline in the early 1990s and in 1996-97 when the economic downturn set in, an overall rise in exports of services is evident, and services trade between the two countries has become increasingly significant in recent years. Travel services dominate Thailand's exports to Australia, accounting for about two-thirds (US$209 million) of the total services exports, followed by transport (US$90 million), and other services (US$19 million) in 1999-2000.

[8] Equivalent Thai data are not available.

Chart 2.3.2: Thailand's Exports of Services to Australia by Type



Source: ABS

Thailand regards health-related services as one of the possible areas of stronger cooperation between Australia and Thailand. Alternative medicine therapy encompassing the herbal industry has become one of Thailand's export interests, and Thailand is interested in further developing exports of services such as comprehensive professional training, clinical practice, and research into alternative medicine. Access to Australian mainstream health services sectors is restricted, owing to the nature of its public health insurance system. In many of the allied health services sectors, registration and service standard requirements apply. Australia has made a binding WTO commitment on access to only one area of health services, *"other human health services including podiatry and chiropody services"*. Greater market access, particularly in the area of the entry and temporary stay of professionals, would facilitate access for Thai therapists and health instructors to the Australian market.

Australia is currently the third largest provider of educational services to Thailand. At the moment, Thailand is consolidating its position as a regional hub in higher (tertiary) education, adult education, and training services. Its competitive strength naturally depends on the capacity and the quality of its services, which could be enhanced through the establishment of Australian institutions in Thailand. There is strong interest in expanding links with Australian education institutions and agencies as part of this process.

Besides health-related services and educational services, Thailand is examining potential to expand exports of construction and related professional services.

Table 2.3.4 Australian Services: Limitations on Market Access

Sector/Subsector	Domestic Regulation
Business Services Professional services	*Legal services*: People practising foreign law in the States of New South Wales and Victoria and in the Northern Territory and the Australian Capital Territory may do so on their own account or in partnership with local lawyers and may employ local lawyers. In the States of Western Australia and Queensland, there are no regulations regulating the practice of foreign law by foreign lawyers. In South Australia foreign lawyers are permitted to practise foreign law. *Accounting, auditing and book-keeping services*: Only natural persons may be registered as auditors and liquidators.
Financial Services Insurance and insurance-related services	Approval of non-resident life insurers is restricted to subsidiaries. Registered foreign life insurance companies are required to have a principal officer resident in Australia. An authorised insurance company operating in Australia as a non-incorporated entity must appoint an Australian resident as agent of the insurer. Most State and Territory Governments maintain restrictions, by way of monopolies or licensing provisions and associated controls on premiums and other terms of policies, in some areas of insurance.
Banking and other financial services	A foreign bank located overseas is able to offer its services to Australian enterprises, but is not allowed to raise funds in Australia or undertake business within Australia unless it is an authorised bank (or establishes a money market corporation, subsidiary etc.). Foreign exchange transactions within Australia (including foreign exchange derivations) may be effected through a licensed foreign currency dealer, however this is not necessary where the transaction is settled immediately or where the person is dealing on their own account. Foreign banks may undertake banking operations in Australia through an authorised branch; however, a branch may not accept "retail" deposits. A foreign bank wishing to accept "retail" deposits must seek authorisation as a locally-incorporated subsidiary for that purpose. Foreign bank branches may accept deposits (and other funds) in any amount from incorporated entities, non-residents and their own employees. Deposits (and other funds) may only be accepted from other sources where the initial deposit (or other funds) is greater than A$250,000

Sector/Subsector	Domestic Regulation
	(US$ 129,000). Deposit-taking outside of this is considered to be "retail" banking business. Any person (foreign or domestic) wishing to control or hold a stake of greater than 15 per cent in a financial sector company (which includes banks, general insurers and life insurers) would require the Treasurer's approval, as governed by the *Financial Sector (Shareholdings) Act 1998.*
Transport Services Maritime transport services	*Liner Shipping*: Part X of the *Trade Practices Act 1974* requires that every ocean carrier which provides international liner cargo shipping services to or from Australia shall, at all times, be represented for the purposes of the Act, by a person who is an individual resident in Australia; has been appointed by the ocean carrier as the ocean carrier's agent for the purposes of the Act; and is specified in the register of ocean carrier agents as the ocean carrier's agent. *Establishment of registered company for the purpose of operating a fleet under the national flag of Australia*: nationality requirements for ownership and registration of vessels as defined by the *Shipping Registration Act 1981*. A ship can be registered in Australia if more than half the shares are owned by Australian nationals or if it is on demise (bare boat) charter to an Australian-based operator.
Coastal shipping	Authorisation to carry coastal cargo is subject to compliance with legislation requiring, *inter alia*, that the crews of licensed vessels engaging in coastal trades are paid Australian wage rates and that such vessels are not in receipt of subsidies from foreign governments. Unlicensed vessels must obtain a Coasting Trade permit before being allowed to carry Australian domestic cargo. Such permits are issued only where no licensed ship is available, and where it is in the public interest. Other important provisions include: Australian resident crew members to be subject to Australian income tax; vessels operating on the coast to be imported or have a coasting trade permit; crew operating on the coast to be subject to normal migration rules; Australian standards of safety and rehabilitation apply; and customs duty to be paid on items used on board coastal trading vessels.
Air transport services	Foreign airlines flying into Australia may acquire up to 25 per cent of equity in a domestic carrier individually or up to 40 per cent on aggregate. Australia's Foreign Investment Review Board sectoral guidelines allow foreign persons (including foreign airlines) to acquire 100 per cent of the equity of an Australian domestic airline, unless this is contrary to the national interest. In the case of international Australian carriers except Qantas, foreign persons (including airlines) may acquire up to 49 per cent of the equity individually or in aggregate

Sector/Subsector	Domestic Regulation
	provided the proposal is not contrary to the national interest. In the case of Qantas, total foreign ownership may not exceed 49 per cent, with individual and aggregate holdings by foreign airlines limited to 25 per cent and 35 per cent respectively.

2.4 Investment Links

Australian Investment in Thailand

Australian investment in Thailand is relatively modest. Cumulative Australian investment as at June 2000 amounted to A$482 million (US$303 million). The stock of direct investment is even smaller, at some A$270 million (US$170 million). Australian direct investment represented only one per cent of total foreign direct investment inflows into Thailand in 2000, placing Australia about 10th among economies providing foreign direct investment.

The level of Australian investment in Thailand grew at an average rate of 6.2 per cent per annum between 1991-92 and 1999-2000, less than half the rate at which total Australian investment abroad grew over the same period. Australian investment levels in Thailand expanded during the financial crisis, rising from A$549 million (US$429 million) in 1996-97 to A$677 million (US$425 million) in 1998-99. While ABS statistics show net Australian disinvestment in 1999-2000 and the total level of Australian investment in Thailand dropped to A$482 million (US$303 million), the stock of direct investment was at a record level. Thai statistics on foreign investment differ markedly in many respects from ABS figures but nevertheless show good growth in Australian investment in Thailand and increased interest over the last financial year.

The level of Australian investment is low compared with that in other ASEAN countries. Australian investment in Singapore, for example, is 20 times that in Thailand and in Malaysia, 1.3 times. This is partly due to impediments such as work permit and visa problems. In part, it reflects the fact that opportunities in Thailand are not fully appreciated by the Australian business community.

Austrade is seeking to address this lack of awareness by highlighting opportunities in the market. In its online market information on Thailand it states,

> *… it is time for Australian companies to position themselves for the next Thai growth spurt. Having missed the boat first time around the changed economic circumstances provide further opportunities to get in on the ground floor. Progress will be slow but the prospects of a stronger and more profitable market in two to three years' time should be an attractive proposition for Australian companies.*[9]

[9] Australia Online Overseas Markets Thailand (www.austrade.gov.au)

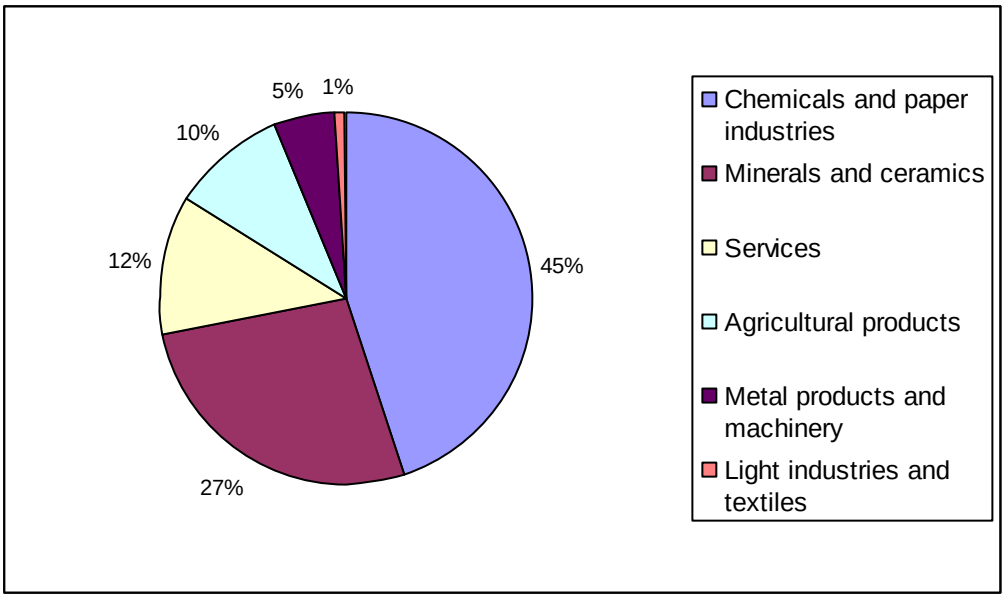
Table 2.4.1: Stock of Australian Investment Abroad* (A$ million)

Country	1997/98	1998/99	1999/2000
USA	103,223	111,334	156,672
EU	82,939	79,785	101,788
UK	56,800	52,336	65,046
Germany	5,610	5,111	7,604
Japan	10,127	15,569	22,773
New Zealand	14,483	16,636	19,815
ASEAN	7,154	10,178	14,691
Singapore	3,716	4,851	9,676
Indonesia	1,066	2,478	2,619
Malaysia	803	1,044	671
Philippines	535	598	642
Thailand	604	677	482
Others	69,044	65,523	60,152
Total	**286,970**	**299,025**	**375,891**

* Direct and portfolio, at end of year given
Source: ABS

Although investment is limited, the range of activities is diverse. The Australia-Thai Chamber of Commerce in Bangkok has over 300 member companies and is the third largest Chamber in Asia. Australian companies in Thailand are involved in such activities as engineering, construction services and materials, manufacturing, agriculture and foodstuffs, banking and insurance, education, transport, legal and accounting services. Most Australian investment, is, however, in the manufacturing sector (Chart 2.4.1).

Chart 2.4.1: Australian Investment in Thailand, 1995-99



Thai Investment in Australia

Thai investment in Australia is minimal. ABS statistics show that Thai companies disinvested in Australia in 1996-97 and 1998-99 but the level by mid-2000 had increased to A$115 million (US$67 million). There is, however, anecdotal evidence of a number of small investments (including in property) which may not be fully captured by official data.

Table 2.4.2: Stock of Foreign Investment in Australia* (A$ million)

Country	1997/98	1998/99	1999/2000
EU	180,863	193,821	235,264
UK	132,948	142,402	177,876
Netherlands	13,019	14,996	16,035
Germany	10,281	13,165	13,067
USA	151,690	179,478	214,985
Japan	52,329	43,857	49,410
New Zealand	10,567	10,766	12,831
ASEAN	18,114	21,912	23,651
Singapore	15,728	17,839	19,800
Indonesia	216	339	543
Malaysia	1,053	1,442	1,731
Philippines	na	2,164	1,431
Thailand	**53**	**25**	**115**
Others	171,718	174,014	180,818
Total	**585,281**	**623,848**	**716,959**

*Direct and portfolio, at end of year given.
Source: ABS

Thailand's Foreign Investment Regime

The complexity of Thailand's foreign investment regime has been an important factor influencing levels of foreign direct investment. However, it is also true that there have been important changes, with Thailand's foreign investment regime now appreciably more open than before the 1997 financial crisis.

Austrade describes the more favourable investment environment as follows:

> *Well-managed but cash strapped local companies are looking to foreign investors to take equity positions as part of their survival strategies. In an effort to improve competitiveness local companies are also more responsive to joint ventures and technology transfer arrangements.*[10]

One of the most important changes to Thailand's investment regime has been the introduction of the new *Foreign Business Act* in 1999, replacing the 1972 *Alien Business Law*. The Act reduces the number of restricted businesses from 63 to 43

[10] Australia Online Overseas Markets Thailand (www.austrade.gov.au)

and removes the requirement on the number of foreign shareholders for the company to qualify as Thai.[11]

In the financial sector, change has been sweeping. The waiving of the 25 per cent foreign equity participation limits in the banking sector in 1997 to assist financial sector recapitalisation meant that in 1998 the banking sector was able to attract US$2.1 billion in foreign direct investment. This amounted to around 30 per cent of Thailand's total foreign direct investment in that year. A number of securities and mutual funds and some banks now have foreign majority ownership.

Investment Incentives

The Government of Thailand through the Office of the Board of Investment (BOI) grants investment incentives, tax and non-tax, to draw foreign direct investment. According to the BOI, Australia ranks 11th among countries receiving BOI investment incentives. Eligible activities are classified into seven groups: (l) agriculture and agricultural products; (2) minerals, metal, and ceramics; (3) light industry; (4) metal products, machinery and transport equipment; (5) electronics and electrical industry; (6) chemical industry, paper, and plastics; and (7) services and public utilities.

In line with the *Foreign Business Act*, the BOI substantially removes limitations on foreign equity holding from its sponsored projects, allowing for a majority or up to 100 per cent ownership in most of its approved manufacturing projects. Nonetheless, the BOI reserves its right to limit the equity participation of foreign investors in any promoted projects as deemed necessary.

The BOI also extends exemptions from import duties and corporate taxes for investment in key sectors such as agriculture, technology, infrastructure and services, and environmental protection and conservation.

2.5 Economic Cooperation Between Australia and Thailand

Australia and Thailand enjoy a cooperative and productive partnership on trade and economic issues, underpinned by extensive formal and informal dialogue. While some matters remain under discussion, such as air services, quarantine and comparatively high tariff levels, there is common understanding about respective trade and investment policies.

The pre-eminent bilateral forum for discussion of trade and investment issues is the Joint Ministerial Meeting (JMM). A key feature of the JMM is the participation along with foreign and trade ministers of senior Thai and Australian business leaders.

At officials' level, the Joint Trade Committee (JTC) established under the 1979 Bilateral Trade Agreement is the primary meeting for discussion of trade and investment issues. Separately, agriculture and quarantine officials meet annually in the Thailand-Australia Joint Working Group on Agriculture, which considers issues

[11] It is important to note that US firms receive special access, including national treatment in many areas, under the *US Treaty of Amity and Economic Relations*.

relating to quarantine, agricultural technology transfer, and training. The Joint Working Group's focus is on bilateral agricultural trade, and cooperative activities aimed at promoting and facilitating two-way agricultural trade. The aeronautical authorities of Australia and Thailand also meet from time to time to discuss air services arrangements.

Thailand and Australia also share common interests and objectives in the global trade arena. Thailand and Australia are active members of the WTO and the Cairns Group of Fair Agricultural Traders, with similar positions on the need for the removal of agricultural subsidies and improved market access for agricultural goods. Thailand and Australia were strong supporters of the launch of a new round of global trade negotiations at the 4th WTO Ministerial held at Doha, Qatar.

Thailand and Australia work closely on regional trade issues, including cooperatively to advance APEC's core trade and investment liberalisation and facilitation goals. Australia, with Thai partnership, is establishing a Social Protection Facility (SPF) under APEC aimed at protecting the vulnerable while carrying out the trade, investment and other reforms necessary for long-term sustainable development. Australia and Thailand are supportive of attempts to promote closer economic integration between the ASEAN Free Trade Area (AFTA) and the Australia New Zealand Closer Economic Relations Trade Agreement (CER).

Within the scope of the political and economic partnership, Australia has maintained a long-running development assistance program with Thailand. The Thai and Australian Governments have agreed on a development assistance program which focuses on facilitating Thailand's recovery from the 1997 Asian economic crisis. As an adjunct to the social support elements of the program, Australian Government institutions work with Thai Government agencies to improve governance performance. These have included: training of Bank of Thailand (BoT) officials in supervising financial institutions and providing assistance with its IT requirements; assistance to the Stock Exchange of Thailand in drawing up corporate governance guidelines; technical support and skills transfers to strengthen Thai macroeconomic statistics; advice on public sector management and fiscal monitoring reforms; and capacity building in the Large Taxpayer Office to assist in raising government revenue. In addition, an Australian Capacity Building Facility has been established to provide Australian assistance to Thai Government agencies to develop and implement policies consistent with Thailand's economic and social reform agenda.

Extensive assistance is provided by agencies outside the development program. Agriculture Fisheries and Forestry Australia recently ran a risk analysis training workshop for Thai agriculture officials and a quality assurance program for three Thai animal health laboratories, which will lead to standardisation in testing technology and consistency in test results, facilitating trade in animals and animal products. Similarly, agricultural research undertaken through ACIAR offers potential to open new export markets for Thailand and Australia for a variety of fruit and vegetable lines. Other initiatives such as workshops on SPS capacity building for agriculture officials and the SANCRT project (concerning electronic transfer of health certificates between Thai and Australian quarantine agencies) aim to facilitate further development of agricultural trade.

Thailand and Australia are considering developing the bilateral assistance program into a joint program for third countries in the region. This would offer potential for Thai and Australian consultants and tertiary institutions to share contracts on cooperative aid projects, and to raise the joint profile of Thailand and Australia as supportive and capable economic partners within the region.

3. The Impact of Preferential Liberalisation

A free trade agreement between Australia and Thailand would have far reaching implications. Analysis of the two economies and the experience of other free trade agreements suggest that bilateral trade would expand very strongly. The flow of investment between Australia and Thailand, and from other countries, would also be expected to change, becoming stronger in each case than in the absence of a free trade agreement. Opportunities for technology transfer and for joint ventures between Australian and Thai firms would increase.

In the assessment of this report, these changes would together lead to higher economic output and welfare for both Australia and Thailand. At the same time, a free trade agreement would have much broader effects on the political and economic relationship between the two economies, opening the way for stronger cooperation internationally.

Nonetheless, it is important to recognise that the effects of trade liberalisation on Thailand are likely to differ from those on Australia, partly because Thailand is a developing country and Australia is a developed country. In order to achieve benefits from freer trade, it would be necessary to engage constructively in negotiations to find common ground allowing all participants to benefit. In other words, to obtain commitment by both countries to preferential liberalisation in free trade agreement negotiations, the agenda, process, and outcome would have to reflect the balance of interests of both parties. These detailed issues are not considered in this study. However, some of the broader issues of the architecture of an FTA which would help to achieve balance are discussed in Chapter 7.

3.1 Political and Strategic Implications

The political implications of regional agreements have historically been important in developing and sustaining them. Security considerations, a desire to play a larger global role, and a broader pan-European ideal were thus significant motives at various stages in Europe's economic integration over more than half a century. In the case of NAFTA, locking in political and economic reforms undertaken by Mexico was an important objective for both the US and Mexican Governments. The desire to extend and develop bilateral cooperation (for example, with respect to shared water resources) or to strengthen international bargaining power has been an aspect of many other regional agreements.[1]

For Australia and Thailand, the economic implications of a free trade agreement would be of key importance. However, there are other considerations for both economies which would support a free trade agreement. As previous Chapters have suggested, Australia and Thailand have a broad and mature relationship, which includes close political links and strong ties in such areas as trade, security, defence, and development assistance. Australia and Thailand cooperate closely in international and regional forums, such as the United Nations, the WTO, APEC and the AFTA-CER Framework for a Closer Economic Partnership. They have strong people-to-people links in areas like education.

---

[1] On these points, see World Bank, *Trade Blocs*, Oxford University Press, New York 2000.

A bilateral free trade agreement would provide a framework to further develop and expand these ties. It would constitute a highly visible commitment to strengthening the bilateral relationship, as Australia's US$1 billion contribution to the 1997 Thailand IMF package, Thailand's early military support on the East Timor issue and joint action through the Cairns Group, have done in the past. It would also underscore the fact that Thailand and Australia share important objectives within regional and global trade and political forums. A free trade agreement would support the objective of both economies of working towards the Bogor goals of free and open trade and investment. It would also be consistent with efforts by both to secure trade reforms though the multilateral trade round launched at Doha, including on agricultural trade.

For both countries, a free trade agreement would further develop long-standing policies aimed at strengthening relations with other regional economies. Nevertheless, it is important to recognise that the effects of trade liberalisation on Thailand are likely to differ from those on Australia, partly because Thailand is a developing country and Australia is a developed country. In Australia's case, a policy of promoting closer economic integration with East Asia has now been in place for more than two decades, finding expression in the role which Australia has played in developing APEC and the AFTA-CER Framework for a Closer Economic Partnership. Thailand is currently seeking to broaden and develop relations with a number of countries in the region outside its ASEAN partners.

The negotiation of a free trade agreement would also signal to the wider international community an approach of extending policy reform in both countries. These objectives have particular relevance at a time when the international environment is uncertain and competition for international investment is intense. They are particularly important for Thailand given that it is still recovering from the 1997-98 economic crisis.

3.2 The Impact on Merchandise Trade

The impact of free trade agreements is often most clearly visible in trade flows. Regional agreements lead to trade expansion between the parties both because of new trade created as a result of liberalisation and because trade between the parties to the agreement expands in place of trade with third countries. Investment flows and technology transfer occurring under the impact of trade liberalisation and the general stimulus to economic growth from a free trade agreement can also contribute strongly to the expansion of trade. The impact is likely to be strongest where the countries concerned differ in terms of their competitive strengths and comparative advantage and where trade barriers are initially high.

Table 3.2.1: Australian Tariffs (per cent)

Item	2001	2002	2003	2004	2005
Agri-business & processed food					
Dairy products*	0	0	0	0	0
Beef	0-4	0-4	0-4	0-4	0-4
Poultry	0	0	0	0	0
Textiles/clothing & footwear					
Clothing & finished textiles	25	25	25	25	17.5
Cotton sheeting & fabrics	15	15	15	15	10
Sleeping bags, table linen	10	10	10	10	7.5
Carpet	15	15	15	15	10
Footwear	15	15	15	15	10
Footwear parts	10	10	10	10	7.5
Other (eg. yarns, leather)	5	5	5	5	5
Passenger motor vehicles	15	15	15	15	10
Other products	0-5	0-5	0-5	0-5	0-5

Source : Australian Departments of Industry, Tourism and Resources, and Foreign Affairs and Trade
* For certain cheeses, there is a tariff quota with an in-quota rate of A$0.096/kg and an out of quota rate of A$1.22/kg.

Australia and Thailand have agreed that any preferential liberalisation between them would be consistent with WTO rules and with APEC's goals and principles. This would require in particular that it comply with Article XXIV of the GATT, including the requirement that any free trade agreement cover "substantially all" the trade between the two economies. Consistency with APEC's goals would take into account the Bogor objective of achieving free and open trade and investment by 2010 for industrialised economies and 2020 for developing economies.

Analysis of Australia's and Thailand's economies suggests that a free trade agreement of this kind would have a strong impact on merchandise trade. As Chapter 2 has indicated, there are some remaining barriers to trade in both economies. In the case of Australia, the most significant of these apply to agricultural and food products, motor vehicles, and textiles, clothing and footwear. Opportunities for increased trade into Australia could be expected from tariff reductions on passenger cars, light commercial vehicles, and textiles, clothing and footwear, as well as a range of other manufactured items. Table 3.2.1 outlines the existing and planned tariffs in key sectors. Additional resolutions in sanitary and phytosanitary systems and anti-dumping action would also enhance trade flows between the two countries.

In Thailand's case, Chapter 2 has suggested that there are significant tariff barriers for many products, with a simple average most favoured nation tariff of around 18 per cent for all goods and over 34 per cent for agricultural products. Other barriers such as strict labelling and other controls, import licensing and excise taxes can discourage trade.

Table 3.2.2: Tariffs in Thailand (per cent)

Item	2001	Tariff Reductions under WTO			
		2002	2003	2004	2005
Agri-business and processed food					
Dairy products	42.5	42.0	41.5	41.0	41.0
Beef	39	36	33	30	30
Fruit and vegetables	46	44	42	40	40
Minerals and metals	30	30	30	30	30
Mineral fuels	30	30	30	30	30
Aluminium and articles	30	30	30	30	30
Other manufactures					
Textiles and clothing	51	44	37	30	30
Passenger motor vehicles	80	80	80	80	80
Medicaments	30	30	30	30	30

Source : DBE

Trade Expansion

Thailand and Australia would each share expanded trade benefits under a free trade agreement. The way in which trade flows would expand would partly depend on the capacity of industry in each economy to take advantage of new opportunities arising from the free trade agreement. But it would also be shaped by the underlying comparative advantage of each economy (see Box 3.2.1). Australia could thus expect its exports to expand in areas where it has a comparative advantage, such as dairy products, aluminium and similar products. Thailand might expect to increase its exports in areas like textiles and clothing, processed foods and glassware, where trade data suggest that it has a bilateral comparative advantage. In some sectors, like foodstuffs and automobiles, trade data suggest that both economies share an advantage, depending on specific product lines. In these cases, trade flows are likely to expand in each case, with greater specialisation within the sector and with the potential for gains from economies of scale and from closer business cooperation.

Tables 3.2.3, 3.2.4 and 3.2.5 look at prospects in greater detail for the top ten bilateral exports for Thailand and Australia and other potential exports that would expand trade between two countries based on their performance in the world market. These tables list the respective tariff rates, other possible trade restrictions, and an indication of the potential for expansion of each item in a bilateral FTA environment. Suppliers of components and raw materials to expanding sectors under the FTA would also expect to enjoy increased trade flows as export industries increase volumes of production.

Box 3.2.1
Selected Areas of Bilateral Comparative Advantage[2]

Product categories where Australia has a bilateral comparative advantage

Meat and edible animal offal; dairy produce; edible vegetables and certain roots and tubers; lac, gums, resins, and other vegetable saps and extracts; animal and vegetable fats and oils and their cleavage products; tobacco and manufactured tobacco substitutes; ores, slag and ash; fertilisers; essential oils and restinoids, perfumery, cosmetic or toilet preparations; explosives, pyrotechnic products, matches, pyrophoric alloys; photographic or cinematographic goods; articles of leather, saddlery and harness, travel goods; furskins and artificial fur, manufactures thereof; wool, fine or coarse animal hair; carpets and other textile floor coverings; special woven fabrics; articles of stone, plaster, cement, asbestos, mica or similar materials; natural or cultured pearls, precious and semi-precious stones; aluminium and articles thereof; zinc and articles thereof; optical, photographic, cinematographic, measuring, checking, medical equipment.

Product categories where Thailand has a bilateral comparative advantage

Fish and crustaceans, molluscs and other aquatic invertebrates; products of animal origin, not elsewhere specified or included; preparations of meat, of fish or crustaceans, molluscs or other aquatic invertebrates; residues and waste from the food industries; prepared animal fodder; albuminoidal substances; modified starches, glues, enzymes; plastics and articles thereof; raw hides and skins (other than furskins) and leather; man-made filaments; man-made staple fibres; wadding, felt and non-wovens, special yarns, twine, cordage, ropes and cables; prepared feathers and down and articles thereof; artificial flowers, etc.; ceramic products; glass and glassware; tin and articles thereof.

Product categories in which both countries share an advantage

Edible fruit and nuts; peel of citrus or melons; cereals; products of the milling industry, malt, starches, inulin, wheat gluten; cocoa and cocoa preparations; preparations of cereals, flour, starch or milk, etc.; preparations of vegetables, fruit, nuts or other parts of plants; miscellaneous edible preparations; salt, sulphur, earths and stone, plastering materials, lime and cement; rubber and articles thereof; pulp of wood or of other fibrous cellulosic material; cotton; impregnated, coated, covered or laminated textile fabrics; iron and steel; vehicles other than railway or tramway rolling-stock, and parts and accessories; furniture; bedding, cushions and similar stuffed furnishings, lamps and lighting.

[2] The table of comparative advantage is based on indices of bilateral revealed comparative advantage between Australia and Thailand for 1999 at the 2 digit level for the Harmonised System. Under the methodology employed, Australia is said to have a bilateral revealed comparative advantage in a specific product (such as dairy produce) if its share in Australia's exports to Thailand is greater than its share in world exports to Thailand. Thailand's areas of bilateral revealed comparative advantage are defined in a similar way. The magnitude of these indices is not closely related to trade barriers in each economy under the assumption that all economies exporting to Australia and Thailand face the same most favoured nation tariff. For an application of this methodology, see United States International Trade Commission, *U.S.-Korea FTA: The Economic Impact of Establishing a Free Trade Agreement Between the United States and the Republic of Korea*, USITC Publication 3452, Washington D.C., 2001, Chapter 3 and Appendix D.

Table 3.2.3 : Top 10 Australian Exports to Thailand 2000-01 (A$ millions)

Item	Tariff (%)	NTM	Trade Value	Expansion Potential
Aluminium	1-20	-	305.5	medium
Cotton	0-20	-	271.3	low
Petroleum	0	-	134.3	low
Dairy	5-220	quota	131.4	high
Copper	0-10	-	111.8	medium
Medicaments	0-10	-	101.6	high
Ores	1	-	95.2	low
Gold	0	-	85.9	low
Wool	1-10	-	73.7	low
Telecommunications equip't	3-20	-	48.3	medium

Source : ABS, DBE

For Australia, areas with considerable scope for expansion include the dairy and medicaments sectors. If restrictive tariffs and quotas were removed under an FTA, demand for Australian dairy products could be expected to enjoy considerable expansion, as occurred during the decade 1987-97, when Thai food imports from Australia grew twice as fast as imports from the rest of the world. Although some recovery in consumer demand has occurred since the Asian economic crisis, there remains substantial scope for its further development.

The expansion of the dairy trade would support other forms of cooperation. Australia and Thailand could investigate possible projects to improve production quality practices by Thai farmers which would increase the efficiency of local milk production to build up consumer confidence in the product, and thus grow the size of the domestic market for Thai producers and Australian suppliers.

Table 3.2.4 : Top 10 Thai Exports to Australia in 2001 (US$ millions)

Item	Tariff	NTM	Trade Val	Expansion Potential
Vehicles	15	-	305.2	medium
Air conditioners (automotive and non-automotive)	0-15	-	93.7	low
Crude oil	0	-	87.4	medium
Frozen shrimp	0	Quarantine	54.0	medium
Computers	0-5	-	53.7	low
Canned fish	0-5	-	45.4	low
PVC	5	-	42.1	medium
Iron or steel products	5	IPR	39.7	medium
Plastic Products	5-15	AD	39.6	medium
Paper and Pulp	5	-	34.6	medium

Source: DBE, DFAT

Note: The exchange rate is A$1.934 per US dollar in 2001.

Table 3.2.5: Top Thai Exports to the World and Potential Exports to Australia in 2001 (US$ millions)

Item	Tariff	NTM	Trade Val	Expansion Potential
Rubber and rubber products (not including automotive)	5	-	33.9	medium
Textiles	25	environmental standard	32.3	medium
Leather	0-5	-	31.2	medium
Pet food	0	quarantine	20.7	medium
Furniture and parts thereof	0-5	-	20.6	high
Precious stones and jewelry	0-5	-	19.2	high
Vegetables and fruit, fresh and chilled	0-5	quarantine and anti-dumping	16.6	medium
Poultry cuts and preparations	0	quarantine	0	high
Some tapioca products	0	quarantine	5.3	medium

Source: DBE and WTO
Note: The exchange rate is A$1.934 per US dollar in 2001.

Thailand's demand for health products and pharmaceuticals is increasing with population growth and rising per capita incomes. This presents Australian suppliers with opportunities to tap into a growing market, which would be greatly enhanced under the terms of an FTA. Thai public and private hospitals import over 90 per cent of their medical equipment and supplies, mainly from the United States and Japan. Australian companies have already gained a significant share of this market, which would increase under the reduced tariff regime of a preferential FTA. There are also good prospects for increased Australian exports for a number of other manufactured products, which include automobiles and auto parts (discussed in Chapter 4) and metal manufactures.

For Thailand, the agricultural and food products, textiles/clothing, and automotive industries appear to potentially offer considerable scope for improved market share, although others may become apparent as business identifies opportunities and common links.

The agricultural sector is an important sector, socially and economically, that employs about half of the working population in Thailand and which is highly competitive. Thailand is successful in exporting seafood to Australia such as canned tuna, and fresh, chilled and frozen shrimp and other shellfishes. Since Australian tariff rates on seafood are mostly zero, other than for certain canned fish which is dutiable at 5 per cent, trade expansion from tariff cuts on seafood products is likely to be modest. Other potential areas for expanding agricultural exports to Australia include vegetables and fruit and meat products. Although tariff rates are low, Australia's application of measures against products it believes are dumped and quarantine measures restrict exports of vegetables and fruit to Australia and Australia's quarantine measures make the export of poultry products to Australia commercially unviable. A timely response to problems arising from quarantine restrictions would help encourage additional trade. Thailand is also a major exporter of meat products.

Chilled or frozen poultry cuts, prepared poultry, and meat and preparations of meat are Thailand's major meat exports ranked 6th, 10th and 16th, respectively, and are among Thailand's major agricultural exports to countries such as Japan, Germany, and other EU members. Resolution of anti-dumping and sanitary and phytosanitary issues would also contribute to increased trade for these products.

In the automotive sector, reductions in the 15 per cent tariff on passenger cars and the 5 per cent tariff on light commercials would provide Thai car makers an additional competitive edge over other imported vehicles. (Passenger vehicle imports by Australia from the rest of East Asia were A$5.8 billion (US$3.1 billion) in 2000-01.) Thai vehicle manufacturers have already demonstrated their ability to compete effectively in the Australian market with light commercials.

Textile, clothing and footwear imports are subject to an Australian tariff of up to 25 per cent (until 2005). With clothing and footwear exports to Australia for 2001 valued at A$53 million (US$27.4 million), and textiles worth A$62 million (US$32.3 million), Thailand has already established a significant foothold in the Australian market. If tariffs on imports from Thailand were reduced under the terms of an FTA, Thailand would expect to gain greater access to the Australian market. The textiles and clothing and automobiles sectors are discussed in greater detail in Chapter 4.

The electronics sector is a major source of Thailand's export earnings from markets in the United States and Europe. Under an FTA, demand in Australia for Thai electronics products could be expected to modestly expand through reduction in tariffs. For example, in 2001 Australia imported over A$3 billion (US$1.6 billion) worth of computers from the rest of East Asia, but less than A$84 million (US$43.5 million) from Thailand. There is similarly scope in a number of other manufacturing sectors for Thailand's market share to increase because of the competitive edge it would have over other suppliers from more open access.

The liberalising effect of a Thailand-Australia FTA would give firms in both Australia and Thailand added capacity to penetrate global and regional markets, based in part on lower cost materials, inputs and expertise, and close cooperation. This would be of particular benefit to the Thai economy, which has relied strongly on export growth, particularly in the electronics sector. The recent downturn in global demand, particularly within Thailand's primary export markets, has severely affected the Thai economy. Possible areas which might benefit range widely, from products using aluminium packaging to automobiles and components (examined in further detail in Chapter 4).

3.3 The Impact on Services Trade

The world economy is currently experiencing a period of substantial structural change that can be characterised by an increasing role for services and knowledge-based industries, and rapid changes in technology.

Cross-border services trade presently represents only about one fifth of bilateral trade between Australia and Thailand.[3] The low level of services trade reflects the fact that services trade is more complex than goods trade. The complexity arises from two major sources, asymmetric information in many services activities, and the requirement for consumers and providers to be in the same place simultaneously.[4]

Liberalisation in this sector would offer significant gains mirroring those of goods trade, such as access to a bigger market. The World Bank, in a recent study of regional trading arrangements, has concluded that the gains from services liberalisation are likely to be "particularly large". In the Bank's view, this reflects the fact that many of the barriers to services involve quantity (rather than tariff-like) restrictions; that services liberalisation is not subject to trade diversion losses in the same way that goods can be; and that services are very substantial inputs into other sectors of the economy.[5] Services liberalisation can also serve as an important stimulus to foreign investment and joint venture arrangements.

Australia's share of service sector to GDP is more than twice the size of that of Thailand (a large service sector characterises most developed countries). Although Australia's service sector is largely open to foreign investment and joint ventures, there are some limitations for foreign nationals in commercial activities and working in the Australian market. For example, the Foreign Acquisitions and Takeovers Act of 1975 stipulates that at least two of directors of a public company are to be residents of Australia, and the Migration Act of 1958 and the Migration Regulations of 1994 place certain limits on the entry of foreign nationals to work in Australia.

The groundwork for a free trade agreement has been created by liberalisation of service industries in both Australia and Thailand. In Australia's case, specific import restrictions remain in only a small number of sectors, such as audiovisual, and aviation cabotage. Registration and qualification requirements in some professions impose limits on the participation of foreign suppliers in those sectors. Although foreign direct investment proposals above specified thresholds must be notified, they are normally approved unless they give rise to issues considered to be contrary to the national interest. Restrictions apply in some sensitive sectors.

In Thailand, there has similarly been appreciable liberalisation and deregulation of services in recent years, although significant barriers remain in many sectors. As Chapter 2 has indicated, the *Foreign Business Act* introduced in November 1999 relaxed many restrictions, although it continued to cap foreign equity participation in a wide range of sectors at 49 per cent. Thailand opened its financial services sector to foreign competition in 1997 in response to the East Asian financial crisis.

Liberalising services trade involves a willingness to address impediments across a wide range of areas. In terms of the four modes of services supply distinguished by the General Agreement on Trade in Services (GATS), these include:

---

[3] These data are based on cross-border services trade captured by balance of payments data and do not take into account services trade which results from a commercial presence in the other country.
[4] See World Bank, *Trade Blocs*, p.87.
[5] See *ibid.*, especially pp.87-89.

- barriers to the cross-border supply of services (for example, the delivery of banking or insurance services across boundaries via the Internet)
- impediments to consumption of services abroad (for example, on attending educational institutions abroad)
- restrictions on commercial presence of firms from each economy in the other (for example, restrictions on foreign direct investment, or treatment of foreign investment enterprises which is less favourable than for domestic firms)
- restrictions on the movement of natural persons (such as managers or consultants) associated with services delivery.

An agreement between Australia and Thailand that included specific liberalisation of trade in services on a preferential basis would need to meet the requirements of GATS Article V (Economic Integration), which allows an exemption from MFN when countries enter into agreements liberalising trade in services between them. The most important requirement under GATS Article V is for agreements to have "substantial sectoral coverage" in terms of the number of sectors covered, volume of trade affected and the modes of supply. GATS Article V (3) (a) notes that where developing countries are partners to an agreement of the type referred to in Article V, "flexibility shall be provided for….in accordance with the level of development of the countries concerned." The agreement also must provide for "the absence of substantially all discrimination".

Many FTAs negotiated in the past two decades have contained provisions liberalising trade in services among FTA partners (see Table 3.3.1). Some use negative lists (i.e. all items are assumed to be completely liberalised unless specified to the contrary) for both MFN and national treatment commitments. Some cover all sectors and others exclude certain sectors. Some provide for progressive liberalisation through regular reviews.

The implications of services liberalisation differ appreciably by sector. Thailand would gain substantially from the impetus to investment, growth and competitiveness. Australia would gain from improved market access in Thailand under an FTA. Also, market access commitments would provide certainty for Australian service providers seeking to expand their presence.

The implications of liberalisation for some key sectors are as follows. More detailed case material on health, educational and tourism services is included in Chapter 4.

Banking Services: Australian Bureau of Statistics data show Thailand's (cross-border) financial services exports to Australia were A$3 million (US$1.9 million) in 1999-00, a level it has maintained since 1995-96. Australia has recorded no financial services exports to Thailand since 1994-95. However, several Australian banks have established a commercial presence in Thailand through representative offices.

In the banking sector, foreign investment in Australia must be consistent with the *Banking Act (1959), the Financial Sector (Shareholdings) Act 1998, the Foreign Acquisitions and Takeovers Act 1975*, competition policy and banking policy, including prudential requirements. Approval is granted where the prudential regulator, the Australian Prudential Regulatory Authority, is satisfied that the bank and its home supervisor are of sufficient standing and where the bank agrees to

comply with Reserve Bank prudential supervision. Any person, foreign or domestic, wishing to hold a stake of greater than 15 per cent in a financial sector company would require the Treasurer's approval. The Treasurer will approve a higher stake if it is in the national interest.

Table 3.3.1: Services Provisions in Free Trade Agreements

Agreement	Provisions
CER	Makes services trade subject to national treatment and most favoured nation obligations, except in those areas specified in a Party's annex to the Protocol. Excluded services are subject to regular review with a view to liberalisation.
NAFTA	Makes all investment and trade in services subject to NAFTA obligations, including national treatment and MFN, except as specified in Parties' schedules of reservations. Reservations are divided into two annexes, the measure-based Annex I, in which non-conforming measures are bound at 'standstill' (i.e. they cannot be made more restrictive), and Annex II, which contains reservations for existing and future measures in specified sectors.
ASEAN	The 1995 ASEAN Framework Agreement on Services adopts a GATS-based approach, with liberalisation to be undertaken unilaterally on a gradual basis through rounds of negotiated commitments. Negotiating rounds in 1997 and 1998 resulted in packages of commitments focussed on maritime transport, air transport, construction, financial, telecommunications, tourism, and business services.
EC-Mexico FTA	Neither party may introduce new or more restrictive measures in any service sector except audiovisual services and maritime cabotage. A decision on liberalisation of remaining restrictions is to be taken three years after entry into force. A separate chapter addresses cross border trade and investment in financial services and Parties are required to 'negatively list' any non-conforming measures in that sector.

The Thai financial services sector was liberalised in 1997 in response to the financial crisis. Thailand allowed foreign investors to hold up to 100 per cent of shares in commercial banks, finance and "credit foncier" companies for ten years and therefore to operate as locally incorporated banks. Although important restrictions remain (such as on shareholding by individuals, numbers of foreign directors, and the number and location of branches), foreign involvement in the Thai banking sector has expanded greatly. In January 2000, four commercial banks and numerous securities and mutual funds management companies were majority foreign owned. For the first time, foreign banks now operate branch networks that compete directly with Thai banks.[6]

There are a total of 34 commercial banks in Thailand, 13 of which are locally incorporated (9 private banks and 4 state-owned banks) and 21 are branches of

[6] See East Asia Analytical Unit (now the Economic Analytical Unit), *Transforming Thailand: Choices for the New Millennium*, Department of Foreign Affairs and Trade, Canberra, 2000, p. 137.

foreign banks. All commercial banking business undertaken by local and foreign banks in Thailand is supervised and regulated by the Bank of Thailand (BOT) and operate under the *Commercial Banking Act B.E. 2505 (1962).* The Act will soon be replaced by the current draft *Financial Institutions Act* which is part of financial sector legal reforms designed to strengthen Thailand's supervisory practices and procedures such that they are in line with international best practice. The draft Act combines the *Commercial Banking Act* and the *Act on the Undertaking of Finance Business, Securities Business and Credit Foncier Business*, thereby creating a uniform standard of supervision among these institutions as well as specialised financial institutions.

Of all 21 foreign branches, the Bank of Tokyo-Mitsubishi, Citibank, the Sakura Bank, and the Hong Kong and Shanghai Banking Corporation are the most active institutions in terms of growth rate and market shares. The number of overseas offices of Thai banks is quite small. They have a presence in ASEAN (10) countries, the People's Republic of China, Hong Kong, India, the UK and the US.

By binding liberalisation introduced as emergency measures after the financial crisis and removing other restrictions Thailand would further enhance its attractiveness as an investment destination. Significant benefits to Thailand would result from the productivity gains from market liberalisation that would flow through to other parts of the economy. According to research by McKinsey, productivity in the Thai retail banking sector is roughly 45 per cent that of the US sector.[7] Open financial services markets promote efficiency in this sector by introducing international practices and standards, encouraging the transfer of skills and knowledge, allowing more stable sources of funds, putting pressure on firms to reduce costs and promoting innovation. Stronger representation of foreign firms already appears to be strengthening the Thai financial services sector, with Thai commercial banks upgrading their accounting, auditing, risk management, customer service and information systems to compete. For its part, Australia would gain from improved access to the Thai market.

Although liberalisation would introduce immense benefits to both parties, prudential regulation is still necessary in order to protect the public and to maintain the integrity and confidence of the financial system.

Insurance: Services statistics indicate there is no trade in cross-border insurance services between Australia and Thailand. Australian insurance firms, however, are active in Thailand. QBE entered the market through a joint venture in 1989; and AXA entered a joint venture with Krung Thai Bank in 1997. In 1998 NRMA bought an 18.4 per cent stake in the Thai company Safety Insurance.

Since 1997, the Thai insurance market has become increasingly competitive, with eight foreign joint ventures with local partners and one wholly-owned foreign company competing in the market. Thai legislation lifting the foreign equity cap in insurance from 25 per cent to 49 per cent is before the Senate. Branches of foreign insurance companies are not permitted to provide insurance brokerage or agency services. Thailand permits foreign insurance companies to supply life insurance

[7] Tanksul, P. and Villinger, R., 'Thailand's Chance for no-pain gain', *The McKinsey Quarterly*, No. 4, 2001.

services through cross-border sales and consumption abroad. These liberal arrangements have helped foreign firms gain nearly a 50 per cent share in Thailand's life insurance market.[8]

Thailand currently has 71 non-life insurers. It is envisaged that the number be lowered to around 30-35 companies. Ten companies control more than 50 per cent of the market, which is worth a total of 48.66 billion Baht (US$1.09 billion) in direct premiums. The five biggest alone control 36 per cent. They are Viriyah Insurance (13.94 per cent), Bangkok Insurance (7.7 per cent), Dhipaya (7.03 per cent), Synmunkong (4.14 per cent) and Safety Insurance (3.64 per cent).

Table 3.3.2: Number of Insurance Companies in Thailand as of 21 May 2000

Type of Insurance	Number of Locally Incorporated Companies	Number of Foreign Branches	Total
Life*	24	1	25
Non-life**	66	5	71
Health	6	0	6
Reinsurance			
Life	1	0	1
Non-life	1	0	1
Total	98	6	104

Source: Department of Insurance, Ministry of Commerce
* incl. ordinary and industrial insurance
** incl. fire, marine and transportation, automobile and miscellaneous (e.g., health, personal accident, engineering and aviation insurance)

In the non-life sector, AXA Insurance had a 1.49 per cent market share with direct premiums equal to 725 million Baht (US$16.32 million) while QBE Insurance had around 0.91 per cent with premiums equal to 432 million Baht (US$10.78 million) in 2000.

In the hull subsector, however, AXA Insurance is the seventh biggest marine and transportation insurer, with premium earnings of 7.5 million Baht (US$170,000), accounting for 4.6 per cent of the market, while QBE Insurance ranks ninth with premium earnings of 7.1 million Baht (US$160,000), accounting for 4.35 per cent of the market. AXA ranks eighth in cargo insurance with premium earnings of 83.4 million Baht (US$1.9 million), accounting for 3.7 per cent of the market. In other segments such as engineering, aviation, health, and personal, the presence of Australian firms is minimal.

The Thai life insurance market ranks third in South-East Asia after Singapore and Malaysia with annual premium income of 75.2 billion Baht (US$1.69 billion). Only about 12 per cent of the country's 61 million people had life insurance as of December 1999. Colonial, the former strategic partner of Ayudhya in a business venture called Ayudhya CMG Life Insurance captured 8.04 per cent of the market in 2000, after AIA and Thai Life Insurance holding shares of 49.93 per cent and 19.29

[8] Data are for March 1999 and are from WTO information.

per cent respectively. However it has recently disinvested from regional markets including the Thai market. Ayudhya has formed a new partnership with Allianz CP.

Relaxing barriers to foreign participation in the insurance sector could expand Thai firms' access to capital, management expertise and technology. An FTA could provide a framework for bilateral exchanges on regulatory issues in the sector. Already, Australia has provided support to Thai regulators seeking to enhance the regulatory regime in the life insurance industry.

A large part of the industry in Australia is foreign owned and public sector participation has been declining. Both life and general insurance industries are relatively concentrated. Ten companies held around 72 per cent of premium revenue in general insurance. The three largest life insurance companies account for almost 50 per cent of the industry's Australian assets.

The *Insurance Act (1973)* requires that both Australian-incorporated general insurers, and general insurance branches of foreign insurance companies be authorised in order to conduct business in Australia. Agents of unauthorised foreign insurers can operate in Australia as long as they obtain an Australian Financial Services Licence under the *Corporations Act 2001*. For life insurance firms, the amended *Life Insurance Act (1995)* forbids the establishment of new branch operations.

Professional Services: Services statistics indicate there is no or very little trade in professional services between Australia and Thailand. The statistics, however, do not account for the significant volume of Australian professional services exports undertaken through commercial presence and Australian professionals working in Thailand. Australian firms Allens Arthur Robinson, Minter Ellison, Deacons, and Clayton Utz operate in Thailand through joint ventures with local partners. Significant numbers of Australian lawyers and other professionals work for international firms with offices in Thailand. There is little information on Thai professional firms and nationals operating in Australia, but these are likely to be few.

Australia and Thailand maintain qualification requirements in some professional sectors, such as legal and auditing services. Australian jurisdictions permit practise by foreign law firms, and all but two implement a uniform regime of foreign law regulation. In non-regulated professions, such as accounting and engineering, professional associations in sectors such as accounting run professional certification schemes. There are no statutory barriers to entering the accounting profession. Australia's main professional accounting bodies, however, regulate their members by requiring them to follow a professional code of ethics. For its part, Thailand restricts foreign participation in professional services firms including accounting, legal, engineering and architectural firms to 49 per cent of total equity. Nationality and residency requirements exist in some professions such as accountancy, engineering, architecture, valuation and legal services for consumer protection purposes. Professionals in these fields who are non-Thai nationals may operate as advisers and consultants, but are restricted in the range of activities they can undertake.

Liberalising trade in professional services through an FTA would help fill Thai demand for professional managers, and services in areas such as feasibility studies and risk control. A number of foreign professional services firms, including the 'Big

5' international accounting firms, have established a commercial presence in the Thai market through joint ventures. The entry of competitive Australian firms would provide benefits to both Australia and Thailand.

Telecommunications: Barriers to telecommunication services trade mostly relate to the number of suppliers, restrictions on the type of legal entity, and limits on equity ownership.

Thailand's telecommunications privatisation master plan sets 2006 as a date for progressive telecommunications liberalisation, with timetables for the privatisation of the Communications Authority of Thailand (CAT) and the Telecommunications Organisation of Thailand (TOT), establishment of an independent regulator, and the setting of interconnection and licensing standards and regulations. It bound its commitment to liberalise its telecommunications sector by 2006 in the WTO's 1997 agreement on basic telecommunications. Currently, foreign suppliers may not operate in Thailand, but are able to supply telecommunications services for which concessions have been granted.

In Thailand there are currently around 56 private operators providing services through concessions granted by the former state provider – the Telephone Organisation of Thailand and Communication Authority of Thailand. Major markets are fixed-line communication, mobile telecommunication and Internet services. Thailand's incumbent cellular phone providers are Advanced Info Service (AIS), a joint venture between Singapore Telecommunications and Shin Corp, DTAC – Total Access Communication, United Communication Industry and Norwich Telelnor and CP Orange, a new venture between Charoen Pokphand and European mobile phone giant, Orange.

Thailand's market access restrictions have impeded foreign firms from investing in its basic telecommunications sector. The value-added services market has offered more opportunities for investment. Australian firm St Francis Mining, for example, recently purchased a minority share in EThailand.com, an Internet portal focusing on the international business community in Thailand. Further opportunities may exist in outsourced telecommunications services, systems development and training.

Australia opened its telecommunications market to full competition for all telecommunications services in 1997, ending limits on the number of satellite service providers and primary suppliers of public mobile cellular telephony. Foreign investment in any Australian telecommunications company is subject to the terms of the *Foreign Acquisitions and Takeovers Act (1975).*

However, foreign investment in Telstra Corporation is limited to an aggregate of 35 per cent of the non-Commonwealth owned shares in Telstra. Individual foreign ownership is restricted to not more than 5 per cent of the non-Commonwealth owned shares in Telstra. Currently the Commonwealth owns 50.1 per cent of Telstra shares.

The *Telecommunications Act (1997)* removed all restrictions on the number of carrier licences that can be granted, thereby removing the restriction on the installation of telecommunications infrastructure. The number of private sector carriers in Australia

has grown rapidly since the introduction of open competition, with 40 licensed carriers at May 2000 and 1050 registered carriage service providers.

Further liberalisation of telecommunications under an FTA would benefit both Australia and Thailand. Telecommunications is an input to almost every industry. Productivity benefits from increasing efficiency in this sector may therefore be felt throughout the economy. Efficient telecommunications give more firms access to electronic commerce, which is providing new ways to conduct business, with beneficial effects on growth, productivity, efficiency, jobs, and consumer choice. They also provide essential infrastructure for international trade, providing an efficient means of conducting sales transactions.

3.4 The Impact on Investment and Private Sector Linkages

Foreign investment is recognised in both Australia and Thailand as a key to economic growth. The implications of a free trade agreement for direct investment and other private sector linkages are therefore of great importance. Both economies have a strong interest in encouraging inward foreign direct investment (joint ventures are discussed further in Chapter 5). In Thailand's case, the boom in foreign direct investment which followed the economic crisis of 1997-98 has been followed by a strong downward trend in direct investment. Australia, for its part, failed to share in the huge surge in global direct investment which occurred in the second half of the 1990s, although it has become a much more important source of global foreign direct investment.

A free trade agreement would affect investment flows in three main ways. First, the provisions of the agreement on trade in goods and services would themselves have direct implications for investment. Freeing up trade in goods, for example, would bring in its wake new flows of foreign investment as firms adjusted to a different economic environment and changes in economic incentives. It would be increasingly possible for firms to operate as though Australia and Thailand were a single market, with distance and transport costs the main impediment to locating activities in areas best able to supply competitively. It would also add to the attractiveness of Australia and Thailand in servicing third country markets. These changes would affect not only flows of investment between Australia and Thailand, but also flows of investment from other countries.

Secondly, investment flows would be affected by specific investment provisions in a free trade agreement. Here, there are a range of possibilities. Foreign investment has been addressed in quite different ways in regional agreements to date. At one extreme, NAFTA has aimed at a high level of commitments and includes provisions relating to national treatment, as well as provisions on compensation in the event of expropriation, dispute settlement, and repatriation of funds. On the other hand, Australia's free trade agreement with New Zealand contains no special provisions on investment. ASEAN's Framework Agreement on ASEAN Investment Area (AIA) provides for the extension of national treatment to ASEAN investors by 2010 and to all investors by 2020 (with some exceptions). National treatment for investors in the manufacturing sector is being introduced under an accelerated timetable (see Table 3.4.1).

Thirdly, a free trade agreement could be expected to influence investment through its impact on market perceptions. Negotiation of an agreement would be accompanied, in both Australia and Thailand, by a heightened focus in each economy on opportunities in the other. This "head-turning" effect could be expected to lead to new interest by business in opportunities in the other country. This would mainly be expected to contribute to increased flows of Australian investment to Thailand, but increased interest in both countries by other international investors could also occur in this way. A free trade agreement would also influence market perceptions of the policy environment in both countries. A free trade agreement with Australia would signal to international investors Thailand's commitment to continue with the process of economic reform undertaken during the 1990s. Thailand is in fact already reviewing measures that impede foreign investment.

The implications of a free trade agreement on incentives to invest vary with each sector. For example:

- in the auto sector, both Australia and Thailand have strong competitive strengths. Liberalisation of trade might be expected to lead to increased investment from international manufacturers in both Australia and Thailand aiming to take advantage of the opportunities of a much larger market and to greater specialisation on particular product lines by Australia and Thailand. These effects are explored in greater detail in the case studies in Chapter 4.
- in textiles and clothing, it is possible that there would be increased investment by Australia and by other economies in the Thai manufacturing sector, aimed at exploiting the opportunities for greater access to the Australian market. The implications are explored in greater detail in Chapter 4.
- in the agri-business sector, liberalisation of agricultural trade would strengthen foreign investor interest in both countries. Australian investment in Thailand could be increased in agricultural processing businesses through more joint ventures, and Thai investment in Australia could also increase in areas such as poultry.
- for some other manufacturing sectors, there could be a similar, but somewhat smaller impact. There would also be increased opportunities for two-way private sector linkages associated with strategies by firms to undertake some design, processing and manufacturing elements in Australia and other elements in Thailand, drawing on the benefits of freer trade in intermediate goods between the two economies.
- in the services sector, Australian investment in Thailand might be expected to increase as Australian firms sought to move into a more open Thai market. The effects of these developments have been explored in the previous Section.

Table 3.4.1: Investment Provisions in Free Trade Agreements

Agreement	Provisions
CER	No specific provisions. Investors of each country are subject to the general foreign investment policies and requirements of the other country. CER is a national interest criterion in Australia's assessment of New Zealand investment proposals and *vice versa*. Australia and New Zealand, in the spirit of CER, have agreed that constraints on trans-Tasman investment should be kept to a minimum.[9]
NAFTA	Provides for national treatment for investors from other Parties to the agreement. No minimum national equity limits or specified performance requirements (except for activities in connection with a Party's government procurement, export promotion and foreign aid) can be imposed by authorities of one Party. Includes a mechanism for the settlement of investment disputes. Allows investors to pursue claims against a host government on grounds that it has breached its obligations under NAFTA. Parties may make reservations, *inter alia*, against national and MFN treatment and performance requirements.
ASEAN	No provisions in AFTA. However, the October 1998 Framework Agreement on the ASEAN Investment Area provides for a coordinated investment cooperation program, the extension of national treatment to ASEAN investors by 2010 and to all investors by 2020, the opening of all industries for investment to ASEAN investors by 2010, and the freer flow of capital, skilled labour and technology. In the December 1998 Statement on Bold Measures, signed at the 6th ASEAN Summit in Hanoi, ASEAN leaders agreed that national treatment would be made fully available within six months of the date of signing the Agreement for ASEAN investors in the manufacturing sector, with a few exceptions. These exceptions would be phased out by 2003. The ASEAN Framework Agreement on Services is also relevant to investment in services.
NZ-Singapore Closer Economic Partnership	Provides most favoured nation or national treatment (whichever is the better) for investors from the other party. National treatment limitations apply in certain areas. Provisions on transfer and repatriation of investments and earnings and dispute settlement. Areas of the agreement applying to commercial presence in services are also relevant to investment.

[9] Department of Foreign Affairs and Trade, *Closer Economic Relations: Background Guide to the Australia New Zealand Economic Relationship*, Commonwealth of Australia, Canberra, 1997, PDF version, p.26.

The overall impact of a free trade agreement on investment is expected to be positive for both Australia and Thailand. Econometric evidence suggests that market size in particular has a strong positive impact on direct investment flows. Recent research by the Economist Intelligence Unit has also highlighted the importance of the policy environment.[10] These factors would be expected to outweigh any stimulus to foreign direct investment from higher tariffs (as firms seek to move behind high tariffs to service the local market). It should, of course, also be added that foreign direct investment flows are affected by a large number of factors and fluctuate sharply in the short term because of such factors as large mergers and acquisitions, exchange rate changes, or shifts in the investment climate in home countries. Negotiation of a free trade agreement would, however, be expected to make flows of foreign direct investment to Thailand and Australia higher than they would have been otherwise. It would also open up wider opportunities for both countries. Australia, for example, could benefit from using Thailand as a gateway to enter Indochina and other Asian markets.

3.5 The Implications of Rules of Origin

Rules of Origin (ROOs) are necessary to administer preferential trade regimes. They are an important mechanism to ensure that products entering a country receive the correct import treatment when this is differentiated among trading partners. Essentially, they are developed to protect the interests of the countries involved in the trade agreement, and must be consistent with WTO rules and guidelines.

Thailand and Australia each have existing preferential trading partners, with agreed ROOs regimes in place. For example, Thailand has such a regime with member countries of the ASEAN Free Trade Area (AFTA), and Australia has a regime with New Zealand under the Australia New Zealand Closer Economic Relations Trade Agreement (CER). These arrangements employ different rules for determining national origin. The proliferation of overlapping FTAs may raise many technical problems with respect to the implementation of ROOs.[11] Consequently, ROOs can also give rise to significant costs because of the need for administrative surveillance and implementation. There are a variety of other arrangements in place in other free trade agreements. Provisions of some key agreements are summarised in Table 3.4.1.

It is likely that the majority of Australian exports to Thailand would carry a high country of origin percentage, as significant exports are agricultural or resources commodities sourced from Australia and destined as raw materials/inputs for Thai industry (for example, dairy, cotton, metals, petroleum). The same would be true for some of Thailand's significant exports to Australia (for example, seafood). However, manufactured Thai exports to Australia may contain varying levels of components sourced from suppliers within AFTA and other markets. For example, while the Thai domestic content for locally produced light utility trucks is estimated at 70 per cent, it is much smaller for some electronic manufactures. Popular brands of Thai produced

---

[10] See Economist Intelligence Unit, *World Investment Prospects*, London, 2001; United Nations Conference on Trade and Development, *World Investment Report 1998, Trends and Determinants*, United Nations, New York and Geneva, 1998.

[11] See Krueger, A. 'Problems with Overlapping Free Trade Areas', in Ito, T. and Krueger, A. (eds.), *Regionalism versus Multilateral Trade Arrangements*, The University of Chicago Press, Chicago, 1997.

vehicles, such as City Car, use about 60 per cent local content. 'Completely knocked down' (CKD) vehicles, however, tend to have less local content and their treatment under a free trade agreement would depend on the rules of origin agreed.

The monitoring regime for a Thailand-Australia FTA could be implemented with little difficulty. Both Thailand and Australia are familiar with ROOs pertaining to a country of origin and/or minimum manufacturing processing costs basis (40 per cent for AFTA, 50 per cent for CER). The Thai and Australian agencies required to monitor these arrangements (Thai Customs Department and Australian Customs Service) are experienced in dealing with differentiated trading environments, and have the mechanisms to monitor preferential trade arrangements.

Table 3.4.1: Rules of Origin in Regional Agreements

Agreement	Provisions
CER	To qualify for preferential treatment, an item is required to: (a) be wholly the produce of the member country, or (b) the last process of manufacture must be in Australia or New Zealand, with not less than 50 per cent of the factory cost represented by the qualifying expenditure of the (ANZ) manufacturer.
AFTA	To qualify for preferential treatment, a product must be either: (a) wholly produced or obtained in the exporting state, or (b) contain at least 40 per cent of member state origin (based on its CIF value).
NAFTA	To be eligible for preferential treatment, a good must (a) be wholly obtained or produced entirely in the territory of one or more of the Parties; or (b) each of the non-originating materials used in the production of the good undergoes an applicable change in tariff classification (as set out in NAFTA Annex 401) as a result of production occurring entirely in the territory of one or more of the Parties (or is exempt under that Annex); or (c) goods assembled for export to other Parties as a finished good must have a calculated "regional value" of not less than 60 per cent (determined under NAFTA Article 402). More complex provisions apply in some sectors such as autos.
Mercosur[12]	Goods must have a "regional value content" of 60 per cent to be eligible for preferential treatment between members.

3.6 The Overall Economic Impact for Australia and Thailand

A free trade agreement between Australia and Thailand is likely to generate economic and welfare gains for both economies. Chapter 6 of this study attempts to provide a detailed and quantitative basis for this assessment by drawing on the economic modelling carried out by the Centre for International Economics using the APG-Cubed Model developed by Professor Warwick McKibbin. This section reviews

[12] MERCOSUR (Mercado Común del Sur – "Common Market of the South") is a Common Market between Argentina, Brazil, Paraguay and Uruguay.

some more general arguments which are qualitative in nature, but which point to the same conclusion.

The model of regional trade liberalisation which has traditionally been employed to examine regional trade liberalisation focuses on merchandise trade. Under this model, the gains to each economy depend on the balance between trade creation and trade diversion. Trade creation arises when liberalisation between the parties to the free trade agreement leads each economy to specialise on products for which it is a low cost producer. As a consequence, prices fall and consumption expands for goods subject to liberalisation. Factors of production in each economy move to areas where they can be more efficiently utilised. Trade diversion, by contrast, arises when trade liberalisation between the parties to the regional agreement results in low cost production from third countries being replaced by less efficient production in a member economy. Agreements where trade creation predominates are expected to lead to positive economic and welfare gains, whereas those where trade diversion is the stronger factor may result in economic and welfare losses.

There are other important sources of economic gains from liberalising trade in goods which are increasingly recognised.[13] The larger market generated by a free trade agreement may lead to economies of scale, resulting in more efficient production in both economies. Stronger competition in a larger market, involving a larger number of firms, may lead to more efficient production. These "scale and competition" effects of a regional agreement are typically expected to have a positive impact on economic activity and welfare in each economy. They are expected to be particularly strong if negotiation of the free trade agreement leads to regulatory changes which strengthen competitive forces in each economy. The impact of a free trade agreement on trade can also lead to new forms of technology transfer, particularly if one of the parties to the agreement is a developing economy. The impact of a regional agreement on broader economic reform is another important factor and may of itself lead to very substantial gains.

A comprehensive free trade agreement involving Australia and Thailand could be expected to act as a powerful force for trade creation. As Section 3.1 has suggested, Australia and Thailand differ appreciably in terms of their comparative advantage. There would therefore be substantial scope for a free trade agreement to lead to new trade flows, based on each economy specialising in areas of production in which it is a low cost producer. This could be expected to lead to some adjustment in sectors of each economy. But the overall impact would be higher economic output and welfare for each. Importantly, each economy has significant strengths in each of the broad sectors of agriculture, minerals, manufacturing and services. This would limit the adjustment costs involved.

Other sources of economic gain are also likely to be appreciable. As Chapter 2 has indicated, an Australia-Thai free trade agreement would combine two markets of substantial size, with Australia's GDP roughly equal to that of all of Thailand's other ASEAN partners combined. In this larger market, competition is likely to be more intense in a number of different industry sectors. There would also be important opportunities for economies of scale and for more efficient production as a

[13] See World Bank, *Trade Blocs*, especially Chapter 3 for an excellent survey of these effects.

consequence. As one example, the automobile sector, where Australia and Thailand share competitive strengths, is characterised by very strong economies of scale. There would be scope for substantial improvements in efficiency if each economy were to specialise more closely on specific product lines. Chapter 4 of this study explores these possibilities in greater detail.

An Australia-Thai free trade agreement would lead to some trade diversion, but the economic costs of this are likely to be relatively modest. In Australia's case, tariff barriers are already low in most sectors. The risk of diverting imports from more efficient sources is therefore likely to be small. In those cases where trade barriers in Australia are highest – automobiles and textiles, clothing and footwear – Thailand has important competitive strengths (Thailand is, for example, a significant exporter of motor vehicles and textile and clothing products to Australia, even in the presence of significant tariffs.) The fact that a substantial proportion of Australia's imports enter duty free from New Zealand or under special tariff concessions also limits the possibility of trade diversion.

For Thailand too, the risk of trade diversion under an Australia-Thai free trade agreement is relatively small. A substantial proportion of Thailand's imports already enter at minimal tariff rates, either from other ASEAN economies under the Common Effective Preferential Tariff, or under concessional arrangements. The fact that Australia is a highly open economy also minimises the risk that Thailand's imports from Australia will be high cost imports, at prices out of line with those in the global market. Negotiation of new trade agreements (as envisaged with China) would also weaken any tendency towards trade diversion.

It is increasingly recognised that there are substantial gains from services liberalisation. Research carried out by the Centre for International Economics, as a consultant to the study, suggests that there would be particularly strong long-run gains from including services in an Australia-Thai free trade agreement (see Chapter 6). These gains would accrue to both Australia and Thailand, but would be strongest for Thailand, given the potential for more open access and strengthened competition to reduce the costs of services delivery in Thailand. In the case of financial services, for example, the Centre has identified possible cost reductions in the delivery of services of the order of 10 per cent flowing from more open access for Australian financial institutions. It estimates the reduction in costs for business services at around 2 per cent in Thailand. Possible cost reductions from opening up air services (for Thailand) and maritime services (for Australia) are also estimated as significant.

The overall economic gains to both Australia and Thailand are summarised in Table 3.6.1. As the Table suggests, both economies are likely to benefit from a free trade agreement. But the gains to Thailand in the long-run are likely to be particularly strong given the impetus which a free trade agreement would add to economic reform and to further opening of the Thai economy. Thailand would also be the biggest beneficiary from stronger flows of investment under freer trade.

Table 3.6.1: Economic Gains from an Australia-Thai Free Trade Agreement

Source of Gain or Loss	Australia	Thailand
Market access	Important gains from increased access in a wide range of areas, especially agriculture, some manufactures and services	Important gains in some sectors, such as textiles and clothing, and autos, and food products
Trade creation	Modest gains possible	Modest gains possible
Trade diversion	Limited costs given Australia's open economy	Limited costs (see discussion in the text)
Stimulation of inward investment	Some stimulation of investment from the larger market	An appreciable stimulation of investment (and thus growth) from the larger market
Other sources of increased efficiency of goods sector	Limited gains from increased competition. Important economies of scale in some sectors	Could be a significant source of increased efficiency from increased competition and economies of scale
Increased efficiency in the services sector	Limited increases in efficiency only given Australia's relatively open services sector	Substantial increases in economic efficiency
Stimulation to reform	Limited stimulation of further economic reform	Significant stimulation and a stronger perception of likely further liberalisation of the Thai economy

3.7 Adjustment Issues and Capacity Building

While preferential liberalisation of trade and investment leads to gains to consumer welfare and economic growth as long as trade diversion is more than offset by trade creation in each country, there are some adjustment costs and difficulties in adapting to new policy settings. As discussed in the previous subsection, the adjustment costs arising from a bilateral free trade agreement between Australia and Thailand are likely to be small. However, Thailand as a developing economy, could bear a heavier burden of these small adjustment costs than Australia. Nevertheless this would be balanced by a potentially larger boost to GDP once the adjustment is undertaken.

There are several reasons why overall adjustment costs in both economies are likely to be small. First, the value of international trade between the two countries is only about 2 per cent of the total value of international trade of each country. Secondly, Thailand has already experienced an adjustment phase with the AFTA agreement and Australia under the Australia New Zealand Closer Economic Relations Trade Agreement (CER). As various industries in both countries have gone through a decade of declining protective tariffs under GATT and regional agreements, an FTA between Australia and Thailand would not cause as large an adjustment problem as might first be thought. Thirdly, the two economies are relatively complementary, with different specialisations.

Fourthly, both Thailand and Australia also maintain other exemptions from protective barriers which would also work to limit adjustment costs. In Thailand's case, there are widespread exemptions from tariffs, principally for the purposes of promoting foreign investment. These exemptions mean that customs revenue collected amounts to less than 4 per cent of imports (see also Chapter 2). In the case of services, the United States already receives special access to Thailand in many areas under the *US Treaty of Amity and Economic Relations*. In Australia's case, imports can receive access at concessional tariff rates under the Tariff Concession Scheme, the Policy and Project By-laws Scheme or concessional arrangements for Forum Island Countries and least developed countries.[14]

In forming a free trade area, although a smaller economy would gain relatively more in the long run, adjustment costs are also likely to fall more heavily on it. A study by the former Bureau of Industry Economics in Australia on the impact of the Australia New Zealand Closer Economic Relations Trade Agreement thus concludes that New Zealand – with an economy about one-seventh that of Australia when the Agreement came into effect in 1983 – bore short-term costs of trade liberalisation more heavily than Australia.[15] Together with the fact that the average tariff in Thailand is higher than in Australia, therefore, the adjustment costs of preferential liberalisation while small, could be borne more heavily by Thailand than Australia.

In the long run, as trade barriers gradually fall, the adjustment costs are likely to shrink and both countries would benefit from a free trade agreement as Australia and Thailand are truly natural trading partners with substantial differences in factor endowment.[16]

Even though the overall adjustment costs are not considerable, not all sectors will fare equally well from a free trade agreement. The adjustment costs on certain sectors can be of significance particularly in sectors where there is direct competition and high protection. Therefore, the reduction of tariffs may need to be phased in gradually to allow a sufficient grace period for industries to adjust. In addition, to improve trade facilitation, both countries need to cooperate genuinely to resolve sanitary and phytosanitary and anti-dumping measures. Other adjustment issues would need to be examined in detailed negotiations where they involved requests for additional phasing.

Thailand and Australia face the dilemma of deciding how to balance economic gains and adjustment costs. In the long run, the overall impact of a free trade agreement is likely to be positive. Both countries will benefit from a larger market in which economies of scale in production can be exploited to create more efficient production in both economies. Beyond the anxiety and uncertainty of the impact of a free trade

---

[14] The Tariff Concession Scheme allows goods to be imported at concessional rates where no substitutable goods are produced in Australia, provided a Tariff Concession Order has been approved. Policy and Project By-laws allow concessional entry for imports under specified circumstances.

[15] Australian Bureau of Industry Economics, *Trade Liberalisation and Australian Manufacturing Industry: the Impact of the Australia New Zealand Closer Economic Relations Trade Agreement*, Research Report 29, 1989.

[16] Krueger, A., 'Are Preferential Trading Arrangements Trade Liberalising or Protectionist?', *Journal of Economic Perspectives*, Vol. 13, No. 4, 1999, pp.105-124.

agreement, there are adjustment costs. Such costs depend not only on the size of the affected sectors, but also the ability of those sectors to respond to changes. In general, the more adaptable a sector is, the lower are the adjustment costs. Both governments can assist in building capacity at the private and governmental levels to ensure that adjustment costs are kept to a minimum and to resolve trade issues that restrict trade in a timely fashion. These adjustment costs could be lessened if the negotiation of the free trade agreement leads to regulatory changes and closer cooperation that encourages trade in all sectors, not just certain sectors in which each country has comparative advantage.

Currently, the two countries cooperate closely at both business and governmental levels. The Thailand-Australia Joint Working Group on Agriculture has cooperated to promote and facilitate two-way agricultural trade by means of discussion of quarantine issues, agricultural technology transfer and capacity training. The Joint Trade Committee is also an important forum for discussion on market access, business law and quarantine. Thailand and Australia have the mechanisms in place to form a free trade agreement that is truly free of tariffs and non-tariff barriers. Eliminating highly protective tariffs and non-tariff measures is a challenge for Thailand and Australia. Genuine cooperation between Thailand and Australia on trade facilitation would strengthen both economies and lessen adjustment costs.

4. Case Studies on the Impact of Liberalisation

A free trade agreement is likely to have different impacts on different sectors, according to levels of protection and patterns of comparative advantage. This Chapter examines the impact of an FTA on four sectors in depth: Agribusiness and Processed Foods, Automobiles and Auto Parts, Textiles and Clothing and Selected Services. It looks at issues such as the likely impact on trade and investment flows in these sectors, as well as other possible linkages that might be strengthened through an FTA. It also examines possible adjustment costs from trade and investment liberalisation and the factors that might influence their severity.

The sectors examined in this Chapter represent a cross-section of Australia-Thai trade, including primary, secondary and tertiary industries. They also cover for both countries sectors that would offer potential for export expansion under an FTA and sectors where an FTA might result in adjustment costs.

4.1 Agribusiness and Processed Food

The Australian and Thai Agribusiness/Food Sector

Agriculture is a sector of vital importance for Australia. Although it now accounts for only a small percentage of Australia's GDP (3 per cent in 2000), the sector is of key importance to regional Australia. Rural products continue to provide a substantial share of Australian exports. In aggregate terms, they contributed A$28 billion (US$16 billion) to Australia's total merchandise exports in 2000, or 27 per cent of the total.

A key element of the success of Australian food and agriculture has been its increasing adjustment to liberalisation and exposure to full global competition, and its increasing diversification in response to changing global demand. The pattern of Australian food and agricultural production has been transformed in the past half-century from just a few major commodities to a far more diverse range of products.

The traditional Australian pillars of wool, wheat, sugar, meat and dairy, which accounted for almost 80 per cent of production at the beginning of the 1970s, have in most cases (except for wool) vastly increased their volume and value of production. At the same time, newer and formerly minor subsectors (such as rice, oilseeds and wine) have become significant areas of production and exports. Australia's list of top 25 merchandise exports now includes not only wheat, wool and milk but also cotton, wine and animal feed.

The value of agrifood exports has continued to grow quite strongly, even at a time of historically very low commodity prices for many agricultural products. In the ten years 1990-2000, exports of unprocessed food rose by an average of 10 per cent per annum, while processed food exports rose by 6 per cent per annum over the same period. Processed exports grew much more strongly in 2000, however, rising by nearly 20 per cent. [1]

---

[1] Department of Foreign Affairs and Trade, *Exports of Primary & Manufactured Products 2000*, Canberra, 2001, Table 2.

Australia is also a significant agrifood importer, with these imports amounting to almost A$5.4 billion (US$3.1 billion) or about 8.7 per cent of total world imports of A$62.1 billion (US$35.4 billion) in 2000. Seafood, fruit and vegetables, alcoholic beverages and 'other food products' are the main products imported, accounting for about 60 per cent of food imports in 2000 (roughly the same share as in 1990). Total seafood imports were nearly A$0.8 billion (US$0.5 billion) in 2000, with much of this from Thailand.

Agriculture is a sector of economic and social importance for Thailand, although the non-agricultural sector has played a stronger role in its development in the past decade (Thailand is a major base for many foreign corporations producing goods which require significant imports of raw materials). The agricultural sector employs roughly half of Thailand's working population (46 per cent). Although its contribution to GDP is quite low at 11 per cent (reflecting relatively low incomes among farmers and labor-intensive production), agriculture's contribution to export earnings was about 22 per cent in 2000. Agriculture, therefore, has been of vital importance in terms of value added and employment.

Over half of Thai agricultural production involves rice, much of it for subsistence, but much of it also for export (Thailand is the world's leading rice exporter). Thailand is also a major exporter of sugar, with exports reaching US$1 billion in recent years. It is an important producer of a wide variety of fruit and fruit products, with about 10 per cent of output exported. Thailand is among the top seafood-producing nations in the world, with exports of more than US$3 billion in 1998. It has a large export-oriented frozen chicken industry.

The share of agriculture in overall imports remains low, at about 6 per cent, reflecting the country's abundant food supply as well as a number of technical and tariff barriers to food imports.[2] Dairy products, in particular skim milk powder (SMP), are major import items, with SMP often exceeding tariff quota volumes.

Thailand's large surplus agricultural production, and large and youthful local market (around 60 million consumers in 2000, with over 50 per cent below the age of 30), have made it one of the primary destinations in the Asia-Pacific region for foreign direct investment into its food and agriculture sectors. By 2001, almost 20 per cent of the top 100 North American and European agrifood multinational corporations (MNCs) had established food or beverage processing facilities in Thailand [3], almost all with some export orientation, and many established as a regional production base. Foreign investment is strongly influencing the modernisation and improved efficiency of Thailand's agrifood distribution system.[4]

---

[2] WTO, *Trade Policy Review of Thailand*, Geneva, 1999, p. 78.

[3] DFAT, *Subsistence to Supermarket II: Agrifood Globalisation and Asia, Volume I (Agrifood MNCs in Asia)*, Canberra, 2001, pp 36-39.

[4] DFAT, *Subsistence to Supermarket II: Agrifood Globalisation and Asia, Volume II (Changing Agrifood Distribution in Asia)*, Canberra, 2001.

Australia-Thai Trade and Investment in Agrifood Products

There is significant two-way agrifood trade between Thailand and Australia. Thai agrifood exports to Australia have risen by more than 30 per cent since 1995. This is partly due to the sharp depreciation – by almost 100 per cent – of the Thai Baht. After the Asian financial crisis of 1997, however, Thai agrifood exports to Australia have fluctuated at around A$400 million (US$229 million). Key Thai exports to Australia are seafood, cereal and fruit and vegetable products, with significant increases in processed food products in recent years. Despite a drop in 2000, seafood trade has increased steadily. Thailand's exports of prepared meat or seafood to Australia have increased 50 per cent over the last five years: noteworthy is that seafood is the sole source of export earnings in this category. Cereal (rice) exports have doubled and cereal preparations have quadrupled, while 'other food products' have also doubled.[5]

Australian agrifood exports to Thailand have increased by almost 40 per cent since 1995. Australia's exports to Thailand were dominated by dairy (about 35 per cent) and cereal products (17 per cent) in 2001. Australian exports (mainly milk powder and butter oil) to Thailand have fluctuated over recent years. Basic cereals (nearly all wheat) have also fluctuated from year to year, while milled products (mainly malt, but also wheat flour) have quadrupled.

Table 4.1.1: Australia's Imports of Agrifood Products from Thailand, 1995-2000 (A$ millions)

HS Chapter and Product	*CY 1995*	*CY 1996*	*CY 1997*	*CY 1998*	*CY 1999*	*CY 2000*
03 Fish, crustaceans & molluscs	90	91	104	114	126	107
10 Cereals	15	21	25	25	27	30
16 Preparations of meat or seafood	80	82	95	117	120	118
19 Preparations of cereals or milk	7	7	13	20	20	26
20 Preparations of vegetables, fruit & nuts	27	28	28	28	33	31
21 Miscellaneous edible preparations	15	19	23	23	27	32
23 Prepared animal fodder	35	33	34	37	33	27
Other agrifood products	32	36	36	37	39	30
TOTAL	302	316	359	401	426	401

Source: Department of Foreign Affairs and Trade, STARS UN database

Table 4.1.2: Thailand's Imports of Agrifood Products from Australia, 1995-2001 (US$ millions)

HS Chapter and Product	*CY 1995*	*CY 1996*	*CY 1997*	*CY 1998*	*CY 1999*	*CY2000*	*CY2001*
03 Fish, crustaceans & molluscs	8.1	5.4	6.5	8.3	6.3	6.6	40.0
04 Dairy produce	81.5	113.3	85.5	89.7	80.7	75.0	82.1
07 Edible vegetables, roots & tubers	0.5	1.4	2.6	2.4	3.2	2.8	3.7
10 Cereals	35.6	63.2	51.1	56.7	43.2	38.8	39.5
11 Products of the milling industry	5.6	12.0	10.6	18.8	19.8	20.3	30.9
19 Preparations of cereals or milk	11.4	12.8	26.1	14.7	9.0	8.6	6.0
23 Prepared animal fodder	3.6	6.0	4.4	2.6	4.5	4.3	5.6
Other agrifood products	18.7	21.6	19.7	12.5	16.8	35.5	21.5
TOTAL	165.1	236.0	206.9	205.8	183.6	191.7	229.5

Source: DBE

There has been growing interest by the Australian food and agriculture sectors in FDI in Thailand since the late 1980s/early 1990s, a trend which is likely to strengthen

[5] These figures on Thailand's exports to Australia have been obtained through Australian import data.

under an FTA. Australian investment interests range from dairy products (the Australian Dairy Corporation is involved in a joint venture with the Thai Dairy Industry Co) to fast food (as one example, the Australian Fast Foods/Chicken Treat fast food chain has around 7 outlets in Bangkok). There has been very little Thai FDI into the Australian food and agriculture sectors to date, however.

Impediments to Bilateral Trade

Australia has relatively low tariffs on agrifood imports. Tariff barrier protection has been reduced over the last 25 years, such that from 1996 all of Australia's applied agricultural tariffs (with only very few exceptions) have been reduced to rates of between 0-5 per cent.

Australia has a conservative approach to quarantine policy. These non-tariff measures restrict or make commercially unviable some Thai agricultural exports such as frozen chicken and fresh fruits and vegetables. Australia's application of anti-dumping measures against products it believes are dumped also restricts some Thai exports.

Thailand's agrifood trade regime is characterised by strong policy support for free agricultural trade as a member of the Cairns Group, but relatively high agrifood tariffs. In recent years, Thailand has reduced tariffs on some inputs for its food processing industry, while increasing them on other agrifood products manufactured locally. The average applied MFN tariff in agriculture is 34 per cent and has barely changed since the Asian financial crisis of 1997. Three quarters of tariffs exceeding 50 per cent are in agriculture. While there are 23 agricultural tariff quotas, most do not appear to constitute a significant barrier to trade. Quota administration is of concern for some key sectors like dairy, however.

Sanitary certificates are required for imports of certain live animals and their products, and a phytosanitary certificate is needed for the import of most plant materials. Further, a range of agricultural products remain subject to non-automatic import licensing, and local content requirements apply to skim milk powder imports.

Impact of Trade and Investment Liberalisation

Australia: Australia would benefit from improved access to the large Thai market under an FTA. Reductions in tariffs from levels of 30-50 per cent (and more) would provide significantly increased opportunities for a range of products like cheese and milk powder, processed fruit and vegetables, pasta, confectionery and wine. Removal of quotas would also provide better access for Australian agrifood products and make them much more competitive against other countries' exports. In addition, improved trade facilitation under a free trade agreement would reduce costs for Australian exporters through measures like streamlined food standards and streamlined customs procedures.

Beyond the immediate impact of an FTA on trade, rising Thai standards of living will fuel growth in the Thai processed food market. This will create opportunities for Australian exports of high-value, niche products in this growing market, particularly among higher-income, urban Thais.

On the investment side, a more conducive investment regime in Thailand under an FTA could encourage Australian investment in complementary processing for export to other ASEAN and East Asian countries and to Europe and the US. This would enable Australian processors to add value to their products in Thailand (with Thai food inputs) to exploit ASEAN and other preferences enjoyed by Thailand.

Thailand: For Thai food producers, Australia represents an additional 19 million consumers with disposable income equivalent to the highest strata of Thai food consumers. Access for Thai products at zero duties, even if only slightly lower than current applied tariffs, will help Thai exporters compete for market share in the Australian market. Resolution of issues on quarantine and anti-dumping would provide market access for processed meat products, fresh fruits and vegetables, and other agrifood products. Australians would benefit from lower food prices and stronger agrifood sector productivity. Improvements in trade facilitation would also reduce costs for Thai exporters through streamlined food standards and streamlined customs procedures.

Thailand's own liberalisation under a free trade agreement would provide cheaper food products for Thai consumers. Given Thailand's relatively high tariffs on many food products, in the range of 30-50 per cent, the reductions in the costs to Thai consumers of Australian foodstuffs will be considerable (of the same order of 30-50 per cent in many cases). Similarly, big reductions in tariffs on Australian agrifood products will mean less costly ingredients for Thai food processors, flowing through to lower food costs for Thai consumers, increased consumption and increased profitability for Thai processors.

A free trade agreement could enhance trade facilitation through cooperation on quarantine and anti-dumping. An agreement on these issues would improve market perceptions that Thais and Australians are willing to cooperate in all trade issues in an FTA.

Cheaper Australian ingredients would also flow through into more competitive Thai processed food exports. Even though duty reductions and exemptions exist now for some imports that are processed and re-exported, these procedures are slow and difficult and deter investments in such export operations. Duty-free inputs should encourage greater investment in such export-oriented processing, as well as increased use of associated Thai food inputs in these exports.

In addition, a free trade agreement could encourage greater Australian bilateral investment in the Thai processed food sector. This may occur through a 'head-turning' effect, as an FTA makes the Australian food industry and investors more aware of opportunities in Thailand, as well as more directly through simplified investment rules. It could also be expected that more Australian agrifood expertise, services and intellectual property will be made available to Thailand through greater commercial engagement by Australian industry. Given Australia's relatively high agrifood productivity in global terms, this could represent a considerable opportunity for Thailand to improve its own agrifood sector productivity.

Table 4.1.3: Possible Sectoral Impacts of Trade and Investment Liberalisation in Agrifood

Sector	Possible impacts
Meat	Increased Thai exports of some meat products to Australia, increased Australian beef and lamb exports to Thailand, increased Australian investment in Thailand
Seafood	Increased Thai processed seafood exports to Australia, increased Australian exports to Thailand for processing
Dairy	Increased Australian milk powder and cheese exports to Thailand, increased Thai dairy industry competitiveness, increased adjustment issues for Thai farmers
Horticulture	Increased Thai exports of tropical fruits and vegetables to Australia, increased Australian exports of temperate fruits and vegetables to Thailand and investment in processing
Grains	Increased Australian wheat, flour and oilseed exports to Thailand, little change in rice trade, increased Australian investment in Thailand
Sugar	Little change in sugar trade, increased Australian investment in Thailand
Processed foods	Increased trade in processed foods by both countries, increased Australian investment in Thailand and cheaper inputs for Thai processors

Adjustment Issues: There are relatively few directly competing industries in the Australian and Thai agrifood sectors; thus adjustment issues are likely to be limited. Differing specialisations are illustrated by grains (rice versus wheat), seafood (processed versus fresh), and horticulture (tropical versus temperate). Even where there are competing industries, as in tropical fruits and some seafoods, differences such as seasonality, varieties and quality will reduce the possible negative impact of freer access to each country's agrifood markets. In other sectors like sugar and rice, both countries are major exporters and internationally competitive.

As for the dairy sector, intense competition under the terms of an FTA would marginalise Thai dairy farmers and thus adversely affect employment. However, adjustment issues in this sector also need to take account of wider developments. Lower protection would be introduced against a background of growing world demand for milk solids, which would limit adjustment pressure on the Thai industry. Indeed, an FTA with Australia could increase the Thai dairy sector's competitiveness, particularly for dairy processing with an export focus. The confidence of multinational dairy corporations in Thailand as a dairy processing location in Asia is evident in a number of major recent investments, such as that by Nestle in 2001 for its largest canned milk plant. Access for these production facilities to Australian-sourced ingredients (many of the dairy multinationals also have interests in Australia), to complement Thai dairy inputs, will increase the competitiveness of these operations, particularly those with an export orientation, and help to attract more investment into the Thai dairy sector.

4.2 Automobiles and Auto Parts

Australia and Thailand are each significant producers of motor vehicles and components. While both countries are active in export markets, trade with each other is not significant with one notable exception, namely Thai exports of light commercial vehicles to Australia. A bilateral free trade agreement could be expected to provide a significant spur to two-way trade and investment in the auto sector, to the mutual benefit of both countries.

The Australian and Thai Automotive Industries

The Australian and Thai motor vehicle industries are of similar size, with the number of vehicles produced in 2000 in Australia being 360,000 and in Thailand, 412,000 (see Table 4.2.1). The automotive sectors are however quite different in a number of key respects.

Following a period of consolidation over the past decade and a half, the Australian automotive industry now comprises four passenger motor vehicle (PMV) producers, all of which are subsidiaries of foreign companies. The number of families of models has reduced from 13 in 1985 to four today. Notwithstanding the major reduction in the level of protection afforded the local industry, the number of production units is only a little less than the 380,000 units produced under the quota system which ended in the mid-1980s. The industry today produces medium and large passenger vehicles based on high local content and on relatively long production runs. Large investments have very recently been made or are currently planned to increase capacity and introduce new models. PMV production was valued at US$4.5 billion in 2000.

Import penetration of the total market is relatively high at 70 per cent (59 per cent for PMVs), reflecting the openness of the market. Australian-made cars dominate the large car market, whereas imports supply the market for small cars and most commercial vehicles. Some light trucks, heavy trucks and buses are assembled/manufactured locally, but the light truck market (214,000 units in 2000) is dominated by imports (91 per cent).

The Australian PMV market has changed over the past decade, with an increase in the share of the market captured by small vehicles and a decline in market share for medium-to-large vehicles. Growth in market opportunities for local producers has therefore mainly come from expanding exports. Vehicle exports have increased from 24,000 units (8 per cent of production) in 1995 to 101,000 units (28 per cent of production) in 2000, with a further increase to 112,000 units (31 per cent) in 2001. The main export markets are the Middle East (which has grown rapidly), the USA and New Zealand.

Around 200 component manufacturers operate in Australia. A high proportion is either wholly or partially owned by overseas automotive companies or produced under licence to the world's leading component manufacturers. The industry has become more export oriented in recent years. Exports were valued at US$1.05 billion in 2000. Exports accounted for 18 per cent of total Federation of Automotive Products Manufacturers members' sales in 2000 – they contributed around two thirds of the component industry's exports.

Table 4.2.1: Australian and Thai Automotive Sectors, 2000

	Australia	Thailand
Motor vehicles (units)		
production	360,000#	412,000
domestic sales	787,000	262,000
exports	101,000	153,000
imports	554,000	6,500*
% production exported	28	37
% sales imported	70	4
Value (US$ billion)		
motor vehicle production	4.51	na
total exports - motor vehicles	1.41	1.57
- components	1.05	0.50
total imports - motor vehicles	6.50	0.29#
- components (incl CKD)	3.36	1.45

PMV * Jan - Aug 2001

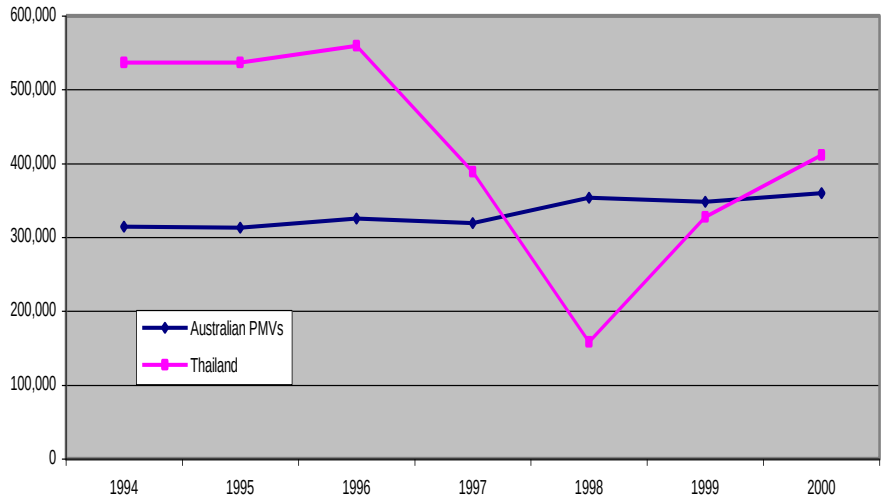
The Thai automotive industry is the third largest in Thailand, after textiles and electrical goods. The industry expanded rapidly beginning in the late 1980s as a result of strong economic growth and competition amongst producers. Thailand has been the most successful ASEAN country in attracting inward investment in the automotive sector, with a number of large investments being made by the major global producers over the past decade.

There are currently 17 vehicle producers in Thailand, producing a large range of vehicles but concentrating on light commercial vehicles and small cars. Car production is mainly small-scale assembly for the domestic market, and hence lower volumes and lower local content compared with the Australian industry. Light commercial vehicle production is in a different category, with relatively large-scale production being achieved, based on growing domestic and export sales. Thailand is the world's second largest market for one tonne pick-up trucks, with these vehicles having a 58 per cent share of all vehicles sold in Thailand. In addition, the export market accounted for around half of one tonne pick-up production in 2000. One tonne pick-ups accounted for 72 per cent of vehicle production units in 2000.

After a severe downturn experienced in the wake of the 1997-98 credit crunch and economic contraction, one policy response to which was to increase tariffs on 'completely built up' (CBU) PMVs, Thai vehicle production has rebounded. Production levels were up 160 per cent in 2000 as compared with the 1998 low point, with exports accounting for one third of the growth (Chart 4.2.1). Like Australia, vehicle exports have increased rapidly – from 14,000 units in 1996 (2 per cent of production) to 153,000 (37 per cent of production) in 2000 – and Thailand has been a net exporter of automotive products since 1998. At US$1.57 billion, vehicle exports

were of a similar magnitude to Australian vehicle exports in 2000. Notwithstanding moves towards ASEAN integration under AFTA, extra-ASEAN trade underpins Thailand's automotive exports. CBU PMV imports are relatively insignificant (US$0.29 billion in 2000), on account of high tariffs. Although producers have benefited from the upturn in the market since the low of 1998, most still have considerable underutilized capacity. In the first seven months of 2001, capacity utilisation stood at 37 per cent.

Chart 4.2.1: Australian and Thai Vehicle Production (number of units)



There are in excess of 1,000 component manufacturers in Thailand. Like the auto producers, the components sector has significant under-utilised capacity. Exports of components were valued at US$0.50 billion in 2000.

With enhanced automotive production capabilities, Thailand's reliance on imports has fallen in recent years. Component imports have dropped from US$4.7 billion in 1995 to US$1.45 billion in 2000, while vehicle imports have reduced over the same period from US$1.8 billion to US$0.29 billion.

Australia-Thai Trade in Automotive Products and Services

Australian motor vehicle and component exports to Thailand are very modest. Motor vehicle exports in 2000 were of medium-sized PMVs in 'completely knocked down' (CKD) form and valued at only US$19 million, although Australia still had a 3.4 per cent share of the Thai import market. However, this CKD trade has since fallen to negligible levels. Component exports in 2000 were valued at US$6 million. Brake pads and linings and miscellaneous parts and accessories accounted for some 70 per cent of total component exports.

In contrast to Australia's modest exports to Thailand, Australia has been a fast growing market for Thai motor vehicle exports. From negligible levels just five years previously, Thailand had become Australia's fourth largest source of imports in 2000, with imports valued at over US$400 million. Trade in 2001 has however declined by some 25 per cent on 2000 levels. Australia accounted for 23 per cent of total Thai motor vehicle exports in 1999, up from 11 per cent in 1998. Imports are

predominantly of light trucks, specifically pick-up trucks. In 2000, these imports accounted for almost 90 per cent of total motor vehicle imports from Thailand and over 40 per cent of Australia's global imports of light trucks. Australia is far and away Thailand's largest market for pick-up trucks (accounting for 23 per cent of Thailand's van and pick-up truck exports in the first nine months of 2001). It was also Thailand's second largest market for PMVs in 2000.

Table 4.2.2: Australian Thai Automotive Trade, 2000

Australian exports to Thailand

	US$ million	% share Aust. exports	% share Thai imports (1999)
motor vehicles	19	1.4	3.4
components	6	0.6	0.6

Australian imports from Thailand

	US$ million	% share Aust. imports	% share Thai exports (1999)
motor vehicles	438	6.7	23.4
components	60	1.8	1.8

Thai exports of components to Australia have also grown strongly over recent years. In 2000, they were valued at US$60 million, representing 1.8 per cent of the total component import market (up from 0.4 per cent in 1995). The main components exported to Australia are tyres, parts for motor vehicle seats, radio broadcast receivers and lighting/signalling equipment. Thailand is Australia's largest supplier of parts for motor vehicle seats.

In automotive services, Australia has a well-developed automotive engineering and design capacity, generating significant exports of automotive services to the region, including Thailand. The focus in relation to Thailand has been on the development of Thai production capacity and designs for new vehicles better suited to local conditions. The Australian tooling industry is also well developed, and the industry has already forged alliances with its Thai counterpart, generating Australian exports of products and services to Thailand as well as exports to third countries.

Industry and Trade Policy

Australia has progressively reduced tariff protection afforded to the motor vehicle sector over the past decade and a half. This policy approach has contributed to the development of a competitive and increasingly internationally-oriented PMV industry. Tariffs on PMVs and components for the PMV sector are currently 15 per cent, and are scheduled to reduce to ten per cent in January 2005. Under the Automotive Competitiveness and Investment Scheme, which is directed towards encouraging new investment and innovation in the automotive industry, companies

obtain import duty credits according to their level of production, investment and R&D. Tariffs on commercial vehicles are five per cent. A review of post-2005 policy arrangements for the automotive industry is currently being undertaken. Australia has a ten per cent value added tax.

With the onset of the 1997-98 economic crisis, Thai MFN tariff rates applying on CBU PMVs were increased significantly to 80 per cent. Tariffs on CBU medium and heavy trucks and buses currently stand at 40 per cent (30 per cent for vehicles without bodies), while the tariff on pick-up trucks is 60 per cent. With a view to encouraging local assembly, a much lower tariff applies to PMV and pick-up truck CKD components. Nevertheless, in removing local content requirements in January 2000 in line with WTO commitments, the CKD component tariff was increased from 20 to 33 per cent. Significantly higher tariffs apply for components not brought in as CKD material (i.e. replacement parts).

Under AFTA, all automotive components have since January 2000 been transferred to the 'Inclusion List' and a zero to five per cent tariff now applies for ASEAN exports to Thailand. ASEAN countries currently face a 20 per cent tariff on vehicle exports to Thailand with ASEAN content of 40 per cent or more, but the rate is scheduled to fall to five per cent in 2003. A duty drawback is available for imported goods used in producing or assembling goods for export. The importer must make an initial application to the Customs Department before importation and a claim for drawback within six months from the date of export.

Majority foreign ownership has been permitted in the Thai auto sector since late 1997. The Thai Board of Investment agreed in August 2000 to allow 100 per cent foreign participation in a range of manufacturing activities, including auto component manufacturing.

Benefits Arising from a Free Trade Agreement

The automotive sector is an example of where big gains might be expected for Thailand and Australia under an FTA. The integration of the two markets under an FTA would inject a new dynamism into the industry by encouraging the vehicle manufacturers (original equipment manufacturers, or OEMs) to develop strategies to integrate their Thai and Australian operations to take advantage of improved economies of scale and product specialisation possibilities.

Closer links could involve inward investment directed at the development of new models to supply the integrated market, as well as third markets. Strategic alliances involving technology transfer could also be expected to stem from an FTA. These developments would lift the competitiveness of the industry in both countries and, in turn, open up new opportunities to produce vehicles and components for third markets. In addition, consumers in both countries would benefit from the lower car prices resulting from removal of tariffs.

Motor Vehicle Producers: The process of market integration would be facilitated by the complementary nature of the Thai and Australian vehicle industries (small cars and light commercials produced in Thailand and large cars produced in Australia) and

the fact that, in most cases, the same OEMs operate in both countries. Both countries are right hand drive, which also works in favour of market integration.

For Thailand, exports of vehicles to Australia already underpin almost a quarter of motor vehicle exports. Elimination of the Australian 15 per cent tariff on passenger cars would open up new export opportunities for Thai OEMs and provide scope for them to increase capacity utilisation. (Thai PMV producers are for the most part running at capacity utilisation rates of one third or less). An FTA would result in Thailand gaining preferential access to a market for small cars which is over three times larger than the Thai production of small cars.

Thailand already enjoys good access into Australia for light commercial vehicles and Thailand has a very strong position in the market. Elimination of the 5 per cent tariff would allow Thailand to further consolidate its position in this segment by providing a competitive advantage over other international suppliers.

For Australian vehicle manufacturers, the immediate impact of an FTA would be improved access for large vehicles (currently subject to an 80 per cent tariff). The market in Thailand for large PMVs is currently around 5,000 units a year. This is a small market but could be expected to grow under an FTA with Australia in response to the availability of competitively priced medium and large vehicles, including prestige/luxury versions, from Australia. The small trade that has existed in CKD packs from Australia to Thailand would likely be replaced by exports of fully-built vehicles. The excise tax regime, with differential rates of tax according to a car's engine capacity, would remain an impediment however.

An integrated market would encourage Australian manufacturers of automobiles and auto parts to expand their existing engagement with Thailand in the supply of design and engineering services.

Component Suppliers: For component manufacturers, the expansion of OEM operations would have direct flow-on benefits and help them lift the scale of their operations. But, more importantly, the integration of the two automotive markets would provide component companies with a strong incentive to become suppliers to OEMs in both markets. This would lead to an increase in two-way investment in production capacity as well as trade in components. For some component companies this would be the first step outside their home market and would enhance their standing as suppliers to the global OEMs. The OEMs could be expected to encourage component suppliers to establish a presence on-the-ground in both markets given their interest in a dynamic, capable and internationally-competitive component industry.

For its part, Thailand could be expected to increase its import market share in Australia in existing product lines, including tyres, radio broadcast receivers and lighting/signalling equipment. It should also be able to secure business in product areas where it is a significant exporter and yet exports little to Australia. For example, Thailand is a significant exporter to the world of wiring harnesses, vehicle body parts and electrical parts, but presently exports negligible product to Australia. Thailand also has the potential to enter the Australian (and world) markets in new product areas as its industry continues to develop. A notional trebling of Thailand's current modest 1.8 per cent share of Australia's US$3 billion component import

market would result in additional export earnings of US$120 million, or 25 per cent of Thailand's current worldwide component exports. The Australian market is relatively stable, providing Thai suppliers with a degree of insulation from the fluctuations of other markets, including within ASEAN.

For Australia's part, only 0.5 per cent of Thailand's component import market (US$1.45 billion in 2000) was supplied by Australia. This indicates substantial existing potential for increased exports to Thailand, and significantly more so under an FTA. Thailand's imports of miscellaneous vehicle and engine parts were valued at over US$860 million in 1999. At the same time, Australian worldwide exports of these parts were valued at US$430 million. Thailand also has significant imports of other components, including engines and transmissions. Australian suppliers have capabilities across a wide front, and have substantial worldwide exports of engines, transmissions, brakes, mirrors, lighting equipment, wheels and seat belts, all of which would have potential in the Thai market.

Technology Transfer: The Australian auto industry is already engaged in the transfer of skills to the Thai industry and this process could be expected to increase at the commercial level with the integration of the two markets under an FTA. An example was the provision of technical assistance by an Australian vehicle company to its Thai sister company by training engineering staff in Thailand and by implementing processes at its Thai plant to ensure high levels of quality. Another example was the Australian tooling industry's involvement in the training of Thai tooling operators in Australia with the assistance of an Australian Government grant. This training led to a commercial relationship that has resulted in growing trade including with third countries.

4.3 Textiles and Clothing[6]

Australia's Textile and Clothing Industry

The Australian textile and clothing industry is large and diverse and covers all stages of the value chain. It is composed of over 5000 establishments, with employment concentrated in small clothing establishments with less than 20 employees. Industry turnover in 1999-2000 was A$9.2 billion (US$5.8 billion)[7] and the industry currently employs around 75,000 people. Domestic demand for textiles and clothing in 1996-97 was A$10.3 billion (US$8.1 billion). The share of imports in domestic demand has grown from around one third to a little over one half in the past decade.

The industry has undergone fundamental changes since the 1970s, due to a range of factors including liberalisation of the Australian economy, changing consumer

[6] This section examines the impact of a free trade agreement on textiles covered by Harmonised System codes from 50 to 59 and clothing covered by codes 60-63 and 65. It covers agricultural products such as wool and cotton, as well as finished and semi-finished manufactured products. Since these products fall within different stages of the production chain, the impact of a free trade agreement is likely to vary considerably according to the product. The section does not cover leather and some 'technical textiles' that fall outside the above Harmonised System codes, nor products closely associated with the textile and clothing industry such as footwear.

[7] This figure includes footwear and leather.

expenditure patterns, and competition from countries with low labour costs. As a result, textile and clothing manufacturing output and employment have declined and the local industry has lost domestic market share to imports. In recent years an increasing number of Australian firms have developed links with manufacturers overseas, establishing offshore subsidiaries.

The competitiveness of the Australian industry now relies on strengths such as flexibility and the ability to innovate. In recent years, a great deal of emphasis has been placed on developing design and R&D capability. The industry's future in global markets may lie in niche markets such as branded products that emphasise lifestyle and image, and certain technical textiles. Australia's natural fibres are increasingly being incorporated into innovative products and blends as evident in increased exports of textiles and clothing that have unique properties or design, particularly in sportswear.

Australian textile and clothing exports in 2000 were worth A$5.73 billion (US$3.4 billion), with raw wool and cotton accounting for A$4.26 billion (US$2.48 billion). Wool exports to China alone contributed almost A$1 billion (US$0.58 billion). Other major export destinations for Australian textiles include Italy, Indonesia, Japan and ROK. Australia exports only a small amount of clothing (A$423 million (US$273 million) in 2000), most to (in descending order of volume) New Zealand, Hong Kong, the US, UK and Singapore. Australia imported A$5.50 billion (US$3.2 billion) in textiles and clothing in 2000. Of this, clothing imports were worth $A3.45 billion (US$2.01 billion) and textile imports A$2.05 billion (US$1.19 billion). Almost half Australia's clothing and textile imports come from China (A$2.34 billion (US$1.36 billion)).

Thailand's Textile and Clothing Industry

The textile and clothing industry is one of Thailand's highest export earners, accounting for around 9 per cent of total exports in 2000. It employs 1.1 million workers, or about 23 per cent of the total industrial workforce and contributes over 14 per cent of Thailand's total manufacturing value-added.

Thailand's industry is characterised by a large number of garment firms. Of the 4,557 firms registered in the industry in 2000, more than half were clothing firms. A large number of small operators account for around half of the capacity in the industry. Large, modern firms with integrated production systems, however, dominate exports, since these firms are well placed to compete for export quotas to the US and EU under the Multi-Fibre Agreement (MFA). Smaller textile exporters target non-MFA markets, such as those in South East Asia. There are relatively few firms in the more capital-intensive spinning and weaving sectors, and only 17 firms in the synthetic fibre production sector.

In the 1990s, the Thai textile industry faced lower protection and a loss in competitiveness as wage growth outstripped that of other textile producers. While this has driven some reorientation toward the more capital-intensive upstream sectors of the industry, much of Thailand's production remains labour-intensive and reliant on old machinery. Many export lines are still commodity-type products.

Thailand has identified the need to respond to this environment by improving productivity through greater investment in modern technology and skills development, moving toward higher-value added products, and upgrading the quality and standards of its products. Growing competition may require Thailand to use more aggressive marketing strategies to exploit new markets and increase its market share in existing ones.

In 2000, Thai textile and clothing exports were worth US$5.6 billion, with clothing accounting for US$3.2 billion. Clothing exports recorded significant growth in 2000, following a period of decline throughout the 1990s. Thai textile exports have fluctuated in a relatively narrow band since 1995.

Thai textile and clothing imports were worth US$2.33 billion in 2000. Clothing imports, mainly from China, represent less than 5 per cent of the total. Textile imports declined in the late 1990s, reflecting declining Thai clothing exports, before beginning to pick up again in 1999.

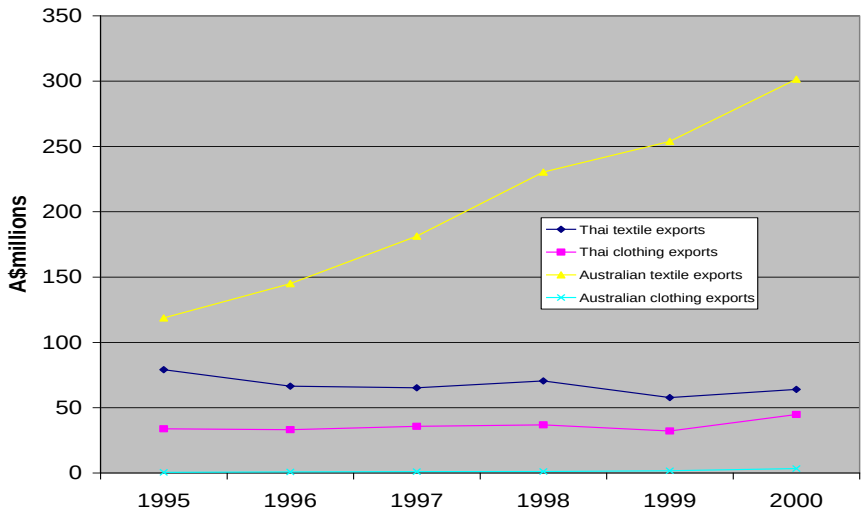
The US is Thailand's biggest textile and clothing export destination, accounting for a third of the total, followed by the EU, Japan and Hong Kong. ASEAN markets account for a relatively small proportion of total Thai textile and clothing exports, but have grown rapidly since the 1990s, apart from the period of the East Asian financial crisis. Thailand's major clothing export items include suits, ensembles, jackets, blazers, trousers and shirts. Major textile exports include synthetic fabric and yarn. Key import items include raw cotton and cotton fabric, and synthetic yarn and fabric. Thailand's major import sources (in descending order) are China, Taiwan Japan, Australia and Korea.

Australia-Thailand Trade in Textiles and Clothing

Two-way textile and clothing trade between Thailand and Australia in 2000 was worth A$410 million (US$239 million). The balance of trade is strongly in Australia's favour, with Australia exporting A$302 million (US$176 million) in 2000 to Thailand and importing A$108 million (US$63 million) from it. Exports of raw cotton and wool account for the lion's share of Australian textile exports to Thailand at A$220 million (US$128 million) and A$67 million (US$39 million) respectively, and put Australia fourth among Thailand's largest textile import sources. Australia exported only A$1.04 million (US$0.61 million) in clothing to Thailand in 2000, comprising items such as swimwear, camping gear, dress patterns, and hat components. The sharp increase in Australian exports to Thailand between 1995 and 2000 was almost entirely the result of strong growth in cotton exports (growing from A$41 million (US$30 million) to $A222 million (US$129 million) over the period.) (See Chart 4.3.1.)

From Thailand's perspective, Australia is a relatively minor textile and clothing market. Thai exports to Australia in 2000 comprised A$64 million (US$37 million) in textiles and A$44 million (US$26 million) in clothing. Thailand's exports of textiles and clothing to Australia have remained reasonably steady over the late-1990s. Both textile and clothing exports recorded increases in 2000.

Chart 4.3.1: Thailand-Australia Trade in Clothing and Textiles 1995-2000



Source: Department of Foreign Affairs and Trade, Australia, UN STARS database

Impediments to Bilateral Trade

Tariffs are the major form of protection imposed by Australia on textile and clothing imports. Clothing and finished textiles attract the highest tariff of 25 per cent, whereas tariffs for cotton sheeting and fabrics are 15 per cent, sleeping bags and table linen 10 per cent, and yarn 5 per cent. Certain textile and clothing items such as wool and cotton have a zero tariff rate. The Government plans to reduce the maximum tariff of 25 per cent on clothing and finished textiles from 25 to 17.5 per cent by January 2005.

While the above tariff rates apply generally, there are concessions arising from Australia's participation in international trade agreements such as with New Zealand under ANZCERTA and with the Forum Islands under SPARTECA. In addition, Australia has preferential trade agreements with PNG and Canada. Least developed countries face tariffs 5 per cent below those noted above, under the Australian System of Trade Preferences.[8]

Factors other than tariffs also deter Thai clothing exporters from more active participation in the Australian market. Many of the larger Thai clothing companies direct most their efforts to competing for export quotas to the US and Europe under the MFA and comparatively little to exploiting markets such as Australia that are not members of the Agreement.

Thailand imposes tariffs of up to 60 per cent on clothing and textile imports. Tariffs are lower for raw materials and low value-added products and are generally higher further up the value-added chain. The product groups Australia has comparative advantage in are among the least protected of the sectors, but its exports of capital-

[8] The five per cent concession applies to 55 least developed countries in Africa, Asia, the Caribbean and Pacific.

intensive synthetic yarn and fabric and niche-market apparel attract tariffs at the high end of the range.

Tariffs on Australia's largest export item to Thailand, raw cotton, nominally stands at five per cent, but a Ministry of Finance notification currently exempts this. Tariffs on cotton yarn and woven cotton fabric are 10 per cent and 20 per cent respectively. Raw wool attracts a tariff of only 1 per cent. However, the higher value-added products of wool yarn and wool-mix yarns and fabric are subject to tariffs of 5 and 10 per cent respectively. Synthetic yarn faces tariffs of 10 per cent and synthetic fabric 20 per cent. Most clothing tariffs are between 30 and 60 per cent. High tariffs apply in areas with potential to develop into significant niche markets for Australia, such as swimwear and textile camping gear.

Australian firms also encounter difficulties dealing with the Thai distribution system. These difficulties should diminish over time as Thailand's distribution system modernises and becomes more efficient.

Impact of Bilateral Trade and Investment Liberalisation

Australia: Australian consumers have benefited from trade liberalisation in the textile and clothing sector for more than a decade, achieving access to a wider range of products at increasingly affordable prices. Continuing with liberalisation through a bilateral FTA with Thailand would build on the welfare gains already achieved.

As noted below, an FTA would strengthen Thai exports to Australia and third-country markets, through lower tariffs and greater investment attraction. This, in turn, would strengthen demand for Australian raw products such as wool and cotton, as well as yarn and fabric. Raw cotton exports to Thailand already are performing strongly. Wool exports would benefit as Thailand reorients its industry toward the higher value-added end.

An FTA also would benefit Australian producers of niche, lifestyle products such as swimwear and branded products for affluent consumers. Early unilateral liberalisation in the Australian textile industry has spurred the development of international competitiveness in niche sectors and encouraged companies to seek new markets offshore. An FTA would help companies in these sectors to build on their success through better access to the Thai market. Australian carpet markers, who have made recent inroads into a range of export markets, would benefit from a reduction in the 30 per cent tariff applying to carpets in Thailand.

An FTA may produce opportunities for Australians to supply services to the Thai textile and clothing industry, as it looks to reorient its industry to the high-value added end of the sector. These opportunities would arise in areas such as fashion design, distribution, marketing, merchandising and retail, market analysis and forecasting, and human resource development.

The Australian textile and clothing industry may face some adjustment costs, as a result of lower trade protection. These costs, however, would be minimised to the extent that the Australian and Thai industries have different areas of specialisation – Thailand currently specialises in low-cost, commodity-type products and Australia

produces the raw materials for textiles and increasingly specialises in high value-added products in niche markets. Even as Thailand moves toward higher value-added production, areas of specialisation are likely to vary between the two countries. Adjustment costs may be offset by gains from stronger export performance in parts of the industry such as niche products and textile and clothing-related services.

Thailand: Thailand currently occupies a relatively small share of Australia's imported textile and clothing market (1.9 per cent). An FTA would assist Thailand increase its market share, by allowing Thai exporters to compete more effectively on the basis of price with other suppliers, such as China, which has achieved a 67 per cent share of Australian clothing imports.

Raising its share of the Australian textile and clothing market would help Thailand reverse the general trend of decline in its clothing exports evident during the 1990s, and offset growth constraints imposed by export quotas under the Multi-Fibre Agreement. The Australian market is likely to become more attractive to Thai textile and clothing exporters as the industry moves away from commodity-type products and into more specialised, higher-value added products, where smaller consignments can be profitable. The Thai industry already recognises the need to compete at the higher end of the market. Moreover, expansion into non-quota markets has been identified by the Thai Government as an avenue for achieving export growth.

Boosting trade in textiles and clothing through a bilateral FTA would intensify business links between Australian clothing houses and retailers and Thai textile and clothing makers, encouraging joint ventures and strategic alliances. These closer links would promote a mutually beneficial flow of technology, and skills and expertise in areas such as design and management.

The Thai Government has identified the need for greater foreign investment in the Thai textile and clothing industry, as well as greater investment by Thai textile and clothing firms overseas. An FTA would make Thailand a more attractive destination for Australian companies wishing to invest in overseas textile facilities. Preferential access to the Australian market could encourage investment from third-country companies looking to take advantage of this access.

4.4 Selected Services

Higher (Tertiary) Education, Adult Education, and Short Course Education Services

Education plays a special role in the preparation for life as a citizen, the transmission of values and culture and the development of national well-being. Nowadays education services constitute a growing, international business, supplementing the public education system and contributing to the global spread of the modern knowledge-based economy. Therefore, availability of education and training services can help develop a more efficient workforce, leading countries to an improved competitive position in the world economy.

Higher (tertiary) education (hereinafter referred to as "higher education") includes the provision of education services leading to a university degree or equivalent. Such

education services are provided by universities or specialised professional schools. The programs not only emphasise theoretical instruction, but also research training aiming to prepare students for participation in original work.

Adult education includes education services for adults who are not in the regular school and university system. Such education services may be provided in day or evening classes by schools or by special institutions for adult education. Education services through radio or television broadcasting or by correspondence are included. The programs may cover both general and vocational subjects.

Short course education includes *inter alia* courses on information technology; languages; cooking and other culture-related courses; corporate training services; executive, management and leadership training; and hotel and tourism education.

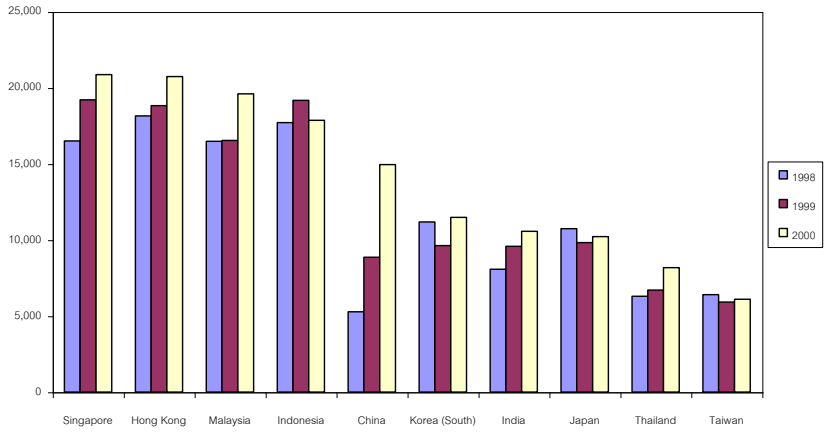
Over the past five years, Australia has attracted a large number of international students, most from the Asia-Pacific region. In 2000, Asia-Pacific students amounted to 155,577 compared with 3,178 from Africa and 8,821 from the Americas. Chart 4.4.1 shows the number of international students from the Asia-Pacific region in Australia over 1998-2000. Thailand ranks ninth after major importing countries like Singapore, Hong Kong and Malaysia. The chart exhibits a continued upward trend for Thailand. Chart 4.4.2 shows the number of Thai students by type of sector in Australia. In 2000, there were 8,179 Thai students, of which a large portion of 3,093 (37 per cent) were in the higher education sector. The remainder of 41 per cent, 15 per cent, 7 per cent were in language courses, vocational and school education respectively.[9]

Australia is one of the main destinations (apart from the US, Canada and the UK) for Thai students because of its high educational standard and the utilisation of English as a means of instruction. The Asian economic and financial crisis in 1997 helped make Australia a better alternative, and a more cost-effective place for Thai students to study.

There are 27 Thai institutions that offer international programs in which English is employed as the official medium of instruction. Most of them have formal links and cooperation agreements with a large network of international institutions of higher learning in the United States, Asia, the United Kingdom, Australia and other countries for scholastic exchange and research programmes. Most of the campuses maintain basic facilities such as meeting/exhibition centres, dormitories, well-catalogued and resourced libraries, computer service centres, student clubs and health care centres.

[9] Anecdotal evidence suggests the number of Australian students studying in Thailand is much lower, with around 600 Australian students studying in Thailand at any one time, around 500 students studying in the international high schools, and only 100 of them university students.

Chart 4.4.1: Number of International Students in Australia

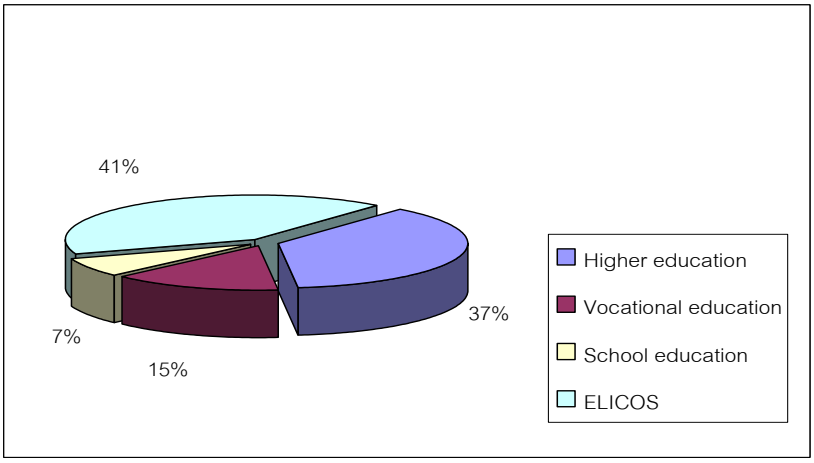


Source: Overseas Student Statistics 2000, Department of Education, Science, and Training, Australia

Thailand has been chosen as the seat of many regional projects such as ASEAN Aquaculture, Asian Institute of Technology (AIT) Mobility of Students, the ASEAN University Network, and the Asia-Europe Environmental Technology Centre (AEETC). The country is implementing many environment projects such as sustainable management of Phu Khieo wildlife sanctuary through community participation and coastal habitats and resources management.

Thailand's proximity to South Asia and the Mekong subregion (Cambodia, Vietnam, Laos and PRC) enables it to position itself as an educational hub in the region. Apart from being geographically strategic, Thailand is a tolerant country which has forged a safe, diverse and creative learning environment.

Chart 4.4.2: Thai Students in Australia (by type of enrolment, 2000)



Source: Overseas Student Statistics 2000, Department of Education, Science, and Training, Australia

There are a number of barriers to the development of cooperation in this area. In Thailand, for example, there is limited access to the primary and secondary education

sectors and no commitment has been made to liberalise the higher education and English language sectors. Foreign institutions are required to collaborate with Thai partners in the establishment of in-country operations and foreign equity is restricted to a ceiling of 49 per cent. Australia's educational system is relatively open,[10] but some restrictions apply in the primary education sector. For the purpose of border control, restrictions also apply to foreign academics and teachers working in Australia. Foreign educational providers do not receive equal treatment to Australian providers.

An FTA could seek to create conditions favourable to suppliers of higher education, adult education, short courses and training services by removing and reducing obstacles to the transmission of such services across national borders, and through the development of institution-to-institution arrangements and the establishment and operation of joint facilities.

Promoting trade and other links in education between Australia and Thailand would be expected to bring a number of benefits, including:

- better access to education and training courses that may not otherwise be available in the country of origin;
- competitive stimulus to institutions with flow-on benefits to all students;
- improved knowledge and appreciation of other languages, cultures and societies;
- added diversity from the exchange of people, ideas, experiences and cross-fertilisation of academic knowledge; and
- valuable networks that could facilitate future economic, political and socio-cultural alliances.

An FTA could facilitate the presence of foreign institutions in Thailand and so encourage further foreign direct investment. Australian institutions have already invested in Thailand. The Swinburne Tummasiri Laem Chabang School of Engineering is a joint venture between the Technology Supply Group of Companies based in Bangkok and Swinburne University of Technology, Melbourne. Established in 1997, it provides English language programs in engineering, information technology and business management in Thailand. The Australian Institute of Languages (AUSTIL) is a joint venture between the University of New South Wales and Mahanakorn University of Technology, established in 1995. AUSTIL provides English language training services to Thai education institutions, government, and business sectors.

Development of Internet-based learning may offer further opportunities for Australian institutions to supply these services. There is also scope for Australian educational institutions to provide in-country vocational training courses in sectors such as defence, aviation, ship building and repair, railways and port management. Australian car makers already provide in-country vocational training in Thailand.

[10] For example, foreign institutions can operate as private providers in the secondary, tertiary and English language sectors, provided they meet registration or other operating requirements and can supply private secondary, tertiary and English language services, by distance education or direct to foreign students.

An FTA could facilitate provision of services supplied by educational professionals by addressing streamlined movement of these professionals.

Tourism Services

As countries' economies grow and living standards increase, travelling overseas for business or recreation becomes an integral part of life. With the rapid growth in international tourism over the last decade, tourism has become a major contributor to employment and export revenue in both Australia and Thailand, accounting for about 10 per cent of total goods and services exports. The tourism industry in Thailand accounts for around 5.8 per cent of GDP and employs around 421,700 persons. In Australia tourism represents 4.7 per cent of GDP and 6 per cent of employment.

Thailand is one of the most popular tourist destinations in Asia, with around 9 million foreign visitors in 2001, partly because of its role as an important hub for passengers wishing to travel within Asia or to Europe, and the success of a government promotional campaign. Similarly, Australia remains a popular destination for visitors from the Asian region and beyond, receiving nearly 5 million international investors in the 2000-01 financial year.

The number of inbound visitors and outbound Thai nationals over 1997-2001 is portrayed in Table 4.4.1. Thailand attracts large numbers of tourists and has emerged as a popular destination among foreign visitors, receiving some 7 million visitors in 1997 and around 9 million visitors in the first eleven months of 2001. Although Thailand is becoming a more important tourist destination for Australia, Australian visitors still represent a small portion of total visitors, accounting for less than 4 per cent over the past 5 years. Outbound Thai nationals, averaging around 1.7 million annually, are by far outnumbered by inbound tourists. Thai visitors to Australia account for a share of less than 4 per cent of total outbound Thai visitors.

Table 4.4.1: Thailand: Inbound and Outbound Visitors

	Inbound visitors			Outbound Thai nationals		
Year	Total number of inbound visitors	Australian visitors to Thailand	% share	Total number of outgoing Thai visitors	Thai visitors to Australia	% share
1997	7,293,957	234,654	3.22	1,637,595	53,174	3.25
1998	7,842,760	287,134	3.66	1,393,845	34,065	2.44
1999	8,651,260	283,498	3.28	1,654,740	50,568	3.06
2000	9,578,826	314,531	3.28	1,908,928	58,597	3.07
2001	10,132,509	350,322	3.46	2,010,616	63,518	3.16

Source: Tourism Authority of Thailand

Table 4.4.2: Australia: Inbound and Outbound Visitors*

	Inbound visitors			Outbound Australian nationals		
Year	Total number of inbound visitors	Thai visitors to Australia	% share	Total number of outgoing Australian visitors	Australian visitors to Thailand	% share
1997	4,318,000	68,600	1.5	2,932,800	89,200	3.0
1998	4,167,300	49,300	1.2	3,161,200	135,900	4.3
1999	4,459,600	62,000	1.4	3,210,000	137,000	4.3
2000	4,946,100	74,200	1.5	n.a.	n.a.	n.a.
2001	4,816,800	77,800	1.6	n.a.	n.a	n.a.

Source: Australian Bureau of Statistics

*Note: Differences in figures between Table 4.4.1 and Table 4.4.2 are a result of differences in the way Australia and Thailand define a visitor to the other country.

Thailand is a growing source of tourists for Australia, although Thai visitors currently represent less than 2 per cent of total visitor arrivals. Strong growth is expected to continue, with Australia's Tourism Forecasting Council predicting growth in arrivals from Thailand to average 15.4 per cent between 2000 and 2010, leading to an increase in its relative significance as a tourism market.

Thai Authorities are aware of the need for a coordinated tourism policy and have drawn up a tourism development plan 2002-2004. The Tourism Authority of Thailand is the sole government tourism administration responsible for marketing Thailand tourism abroad and providing research and statistical support. In Australia, the Tourism Division of the Department of Industry, Tourism and Resources, provides policy advice to the Government and the Australian Tourist Commission promotes Australia as a tourism destination internationally. The Bureau of Tourism Research provides statistical and analytical support to assist industry and government decision making, while the Tourism Forecasting Council provides forecasts of inbound and domestic tourism activity.

Neither Thailand nor Australia prevents its citizens from travelling abroad, except for reasons unrelated to trade, and in that sense there are no barriers to trade in tourism services. However, in terms of commercial presence, certain restrictions are in place in Thailand through its *Foreign Business Act*, which caps foreign equity in locally established tourism businesses at 49 per cent. Australia's tourism sector is considered more open to foreign investment, although some investments need prior approval.

An FTA could help increase awareness of both countries as tourist destinations, promoting two-way tourism flows. It could examine ways to further promote tourism by ensuring speedy visa processing arrangements are in place.

An FTA may increase bilateral investment and the establishment of joint ventures in such areas as hotels and restaurants, by drawing attention to opportunities and providing a framework that promotes investment. It also could provide a framework for addressing challenges facing tourism over the coming decade (such as

infrastructure shortages, shortages in workforce training and skills and environmental degradation) through freer exchange of capital, people and ideas and through cooperation between governments.

Health-Related Professional Services

Considerable scope exists for promoting trade and business links in this area, with a view to increasing the efficiency and quality of health care delivery in both countries. Social and political sensitivities evident in relation to core services in the health care sector are less prominent in health-related services and alternative therapies. Australia was able to schedule a GATS commitment in the area of "other human health services" including podiatry and chiropody services, but did not do so for core health services.

An Australia-Thai FTA could cover services provided by health-related professionals such as nurses, physiotherapists and para-medical personnel. Health professionals practising in Australia are likely to be long-term Australian residents. However, strong Australian demand for aged care and nursing services as well as alternative therapies provide great opportunities for Thai service providers in the future.

Thailand is seeking to promote outward investment and movement of professionals in alternative medicine industries, encompassing the herbal industry, massage services, and health promotion. These industries have enjoyed healthy growth in the past few years, at home and abroad. It seeks to place emphasis on professional therapeutic massage, which is recognised as a form of preventative medicine and rehabilitative health care, and encompasses massage for cure, beauty, sport and manipulation.

Australia has in place streamlined business temporary entry arrangements that cater for health care and related professionals. No labour market testing is required, although sponsoring employers must meet certain salary and employment conditions. Applications for temporary entry must meet any required qualification or other registration requirements to practise in Australia.

Box 4.4.1
Government-to-Government Cooperation

Significant Government-to-Government cooperation in the health sector takes place between Australia and Thailand. In particular, a Memorandum of Understanding (MOU) between Australia and Thailand was signed between Ministers in 1993. The current three-year Plan of Action (POA) under the MOU was signed by Ministers in June 2000. The POA specifies six broad areas of 'technical' cooperation, identified as priorities for development by the Thai Ministry of Public Health:

1. Prioritisation of the disease burden in Thailand
2. National prevention and control programmes for non-communicable diseases
3. Strengthening telemedicine networks in Thailand
4. Capacity strengthening in medical education for rural communities
5. Food safety
6. Medicines and medical devices regulation.

An FTA could increase investment in sectors such as comprehensive professional training in Thai massage theory, clinical practice and research. It could promote opportunities for expansion of health-related education and training, consultancies, capacity building, as well as increase Australian exports of medical treatment services, facilities design and construction, and health information technology such as hospital software and telemedicine. It could examine ways to facilitate the entry and temporary stay of qualified professionals such as health instructors, nurses and paramedical personnel.

5. Possible Benefits of Cooperation in Other Areas

Regional trade agreements which have been concluded in recent years typically address much wider issues than tariff preferences. In part, this reflects the way in which individual agreements – such as the European Union or NAFTA – have set new standards of ambition, with the most extensive that of "deep integration" sought by the European Union. In part, it reflects experience that the benefits of integration which these agreements seek are unlikely to be achieved simply by removing tariffs. Regional agreements have also been seen as a way to strengthen and diversify relations among the parties to them and to address a number of "new trade issues" such as electronic commerce which go well beyond the traditional scope of free trade agreements.

Australia and Thailand have agreed that the current study should address a wide range of issues of interest to both countries, including the potential for improved cooperation in areas such as standards and conformance, electronic commerce, competition policy, anti-dumping, quarantine, government procurement, intellectual property, cooperation on financial issues, transportation, joint ventures and technology transfer. This chapter explores in turn each of these issues. Recommendations on how to address them within a free trade agreement are included in Chapter 7, as part of broader proposals aimed at intensifying economic, trade and commercial relations between Australia and Thailand.

5.1 Standards and Conformance[1]

Differing standards and complex procedures for assessing conformity are examples of the type of issues which need to be addressed if the gains from trade liberalisation are to be fully realised. Although empirical evidence is difficult to obtain, there are a number of studies which point to very substantial costs as a result of the need to acquire information on standards in other countries, adapt local production to those requirements and provide evidence that they have been met. The additional costs arising from paperwork and procedures broadly defined has been estimated in some studies to be as high as 10 per cent of the value of goods traded, of which those arising from technical requirements, standards and conformity assessment may form a significant part.[2]

---

[1] Standards include regulations, specifications and procedural requirements. Standards are written for both voluntary and regulatory purposes and are written by a range of bodies including international organisations, national standards writing bodies, regulatory authorities and trade or industry associations. Conformity assessment is the process of assessing whether or not a product or service meets a standard. It includes activities such as inspection, laboratory testing and product and quality systems certification. Conformity assessment is intended to provide confidence in performance and certainty that goods and services meet specifications, both voluntary and regulatory.

[2] See Dee, P., Geisler, C., and Watts, G., *The Impact of APEC's Free Trade Commitment*, Industry Commission, Staff Information Paper, 1996, especially pp.10-14, 21-23. Much lower estimates were adopted in *The Impact of Trade Liberalization in APEC: Report by the Economic Committee*, APEC, November 1997, pp.18-19. For a recent and highly detailed survey of the evidence, see Maskus, K., Wilson, J. and Otsuki, T., *Quantifying the Impact of Technical Barriers to Trade: a Framework for Analysis*, World Bank Working Paper No. 2512.

Box 5.1.1
Australian and Thai Standards and Conformance Infrastructure

Australia: Under Australia's federal constitutional system legislative, executive and judicial powers relating to technical regulations (mandatory standards) are shared between the Commonwealth (the Australian central government) and the constituent State and Territory Governments. Technical regulations, i.e. mandatory standards, are developed within these arrangements in respect of food, pharmaceuticals and therapeutic goods, safety and emission requirements for vehicles, and mandatory safety and information standards for selected consumer goods. Two further public sector institutions responsible for national standards are the National Standards Commission (legal metrology and pattern approval) and the National Measurement Laboratory (primary measurement standards).

Standards Australia International (SAI), the peak non-government standards writing body,[3] is responsible for the formulation and publication of voluntary standards.

Standards enforcement is the responsibility of different regulatory agencies, including the Therapeutic Goods Administration, the Australian Quarantine and Inspection Service, the Department of Transport and Regional Services and bodies accredited by the National Association of Testing Authorities (NATA), and the Joint Accreditation System of Australia and New Zealand (JAS-ANZ). NATA accredits the competence of calibration and testing laboratories and inspection bodies; and JAS-ANZ accredits the competence of certification bodies for the certification of management systems, products and personnel.

Thailand: The Thai Industrial Standards Institute (TISI), is responsible for the formulation of Thai industrial standards, product certification and product registration, laboratory accreditation, standards information services, implementation of WTO TBT/SPS agreements and participation in international standards activities.

The National Accreditation Council (NAC) of Thailand was established to administer the accreditation system of Thailand. Through the process of the Thai accreditation system, the National Accreditation Council gives formal recognition that a certification body is competent to carry out specific functions or tasks according to the relevant requirements. Accreditation operated by NAC covers 5 types of organisations:

1. Quality system certification bodies;
2. Environmental management system certification bodies;
3. Inspection bodies;
4. Laboratories; and
5. Personnel and training registrars.

[3] In addition to Standards Australia, there are, at least, 16 private sector bodies that prepare industry standards, codes and guides. Two of these bodies, the Australian Gas Association (AGA) and the Australian Communication Industry Forum (ACIF), are accredited by SAI's Standards Accreditation Board to prepare Australian Standards in specific areas. In addition to Standards Australia and the Australian Communications Authority, the ACIF, AGA and the Australian Forestry Standard Steering Committee, three non-governmental standardising bodies, have accepted the Code of Good Practice annexed to the WTO Agreement on Technical Barriers to Trade (TBT).

Australia and Thailand both have well developed frameworks for addressing standards and conformance issues. In Australia, powers relating to technical regulations (or mandatory standards) are shared by Commonwealth, State and Territory Governments. Standards Australia International (SAI) is recognised by the Commonwealth as the peak non-government standards writing body. The National Association of Testing Authorities (NATA) and the Joint Accreditation System of Australia and New Zealand (JAS-ANZ) have key functions in accreditation of bodies that undertake testing and conformity assessment. Thailand's national standards body is the Thai Industrial Standards Institute (TISI). The National Accreditation Council (NAC) of Thailand was established to administer the accreditation system of Thailand (see Box 5.5.1).

International cooperation on standards issues has been developing steadily over the past decade as the significance of these issues has been increasingly recognised and as standards themselves have proliferated under the impact of new concerns on issues like health and the environment. At the multilateral level, the WTO Agreement on Technical Barriers to Trade (TBT), a revised version of the code agreed in the Tokyo Round) has provided a broad framework which governs the preparation and application of technical regulations, standards and conformity assessment by governments, with the aim that these "not create unnecessary obstacles to international trade". Although it has encouraged members to apply international standards, the WTO Agreement has left a vast agenda at the regional and bilateral level for states to agree on mutual recognition of particular standards or to recognise other countries' arrangements for conformity assessment.

At the regional level, a good deal of work has been undertaken within APEC to address technical and regulatory barriers to trade, specifically through the Sub Committee on Standards and Conformance (SCSC). Important progress has been made in developing mutual recognition arrangements for specific sectors, with examples including the APEC Mutual Recognition Arrangements on Conformity Assessment of Electrical and Electronic Equipment and Telecommunication Products, to which both Australia and Thailand are signatories. Australia has contributed strongly to this work, including through the provision of assistance to develop capacity and confidence in others' testing and certification arrangements.

Both Australia and Thailand are signatories to the WTO Agreement on Technical Barriers to Trade and the SPS Agreement. In addition, both countries are actively involved in the development of international standards through bodies such as the International Standards Organization and the International Electrical Commission. Both are active participants within the APEC SCSC and are already using the forum to address standards and conformance issues.

A free trade agreement would offer further opportunities to develop closer cooperation on standards and conformance issues between Australia and Thailand. Closer cooperation could include the goal of working, across a range of product sectors, towards harmonisation of standards with relevant international standards, or arrangements for accepting the equivalence of standards. It would also include working towards mutual recognition of conformity assessment across a range of sectors and would provide an avenue through which to build on the successes already achieved in addressing regional conformity assessment issues.

5.2 E-Commerce

Electronic commerce is likely to affect an increasing proportion of international trade over the next decade. Although much of the initial hype surrounding it has now dissipated, there remains clear evidence of its potential benefits. For exporters in particular, electronic commerce offers the opportunity to obtain higher sales in new and existing international markets. It also promises lower costs through greater operational efficiencies.

The growth of business-to-business (B2B) and business-to-consumer (B2C) electronic commerce is likely to affect a growing proportion of transactions between Australia and Thailand. Both can benefit from greater access to digital technology and the growth of digital networks, including enhanced facilitation of existing trade and a broadened trade relationship through the addition of new products and services.

There are differences in the take-up rates of Internet electronic commerce by business and government in Australia and Thailand. Australian companies using and developing Internet business tools generated revenues of A$28 billion (US$15 billion) in 2000-01, representing around 4.3 per cent of Australia's GDP (marginally below the US, at 5.6 per cent of GDP)[4]. In Thailand, Internet-based business-to-business electronic commerce was estimated at US$50,000 per month in September 2000.[5] In the case of the public sector, a report on Thailand's *e-Government* project (designed to provide information and transaction services online) will be completed in March 2003. In December 2001, over 90 per cent of Australian Commonwealth Government agencies provided all appropriate services online.

These differences should diminish over time, encouraged by the Thai Government's implementation of electronic commerce specific initiatives and its continued active involvement in international forums. The Electronic Transactions Bill will come into force in April 2002, with four other bills – the Electronic Funds Transfer Bill, Universal Access Bill, Computer Crime Bill and Data Protection Bill – being considered for passage. Thailand's National Electronic Commerce Policy Framework initiative will continue to enhance the adoption of electronic commerce and e-government. Thailand's participation in the electronic commerce agendas of e-ASEAN, APEC and the WTO will help to ensure that domestic electronic commerce initiatives are consistent with those developed both regionally and globally.

Australia and Thailand could work towards a trade framework that ensures that the development of electronic commerce is not impeded by any unnecessary or burdensome national regulation. By creating a benchmark for regional and international progress in this area, this framework could also assist both economies to consolidate and progress their joint interests in APEC, UN and WTO work on electronic commerce trade issues, including paperless trading.

Principles that would give effect to this framework include:

---

[4] *B2B E-Commerce: Capturing Value Online*, National Office for the Information Economy, Canberra, October 2001.

[5] 'Economy in Review', *The Nation*, December 2000.

- minimisation of the regulatory burden on electronic commerce, and reasonable scope for industry-led development of electronic commerce;

- avoidance of any demarcation of electronic commerce as a distinct regulatory domain in international trade;

- establishment of a model Australia-Thailand electronic commerce approach that could be applied to trade relations with other economies, whether through regional or multilateral mechanisms;

- effective intellectual property enforcement in the on-line environment;

- consistency with existing multilateral and regional trade rules and norms with a bearing on electronic commerce;

- effective data and consumer protection; and

- cooperation in the development of paperless trading.

5.3 Competition Policy

It is now widely recognised that effective domestic competition policy – one which promotes fair and free competition – is required to complement trade policy. In the context of free trade agreements, the role of competition policy is to ensure that market access improvements are not frustrated by over or under regulation. More broadly, effective competition policies increase economic efficiency and productivity and enhance consumer welfare.

Through a series of reforms over the past decade, Australia has developed one of the most advanced competition regimes in the world with comprehensive laws that, subject to limited statutory exceptions, cover all businesses regardless of ownership and apply to all aspects of industry and commerce.

Australia's competition laws are primarily contained in Part IV of the *Trade Practices Act* 1974. The object of the Act is to enhance the welfare of Australians through the promotion of competition and fair trading and provision for consumer protection. Its provisions address such matters as mergers and acquisitions, misuse of market power, and restrictive business practices such as price fixing and collusion.

Policy responsibility lies with the Commonwealth Department of the Treasury and the competition laws are enforced by the Australian Competition and Consumer Commission (ACCC), an independent statutory authority, and by private parties.

Thailand has enacted and drafted a number of laws in recent years, aimed at improving the transparency and effectiveness of its competition policy. The Government replaced the *Price Fixing and Anti-Monopoly Act* of 1979 with the *Trade Competition Act 1999* and the *Price of Goods and Services Act 1999*. These acts aim to promote fair competition, provide for consumer protection and combat monopolistic practices. The *Trade Competition Act* of 1999 provides for a Trade Competition Commission consisting of the Minister of Commerce as Chairman,

Permanent-Secretary for Commerce as Vice-Chairman, Permanent Secretary for Finance and not less than eight, but not more than twelve qualified persons with knowledge and experience in law, economics, commerce, business administration or public administration appointed by the Council of Ministers. (At least one-half must be appointed from qualified members in the private sector, as members, and the Secretary-General shall be a member and secretary.) The office of the Trade Competition Commission is established in the Department of Internal Trade, Ministry of Commerce, with the Director-General of the Department of Internal Trade, as Secretary-General, the senior official responsible for the official affairs of the Office.

Within the framework of a free trade agreement, it may be possible for Australia and Thailand to cooperate much more closely on competition policy. Areas for future cooperation may include Australian support to Thailand in maintaining the momentum of reforms through assistance with capacity building in the implementation of the new competition regime and the strengthening of enforcement agencies. There may also be advantages in reaching agreement on fundamental principles to safeguard competition.

5.4 Anti-dumping

Australia and Thailand have anti-dumping laws which aim to protect domestic firms from injury in the context of "unfair" price competition. Anti-dumping policies are designed to protect domestic producers from foreign firms that engage in dumping or selling goods at below "fair" or "normal" value and which thereby cause injury to domestic producers. The terminology of a "fair" value may be judged to be a selling price greater than the costs of production, the price in the importing country, or the price in third countries. Anti-dumping actions are consistent with the WTO's Agreement on Implementation of Article VI of the General Agreement on Tariffs and Trade 1994. This agreement allows a country to bring anti-dumping actions against an importer as long as the product in question is sold at less than normal value and there is a causal link between the dumped imports and the alleged injury.

In Australia, when a manufacturer believes a foreign producer is dumping a product, it can ask the Australian Customs Service (ACS) to make an investigation. If the ACS finds that imports are injuring Australian producers, it could obtain authorisation to levy anti-dumping duties. Unlike other trade restrictions that apply to all importers of a product, anti-dumping measures are applied to specific producers in selected countries which are subject to an adverse dumping finding. Importantly, there is scope to appeal against a Minister's or Customs' findings to the Trade Measures Review Officer (a body independent of Customs). Since 1990, the ACS has investigated a total of 386 dumping complaints of which 9 cases involved Thai products.

In Thailand, the Department of Foreign Trade, Ministry of Commerce is responsible for regulating international trade and protecting Thai domestic producers against unfair trade practices such as dumping. A domestic producer injured by foreign goods selling at below a fair value can file a petition with the Ministry of Commerce. The Committee on Dumping and Subsidy under the aegis of the Ministry of Commerce is in charge of the investigation of the complaint, and the process could take as long as one to one and a half years to complete. If the Committee finds that

the import is injuring a domestic producer, the Ministry of Commerce has authority to levy an anti-dumping duty. Thailand does not extensively use anti-dumping regulations, partly due to its high tariffs on imports. Since 1990, Thailand has investigated only a total of 10 dumping complaints and none on Australian products.

Free trade agreements can address anti-dumping issues in various ways. One option is illustrated by the Australia New Zealand Closer Economic Relations (CER) Trade Agreement, where anti-dumping measures are no longer adopted with respect to trans-Tasman trade to which the Agreement applies. The other option is for a free trade agreement to extend some form of preferential treatment, while continuing to allow anti-dumping measures to be applied.

5.5 Quarantine Issues

As WTO members, both Australia and Thailand manage their respective quarantine systems in a way that is consistent with their obligations under the WTO *Agreement on the Application of Sanitary and Phytosanitary Measures* (the SPS Agreement).

The SPS Agreement affirms Members' rights to apply measures necessary to protect the health and safety of food, plants and animals. These measures must be scientifically based and must not be used as disguised restrictions on trade. The Agreement encourages members to use internationally agreed standards, but more stringent measures may be applied - if this is scientifically justifiable. There is also an obligation not to discriminate between Members where identical or similar conditions prevail.

Australia has had close cooperation with Thailand in enhancing Thailand's sanitary and phytosanitary capacities. Australia has given technical assistance in the form of training programs on pest risk analysis, electronic issuance of veterinary health certificates, and detecting and handling of Nipah virus by the Australian Animal Health Laboratory. However, Australia has a conservative approach to quarantine measures which make some Thai exports commercially unviable.

A free trade agreement would provide an avenue for genuine cooperation and the resolution of quarantine and related market access issues. It would strengthen market perception that members are willing to cooperate on all trade issues. An FTA could address issues such as food standards equivalence (and eventual harmonisation).

Last but not least, an FTA could further close ties by Australia providing technical assistance with capacity building. Areas which could be explored would include quality control, certification and inspection systems; risk analysis on weeds, pests, Genetically Modified Organism (GMO) products, and food safety; development of Hazard Analysis and Critical Control Point on meat and meat products and of a veterinary public health laboratory (ISO 17000); research on pest risk disinfestation for exports and veterinary epidemiology; and scholarships for a master's degree in meat hygiene, meat science and meat product processing.

There is also scope for cooperation on quarantine issues at the regional level to facilitate improved monitoring and surveillance efforts in the region aimed at early identification of pest and disease threats to biosecurity and effective adoption of

remedial measures. Good examples of this type of activity are the Food and Agriculture Organization/International Office of Epizootics (OIE) regional initiatives on foot and mouth disease. Thailand and Australia could also cooperate in international fora, such as the WTO, OIE, International Plant Protection Convention and Codex.

5.6 Government Procurement

Government procurement is another area which it would be important to address in the context of a free trade agreement. The public sectors of both Australia and Thailand are major buyers of goods and services. Their significance is illustrated by the fact that government expenditure (including government consumption and gross fixed capital formation) in Australia accounts for almost a quarter of GDP and in Thailand a fifth.

Both Australia and Thailand have developed government procurement policies designed to facilitate public sector management of infrastructure and services. The two governments have similar mechanisms included in their procurement policies and regulations, but differ in the implementation of these regulations due to the different administrative environments in which they operate. In both economies, government procurement is an important instrument for industry development.

In Australia, Commonwealth, State and Territory Governments each have their own procurement legislation, policies and procedures. Although, there is no national regulation of government procurement, generally Australian governments have adopted a principles-based approach which is designed to provide flexibility within a framework of transparency, accountability and open and effective competition. Australian governments' procurement policies are not prescriptive, but utilise principles of equity and fair dealing, accountability, open and effective competition, value for money, and assisting national competitiveness and industry development.

Thailand has no central procurement authority, with each of Thailand's government agencies procuring the goods, services and works it needs. The Office of the Prime Minister is responsible for issuing and updating regulations that specify procurement procedures and standardise contracts. The Bureau of the Budget oversees government procurement standards for common use items, with regulations aimed at the realisation of efficient and effective use of public funds, provision of fair and equal opportunity to suppliers, prevention of corruption, and responsiveness to the Government's social and economic policies.

There would be scope in an FTA for substantially improved cooperation on government procurement issues, particularly through improvements in transparency. Transparency would foster confidence that procurement processes are conducted in a manner that provides fair treatment for both local and foreign suppliers. Improving access to information about procurement opportunities would significantly increase the opportunity for suppliers to bid for contracts, which in turn would stimulate competition in the market.

An important adjunct would be a commitment to advance the use of electronic procurement. Electronic procurement is a burgeoning area and the development, for

example, of a single point of entry would benefit both suppliers and purchasing agencies. A commitment to work towards establishing a single point of entry for the purposes of accessing information on potential suppliers and procurement opportunities would strengthen the relevance of cooperation on government procurement in the future.

5.7 Intellectual Property

Both Australia and Thailand recognise the importance of effective protection of intellectual property as a vital component in fostering creativity, invention and technological know-how and thus creating the conditions for economic development. Thailand and Australia also understand the importance of the promotion of the intellectual property component in exports as a vital ingredient in efforts to add value to trade.

Both countries are parties to the WTO Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS). Thailand has a comprehensive legal framework for the protection of IP rights. In line with Thailand's obligations under TRIPS, Thailand has amended existing IP laws, namely copyright, patents and trademark legislation, while promulgating new laws in relation to plant varieties, trade secrets and layout designs of integrated circuits.

Since 1998 Thailand has stepped up its efforts aimed at IP enforcement, with a considerable increase in the number of successful prosecutions, particularly in the field of copyright and trademark infringements.

Australia also has a sophisticated legal framework for the protection and enforcement of IP rights, with a long history of engagement in the international intellectual property system. Australia's current intellectual property legislation and administration is TRIPS compliant.

Both Australia and Thailand recognise the importance of working towards more effective implementation and enforcement of IP related laws. Both Australia and Thailand are amongst the lead economies in APEC's Intellectual Property Rights Experts Group responsible for advancing work on IP issues including practical work in relation to harmonisation and enforcement. The possible inclusion of IP enforcement as one of the APEC pathfinder initiatives could provide opportunities for pursuing further practical measures in this field.

In 1997, Australia and Thailand entered into a Memorandum of Understanding on Cooperation in Intellectual Property and a reciprocal arrangement was concluded between the respective Intellectual Property Offices which recognises priority rights in respect of patents, trademarks and industrial designs. In 1999, discussions focusing on the MOU were conducted between the Thai Department of Intellectual Property and IP Australia. It was agreed that the two organisations would continue to develop cooperative activities, including the training of personnel, information exchange with better utilisation of the Internet, the encouragement of networking between the private sector intellectual property bodies, and the sharing of our experience with implementation reviews under the TRIPS Agreement. Australia and Thailand also recognise that geographical indications could be another area of cooperation.

Bilateral technical cooperation activities include the following:

- In 1998 and 1999, training was provided to Thai officials on search and substantive examination in industrial designs.
- In 1999, Australia organised technical training for Thai judges, court staff and prosecutors in IP-related casework.
- In 2000, Australia conducted a biotechnology intellectual property training program in Thailand for research institutes and IP administrators.

A free trade agreement could provide an opportunity for further strengthening the existing cooperation between Thailand and Australia described above. It could also provide an opportunity for building on existing cooperation to advance the TRIPS program. A free trade agreement could offer an avenue for the Customs authorities of both Thailand and Australia to engage in further cooperation.

5.8 Finance

Australia's financial services sector comprises three institutional groups: banks, non-bank financial institutions (NBFIs), and insurance companies and managed funds. Banking is the largest group in terms of the share of total assets. The fastest growing group has been the life offices and managed funds sector due to strong growth of the superannuation savings pool.

The Thai financial sector consists of many different types of financial institutions supervised by different authorities based on their business activities. In terms of asset size and of funds mobilised, the dominant financial institutions are commercial banks, finance companies, finance and securities companies, and asset management companies.

An FTA should seek to promote cooperation in enhancing the efficiency of the entire financial system as it affects the performance of the economy – efficiency in the sense that national savings that an economy generates are channelled by financial institutions into the best possible end uses. In this light, sharing of experiences and institutional capacity building, particularly in the area of regulatory reform, could be useful forms of cooperation.

The pace of unilateral financial reform is likely to accelerate in the coming years. Thailand is likely to tap increasingly into foreign savings to finance its development needs, deepen its capital markets and accelerate the pace at which financial innovation serves the needs of corporate borrowers or households.

Dealing with ailing financial institutions, strengthening the remaining financial institutions through recapitalisation and reducing the debt burden of the corporate sector and non performing loans in the financial system are Government priorities.

In this regard, Australia's expertise and experiences in strengthening its supervisory and regulatory regime and, not least, establishing stricter requirements for auditing and accounting practices for all financial institutions, could be beneficial and complementary to Thailand's reform efforts (see Box 5.8.1). For example, the Reserve Bank of Australia and the Bank of Thailand could share experiences on

overseeing the banking sector and the foreign exchange market, through an exchange of personnel or a series of workshops on the Bank of International Settlements (BIS) New Capital Accord and its implementation (including drafting a policy statement related to credit modelling and capital adequacy). The Australian Securities and Investments Commission (ASIC) and its Thai counterpart could continue to cooperate on initiatives aimed at strengthening regulatory cooperation between the two countries. This could include sharing experiences and information on the licensing of financial services providers. In addition, the Australian Prudential Regulation Authority could continue to share its experience with its Thai counterpart on supervision issues in the banking sector.

What is more, Australian banks might be interested in entering into Thai Internet banking markets. Even though Internet banking in Thailand is still at an early stage, the BOT issued guidelines on the use of the Internet network for commercial banking business in 2000. The next step for Internet banking in Thailand is for the BOT to finalise legislation governing Internet-related consumer protection and to develop a system to protect the integrity of electronic transactions. This includes legislation relating to electronic commerce, electronic signature, electronic funds transfer, data protection, computer crime and universal access. Laws on the first two issues are being reviewed by the Parliament, while those on the remaining issues are still being drafted.

Box 5.8.1
Thailand Financial System Master Plan (2002-2012)

The Plan consists of 2 major components:

Market Reform - focusing on improving the competitiveness and soundness of domestic financial institutions and to facilitate necessary adjustments in preparation for intensified competition from abroad. The policy measures will be based on market mechanisms that allow the number of financial institutions to fluctuate according to market demands. There will also be a thorough reexamination of the existing law and regulations concerning the business boundaries of commercial banks, restricted-licensed banks, IBFs, branches of foreign banks, superfinance, finance, securities, and credit foncier companies.

Supervisory Reform - focusing on the effectiveness of supervisory authorities, making necessary changes in supervisory practices consistent with the proposed market reform, supervision of financial conglomerates and non-deposit taking financial institutions, alternative supervisory arrangements such as supervision by products or by institutions, and measures to improve coordination among various supervisory agencies.

5.9 Transportation

The negotiation of a free trade area would have important implications for cooperation on transport. As Chapter 4 has noted, transport equipment is one of the key areas where trade is expected to increase under a free trade agreement. The development of a free trade agreement would also be expected to appreciably increase trade and people movement between the two economies. This would place additional demand on transport services, including air and shipping services.

Cooperation on automotive standards: Both countries already recognise that differences between technical standards in various countries constitute trade barriers, due to the cost of redesigning vehicles to meet different standards, and of demonstrating compliance with them. The costs and delays associated with compliance with overseas regulatory requirements have a significant impact on the export competitiveness of automotive manufacturers.

Australia and Thailand reached agreement in April 1999 on a Mutual Recognition Arrangement (MRA) which provides for the mutual acceptance of test reports demonstrating compliance with the other Party's automotive regulations on safety glass, emissions and seat belts. The MRA provides for its scope to be extended to include other automotive regulations where agreed jointly by the Parties. The MRA has not been used by either side to date, but the increase in trade in components that could be expected to occur under an FTA may lead to increased industry interest in utilising its provisions.

Australia and Thailand were also the first APEC economies to develop action plans under the APEC Road Transport Harmonisation Project to harmonise their automotive technical regulations with international regulations. In February 2000, Australia became a signatory to the 1958 Agreement on technical regulation of vehicles. Thailand plans to join the Agreement in 2005. The Agreement's principal feature is to provide a framework for mutual recognition of automotive products approved by member economies complying with the United Nations Economic Commission for Europe (ECE) Regulations. The harmonisation of domestic automotive regulations with ECE Regulations assists manufacturers to lower their design and compliance costs and facilitates the export of automotive products. The Agreement has 39 signatories and it currently has 114 regulations attached to it, to which the Australian Design Rules are being progressively harmonised. Accession to the agreement gives the ability, after adopting ECE Regulations, to issue approvals that will then be recognised by other Contracting Parties.

Cooperation between the two automotive industries is also developing. A Memorandum of Understanding was signed in August 1998 between the Federation of Automotive Products Manufacturers and the Thai Auto Parts Manufacturers Association to strengthen the trading relationship in automotive products between the two countries.

The Australian auto industry is already engaged in the transfer of managerial skills to the Thai industry and this process could be expected to increase at the commercial level with the integration of the two markets under an FTA. An example was the

provision of technical assistance by an Australian vehicle company to its Thai sister company by training engineering staff in Thailand and by implementing processes at its Thai plant to ensure high levels of quality.

Air Services: The key issue with respect to meeting the demand for transport services arises in air services, which are governed by a number of different air service arrangements. There have been no new arrangements of this kind agreed between Australia and Thailand since February 1998. Current arrangements require updating to ensure that the inter-government provisions are well in front of market needs, both in terms of the types of provisions and the amount of them.

Demand for air services would be expected to grow under a free trade agreement, with a strong impetus to the movement of tourists and of business people. The demand for air services would also be expected to gain added impetus from increased trade in high value or perishable products and components typically transported by air, such as fresh fruit and vegetables.

Further liberalisation would encourage the development of air services between Australian and Thailand by allowing airlines of both sides to react more quickly to changes in market demand and to plan future operations with greater confidence.

Transport logistics: There would also be scope for Australia and Thailand to cooperate in other transport-related areas. As one example, Australia has significant expertise regarding electronic commerce for the transport logistics sector. Increased export of this expertise as well as appropriate electronic commerce solutions and training to Thailand would benefit both countries.

Thailand's huge demand for training on electronic commerce issues in the transport logistics sector was demonstrated by an electronic commerce training and awareness project undertaken in 1999. Australia organised this project which was funded by the APEC Transportation Working Group. The consultant Equant Application Services conducted courses in eight APEC economies, including Thailand. Over 100 business people from Thailand sought to participate in the program (though the number was restricted to 40 in practice). A follow-on project, which provided online training on electronic commerce issues via the Internet to the transport industry, attracted registrations from about 300 business people from Thailand.

5.10 Joint Ventures

Joint ventures are an important mechanism for combining the strengths of foreign firms or affiliates and domestic enterprises. Typically, the foreign firm will bring to the venture a range of firm-specific assets, which may include expertise in specific technologies, finance or management skills. The domestic firm for its part is likely to also possess important assets. These will usually include much better access to local knowledge than foreign-based firms possess. As a rule, joint ventures will entail some transfer of knowledge and of technological and management skills from the foreign company to the domestic partner company. The benefits of links with a foreign partner may allow the domestic partner to improve its competitive position domestically and internationally.

Thai authorities have welcomed and encouraged joint venture investment for a sustained period. According to the latest UNCTAD data, over 2700 companies with at least 10 per cent foreign equity participation were issued investment promotion certificates by Thailand's Board of Investment between 1960 and 1998.[6] Joint ventures of this kind have made an important contribution to Thailand's economic development. Australia also welcomes joint ventures within the context of its broader policy relating to foreign direct investment.

Box 5.10.1
Joint Ventures Between Australian and Thai Firms

Finance: A number of Australian financial companies are already operating promising joint venture operations in Thailand. Krungthai AXA Life Insurance Co Ltd is an example of a joint venture insurance company, involving the largely government-owned Krungthai Bank and the AXA Group (an affiliate of National Mutual International) established in June 1998. In this case, Krungthai's branch network acts as a distribution outlet for Krungthai AXA Life's products and National Mutual provides insurance expertise and management to the company.[7] QBE Insurance (Thailand) Co Ltd was incorporated as a joint venture in 1989 and provides all forms of non-life insurance services.

Education: In the education sector, the Australian Institute of Languages (AUSTIL) is a joint venture between the University of New South Wales and the Mahanakorn University of Technology (a Thai private university) that was established in 1995. AUSTIL provides English language training services to Thai education institutions, government and business sectors. Swinburne Tummasiri Laem Chabang School of Engineering is a joint venture between the Technology Supply Group of Companies based in Bangkok and Swinburne University of Technology, Melbourne. Established in 1997, it provides English language programs in engineering, information technology and business management in Thailand.

Engineering/construction: In the engineering/construction sector, the Australian Clough Group, in joint venture with Unithai Engineering Ltd won a contract in 2001 with Unocal Thailand Ltd to design and build wellhead platforms and subsea pipelines in the Gulf of Thailand. Clough-Unithai Engineering Ltd hopes their Australian-Thai joint venture, based at Unithai Engineering Ltd's Laem Chabang shipyard, will ultimately become a "Centre of Excellence" able to offer design, procurement, manufacture and installation of facilities and related services to the oil and gas industry all over South-East Asia.[8]

Existing joint ventures between Australian and Thai firms (Box 5.10.1) illustrate the gains for both in joint venture arrangements. In the case of the Clough-Unithai joint venture, for example, the Australian partner benefits by gaining improved access to

[6] United Nations Conference on Trade and Development, *World Investment Report 2001: Promoting Linkages*, United Nations, Geneva, 2001, p.241.
[7] "National Mutual Holdings Launches New Life Company in Thailand" AXA, 10 March 1998, www.axa.asiapacific.com.au.
[8] "Clough Awarded $55m Contracts in Second Returns from Thai Alliance", 20 June 2001, www.clough.com.au.

the Thai market by working in cooperation with its Thai partner, and from opportunities to expand its presence in other parts of South-East Asia. The Thai partner benefits from better equipment and skills transfer provided by the Australian partner which helps it to increase its domestic competitiveness and gives it opportunities to export within the region. Thailand also stands to benefit in the long term from better infrastructure.

An Australia-Thailand free trade agreement would provide a more favourable environment for Australian investors and might attract a greater number of Australian firms willing to engage in joint ventures with Thai companies. Australian expertise in the business and financial services sector, automotive sector, education sector and construction sector has already provided benefits to Thailand through joint venture operations. Further assistance with new technology and skills transfer by Australian companies in the agricultural and food processing sector, for example, could help Thai companies increase their exports to the Australian market and improve their international competitiveness.

Although it is a matter for the commercial judgement of individual companies as to whether they enter joint ventures, the confidence in closer economic relations displayed by both governments through a free trade agreement should encourage Australian businesses to take an interest in a presence in Thailand.

5.11 Technology Transfer

A free trade agreement between Australia and Thailand would provide new opportunities to transfer technology and expertise through the private sector and through Government-to-Government capacity-building initiatives. This would be of particular importance to Thailand given the priority it has accorded to strengthening its technological capability as a means of promoting long-term economic development. But Australia too would be expected to benefit in this way.

Much of the impact of a free trade agreement on technology transfer would come from flow-on effects from the liberalisation of trade and investment. It is important to acknowledge, however, that a free trade agreement alone will not automatically lead to increased transfer of technology – this will require the commitment of both sides. Private sector decisions to engage in technology transfer will continue to be based on commercial motivations rather than the free trade agreement. Trade is widely recognised as one of the most important avenues for the transfer of technology between countries, both through the technologies which traded goods and services embody and through the demonstration and other effects trade can have. To the extent that a free trade agreement would create opportunities for trade in goods and services embodying new technologies, it could also promote the flow of technology. Increased flows of foreign direct investment could similarly work to encourage technology transfer through internal flows between the investing company and its local affiliates, as well as through less direct links (such as backward linkages to firms supplying the investment enterprise or the knowledge acquired by workers in direct investment enterprises who subsequently move on to other jobs).

Australian companies with an investment presence in Thailand or with other links to Thai firms are already involved in the transfer of technology. In the automotive

sector, an Australian manufacturer has provided engineering services and technical training in automotive design and production to its sister Thai company. Australian automotive component manufacturers have opened factories in Thailand to service the growing automotive sector, providing training and development to employees and local management personnel. As the previous section has noted, joint venture operations have typically also involved an important element of technology transfer.

Distinct from the private sector, there are many areas where the Thai and Australian Governments have cooperated on technology transfer, and that could be coordinated more fully under an FTA. Agriculture offers one good example. The Australian Centre for International Agricultural Research (ACIAR), which aims to reduce poverty, improve food security and promote natural resource management through agricultural research partnerships, has been involved in a number of research activities in Thailand. Research collaboration under its auspices has included improvements to the post-harvest handling of tropical fruit, especially longans; development of new disease resistant soybean; development of capacity to diagnose and control endemic foot and mouth disease; development of drought tolerant rice; the combat of disease to tropical fruit including papaya ringspot; and control of fruit fly. Many of these programs have developed expertise within Thai institutions which are now recognised as authorities in their own right by neighbouring countries, and which are utilised in establishing control over similar agricultural pests and conditions within the region.

Agriculture, Fisheries and Forestry – Australia (AFFA) and Thai Ministry of Agriculture officials are also investigating projects to improve production quality practices by Thai dairy farmers, with the objective of stimulating consumer demand for locally produced fresh milk. (See also Chapters 2 and 3.)

In addition, elements of Australia's development assistance program are targeted towards capacity building within Thailand's administrative structure. A Capacity Building Facility has been established to run over a three year period to identify, develop and deliver short-term technical assistance programs that increase the capacity of Thai Government operations. Capacity building projects have been developed including the Thailand-Australia Science and Engineering Project; Quarantine Technical Assistance; and the Land Titling Project which provided technical and management capacities in production of cadastral maps and title deeds. These projects have been designed to deliver technology transfer to Thailand's key administrative sectors to increase their effectiveness and contribute to economic development.

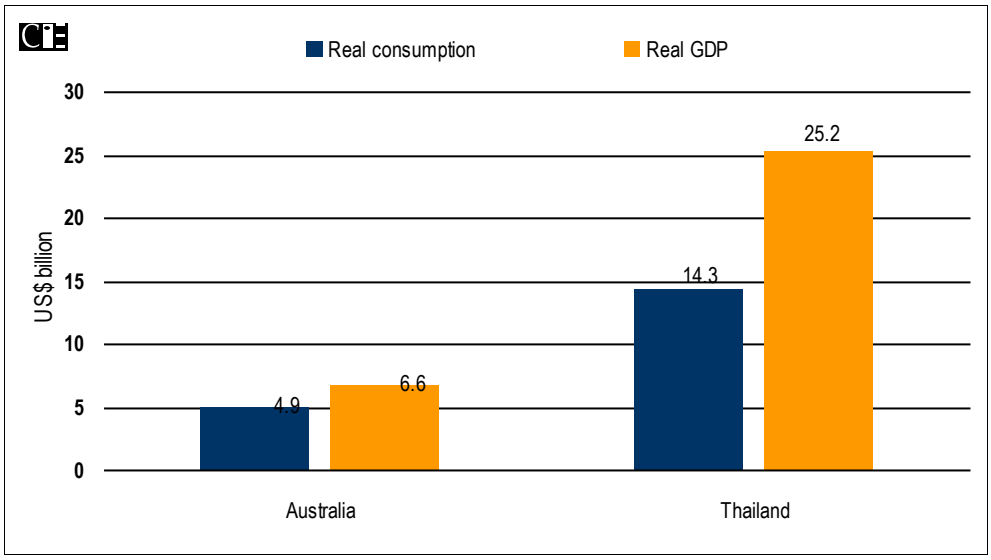
There are many other opportunities to develop cooperation. In the case of environmental issues, for example, Thailand and Australia are both Parties to the Montreal Protocol on Substances that Deplete the Ozone Layer. Australia is considered a world leader in ozone protection, having achieved the phase out of some Ozone Depleting Substances (ODS) in advance of the Protocol requirements. Scope exists for Thailand and Australia to derive commercial and environmental benefits from an FTA which facilitates the transfer of ODS expertise and technology between them, particularly under obligations for phase out of chlorofluorocarbons; halon; and methyl bromide. Similar opportunities exist under the Stockholm Convention on Persistent Organic Pollutants.

6. Modelling the Impact of a Free Trade Agreement

For the purpose of this study, the Centre for International Economics has undertaken economic modelling to provide quantitative estimates of the impact of a free trade agreement on each economy. This work confirms that it would provide substantial gains. For Australia, the increase in GDP is some US$6.6 billion and for Thailand some US$25.2 billion, both in net present value terms over 20 years.[1]

The modelling indicates that rapid implementation would generally bring the biggest gains to the free trade area. For Thailand, the sensitivity of the results to the length of the implementation period is particularly striking. Implementation of a free trade agreement "overnight" would increase the gains to Thailand by almost US$10 billion compared with the alternative of liberalisation on a slower track over 5 years (for Australia) and 10 years (for Thailand).

Chart 6.0.1: Gains from Immediate Implementation of an Australia-Thai Free Trade Agreement Net present value 2002 $US billion[a]



[a] Discounted by model generated real interest rate.

It is important to note that the estimates of gains are conservative. The modelling does not take into account some potential productivity gains and gains from relaxing some non-tariff barriers which have been discussed in earlier Chapters. It also does not address a number of potential gains from greater cooperation in areas like standards and conformance, e-commerce, and intellectual property.

The modelling results suggest that adjustment problems would be limited. In both economies, output would increase in each of the broad sectors modelled. The impact on third countries would also be quite modest, with New Zealand and Malaysia – two economies with close ties to Australia and Thailand – experiencing modest increases in GDP.

[1] Net present values are derived at interest rates determined by the model used.

6.1 The Model and Modelling Assumptions

The model used for the study was the Asia Pacific G-Cubed (APG-Cubed) model developed by Professor Warwick McKibbin. APG-Cubed is a dynamic general equilibrium model which separately identifies some 18 countries or regions and 6 different industry sectors (see Table 6.1.1). Strengths of the APG-Cubed model include its macroeconomic detail, its detailed treatment of the financial sector, and its explicit treatment of expectations (allowing it to account for the way in which future policy changes which are credible can affect economic activity at an early stage in their implementation). As a dynamic model, it also allows the results of implementing a free trade agreement to be traced out over time. Further details on APG-Cubed are provided in Annex A.

Table 6.1.1: Country and Industry Coverage of APG–Cubed

Countries/regions		***Industry sectors***
Australia	New Zealand	Energy
China	OECD Europe and Canada	Mining
Taiwan	OPEC (ex. Indonesia)	Agriculture
Eastern Europe	Other	Non-durable manufacturing
Hong Kong	Philippines	Durable manufacturing
India	Republic of Korea	Services
Indonesia	Singapore	
Japan	Thailand	
Malaysia	United States	

For the purpose of modelling a free trade agreement, four simulations were carried out. These involved:

1. immediate liberalisation of Australia-Thailand trade "overnight" in 2003 so that the free trade agreement was fully operational in that year.

2. liberalisation by both Australia and Thailand over 5 years (2003-2007).

3. liberalisation by Australia over 3 years (2003-2005) and by Thailand over 8 years (2003-2010).

4. liberalisation by Australia over 5 years (2003-2007) and by Thailand over 10 years (2003-2012).

To model the impact of liberalisation under these scenarios, the Centre for International Economics prepared updated estimates of trade barriers for each of the six sectors of APG-Cubed for Australia and Thailand. In the case of goods sectors, estimates of tariff barriers were prepared from data in the United Nations Trade Analysis and Information Systems (TRAINS) database, with barriers for the broad APG-Cubed sectors derived from a mixture of production-weighted averages and

simple averages.[2] Barriers estimated in this way are shown in Table 6.1.2. Because of the methodology used, they differ somewhat from those cited elsewhere in this report.

For services, the method of estimating barriers was more complex. As previous chapters have indicated, barriers to services trade can operate in a number of different ways. Barriers include those which prevent the delivery of services across national borders; limit consumption of services abroad; restrict the commercial presence of firms from each economy in the other or the operations of those firms; or limit the movement of natural persons (such as managers or consultants) associated with service delivery. Restrictions of these kinds tend to raise the cost of services delivery or lower the quality of services provided.

The Centre for International Economics estimated barriers by examining likely cost reductions in the provision of services under a free trade agreement. In doing so, it took into account both restrictions on services trade and the capacity of each economy to supply competitively. In the case of financial services, for example, the Centre's research suggested significant restrictions in Thailand and a high capacity on the part of Australia's banks and other financial institutions to supply these services competitively under more open access. Its estimates therefore suggest some cost reductions in the Thai financial sector as a result of a free trade agreement.

Table 6.1.2: Tariff Barriers to Trade at the APG–Cubed Sector Level[a]

APG sector		*Australian tariffs*	*Thai tariffs*
		Per cent	Per cent
1	Energy	0.05	4.24
2	Mining	0.60	5.27
3	Agriculture	0.18	29.94
4	Durable manufactures	4.13	17.59
5	Non-durable manufactures	3.97	30.91
6	Services	0.09	1.21

a Barriers to services trade are reported as the percentage reduction in the cost of that service following trade liberalisation. Other tariffs are averages derived by the method described in the text.

Source: CIE calculations.

In practice, the Centre for International Economics carried out this analysis for 15 separate areas of services for both Australia and Thailand. The results for each were then averaged using production weights. The overall average, shown in Table 6.1.2, errs on the side of caution, and suggests only modest cost reductions in each economy. In Australia, the cost of services delivery is expected to fall by only 0.09 per cent following trade liberalisation under a free trade agreement. In Thailand, it is expected to fall by around 1.2 per cent. In Australia's case, these estimates reflect a judgement that the cost of certain business services (such as accountancy and administrative support services) would fall under a free trade agreement. In Thailand's case, the estimate reflects an assessment that there would be declines in the cost of a wide range of services, including "trade" (distribution) services, air services, business services and public administration.

[2] These were preferred to trade-weighted averages which show a downward bias where protective barriers are high.

6.2 The Impact on Australia

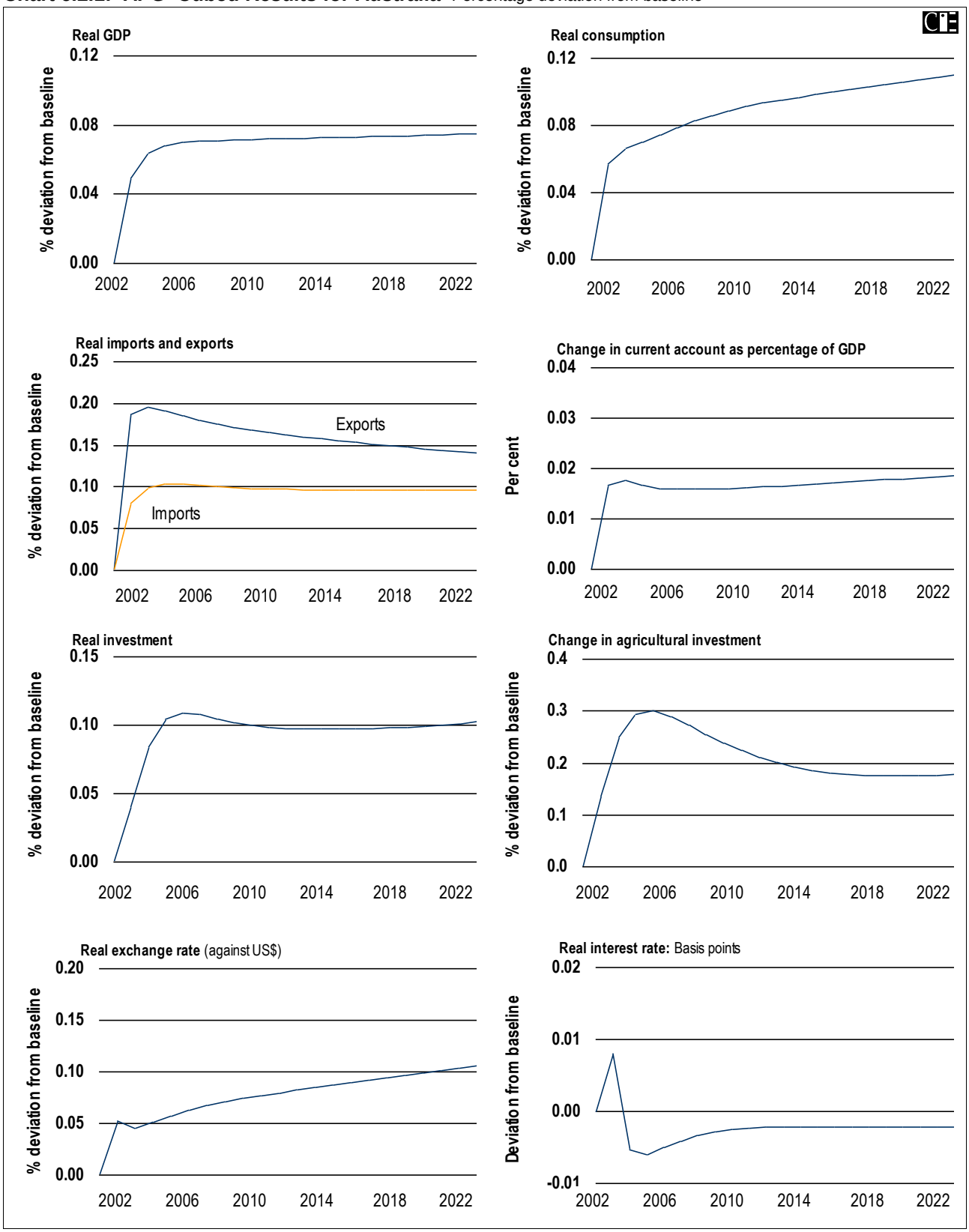
For Australia, both output and welfare (measured by real consumption) rise under the impact of a free trade agreement. Under the "overnight" liberalisation scenario, Australia's GDP increases by US$6.6 billion and real consumption by US$4.9 billion in net present value terms. In percentage terms, the increase in Australia's GDP as a result of the free trade agreement is modest, rising to 0.07 per cent by 2006 and remaining at above that level in the following years. The increase in real consumption is 0.07 per cent by 2005 increasing to more than 0.1 per cent from 2016.

Introduction of the free trade agreement results in some increase in investment. Real exports (to all countries) also rise modestly following the implementation of the free trade agreement. Imports increase in real terms as trade barriers with Thailand are removed. But the trade balance and current account improves. There is a slight appreciation of the Australian dollar in real terms against the US dollar because of the improvement in the trade balance (Chart 6.2.1).

Production increases in all sectors identified by APG-Cubed. Production in the services sector increases by the most – almost US$0.5 billion. In percentage terms, however, the biggest increase is in the two manufacturing sectors – comprising durable and non-durable goods. The growth in output in these sectors reflects both an efficiency gain as Australia's own economy liberalises, and the benefits of greater access to the Thai market in areas like food and manufacturing (Chart 6.2.2). The increase in production of durable manufactures is also driven by increased demand for investment goods as a result of trade liberalisation.

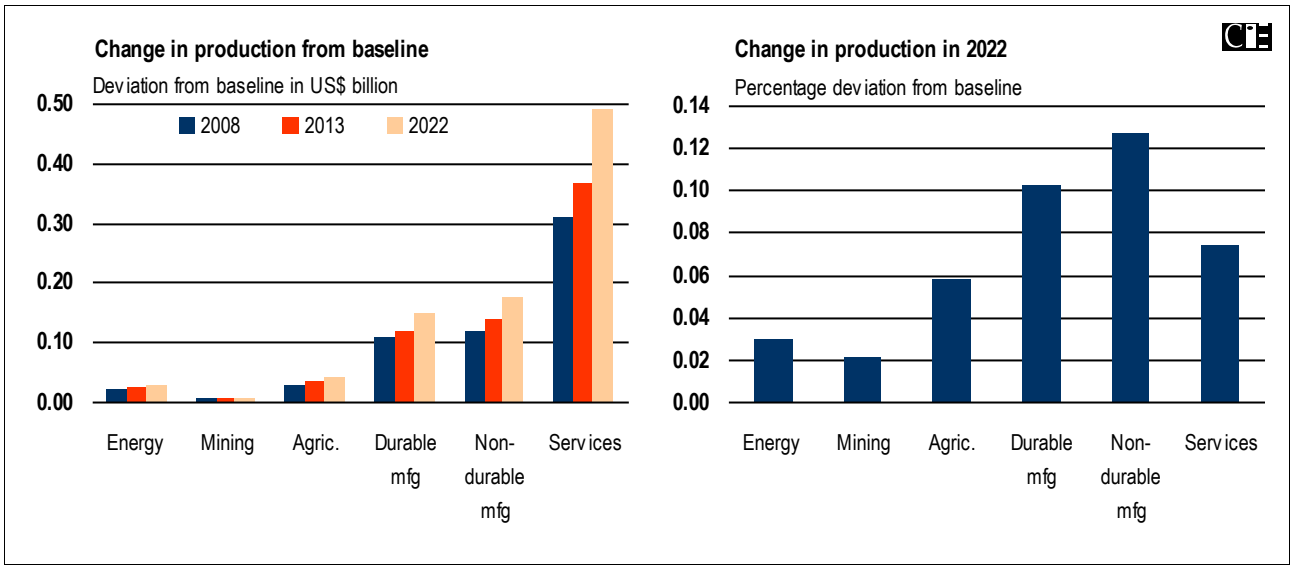
The gains which accrue to Australia as a result of the free trade agreement are not greatly affected by the phasing arrangements in place. Chart 6.2.3 compares gains, in net present value terms, under the four simulations already noted. In welfare terms, Australia's gains are maximised under "overnight" liberalisation, but the differences are relatively small. Australia's gain in GDP is slightly larger under a simulation where the free trade agreement is phased in over 3 years (for Australia) and eight years (for Thailand), but the differences are again small. The slightly larger gains for a longer phase-in period for Australia occur because of the adjustment costs which arise during trade liberalisation, which are modelled explicitly in APG-Cubed.

Chart 6.2.1: APG–Cubed Results for Australia Percentage deviation from baseline



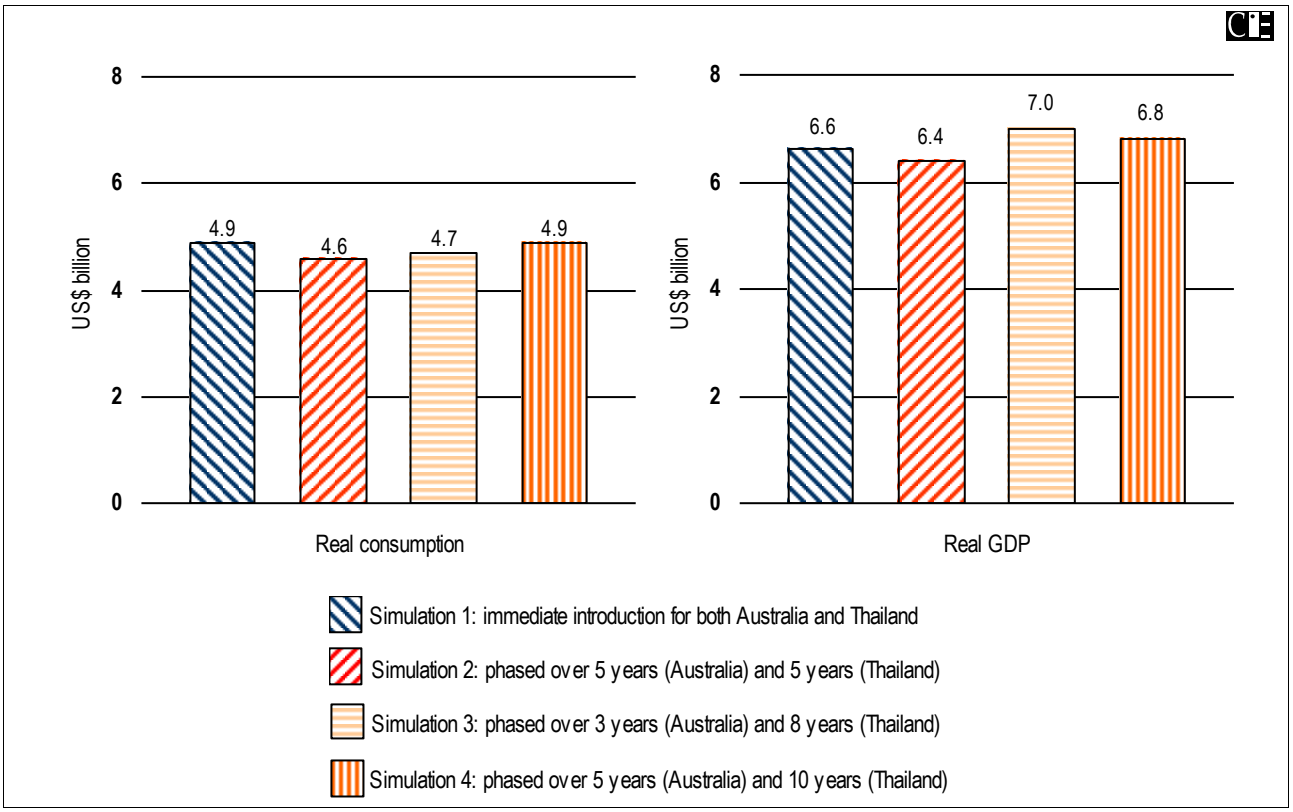
Data source: Simulations with APG–Cubed model.

Chart 6.2.2: Australian sectoral results



Data source: Simulations with APG–Cubed model.

Chart 6.2.3: The Impact of Phasing: Australia Net present value 2002 US$ billion



[a] Over 20 years and at model determined interest rates.

Data source: APG–Cubed model.

6.3 The Impact on Thailand

The increase in output and welfare for Thailand under a free trade agreement is much bigger than for Australia under all scenarios. Under "overnight" liberalisation, the increase in Thailand's GDP is US$25.2 billion, while real consumption increases by US$14.3 billion in net present value terms. Thailand's GDP is more than 1 per cent bigger by 2005 and more than 0.9 per cent higher some twenty years after the introduction of the free trade agreement. Real consumption also rises by almost 1 per cent by 2005, with the increase peaking at almost 1.5 per cent ten years after the introduction of the free trade agreement.

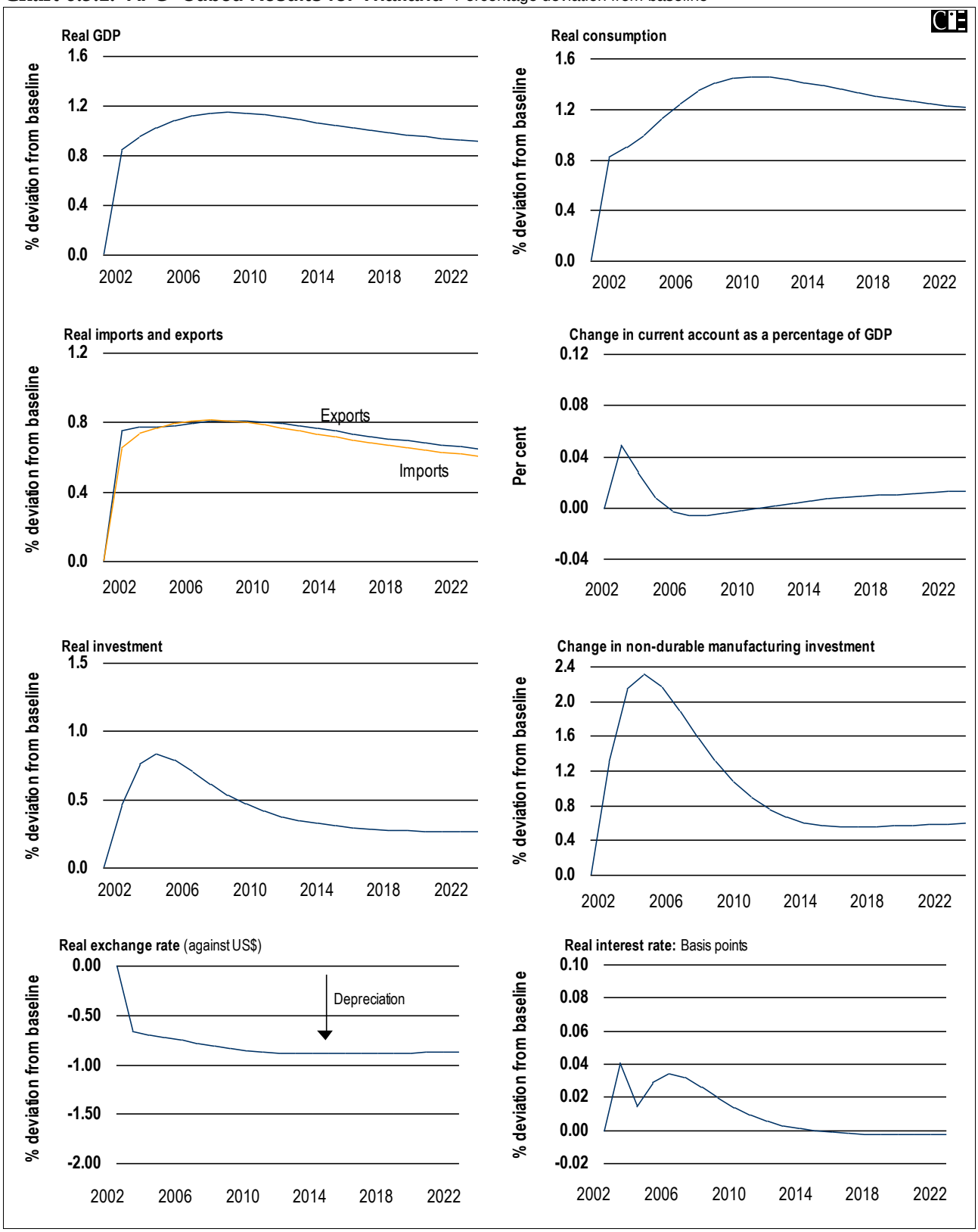
Real investment rises under a free trade agreement as trade liberalisation improves efficiency and wealth in the Thai economy. The increase peaks at 0.8 per cent by 2005 but remains above baseline levels subsequently. Thailand's exports also increase, both because of the efficiency gains which flow from trade liberalisation and the improvements in access to the Australian market. The increase rises to around 0.8 per cent by 2007. Thailand's imports also increase as it liberalises under the free trade agreement. There is a small initial improvement in the current account (Chart 6.3.1).

Production increases in all of the sectors identified by the APG-Cubed Model. The biggest increase in absolute terms is for the services sector, where output expands by around US$3 billion by 2022. The biggest percentage increases in production occur in the services and agriculture sectors. Output in services increases by more than 1 per cent in the long run and agriculture by around 0.8 per cent (Chart 6.3.2).

The most striking feature of the results in Thailand's case is that the gains are highly sensitive to the phase in period for the free trade agreement, with faster liberalisation resulting in bigger gains. Chart 6.3.3 shows this by comparing the net present value of Thailand's gains for the four simulations examined by the Centre for International Economics. For GDP, gains of US$25.2 billion under "overnight" liberalisation drop as the period over which Thailand liberalises increases, falling to US$20.6 billion for a three year implementation period, US$17.4 billion for eight years, and US$15.2 billion for 10 years. A similar trend is apparent with real consumption, where gains fall from US$14.3 billion for "overnight" liberalisation to US$8.7 billion when Thailand liberalises over 10 years.

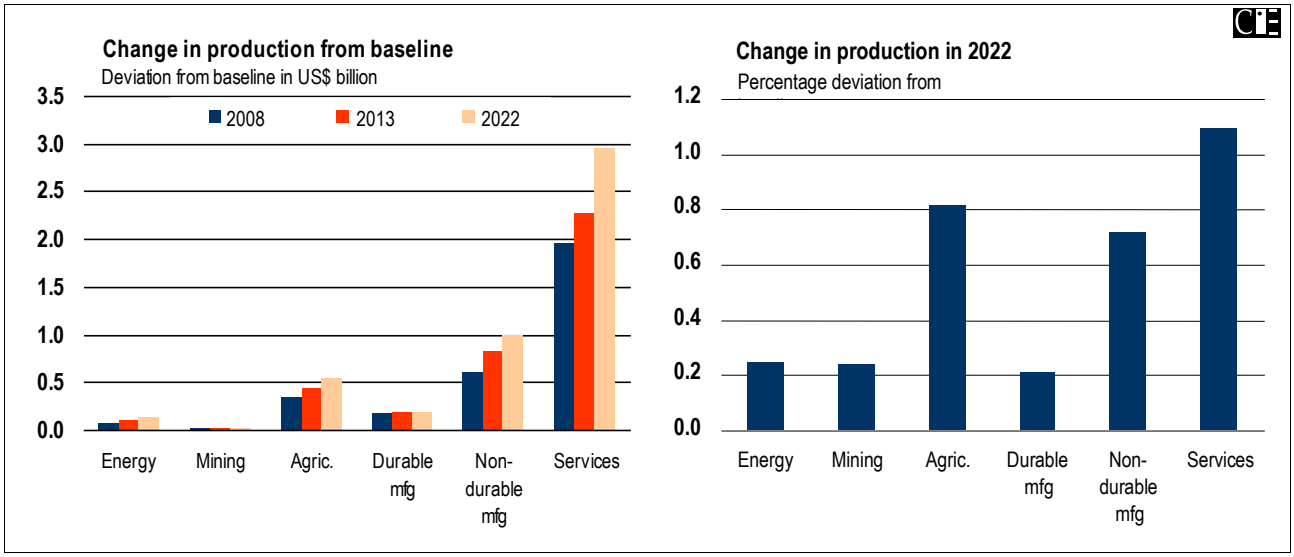
The difference in the impact of phasing for Australia and Thailand is essentially due to the differences in levels of protection in the two economies. For Thailand, the gain from liberalising high protective barriers substantially outweighs adjustment costs. In Australia's case, the lower initial level of protection means that there are smaller gains from liberalisation and a smaller net gain over and above adjustment costs.

Chart 6.3.1: APG–Cubed Results for Thailand Percentage deviation from baseline



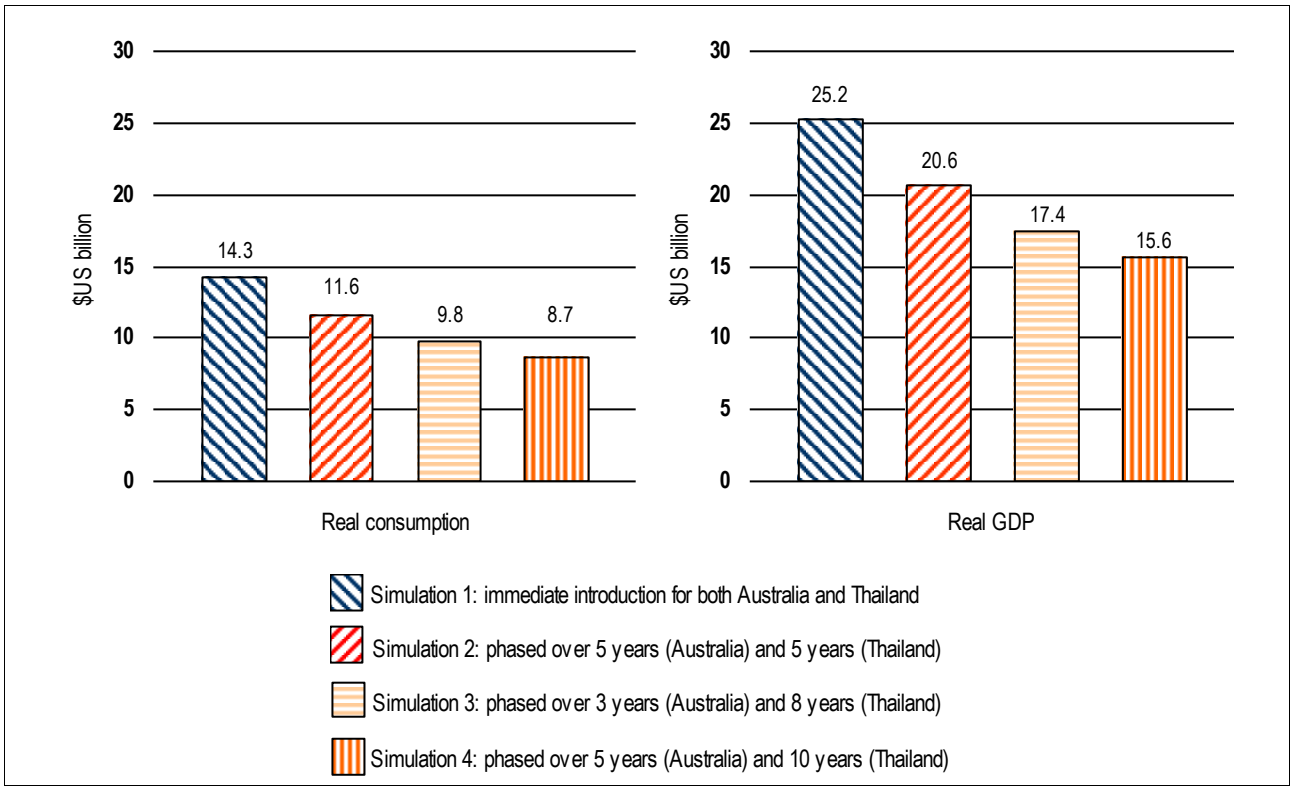
Data source: APG–Cubed model.

Chart 6.3.2: Thai Sectoral Results



Data source: APG–Cubed model.

Chart 6.3.3: The Impact of Phasing: Thailand Net present value 2002 US$ billion[a]



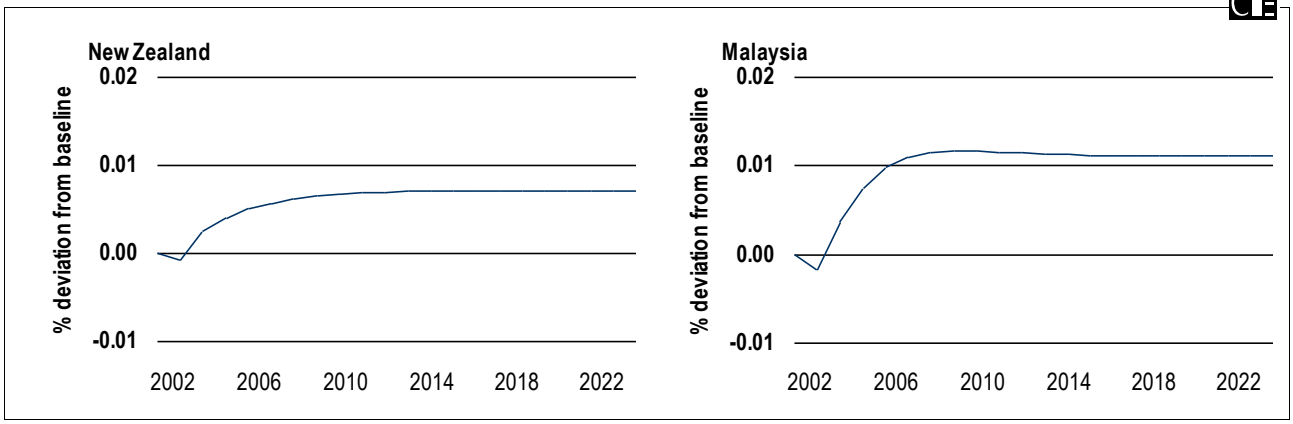
[a] Over 20 years and at model determined interest rates.

Data source: APG–Cubed model.

6.4 The Impact on Third Countries

The Centre's modelling suggests that a free trade agreement would have only limited effects on third countries. There would be a small, positive impact on two neighbouring economies – New Zealand and Malaysia – which have strong trading links with Australia or Thailand. In New Zealand's case, Chart 6.4.1 shows real GDP increasing by less than 0.01 per cent of GDP as a result of the free trade agreement. Malaysia's GDP increases by slightly more than 0.01 per cent. The Centre's modelling found all other third country effects to be insignificant.

Chart 6.4.1: Changes to Real GDP for Third Countries Percentage deviation from baseline



Data source: Simulations with APG–Cubed model.

7. Suggested Architecture of a Free Trade Agreement

Previous chapters have made it clear that the impact of free trade agreements varies appreciably according to their scope, coverage, and the period over which they are introduced. Ultimately reaching agreement on these matters requires detailed negotiations by the parties in an effort to reach common ground which is of mutual benefit. This study does not seek to address issues which would be resolved by negotiations of this kind. However, there is value at the outset in examining the objectives of a free trade agreement between Australia and Thailand and the architecture of an agreement which would best advance those goals.

Accordingly, this chapter makes suggestions about the architecture of an FTA that would maximise economic benefits to both sides, but does not purport to set the agenda for negotiations. It neither seeks to bind parties to a particular framework, nor set limits on their options. Nothing in this study pre-judges how any issues would be addressed in FTA negotiations, if and when negotiations were to commence.

In announcing agreement to terms of reference for the study in November 2001, Australia's Trade Minister Mr Mark Vaile and Thailand's Commerce Minister Dr Adisai Bodharamik agreed any FTA should be comprehensive in scope and underpin both countries' mutual support for the WTO. They also agreed this study should explore ways to strengthen bilateral trade and investment links, create strategic business links and cooperate to build regional and world markets through the framework of an FTA.

7.1 Objectives and Principles of an FTA

The study recommends that the primary objective of an FTA should be to encourage higher levels of economic growth and, thereby, raise living standards in Thailand and Australia, by

- Liberalising bilateral trade and investment to encourage greater trade and investment flows bilaterally and with third countries
- Creating a larger market, thereby promoting productivity through greater competition and economies of scale
- Providing a framework for closer economic cooperation and addressing trade problems
- Adding momentum to regional and multilateral trade liberalisation efforts.

An FTA should also aim to further strengthen the bilateral relationship. Already, Australia and Thailand cooperate closely on economic, defence, security, and development issues. An FTA would provide a framework for still closer cooperation on economic and trade issues, with positive flow-on effects likely for other aspects of the relationship. It also would advance both countries' objective of achieving closer integration within the region.

In formulating the architecture of an FTA between Australia and Thailand that advances these objectives, the two sides should take into account that Australia and Thailand are at different stages of economic development, would bear different adjustment costs and gain different benefits from an FTA. In addition, the FTA should be consistent with and supportive of the WTO rules and with APEC's goals and principles. This would accord with the principles announced by Trade Minister Vaile and Commerce Minister Adisai and with their desire for an FTA to support both countries' broader trade objectives. To be WTO-consistent, an FTA would need to comply with GATT Article XXIV, which requires FTAs among other things to cover "substantially all trade in goods". Provisions on services trade would need to comply with GATS Article V, requiring "substantial sectoral coverage" and the elimination of "substantially all discrimination". Consistency with APEC's goals and objectives would mean meeting the Bogor goal of free and open trade and investment for industrialised economies by 2010 and developing economies by 2020.

Both Australia and Thailand are strong supporters of the multilateral system and seek ambitious outcomes from the Doha round of trade negotiations. Similarly, both countries contribute actively to APEC economic reform efforts. Thailand will be APEC's host economy in 2003. Both, therefore, have an interest in ensuring an FTA complements and supports these efforts. Moreover, consistency with WTO rules and APEC goals and principles increases the likelihood that an FTA would add to global welfare and not detract from it[1].

7.2 Scope and Coverage

The more comprehensive the liberalisation under an FTA, the greater the gains that can be expected under it. The parties would forgo gains by limiting the scope of the agreement or providing for too many exceptions. Accordingly, the range of issues to be covered by an FTA should be kept as wide as possible at the outset. The depth and breadth of commitments in these areas, as well as how sensitive issues are handled, should be matters for negotiations themselves.

The scope of many recent FTAs extends to areas such as investment and harmonisation of regulations. This reflects recognition of strong links between trade, investment and various areas of domestic regulation.[2]

This report recommends that an FTA should cover trade in all goods and services with no sector excluded *a priori*. It should cover tariffs and non-tariff measures and not seek to circumscribe the targeted range of non-tariff measures from the outset. In the case of services, negotiations should cover all sectors regardless of whether they are subject to present GATS commitments. Provisions on Rules of Origin will be necessary to prevent trade deflection (i.e., the channelling of products through one party to gain preferential access to the other). The scope for trade-related issues such as those on subsidies, countervailing measures, anti-dumping and sanitary and phytosanitary measures could be covered.

[1] See, for example, APEC Economic Committee, 'The New Regionalism: Is it a Building Block for Multilateralism' in *2000 APEC Economic Outlook*. Available at www.apecsec.org.sg.
[2] *Ibid.*, p.37.

An FTA also should cover liberalisation of investment, since this would significantly strengthen bilateral market integration, and support the objective of lifting investment flows. As with trade in goods and services, no sector should be excluded *a priori*.

To maximise the benefits of an FTA, trade and investment liberalisation measures should be complemented by other measures that promote closer economic integration. These measures ensure that the benefits of trade and investment liberalisation are not undermined by difficulties businesses or their products experience in the other market. They have potential to add value to WTO-based liberalisation, since the two countries may be able to achieve greater progress than would be possible multilaterally. Such cooperation could help set benchmarks for future WTO or regional trade reform.

Standards and Conformance

As Chapter 5 has noted, differing standards and procedures for assessing conformity to them can be significant obstacles to trade. From the point of view of exporters, they add significantly to costs, particularly the initial costs in developing a market. These costs can flow on to consumers or limit choice for purchasing firms or consumers. It would therefore be important for an FTA to address these issues as part of broader measures designed to strengthen economic integration between Australia and Thailand.

Provisions in an FTA could address scope for further joint efforts toward the WTO objective of harmonisation with internationally agreed standards or equivalence of standards, as well as strengthening mutual recognition of conformity assessment.

Quarantine

An FTA could provide Australia and Thailand with the opportunity, consistent with their WTO rights and obligations, to further enhance the cooperative bilateral framework and work to resolve quarantine issues. The way in which cooperation and resolution could be developed would need to be subject to detailed negotiations.

Australia is willing to explore the use of new technologies (for example, rapid-scan X-ray imaging) which would avoid destructive sampling of tropical fruits. Australia has indicated that it is willing to explore scope for greater use of "area freedom" from specific pests and diseases when considering market access requests. There would also be scope to explore technical assistance aimed at improving Thailand's capacity to meet the biosecurity requirements of key trading partners.

Anti-dumping

A free trade agreement between Australia and Thailand could address anti-dumping issues. Options for addressing anti-dumping vary widely, however, and can range from complete abolition of anti-dumping between the parties to mechanisms to increase mutual understanding of the regimes applied by each party. In the case of an Australia-Thailand free trade agreement, the way in which anti-dumping would be addressed would need to be the subject of detailed negotiations.

E-commerce

As Chapter 5 has noted, the growth of electronic commerce is likely to have a strong impact on trade and investment flows between Australia and Thailand over the next decade. Electronic commerce offers the potential to boost bilateral trade and investment by facilitating existing trade and adding new products and services to the trade relationship. Australia and Thailand could work towards a framework that ensures close cooperation to foster the development of Internet electronic commerce, based on the principles outlined in Section 5.2. These should aim to provide conditions allowing Internet-based trade and markets for new products and services to flourish.

Competition Policy

Effective and mutually compatible competition regimes reinforce the benefits from free trade agreements by ensuring market access improvements are not negated through the regulatory environment or the use of restrictive business practices within the market. As noted in Chapter 5, it would be possible for Australia and Thailand to cooperate more closely in this area of policy.

Government Procurement

Thai and Australian governments have similar mechanisms for government procurement, but their implementation reflects significantly different administrative environments. It would nevertheless be important for an FTA to address this issue given its importance to trade. An FTA could address cooperation in areas such as improving transparency, access to information on opportunities, and the use of electronic procurement to the benefit of both Australia and Thailand.

Intellectual Property

Effective intellectual property regimes are a necessary part of an environment that encourages trade in knowledge-intensive industries. Both countries have robust intellectual property regimes and a strong record of cooperation in the area. This includes cooperation in the training of personnel, information exchange with better utilisation of the Internet, the encouragement of networking between private sector intellectual property bodies, and the sharing of information and experience on implementation reviews under the TRIPS Agreement. An FTA would provide a framework to build on this cooperation, address bilateral issues and advance joint objectives regionally and multilaterally. It would also be possible for customs authorities in the two countries to extend and strengthen cooperation in this area, including in the development of solutions to enforcement issues.

People Movement

The benefits of trade and investment liberalisation would be reinforced by provisions that facilitate the movement of people between countries. Provisions could, for example, address streamlined movement of business people and skilled labour. Facilitating movement of these categories is particularly important to flows of services trade and investment. An FTA could also include closer cooperation on the

exchange of data to enable advance passenger processing between Thailand and Australia.

Joint Ventures

An FTA would provide a more favourable environment for joint ventures between Australian and Thai companies. More liberal markets, combined with increased trade and investment flows, will naturally intensify links between businesses in both countries and tend to encourage more joint ventures. Most important of all, the "head-turning" effect of a free trade agreement would encourage greater Australian interest in Thailand. Within the context of a free trade agreement, there would be greater scope for Australia's trade and investment promotion agencies to target and promote Thailand as an investment destination.

Transport

Demand for transport services would be expected to increase as a consequence of a free trade agreement. The key issue in meeting this demand is likely to arise in air services, suggesting a strong case for further liberalisation. An FTA also could provide a framework for further cooperation in areas such as transport logistics and standards and conformance for transport equipment. There is also substantial scope for Australia and Thailand to cooperate more closely on developing Thailand's ICT capacity in the transport logistics sector, with highly beneficial results for Thai business.

Technology Transfer/Capacity Building

The transfer of technology and capacity building are of particular importance to Thailand as a developing economy and are areas where Australia is well placed to assist. Further technology transfer is likely to accompany an FTA, as trade and investment liberalisation intensifies business links. Government-to-Government technical assistance and capacity building measures are necessary to ensure that Thailand fully realises the benefits of an FTA. There are examples of government-to-government programs (documented in Chapter 5) which have encouraged technology transfer. It would be possible for Australia and Thailand to consider what additional programs might be desirable in the context of negotiations for a free trade agreement.

7.3 Strategies for Addressing Adjustment Issues

Australia and Thailand may face some short-term adjustment costs as trade and investment liberalisation causes shifts in the composition of output. Over the medium and long-term, welfare gains would far outweigh these costs. Modelling shows that, if free trade and investment were implemented immediately, Thailand's welfare (real consumption) gain would be US$14.3 billion and Australia's welfare gain would be US$4.9 billion over a twenty-year period[3].

The impact of adjustment costs can be softened through appropriate national policy responses. Such responses would depend on each economy's circumstances and the

[3] In net present value terms.

likely adjustment costs to be incurred. Policy strategies to facilitate smooth adjustment may include arrangements in the financial sector, labour market adjustment programs and human resource development programs. As mentioned above, an FTA could provide for technical assistance and capacity building on adjustment issues.

7.4 Other Steps to Improve Australian-Thai Relations

Australia and Thailand enjoy a close and cooperative relationship. An FTA that provides for regular Ministerial level review, could encourage the development of closer ties, by creating a regular forum for advancing new initiatives and dealing with any bilateral irritants. Sector-specific dialogues at officials' levels could be created, as appropriate, to advance initiatives and deal with trade and investment problems.

In the case of the Australia New Zealand Closer Economic Relations Trade Agreement, for example, a regular schedule of meetings between Prime Ministers and Trade and Foreign Ministers, supported by senior officials talks, have been very successful in resolving outstanding problems and achieving a very high level of bilateral market integration.

Additional engagement could also be encouraged through business contacts and association, principally through organisations such as the Australia-Thailand Business Council and the Thailand-Australia Chamber of Commerce, and government support for education and cultural exchanges. The Australia-based National Thai Studies Centre and comparable institutions in Thailand, could, for example, be a focus for such initiatives.

8. Conclusions

Australia and Thailand already have a strong bilateral relationship, including a substantial trade and investment relationship. Two-way trade in goods alone is valued at around A$5 billion (US$2.6 billion). The two economies cooperate on a wide range of issues ranging from defence to development assistance. Cooperation is particularly close on trade issues, and occurs not only through bilateral channels, but through the World Trade Organization, in APEC, in AFTA-CER and in the Cairns Group. The two countries are in a very real sense, natural partners.

There is, at the same time, significant scope to further develop the relationship. Trade and investment links, while strong, are not as highly developed as they are with some other regional economies. Significant barriers to trade and investment do exist. In addition, the framework for cooperation on many trade and investment-related issues is not as strong as it could be.

A free trade agreement between Australia and Thailand would lead to significant economic benefits in both countries. Trade and investment links between the two countries would expand substantially and there would be appreciable increases in economic output in both countries. The economic modelling commissioned for the study suggests that it would boost GDP by US$25.2 billion in Thailand and by US$6.6 billion in Australia over a twenty-year period.[1] Economic gains would outweigh the relatively modest adjustment costs which would occur. There would be significant gains to both economies in highly important sectors such as agriculture, automobiles and services. The more quickly the free trade agreement was introduced, the more significant would be the gains in both countries.

A free trade agreement would also assist by providing a single framework within which to address such issues as standards and conformance, electronic commerce, competition policy, anti-dumping, quarantine, government procurement, intellectual property, transportation, joint ventures and technology transfer. It would provide a basis for stronger cooperation in multilateral and regional forums, including the WTO, APEC and AFTA-CER.

The precise gains from a free trade agreement would depend on the content of the agreement. This study has not attempted to describe what the content of the agreement should be – that is something which would be addressed during the negotiations for such an agreement, if and when the Governments of both sides agreed to commence negotiations. However, the study does suggest that the benefits noted above would be maximised by a comprehensive free trade agreement which is consistent with, and supportive of WTO rules and with APEC's goals and objectives.

The study therefore recommends that the Governments of Australia and Thailand give close consideration to entering into negotiations to establish a free trade agreement. If the Governments do decide to commence negotiations, it is recommended that the specific proposals in Chapter 7 be examined when considering the architecture of a free trade agreement, taking into account the different stages of economic development.

---

[1] In net present value terms over 20 years. Assumes immediate implementation.

Nothing in the report pre-judges in any way how particular issues might be addressed in FTA negotiations, if and when the two Governments decided to commence negotiations.

Annex A. The APG-Cubed Model[1]

The G-Cubed (Asia Pacific) Model used in this study emerged from a research program designed to link two strands of quantitative economic modelling:

- traditional multisectoral general equilibrium models — which capture interactions between sectors but which are often static, do not generally incorporate the financial sector and do not have full macroeconomic closure; and
- macroeconomic models — which are mostly dynamic and have full macroeconomic closure but which usually do not capture intersectoral interactions and often do not have a well-specified supply side.

Origins of G–Cubed (Asia Pacific) model

The origins of G–Cubed (Asia Pacific) are the MSG2 macroeconomic model[2] and the G–Cubed model. Both of these models have proved successful in a wide variety of applications. The G–Cubed model has been an important tool in analysing greenhouse gas policy in the global economy.[3]

Several features of G–Cubed (Asia Pacific) make it an ideal tool for analysing the effects of trade liberalisation with endogenous productivity and risk premiums.

- With its macroeconomic detail, and integrated real and financial markets, G–Cubed (Asia Pacific) can account for the effects of a financial shock on interest rates, exchange rates and international capital movements. It can also account for the effects of different government fiscal and monetary responses to these shocks. The model fully integrates wealth effects on consumption and captures debt burdens and expectations.
- With its explicit treatment of expectations, G–Cubed (Asia Pacific) can account for the ways in which future policy changes that are credible can affect economic activity in the early stages of implementation.
- As a global general equilibrium model, G–Cubed (Asia Pacific) accounts for the interactions between sectors and between regions. Thus, it can capture the effects of policy changes and shocks within an economy and between economies.
- As a dynamic model, G–Cubed (Asia Pacific) can account explicitly for the time paths of policies and shocks.

By contrast, the comparative-static modelling frameworks used in traditional computable general equilibrium models do not include treatment of dynamics, interest rates, expectations or capital movements.

---

1 This Annex was prepared by the Centre for International Economics.

2 McKibbin, W. and Sachs, J.D., *Global Linkages: Macroeconomic Interdependence and Cooperation in the World Economy*, Brookings Institution, Washington D.C., 1991.

3 McKibbin, W. and Wilcoxen, P., "The Theoretical and Empirical Structure of the G-Cubed Model", *Economic Modelling*, Vol. 16, No. 1, 1998, pp.123-148.

All models rely on three things: theory, data and parameters. Some of the main limitations of G–Cubed (Asia Pacific) in these three are as follows.

- The elasticity parameters are estimated on US data sets since there is vastly more data from which to estimate these parameters. However, the elasticity parameters are not unrepresentative of responses at the level of aggregation considered in this study. Parameters such as trade shares are calculated from actual data for country.
- There is always a lag between release of official data and how well it represents the current structure of the economy. Projections have been made using post-1997 data (the year of the Asian Financial Crisis).
- One of the limitations of the model theory is that it assumes perfect competition and does not incorporate economies of scale or particular market structures of different sectors. However, the reasons for this are that it is hard to find evidence of economies of scale at the level of aggregation to the six sectors used here and it is much harder to model some departures from the assumption of perfect competition.

Key Features

G–Cubed (Asia Pacific) separately identifies 18 countries/regions. Table 6.1.2 set out the economic and six sector coverage of the version of G–Cubed (Asia Pacific) used in this study. Some food items occur in non-durable manufacturing, and the mapping between G–Cubed (Asia Pacific) and SIC sectors is shown in Table A.1.

Detailed specifications of the theoretical structure of G–Cubed (Asia Pacific) can be found in earlier work by McKibbin.[4] The key features of G–Cubed (Asia Pacific) are that it:

- specifies the demand and supply sides of industrialised economies;
- integrates the real and financial markets of these economies;
- fully accounts for stocks and flows of real resources and financial assets;
- imposes intertemporal budget constraints so that agents and countries cannot indefinitely borrow and lend without undertaking the resource transfers necessary to service outstanding liabilities;
- has short run behaviour that is a weighted average of neoclassical optimising behaviour and liquidity constrained behaviour;

[4] McKibbin, W., *Quantifying APEC Trade Liberalisation: a Dynamic Analysis*, Working Paper in Trade and Development No.1, 1996, Economics Department, Research School of Pacific and Asian Studies, Australian National University, Canberra, and Brookings Discussion Paper in International Economics No. 122, Brookings Institution, Washington, D.C.

Table A1: Relationship Between G–Cubed (Asia Pacific) and SIC Sectors for Agriculture and Non-durable Manufacturing

G–Cubed (Asia Pacific)	*SIC code*
Agriculture	01 Agricultural production — crops (excluding cereal preparations and flour)
	02 Agricultural production — livestock and animal specialities
	07 Agricultural services
	08 Forestry
	09 Fishing, hunting, and trapping
	24 Lumber
Non-durable manufacturing	20 Food and kindred products (including cereal preparations and flour)
	21 Tobacco products
	22 Textile mill products
	23 Apparel and other finished products made
	26 Paper and allied products
	27 Printing, publishing and allied industries
	28 Chemical and allied products
	30 Rubber and miscellaneous plastics products

- has a real side that is disaggregated to allow for production and trade of multiple goods and services within and between economies;
- has full short and long run macroeconomic closure with annual macrodynamics around a neoclassical growth model; and
- can be solved for the full rational expectations equilibrium annually from 1996 to 2100.

Theory

The model theory consists of behavioural and accounting relationships. The model recognises a number of economic agents including firms, households and government.

Firms

Each sector is represented by a firm, which chooses its inputs and level of investment so as to maximise its stockmarket value, subject to a multiple input production function and output prices (which are given as far as the firm is concerned).

Sectoral output is produced using capital, labour, energy and materials. Energy and materials are aggregates of inputs of intermediate goods, which are in turn aggregates of imported and domestic commodities that are assumed to be imperfect substitutes.

The capital stock in each sector changes according to the rate of fixed capital formation and the rate of depreciation. Investment is subject to rising marginal installation costs so that total real investment is the value of purchases plus the per unit cost of installation. The per unit cost is a function of the rate of investment. This implies that, once in place, it is costly to move physical capital between sectors. In contrast, financial capital is perfectly mobile.

The goal of each firm is to choose its inputs to maximise intertemporal net (of tax) profits. Taxes included are a corporate income tax, taxes on inputs (such as a carbon tax) and an investment tax credit.

Wages

Wages are determined by assuming that labour is mobile between sectors in each region, but not between regions. Thus, each sector in a region pays the same wages. Wages in a particular country adjust according to an overlapping contracts model where nominal wages depend on current and expected inflation and on labour demand relative to labour supply. Long run labour supply is determined by the (exogenous) rate of population growth. In the short run, hours worked can fluctuate. For a given nominal wage the demand for labour determines short run unemployment in each sector. This varies, depending on the composition of demand for each sector's output.

Households

Household behaviour is assumed to be a weighted average of two types of behaviour. In the first, households aim to maximise intertemporal utility subject to a wealth constraint. Wealth consists of human wealth and financial assets. Human wealth is the present value of the expected future stream of after-tax labour income. Financial wealth is the sum of real money balances, real government bonds, net claims against foreigners and the value of capital in each sector.

In the second type of behaviour, households base their consumption on after-tax current income.

Government

Real government spending is exogenous and constant as a share of GDP. Government consumption is financed by taxes (corporate and personal income taxes) and by issuing government debt.

The government budget must balance in present value terms but need not balance in any single period. Thus, if the government runs a budget deficit today, it must run an appropriate budget surplus at some point in the future. If not, the government will be unable to pay interest on debt and private agents will not be willing to hold it. The specific fiscal closure chosen is that at every instant in time the government must levy a lump sum tax equal to the value of interest payments on the outstanding debt.

Financial markets and balance of payments

The model accounts for flows of assets between regions, consistent with the flows of goods. The model specifies that money is required to undertake transactions and so the demand for money is a function of GDP and short term nominal interest rates. The supply of money is exogenously chosen by the central bank in each region.

Asset markets are assumed to be integrated across regions. The model allows for risk premiums on assets held in different currencies. These are calculated as part of the baseline of the model and are designed to replicate 1996. When undertaking simulations it is assumed that risk premiums are independent of the shock under consideration.

For the results reported in this paper, exchange rates are assumed to be floating. Also, it is assumed that OPEC (Organisation of Petroleum Exporting Countries) chooses its foreign lending in order to maintain a desired ratio of income to wealth and that Eastern Europe and the former Soviet Union, as well as other developing countries, are constrained in what they can borrow from the rest of the world. In these countries, any available foreign exchange — given a current account constraint, the demand for exports and the servicing costs of external borrowing — is allocated to imports of goods from all other regions.

Acronyms and Abbreviations

ABS	Australian Bureau of Statistics
ACCC	Australian Competition and Consumer Commission
ACIAR	Australian Centre for International Agricultural Research
AFTA	ASEAN Free Trade Area
AFTA-CER	ASEAN Free Trade Agreement – Australia New Zealand Closer Economic Relation Trade Agreement
AIA	ASEAN Investment Area
APEC	Asia Pacific Economic Cooperation
AQIS	Australian Quarantine and Inspection Service
ASEAN	Association of South East Asian Nations
ASIC	Australian Securities and Investment Commission
ATBC	Australia Thailand Business Council
BOI	Board of Investment
BOT	Bank of Thailand
CBU	Completely Built Up
CEPT	Common Effective Preferential Tariff
CER	Closer Economic Relations
CIE	Centre for International Economics
CKD	Completely Knocked Down
CY	Calendar Year
DBE	Department of Business Economics (Thailand)
DFAT	Department of Foreign Affairs and Trade (Australia)
EAU	Economic Analytical Unit (Australia)
ETMs	Elaborately Transformed Manufactures
FAO	Food and Agriculture Organization
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
FY	Financial Year
GMO	Genetically Modified Organisms
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product

GNP	Gross National Product
HS	Harmonised System
IMF	International Monetary Fund
JAS-ANZ	Joint Accreditation System of Australia and New Zealand
MFN	Most Favoured Nation
MNC	Multinational Corporation
MOC	Ministry of Commerce (Thailand)
MOU	Memorandum of Understanding
MRA	Mutual Recognition Agreement
NAB	National Australia Bank
NAC	National Accreditation Council of Thailand
NATA	National Association of Testing Authorities (Thailand)
NAFTA	North American Free Trade Agreement
NBFIs	Non-Bank Financial Institutions
NTM	Non-Tariff Measure
ODS	Ozone Depleting Substances
OEM	Original Equipment Manufacturer
PMV	Passenger Motor Vehicles
ROOs	Rules of Origin
SAI	Standards Australia International
SCSC	Sub-Committee on Standards and Conformance
SMP	Skim Milk Powder
SPS	Sanitary and Phytosanitary
STMs	Simply Transformed Manufactures
TBT	Technical Barriers to Trade
TCF	Textiles, Clothing and Footwear
TISI	Thai Industrial Standards Institute
TRIPS	Trade Related Aspects of Intellectual Property
UNCTAD	United Nations Conference on Trade and Development
WTO	World Trade Organization

Bibliography

APEC Economic Committee, 'The New Regionalism: Is it a Building Block for Multilateralism?', *2001 APEC Economic Outlook*. (At www.apecsec.org.sg)

Australian Bureau of Industry Economics, *Trade Liberalisation and Australian Manufacturing Industry: the Impact of the Australia-New Zealand Closer Economic Relations Trade Agreement*, Research Report 29, Canberra, 1989.

B2B E-Commerce: Capturing Value Online, National Office for the Information Economy, Canberra, October 2001.

Choi, I. and Schott, J., *Free Trade between Korea and the US?*, Institute for International Economics, Washington D.C., 2001.

Dee, P., Geisler, C., and Watts, G., *The Impact of APEC's Free Trade Commitment,* Industry Commission, Staff Information Paper, Canberra, 1996.

Department of Foreign Affairs and Trade, *Closer Economic Relations: Background Guide to the Australia New Zealand Economic Relationship*, Canberra, 1997.

Department of Foreign Affairs and Trade, *Composition of Trade Australia 2000*, Canberra 2001.

Department of Foreign Affairs and Trade, *Composition of Trade Australia 2000-01*, Canberra 2001.

Department of Foreign Affairs and Trade, *Exports of Primary and Manufactured Products Australia 2000*, Canberra 2001.

Department of Foreign Affairs and Trade, *Subsistence to Supermarket II: Agrifood Globalisation and Asia, Volume I (Agrifood MNCs in Asia)*, Canberra, 2001.

Department of Foreign Affairs and Trade, *Subsistence to Supermarket II: Agrifood Globalisation and Asia, Volume II (Changing Agrifood Distribution in Asia)*, Canberra 2001.

Department of Foreign Affairs and Trade, *The APEC Region Trade and Investment 2001*, Canberra, 2001.

Department of Foreign Affairs and Trade, *Trade in Services 1999-2000*, Canberra 2001.

East Asia Analytical Unit (now Economic Analytical Unit), *Transforming Thailand: Choices for the New Millennium*, Canberra, 2000.

EC Market Access and Sectoral Barriers Database (at <http://mkaccdb.eu.int.)

Economist Intelligence Unit, *Asia Viewswire*, various issues.

Economist Intelligence Unit, *World Investment Prospects*, London, 2001.

'Economy in Review', *The Nation*, December 2000.

Krueger, A., "Are Preferential Trading Agreements Trade Liberalising or Protectionist?", *Journal of Economic Perspectives*, Vol. 13, No. 4, 1999, pp.105-124.

Krueger, A., "Problems with Overlapping Free Trade Areas" in Ito, T. and Krueger, A. (eds), *Regionalism versus Multilateral Trade Arrangements*, University of Chicago Press, Chicago, 1997.

Maskus, K., Wilson, J., and Otsuki, T., *Quantifying the Impact of Technical Barriers to Trade: a Framework for Analysis*, World Bank Policy Research Working Paper No. 2512, The World Bank Development Research Group Trade, December 2000.

McKibbin, W., *Quantifying APEC Trade Liberalisation: a Dynamic Analysis*, Working Paper in Trade and Development No.1, 1996, Economics Department, Research School of Pacific and Asian Studies, Australian National University, Canberra, and Brookings Discussion Paper in International Economics No. 122, Brookings Institution, Washington, D.C.

McKibbin, W. and Sachs, J.D., *Global Linkages: Macroeconomic Interdependence and Cooperation in the World Economy*, Brookings Institution, Washington D.C., 1991.

McKibbin, W. and Wilcoxen, P., "The Theoretical and Empirical Structure of the G-Cubed Model", *Economic Modelling*, Vol. 16, No. 1, 1998, pp.123-148.

Mid-Year Economic and Fiscal Outlook: 2001-01, Statement by the Treasurer and Minister for Finance, October 2001.

Sawyer, W. and Sprinkle, R., *The Demand for Imports and Exports in the World Economy*, Ashgate, Aldershot, 1999.

Tanksul, P. and Villinger, R., 'Thailand's Chance for no-pain gain', *The McKinsey Quarterly*, No.4, 2001.

United Nations Conference on Trade and Development, *World Investment Report 1998, Trends and Determinants*, United Nations, New York and Geneva, 1998.

United Nations Conference on Trade and Development, *World Investment Report 2001: Promoting Linkages*, United Nations, Geneva, 2001.

United States International Trade Commission, *U.S.-Korea FTA: The Economic Impact of Establishing a Free Trade Agreement Between the United States and the Republic of Korea*, USITC Publication 3452, Washington D.C., 2001.

USTR, *2001 National Trade Estimate Report on Foreign Trade Barriers*, Washington D.C.

World Bank, *Trade Blocs*, Oxford University Press, New York, 2000.

World Bank Thailand Office, *Thailand Economic Monitor 2001* (at http://www.worldbank.or.th/monitor)

World Trade Organisation, *Trade Policy Review – Thailand, 1999*, WT/TPR/S/63