

Case Analysis II

Thailand-EU Free Trade Agreement

EE459

Semester 1/2013

Background Information

- During the recent official visit to Thailand of the President of the European Commission, José Manuel Barroso, prospects of a **European Union (EU)-Thailand partnership cooperation agreement (PCA)** and **free trade agreement (FTA)** were central topics during discussions with Yingluck Shinawatra, Prime Minister of Thailand.
- Both leaders held discussions on the strengthening of commercial and investment relations between Thailand and the EU, including the promotion of tourism. The Thai Prime Minister invited the EU to take advantage of Thailand's strategic location to intensify the EU's trade and investment relations with the Association of Southeast Asian Nations (ASEAN).
- At the same time, as the cornerstones to a strengthening of bilateral relations, the leaders stated **their firm commitment to an early conclusion of the Thailand-EU PCA** and **the launch of negotiations on an FTA in early 2013**.
- Thailand would then become **the fourth ASEAN member state negotiating an FTA with the EU**. In 2007, the **EU member states agreed to launch** negotiations on a region-to-region **FTA with ASEAN**, but those were put **on hold in 2009** when the European Commission **decided to pursue free trade talks** with ASEAN countries in a **bilateral format**, whilst preserving the strategic objective of a region-to-region FTA for a later date.

Background Information (Cont'd)

- Europe represents 1/5 of the world trades and is bigger than the United States and Japan combined in this regard.
- Neighboring nations of Thailand like Malaysia and Vietnam have already signed trade agreements with the EU, a step ahead which is important for Thailand to keep up with the game.
- The purpose of the FTA is to reduce tariffs by as much as possible. The least developed nations like Laos and Vietnam have been given zero tariffs.
- The United States has given the Kingdom GSP treatment in which the country pays lower taxes for its export products.
- Thailand is also aiming at getting tax reduction from the EU which would help the auto industry in the country.
- Among the products exported to the EU, auto parts are by far the largest of all. Some of the agricultural produce have been banned due to traces of chemicals.
- There are other benefits coming from the FTA with the EU for Thailand as well and that include government procurement which would be bound by the agreements with both partners overseeing the process.
- Intellectual property will be made a priority in an attempt to stamp out fake goods. Industries in the country will be more value added rather than industrializing.

Background Information (Cont'd)

1. Benefits of Trade

➤ What?

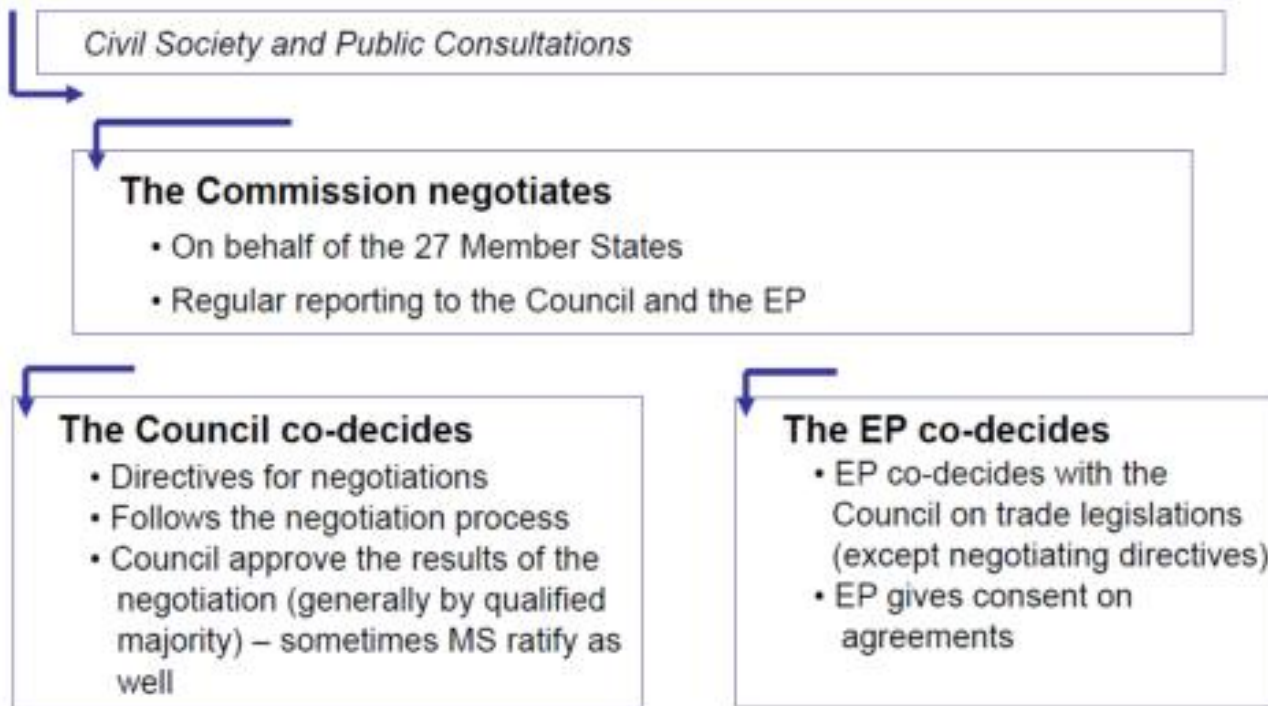
- **Economic growth:** 1% added to EU's GDP by 2020 on completion of negotiations with strategic partners.
- If US and Japan then 2% to EU's GDP or equivalent to 240 billion euros by 2020.
- **Consumer benefits:** Variety of products & lower prices, gains estimated in the range of 600 Euros per year per consumer.
- **Labour effects:** 25m jobs depend on exports, > 4.6 m people work for US/Jap majority owned companies



Source: EU-Thailand FTA (Current Development) by Mr. Pekka Penttila (Trade Attache)

Background Information (Cont'd)

1. How we negotiate



Background Information (Cont'd)

2. Bilateral Agreements- State of Play



Source: EU-Thailand FTA (Current Development) by Mr. Pekka Penttila (Trade Attache)

Background Information (Cont'd)

2. Bilateral Agreements- the way ahead



Yellow circle: Negotiations ongoing

Pink circle: Negotiations under consideration



Source: EU-Thailand FTA (Current Development) by Mr. Pekka Penttila (Trade Attache)

Background Information (Cont'd)

3. EU-Thailand trade relations (1)

- EU is Thailand's **4th trade partner** after ASEAN, Japan, China €32 bil worth of trade (2011)
- EU is Thailand's **3rd largest export market** – 11% of total exports, after ASEAN and China
- Thai exports to the EU = **€17.5 bil** (2011)
- Imports from EU = **€11.9 bil** (2011)
- EU Trade Deficit with Thailand = **€5.7 bil**



Background Information (Cont'd)

3. EU-Thailand trade relations (2)

European Union, Imports from... Thailand

SITC Rev.3 (UN, WTO/ITS) & AMA/NAMA** (WTO) Product Groups	2007		2009		2011		Share of Partner in EU Imports (2011)
	Millions euro	%	Millions euro	%	Millions euro	%	
0000 - Total	16,637.5	100.0%	14,321.9	100.0%	17,549.8	100.0%	1.0%
1000 - Primary products	2,845.2	17.1%	2,940.3	20.5%	4,053.1	23.1%	0.6%
1100 - Agricultural products (Food (incl. Fish) & Raw Materials)	2,672.9	16.1%	2,617.2	18.3%	3,824.7	21.8%	2.9%
1200 - Fuels and mining products	172.3	1.0%	323.1	2.3%	228.3	1.3%	0.0%
2000 - Manufactures	13,725.2	82.5%	11,297.0	78.9%	13,206.2	75.3%	1.4%
2100 - Iron and steel	204.2	1.2%	61.3	0.4%	71.3	0.4%	0.2%
2200 - Chemicals	602.1	3.6%	510.1	3.6%	706.9	4.0%	0.5%
2300 - Other semi-manufactures	1,287.0	7.7%	958.3	6.7%	1,332.8	7.6%	1.6%
2400 - Machinery and transport equipment	7,974.4	47.9%	6,501.6	45.4%	7,401.2	42.2%	1.7%
2410 - Office and telecommunication equipment	4,139.0	24.9%	4,013.5	28.0%	3,774.2	21.5%	2.1%
2420 - Transport equipment	1,635.0	9.8%	991.5	6.9%	1,411.6	8.0%	1.4%
2430 - Other machinery	2,200.3	13.2%	1,496.7	10.5%	2,215.5	12.6%	1.4%
2500 - Textiles	281.4	1.7%	202.5	1.4%	291.5	1.7%	1.3%
2600 - Clothing	978.1	5.9%	932.1	6.5%	951.1	5.4%	1.3%
2700 - Other manufactures	2,398.0	14.4%	2,131.0	14.9%	2,451.3	14.0%	1.7%
3000 - Other products	61.5	0.4%	79.6	0.6%	114.8	0.7%	0.2%
Agricultural Products (AMA)	1,616.1	9.7%	1,652.5	11.5%	2,120.5	12.1%	2.2%
Non-Agricultural Products (NAMA)	14,971.2	90.0%	12,601.2	88.0%	15,270.7	87.0%	1.0%
Other Products	50.2	0.3%	68.1	0.5%	158.6	0.9%	0.9%

As upper middle income country Thailand will exit from GSP benefits 2015!

Source: EU-Thailand FTA (Current Development) by Mr. Pekka Penttila (Trade Attache)

Background Information (Cont'd)

3. EU-Thailand trade relations (4)

European Union, Exports to... Thailand

SITC Rev.3 (UN, WTO/ITS) & AMA/NAMA** (WTO) Product Groups	2007		2009		2011		Share of Partner in EU Exports (2011)
	Millions euro	%	Millions euro	%	Millions euro	%	
0000 - Total	7,874.4	100.0%	7,666.8	100.0%	12,297.4	100.0%	0.8%
1000 - Primary products	801.5	10.2%	803.1	10.5%	1,279.9	10.4%	0.5%
1100 - Agricultural products (Food (incl. Fish) & Raw Materials)	597.9	7.6%	524.8	6.8%	861.0	7.0%	0.8%
1200 - Fuels and mining products	203.5	2.6%	278.3	3.6%	418.9	3.4%	0.3%
2000 - Manufactures	6,755.4	85.8%	6,507.8	84.9%	9,557.6	77.7%	0.8%
2100 - Iron and steel	279.8	3.6%	367.3	4.8%	439.1	3.6%	1.1%
2200 - Chemicals	1,351.1	17.2%	1,388.6	18.1%	2,007.7	16.3%	0.8%
2300 - Other semi-manufactures	810.4	10.3%	663.1	8.6%	1,062.5	8.6%	1.0%
2400 - Machinery and transport equipment	3,560.0	45.2%	3,376.9	44.0%	5,077.0	41.3%	0.8%
2410 - Office and telecommunication equipment	730.8	9.3%	680.4	8.9%	884.3	7.2%	1.1%
2420 - Transport equipment	707.5	9.0%	937.9	12.2%	1,565.5	12.7%	0.6%
2430 - Other machinery	1,948.8	24.7%	1,757.4	22.9%	2,621.3	21.3%	0.8%
2500 - Textiles	150.6	1.9%	107.4	1.4%	132.9	1.1%	0.8%
2600 - Clothing	29.4	0.4%	31.8	0.4%	47.6	0.4%	0.2%
2700 - Other manufactures	551.8	7.0%	572.3	7.5%	790.5	6.4%	0.6%
3000 - Other products	150.4	1.9%	170.7	2.2%	957.7	7.8%	1.5%
Agricultural Products (AMA)	529.4	6.7%	470.1	6.1%	765.9	6.2%	0.7%
Non-Agricultural Products (NAMA)	7,136.6	90.6%	6,968.3	90.9%	10,987.5	89.3%	0.8%
Other Products	208.5	2.6%	228.4	3.0%	544.0	4.4%	3.2%

Source: EU-Thailand FTA (Current Development) by Mr. Pekka Penttila (Trade Attache)

Background Information (Cont'd)

4. Economic gains for the EU (1)

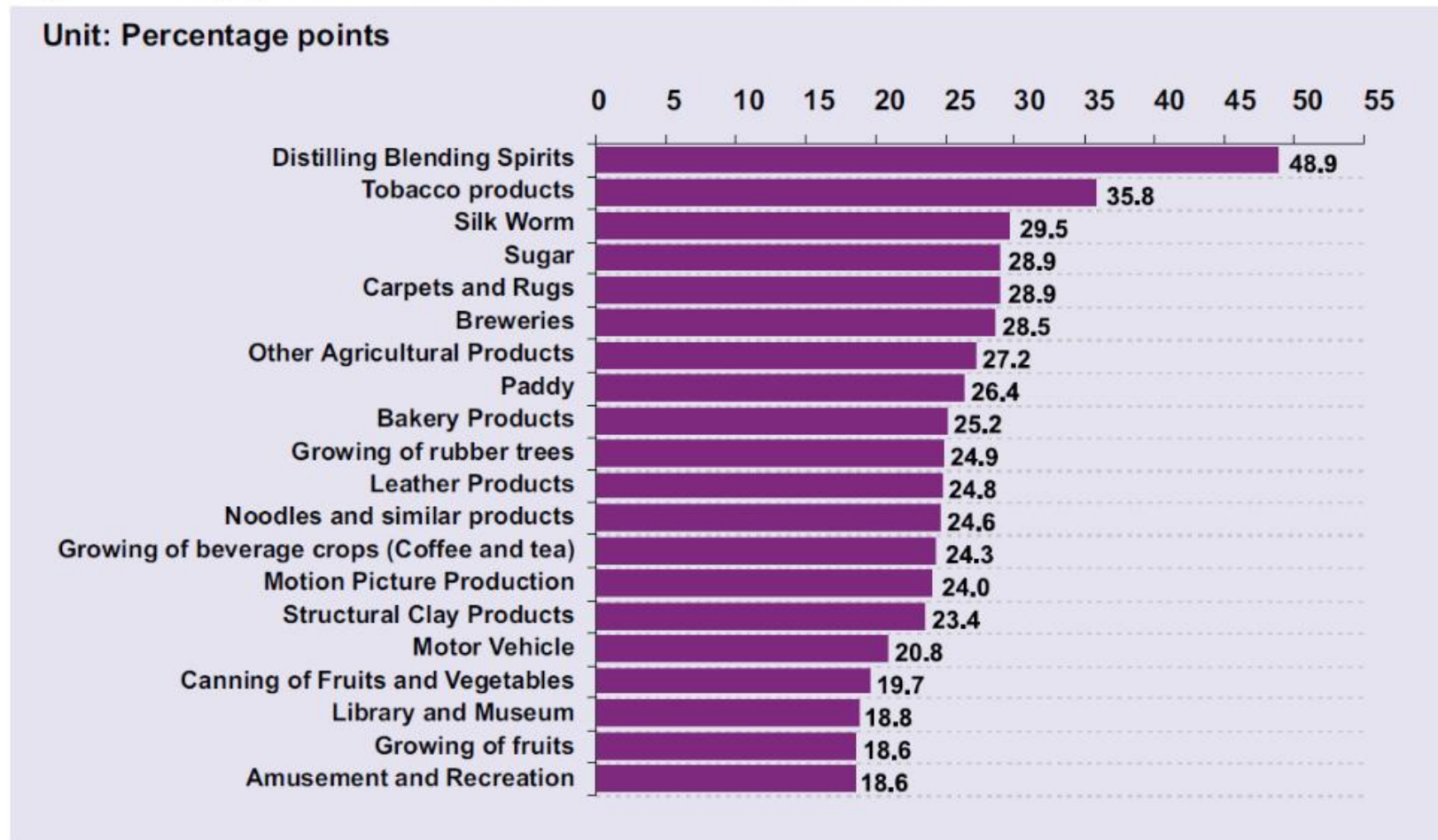
- Trade in goods: for example...
 - **Duty savings**: total amount of duties payable (2011) was around 1.05 billion – of which 920 billion absorbed by industrial products.
 - **EU offensive exports**: TH has high tariffs on EU offensive exports interest *e.g.*, agricultural products, motor vehicles, electronics and engines
 - **EU interests in the Thai markets**: Machinery, automobiles (TH has FTA with Japan), pharmaceutical, alcoholic beverages, foodstuffs.



Source: EU-Thailand FTA (Current Development) by Mr. Pekka Penttila (Trade Attache)

Background Information (Cont'd)

Import tariff gap between FTA and non-FTA countries in 2010*



* Non-FTA countries tariffs refer to MFN applied rate under WTO of Thailand (2550) and according to Section 12 of Customs Tariff Decree B.E. 2530. Tariffs from Australia is estimated from TAFTA and AANZFTA whichever is lower. Tariffs from Japan is also estimated from JTEPA and AJCEP whichever is lower

Source: EU-Thailand FTA (Current Development) by Mr. Pekka Penttila (Trade Attache)

Joint Statement

EU-Thailand FTA negotiations, 1st round, Brussels 27-31 May 2013

The first round of the EU-Thailand negotiations on a comprehensive free trade agreement (FTA) was held from 27-31 May in Brussels. The launch of FTA negotiations marks an important step in strengthening EU-Thailand trade relations with enormous potential for both sides. The ambition is to conclude a comprehensive FTA.

On the EU side, the delegation was chaired by Deputy Director-General Joao Aguiar Machado, European Commission, Directorate-General for Trade, and on the Thai side by Dr Olarn Chaipravat, President of Thailand Trade Representative Office. Both Chief Negotiators reiterated the commitment to conclude a comprehensive FTA.

During the round, negotiation teams discussed a wide range of areas including goods, rules of origin, services and investment, public procurement, competition, intellectual property, trade remedies and trade and sustainable development.

The round helped gain a better understanding of respective positions and systems in the different areas subject to negotiations. In some areas, text-based discussions started during the round. The talks took place in a very cordial atmosphere.

The next round of negotiations will be held in Thailand from 16-20 September 2013.

The negotiations were officially launched on 6 March 2013 by President Barroso, European Commission President, and the Thai Prime Minister Yingluck Shinawatra. The EU is Thailand's third largest trading partner and the Thailand is the EU's third largest trading partner inside ASEAN (Association of South East Asian Nations). Trade between the EU and Thailand reached nearly €32 billion in 2012. The EU is one of the largest foreign investors in Thailand.

Research Tasks

(1) Using GTAPAgg to create the new global trade database. Specifically this database is composed of :

- 3 regions (Thailand, EU and Rest of the World)
- 10 groups of commodities

For details of creating this new database, see
“Tutorial on Using GTAP”

Research Tasks

(2) Apply GTAP to estimate the impact of these policies on the following variables :

- GDP (“qgdp” on GTAP) of both countries
- Inflation (“pgdp” on GTAP) of both countries

(3) Based on GTAP result, rank top-10 sectors that will gain their export volumes according to Thailand–EU FTA (ranked by % change in export as shown in $qxs[i, Thailand, EU]$)

(4) Also based on GTAP result, rank top-10 sectors that will increase their import volumes caused by Thailand–EU FTA (ranked by % change in imports as indicated by $qxs[i, EU, Thailand]$)

(5) Propose policy recommendations that would lead to the highest benefit of Thailand if this FTA is officially implemented

Suggestions on 2nd Assignment

- (1) Written report : the format typically used by consulting companies (PowerPoint with texts and graphs/diagrams)
- (2) Submit the hardcopy in the box attached to my office's door (October 15th) and also email the PowerPoint file to nattapong@econ.tu.ac.th
- (3) Presentation date : October 16th (time slot : 10-12 minutes)
- (4) Sequence of presentation : from draw

Suggestions on 2nd Assignment

(5) Length of report : 10 – 12 pages

(6) Structure of the report

- **Part 1 – Background of Thailand–EU FTA**
- **Part 2 – Current trade statistics (using Trade Map)**
- **Part 3 - Analytical methodologies and results**
 - Results from GTAP simulations
- **Part 4 - Policy recommendations**
 - Other related info/data are welcome

Grading Criteria

Quality of report (60%)

- appropriate methodologies (20%)
- critical reasoning in result analysis and policy recommendation (20%)
- format of report (comprehensive graphical communication and concise text explanation) (10%)
- on-time submission (10%)

Quality of presentation (40%)

- convincing verbal explanation (30%)
- comprehensive Q&A (10%)