Regional Integration, ASEAN Economic Community, and Maga-Trade Blocs

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Lecture 20

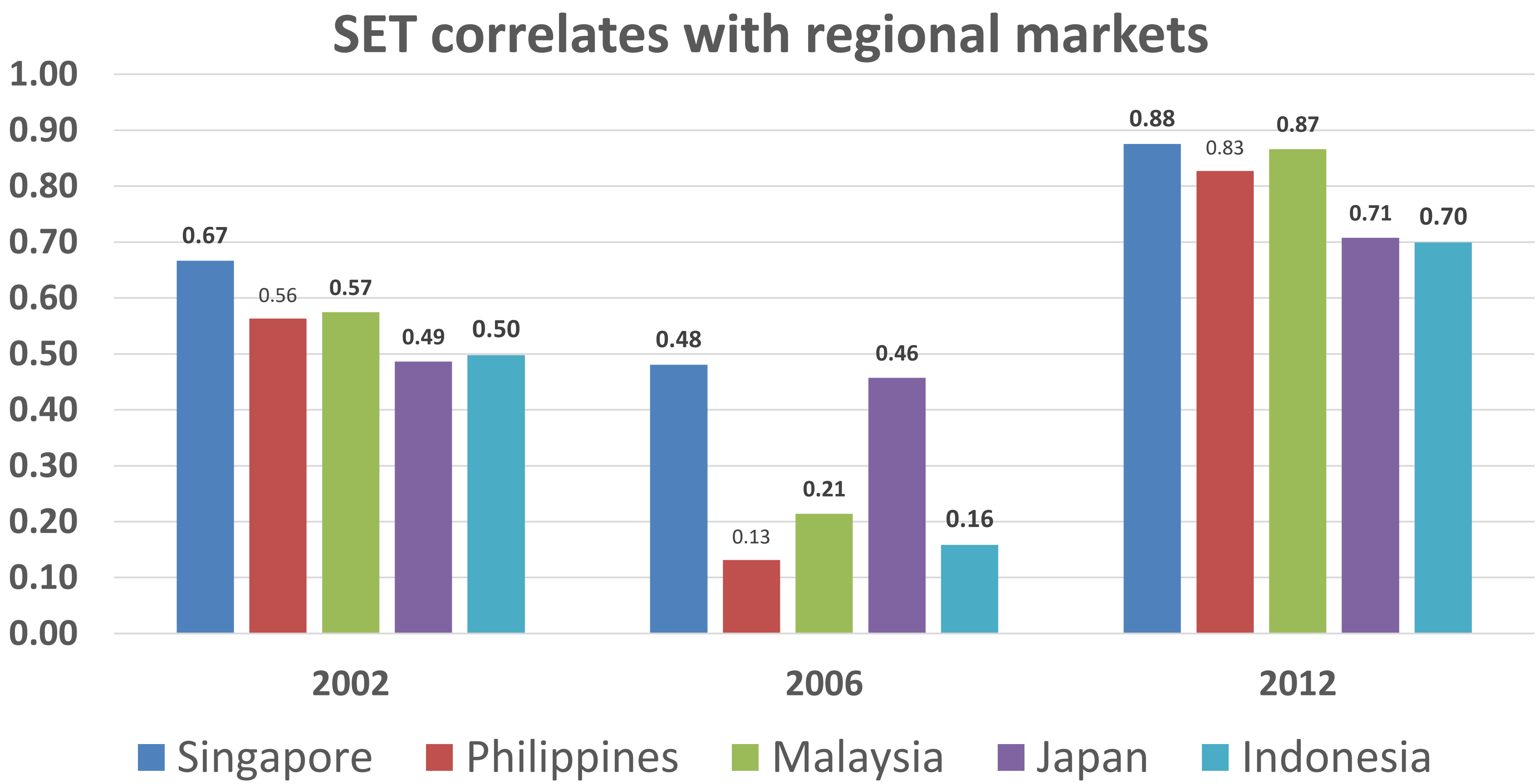
Course Syllabus
Lecture 20

- ASEAN integration is evaluated from the level of **intraregional trade, investment, and capital flows.**
- We discus new economic geography and explain how the gravity model can be applied to Thailand's rising *degree of trade exposure*.
- Mega Trade Blocs such as ASEAN plus 6, RCEP, and CTPP are discussed.
- The lecture reviews AEC's progress and challenges by examining the ASEAN Blueprint 2025.

Key Words

1. Regional integration indicators
2. ASEAN, GMS, and AEC
3. Factor endowment vs.
   New economic geography
4. Multiple Free Trade Agreements
5. Mega Trade Blocs
6. The GSP Removals

1. Regional integration indicators



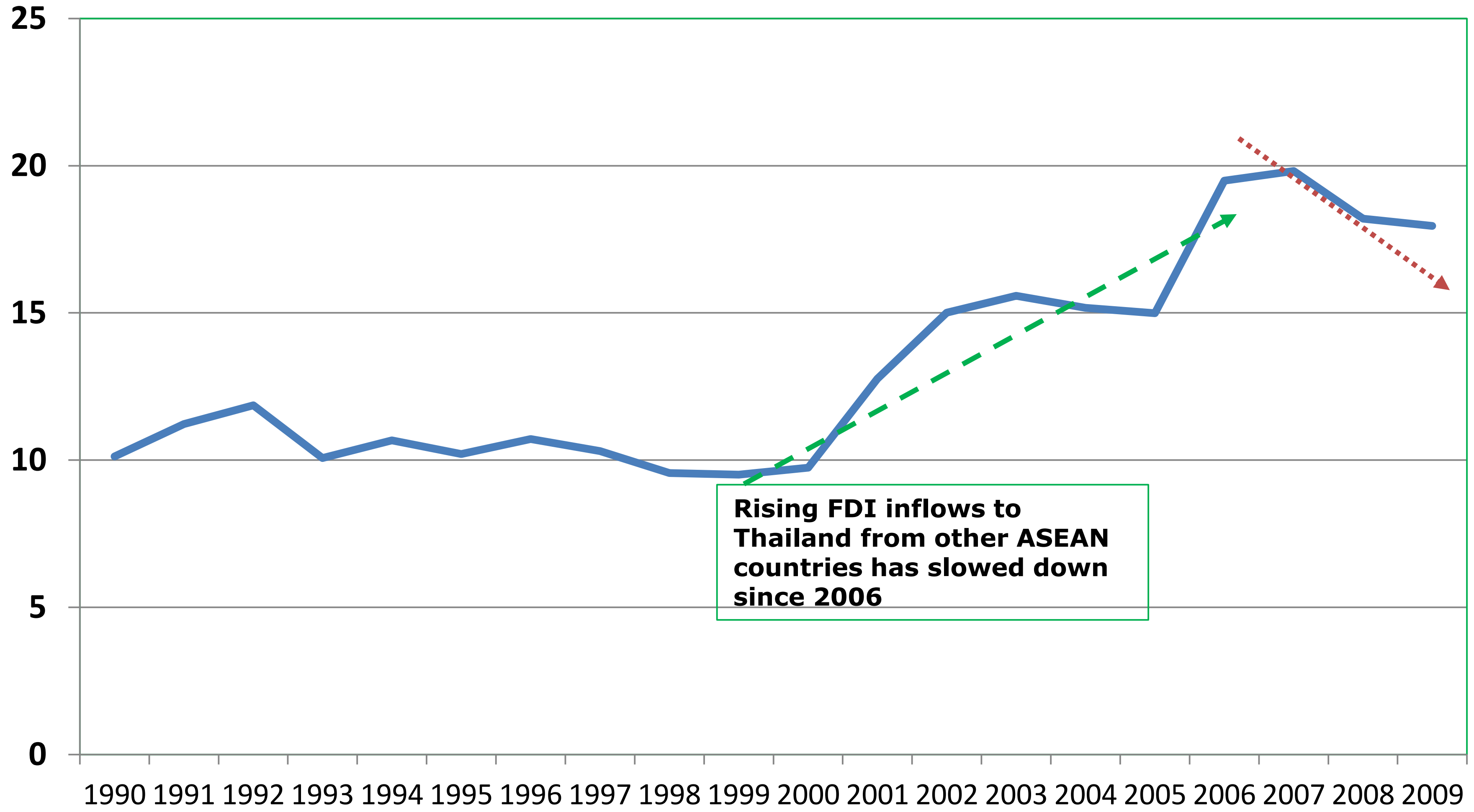
In normal times, SET index moves in tandem with other Asian stock prices (high correlation) which are also affected by the same global shocks

Regional integration through FDI

- The percentage of Thailand's FDI ***inflows*** from ASEAN to ***total*** FDI inflows to Thailand.
- A higher share indicates a stronger preference for Thailand from ASEAN nations.

Thailand's FDI inflows from ASEAN

(percent of total inflows to Thailand)



In the first half of 2018, Vietnam attracted $11 billion in foreign direct investment, surpassing that of Thailand. The trend would continue in the future.

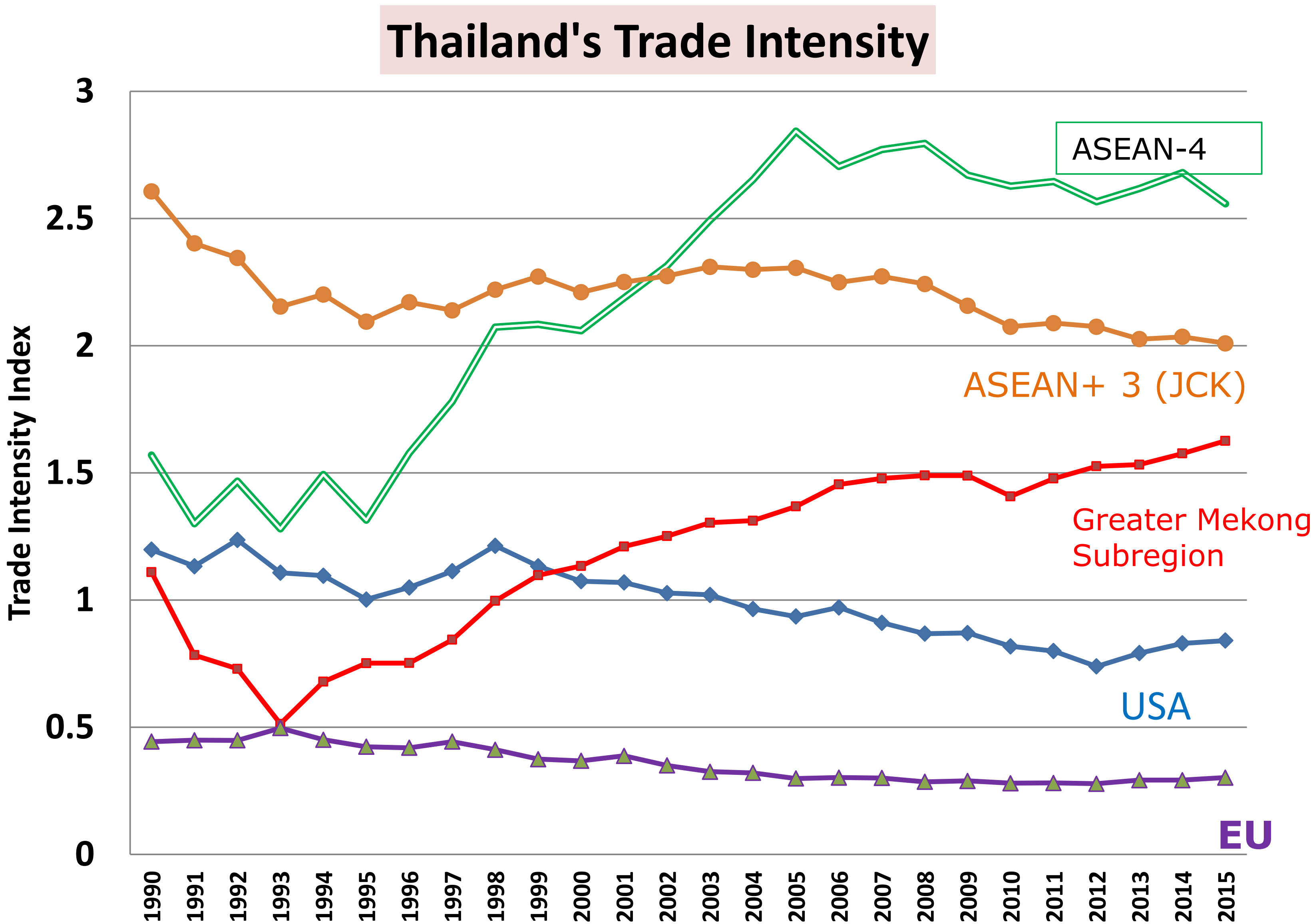
Trade intensity index

- The trade intensity index is the ratio of two trade shares.
- The numerator is the country's trade share to the area under study (ASEAN).
- The denominator is the ***share of trade of the country in the world.***
- The statistic tells us whether or not the country engages in exports and imports more to a given regional destination than it does to the world.
- The export (or import) intensity index is interpreted in much the same way as the trade intensity index

Thailand’s Trade Intensity with ASEAN

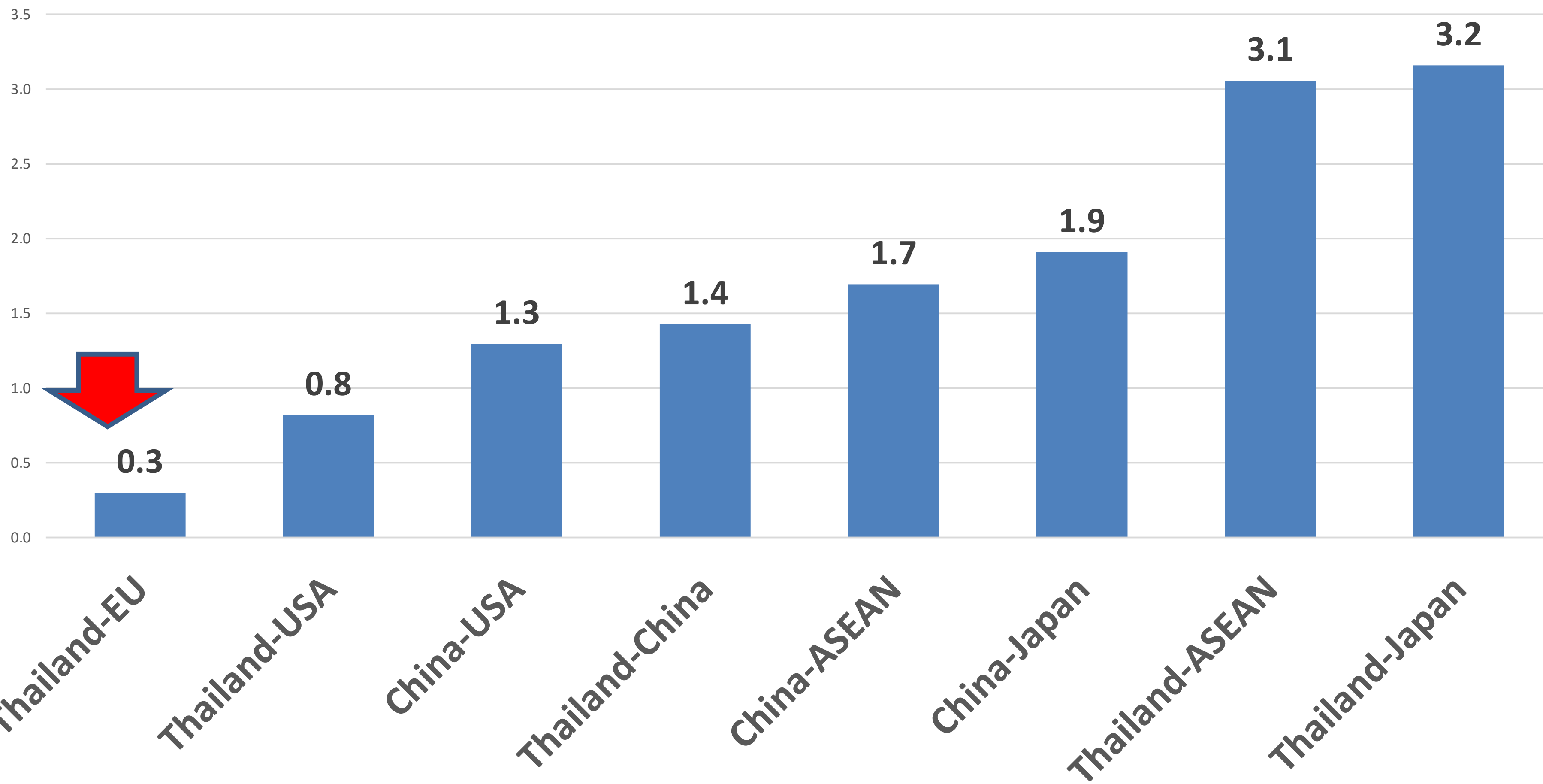
$$Thailand'sTrade\ Intensity \text{ Index with ASEAN}$$

$$= \frac{Thailand's \text{ share of trade with ASEAN}}{Thailand's \text{ share of trade in the world}}$$



The higher the index value, the stronger the trade intensity with the corresponding area
ASEAN-4 (without Singapore)
ASEAN+ 3 (CJK)

Trade Intensity Index (2016)



Source: ADB Integration Center

Thailand's trade intensity with the EU and the U.S. is below Thailand's average trade with the rest of the world

Expanding network trade produces higher regional trade intensity

- Thailand has increasingly become an ***integral part*** of the ***world*** economy.
- The degree of ***Asian regional integration*** of Thailand has been ***more*** pronounced through foreign investment via ***product fragmentation and network trade (Global Value Chain).***

2.

2. ASEAN Free Trade Agreement

- ASEAN Free Trade Area (AFTA) has been the main vehicle prior to ASEAN Economic Community
- Thailand was the key proponent of the AFTA
- Ambitious liberalization program was achieved by original ASEAN members, reducing external tariffs among members.
- AFTA has accelerated the pace of multilateral trade liberalization in the ASEAN-6, which is a long-standing ***commitment of ASEAN-6*** to ***trade openness***.

ASEAN achievements
Trade and service liberalization

- Common Effective Preferential Tariff (CEPT) rates are zero among ASEAN-6.
- More than 70% of intra-ASEAN trade are now *tariff free*, and less than 5% subject to tariff above 10%.
- ASEAN-6 are near achieving international best practices in investment liberalization and facilitation.
- Agreement on Mutual Recognition Agreements (MRAs) on ***service liberalization*** on **three** types of service and ***seven*** professions.

ASEAN Economic Community (AEC) Established in 2015

- The tariff rates among ASEAN countries were cut to ***5 percent in 2005***, covering ***about 95 percent of intra-ASEAN trade.***
- Fully liberalized trade among ASEAN took place in 2010; for the ***new*** members (CLMV) in **2015**.
- ASEAN obviously ***did not*** achieve all of its AEC targets by December 31, 2015.

AEC Challenges

- Removing *barriers to trade in* ***sensitive areas***: agriculture, steel, and important services.
- Removing *behind-the-border constraints* related to logistics, transport, and infrastructure.
- Promoting ***greater labor mobility*** to include ***unskilled labor***.

Greater Mekhong Subregion (GMS)

- GMS nations, comprising ***Cambodia, Laos, Myanmar, Thailand, Vietnam,*** and **Yunnan** province in China, have agreed to promote trade and investment in the region.
- Asian Development Bank provided loans worth 770 million USD to finance **transportation projects** by establishing ***networks of roads*** between GMS countries and building bridges across Mekong River.
- An old African proverb:

"If you want to go ***fast*** you should go alone. If you want to go ***far***, we have to go together"
An old African proverb

- Investments for *inclusive regional connectivity* is essential for all ASEAN countries, although progress is not as rapid as business had hoped to see.
- **Connectivity** between China and India to ASEAN is vital.
- There is a need to strengthen the link between Southern China and ASEAN via Laos.
- But China has also strengthened its connectivity with Hong Kong

China's connectivity investment

The World’s ***Longest Sea Bridge (34 miles)*** , Connecting Hong Kong, Macau and Mainland China (Zhuhai)

Travel time was cut from three hours to half and hour

Established connectivity and control

- It cuts travel time between the three cities (HK, Macao, and Zhuhai) from ***several hours to about 30 minutes*** (economies of speed, such as the 5G technology).
- Costing about ***$20 billion*** to construct, the bridge was built to withstand a magnitude-8 earthquake, a super typhoon and super-sized cargo *vessel collisions*,
- Conservationists have warned that the structure poses a threat to local marine life, such as the Chinese white dolphin.
- The bridge has been condemned by critics of the Chinese government as ***a political tool*** being wielded by Beijing to impose greater control over Hong Kong.

From Kunming to Vientiane: 1,012 km in just 10 hours by high speed train

High Speed Rail (HSR)

- China has made a lot of investments in Laos. Among them is the China --Laos Railway, running from Kunming to Vientiane.
- The 1,022-km route will open in 2022 with trains running at up to 200km/hour and taking about 10 hours to travel from Kunming to Vientiane.
- But the connectivity via the high sped rail also implies the control of China on Laos' economy.

Thailand’s plan for connecting the three airports

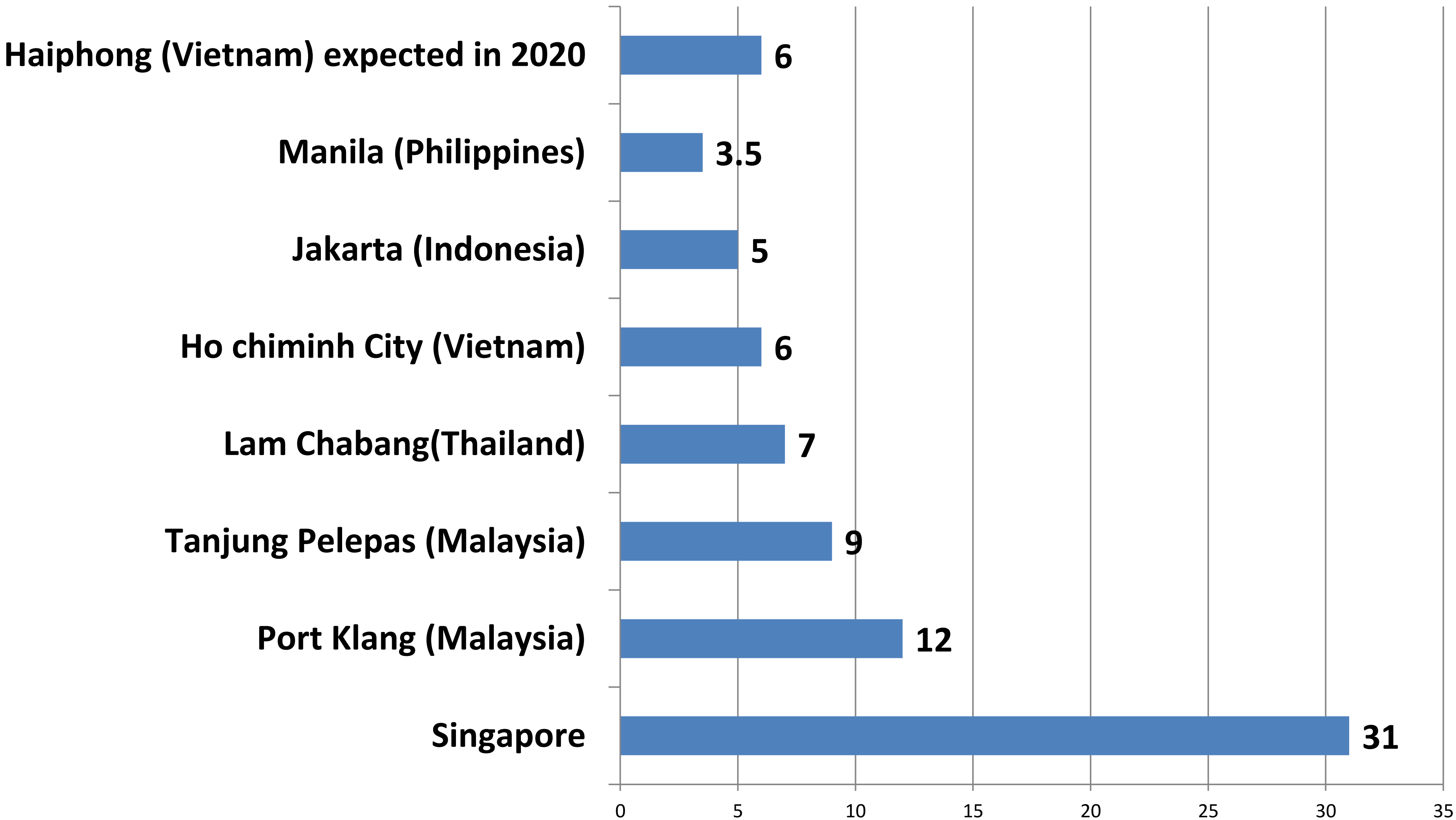
- The 224-billion-baht rail system linking the capital's Don Mueang and Suvarnabhumi with U-Tapao airport in Rayong.
- The 220km high-speed railway is one of five ambitious infrastructure megaprojects that will serve the Eastern Economic Corridor.

Infrastructure development and *investment creation effect*

- ***The GMS sub-regional trading bloc is a natural consequence of a reduction in non-tariff trade cost, reinforcing the trade pattern which reflects comparative advantage.***
- ***Trade creation effect*** **may not be as high** as previously expected.
- But ***investment creation effect*** is **substantial** within the GMS and the ASEAN region.
- ***East-West and North-South Economic Corridors***
- **Infrastructure-led growth hypothesis: Building sea port facilities for handling containers would reduce non-tariff trade cost**

Major Ports in Southeast Asia

by number of containers handled



Mitsui OSK Lines takes advantage of a route between Haiphong and North America
Korea's LG Group utilizes Haiphong port for exports to the US and Europe.

The ***East-West* Economic Corridor** (R9), 1300 km, connects four countries from the port city of **Da Nang** on the ***South China Sea*** in Vietnam to **Mawlamyine**, a port city on the ***Andaman Sea*** in Myanmar, connecting roads passing through **Phitsanulok** and Khon Kan, and **Suvanakhet** in **Laos.**

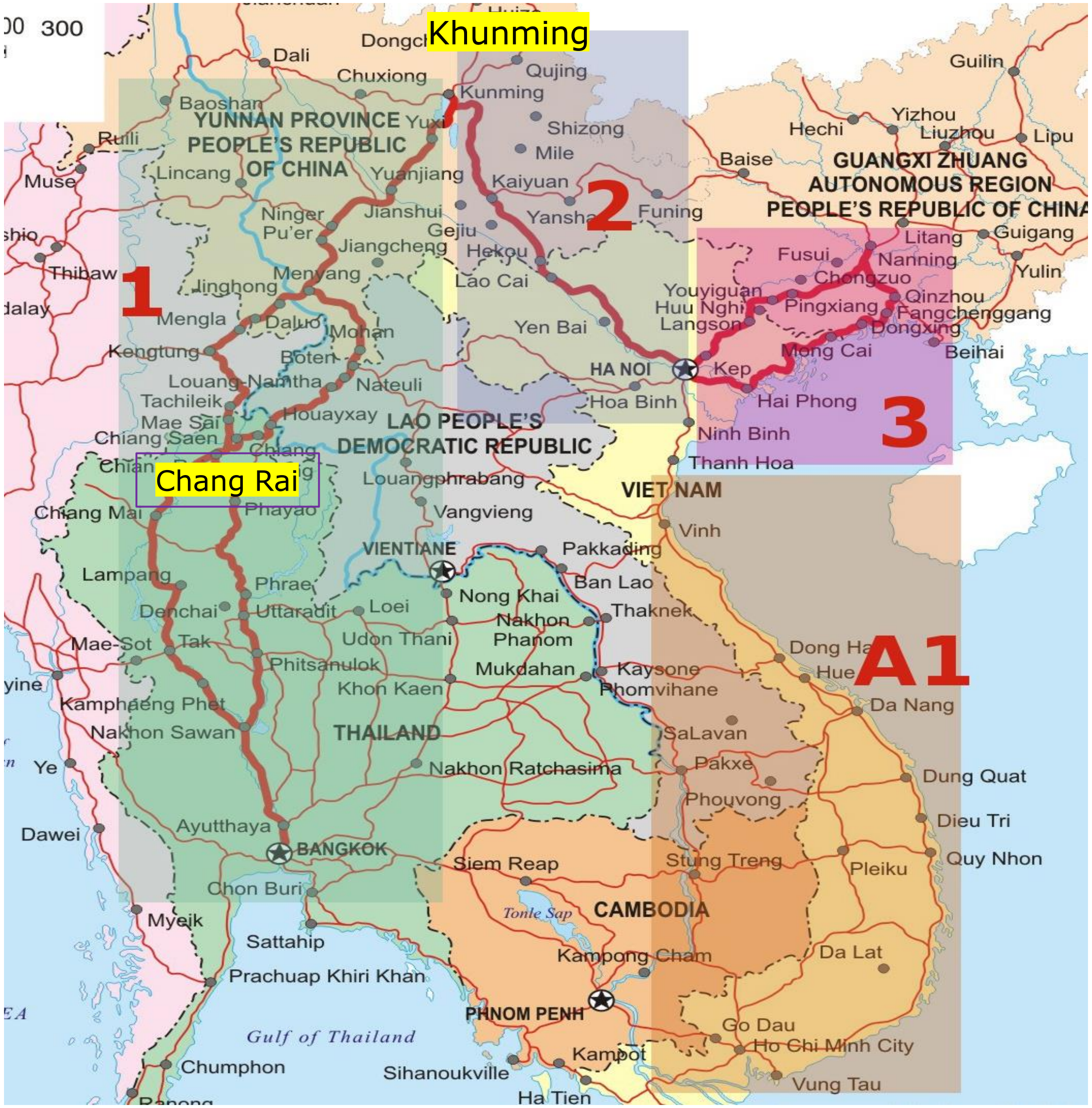
North-South Economic Corridors *reduce* **non-tariff trade cost**

- Another route is on the North-South Economic Corridor, goods can also be transported from Kunming to Chiang Rai via Laos.
- Bangkok can also be linked to Phnom Penh and Ho Chi Min City by the ***Southern*** **Economic Corridor**.

- The infrastructure development in the GMS would develop **secondary cities** along the road networks and provide access of **hinterlands** to sea ports (***Investment creation effect*** from infrastructure development).
- A land-locked countries can overcome its geographical disadvantage.
- The planned road networks would ***connect*** six countries in the Greater Mekong Region, **integrating these countries geographically** more than ever.

The ***North-South* Economic Corridor** (R3-through Myanmar)

Chiang Rai province in Northern Thailand can be linked to **Kunming** in Yunnan via roads passing through Myanmar



Southeast Asia regular and *high speed* rail network likely to be substantially complete by 2022 (wishful thinking)

The volume of trade is limited and **prohibitive** if transportation cost is higher than price differentials between trading countries

China's Belt and Road Initiative

- China's overall ambition for the BRI is staggering. To date, more than **sixty countries**—accounting for two-thirds of the world's population—have signed on to projects or indicated an interest in doing so.
- Analysts estimate the largest so far to be the $68 billion China-Pakistan Economic Corridor, a collection of projects connecting China to Pakistan's Gwadar Port on the Arabian Sea.
- In total, China has already spent an estimated $200 billion on such efforts. Morgan Stanley has predicted China's overall expenses over the life of the BRI could reach ***$1.3 trillion by 2027***.

Completed	Cost
HUNGARY Huawei logistics center	$1.5bn
IRAN Rudbar Lorestan hydropower dam	$578m
KAZAKHSTAN Khorgos dry port	$245m
PAKISTAN Gwadar Port construction of breakwaters	$123m
SRI LANKA Hambantota deep sea port Phase I, II	$1.3bn
CAMBODIA National Road No. 214, Stung Treng-Mekong River Bridge	$117m
INDONESIA Sumsel-5 power plant	$318m
NORTH KOREA New Yalu Bridge	$350m

Under construction	
BANGLADESH Payra power plant	$1.65bn
LAOS China-Laos railway	$5.8bn

Started	
ISRAEL Haifa Bay port	$1.16bn

Announced/under negotiation	
MONGOLIA Tavan Tolgoi rail project	$1bn
TURKEY Third nuclear power plant	$25bn

Unknown	
UKRAINE Kiev metro's fourth line	$1.3bn

Impacts of BRI on Thailand

After BRI, Does Thailand still need the Kra canal?

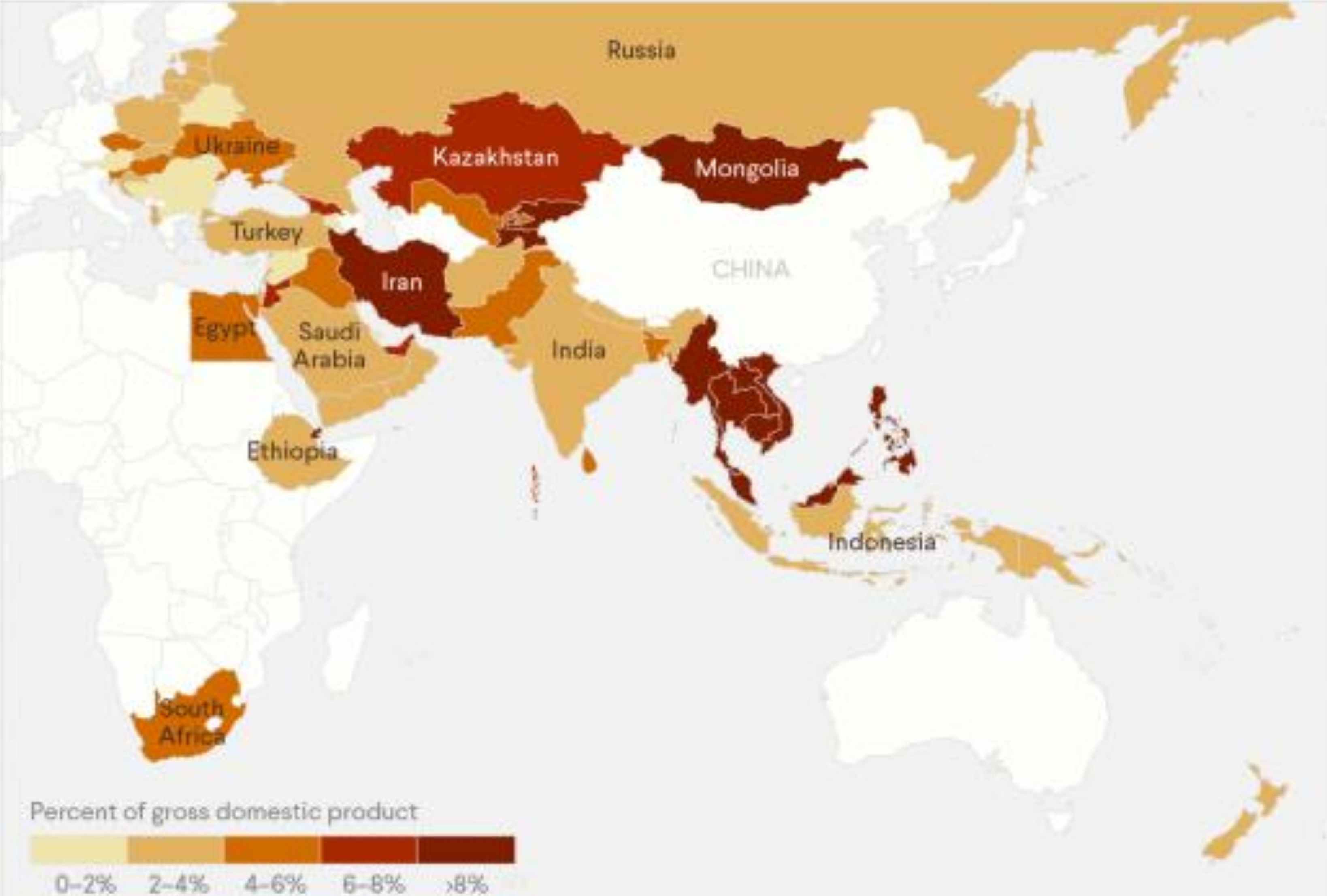
A debt trap?

- The Belt and Road Initiative was developed to bolster economic and social ties with 65 countries in Asia, Africa and Europe, covering an estimated population of 4.4 billion people.
- China's colossal infrastructure investments may usher in a new era of trade and growth for economies in Asia and beyond.
- But skeptics worry that China is laying a debt trap for borrowing governments.

What does China hope to achieve?

- Experts see the BRI as one of the main planks of a bolder Chinese statecraft under Xi, alongside the *Made in China 2025 economic development strategy.*
- For Xi, the BRI serves as pushback against the much-touted U.S. "pivot to Asia" as well as a way for China to develop new investment opportunities, cultivate export markets, and boost Chinese incomes and domestic consumption.
- Under Xi, China now actively seeks to shape international norms and institutions and ***forcefully asserts its presence on the global stage.***

Imports from China, 2017



Note: Countries selected based on Belt and Road participation. The data value for Syria is extrapolated from previous years.

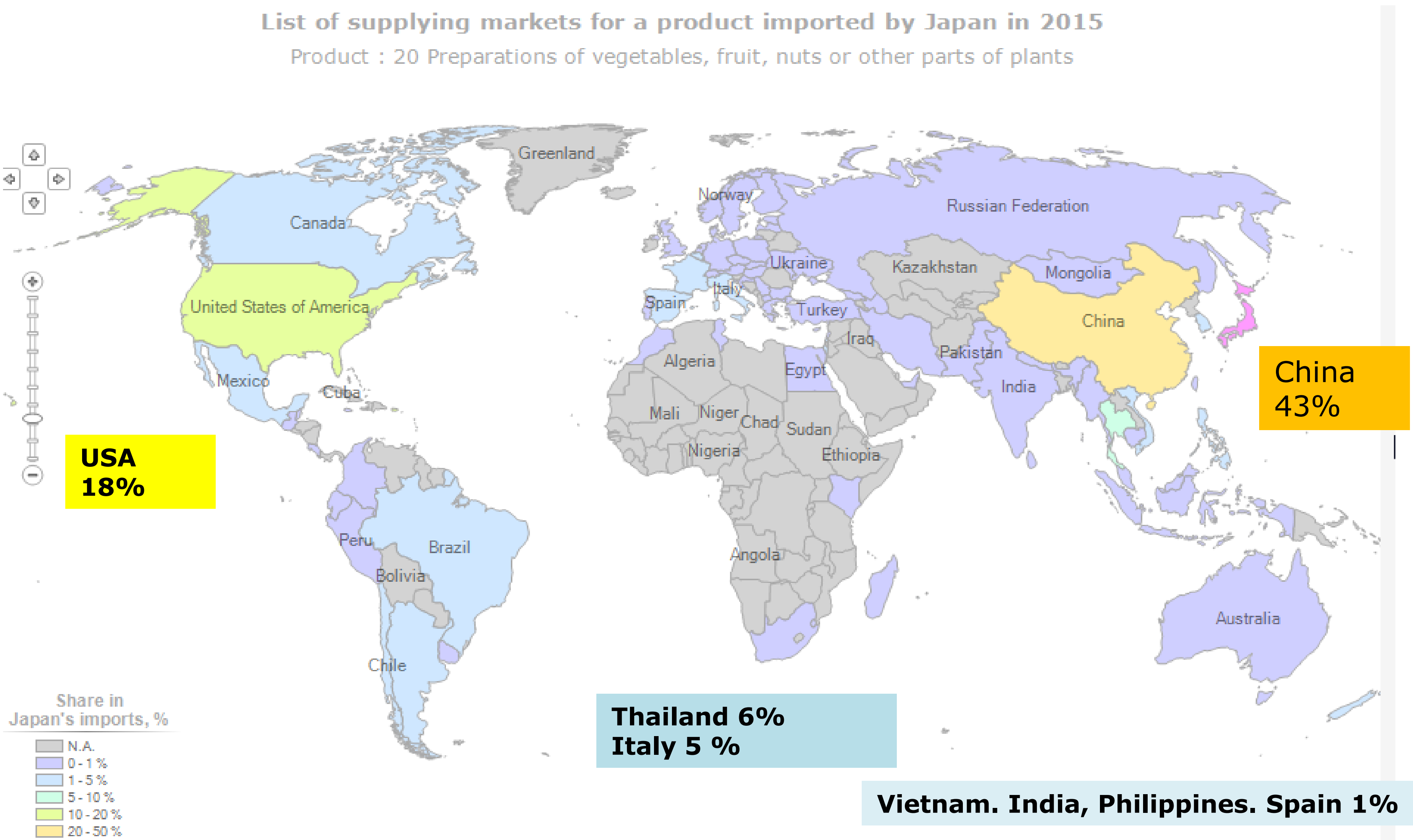
Sources: International Monetary Fund; Haver Analytics; CFR calculations.

COUNCIL on FOREIGN RELATIONS

3. Trade and Different Factor Endowment

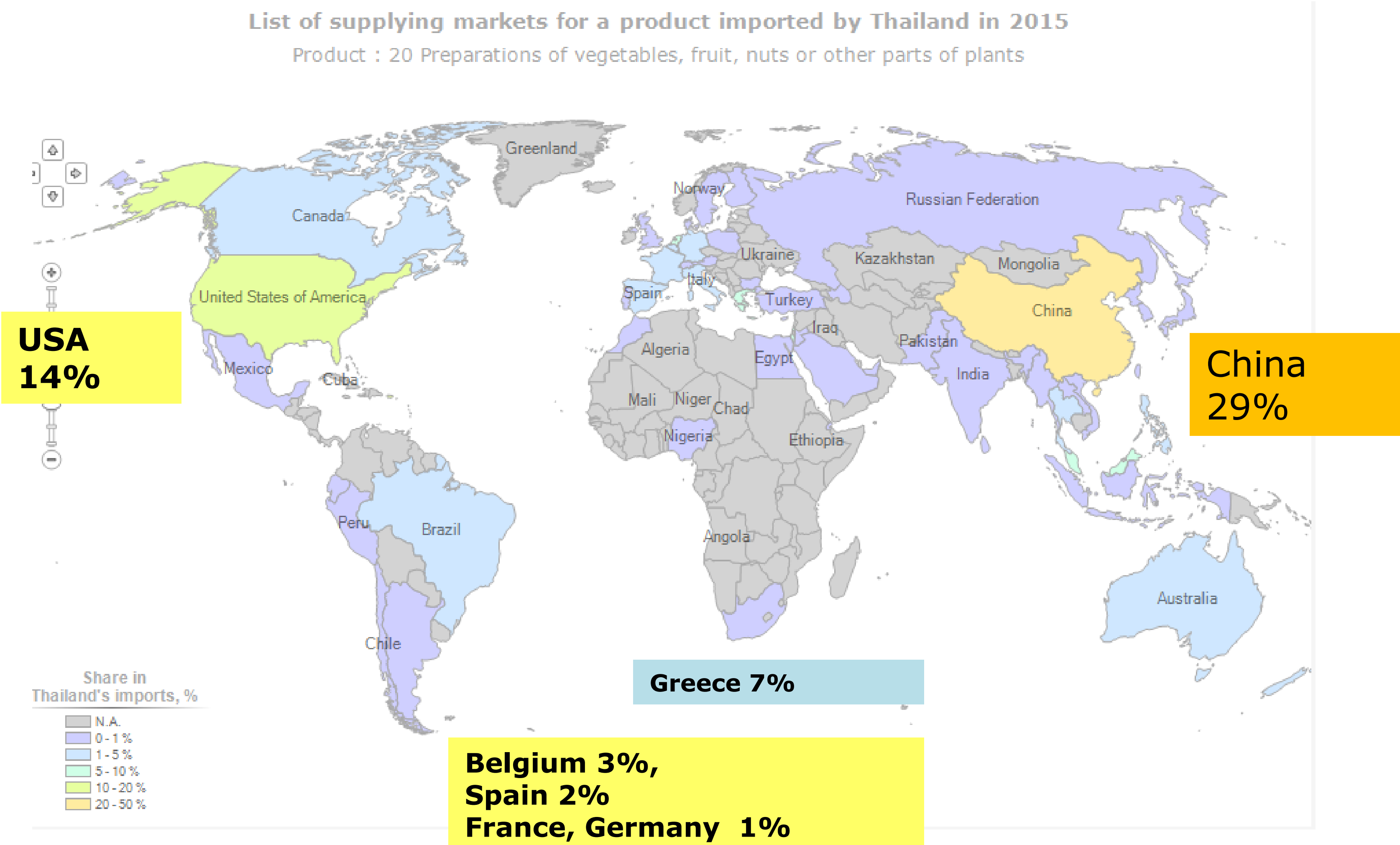
- Until the end of the 1970s, the ***Heckscher-Ohlin theory*** for which Bertil Ohlin won the prize (Eli Heckscher died before the Nobel Prize in economics was instituted) dominated the field of international trade theory.
- This theory explained well why **labor-abundant** countries such as **China** exported labor-intensive products such apparel, toys and footwear and ***capital-abundant*** countries such as ***the U.S.*** would export machinery and aircraft.
- The theory explains inter-industry trade.

Japan's imports of vegetables, fruit, nuts



Thailand’s imports of vegetables, fruit, and nuts (product 20)

Sources of Thailand’s imports of veggies and fruit



Factor endowment theory ***cannot*** explain intra-industry trade

- Factor endowment theory could not satisfactorily explain the two-way trade (of the same product with some differentiation) that was widely known to exist: *Intra-industry trade*
- The Heckscher-Ohlin theory also did not adequately explain why **rich countries in Europe and the U.S.,** which had very **similar endowments of capital and labor**, traded ***more intensively*** than those with ***dissimilar endowments.***
- ***Trade occurs intensively among countries with similar factor endowment***

Krugman's new economic geography

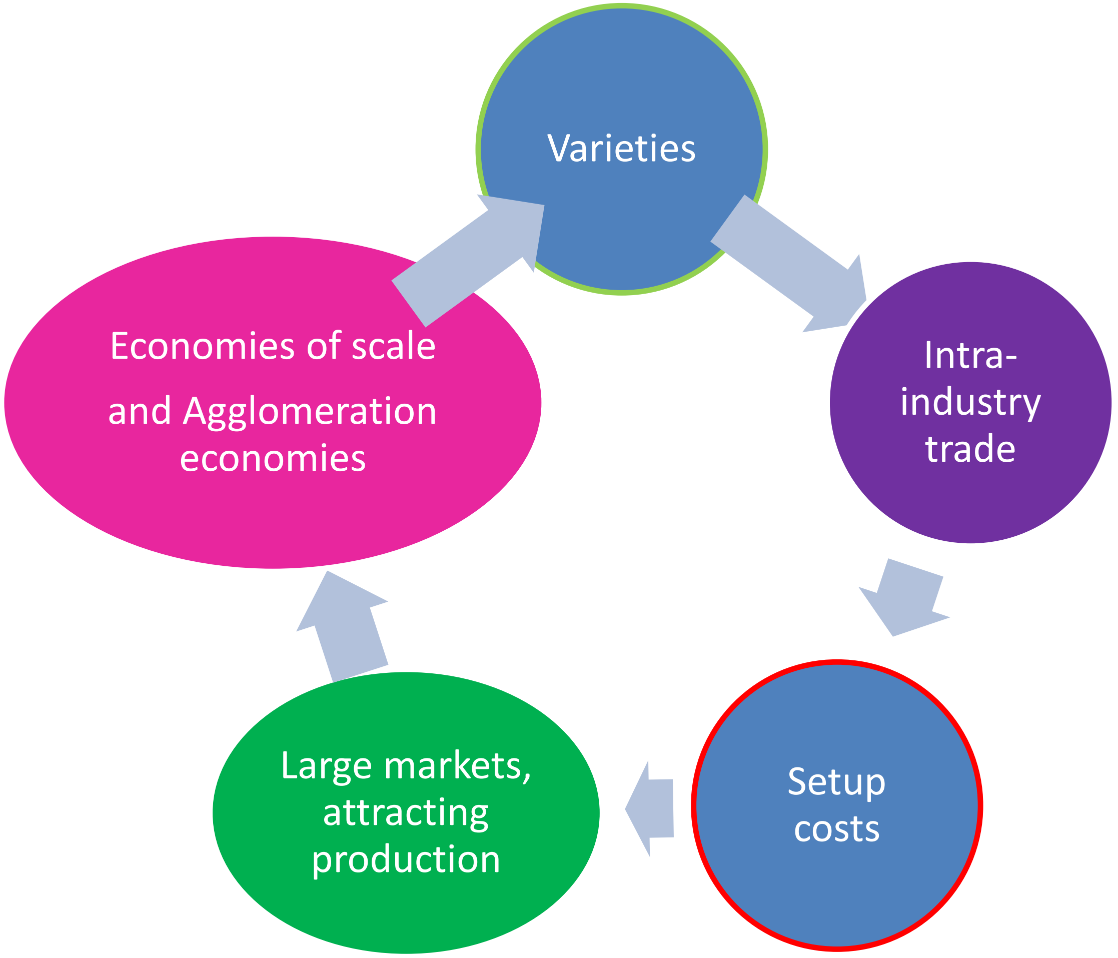
Theory of economies of scale and product variety

- Krugman (1979), won the Nobel Prize in 2008, postulated that consumers like ***variety*** in what they consume.
- For the same expenditure, their satisfaction is greater if they have a larger variety of products available.
- This creates the incentive for firms to produce **a large variety of products**.
- Large market size matters if firms want to produce variety of products, since they can exploit the economies of scale.
- How many packed rice varieties can we find in a supermarket vs. 7Eleven?
- How many varieties of apples being sold in Bangkok supermarkets?

Market size matters

- But the production of a *new variety has* ***setup (fixed) costs, which its average cost declines as sale volume rises.***
- As a larger quantity of the variety is produced and places a limit on the number of varieties the market can profitably supply.
- *A firm produces a new variety only if it can capture a large enough market to allow profitable sales*.
- ***Economies of scale*** explains **intra-industry trade**, while H-O theorem cannot.

Economies of scale and intra-industry trade



New Economic Geography
Paul Krugman: Four propositions

(1) **Transportation costs**, or more broadly **transaction costs across distance**, play a crucial role in shaping international and interregional trade. (Distance matters)

(2) Economies of scale: The interaction of market size with increasing returns plays an important role in determining the **location of production**.

(3) Home market effect is a major explanation of trade through differences in **population density** and ***localized specialization***.

(4**) Economies of agglomeration.**

Larger markets attract more and more production and varieties of goods and services

Newton’s law of gravity

- ***The gravitational attraction between any two objects is proportional to the product of their masses and diminishes with distance.***
- Large economies tend to spend large amounts of money on imports because they have large incomes.
- Large countries tend to attract larges shares of other countries' spending because they produce a wide rage of products.
- Trade between any two economies is larger, the larger in ***either*** economy.

The Gravity Model

- The value of trade between any two countries is proportional, other things equal, to the product of the two countries' GDP, and ***diminishes with the distance*** between the two countries.

$$\boxed{T_{ij} = AY_i^{\alpha} Y_j^{\beta} / D_{ij}^{\delta}}$$

$$T_{ij} = A Y_i^{\alpha} Y_j^{\beta} / D_{ij}^{\delta}$$

$$\log(T_{ij}) = \ln(A) + \alpha \log(Y_i) + \beta \log(Y_j)$$

$$- \delta \log(D_{ij}) + \varepsilon$$

Trade volume depends on sizes of both economies and the distance between them.

Augmented gravity model: similar languages and cultural background, trade agreements and barriers improve the explanatory power of the gravity equation

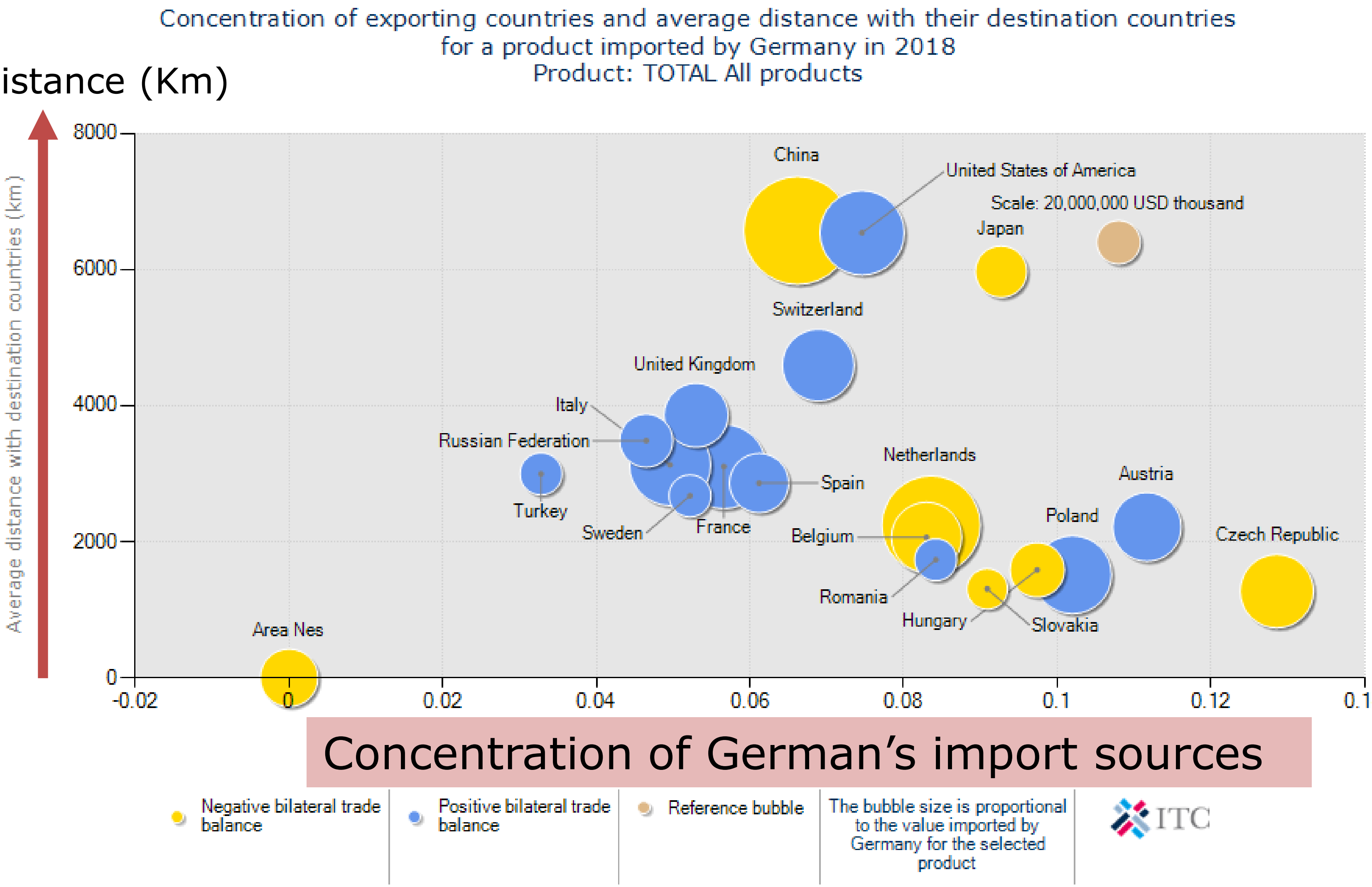
The sized of the estimated coefficient of distance (D) will be lower with improvement in transportation infrastructure and logistics

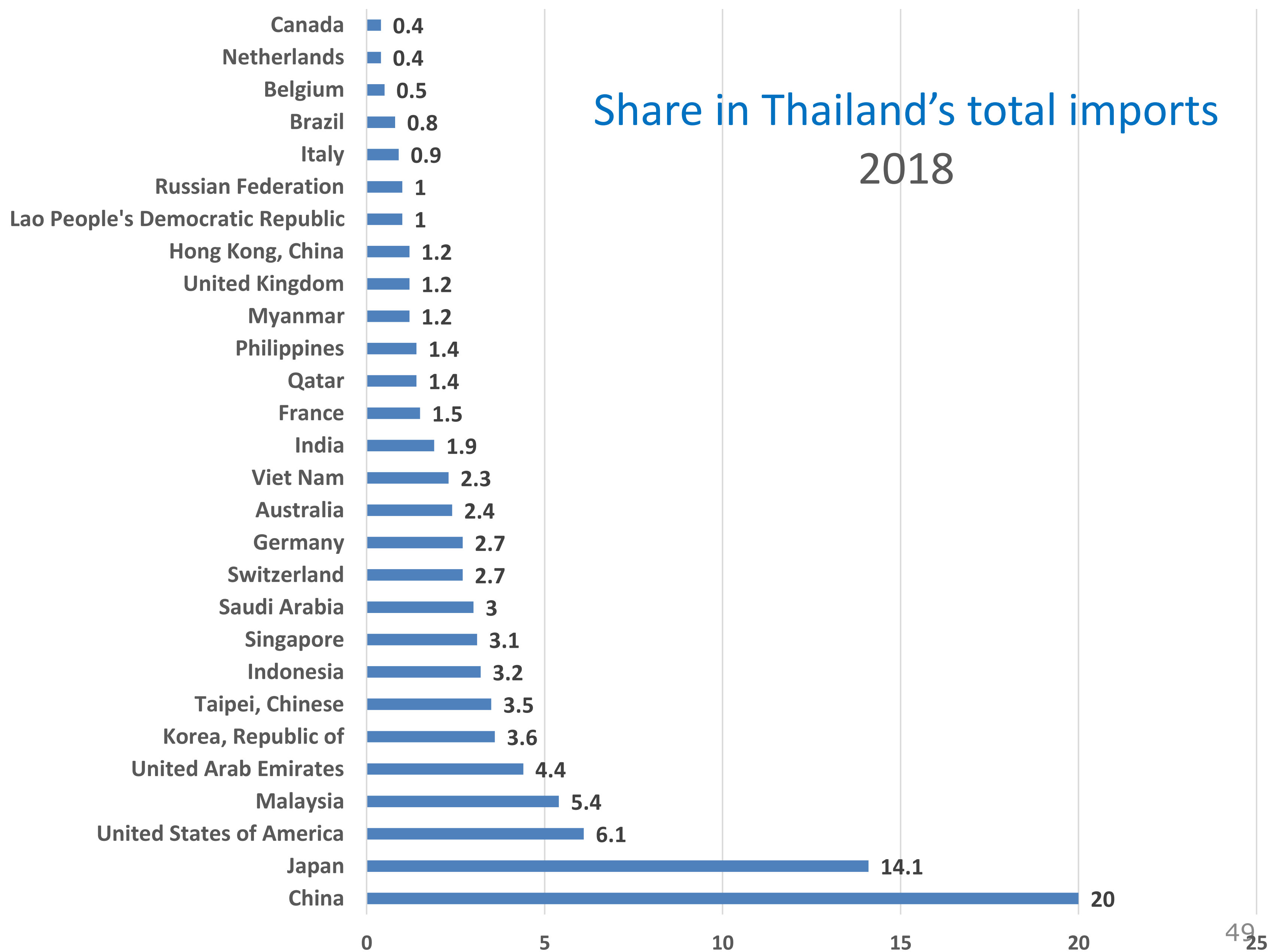
Augmented gravity model: similar languages and cultural background, trade agreements and barriers improve the explanatory power of the gravity equation

The sized of the estimated coefficient of distance (D) will be lower with improvement in transportation infrastructure and logistics

Just-in-time strategy to cut inventory cost can post a serious problem during supply chain disruption.

Germany’s imports demonstrates the law of gravity




Share in Thailand's total imports
2018
Canada 0.4
Netherlands 0.4
Belgium 0.5
Brazil 0.8
Italy 0.9
Russian Federation 1
Lao People's Democratic Republic 1
Hong Kong, China 1.2
United Kingdom 1.2
Myanmar 1.2
Philippines 1.4
Qatar 1.4
France 1.5
India 1.9
Viet Nam 2.3
Australia 2.4
Germany 2.7
Switzerland 2.7
Saudi Arabia 3
Singapore 3.1
Indonesia 3.2
Taipei, Chinese 3.5
Korea, Republic of 3.6
United Arab Emirates 4.4
Malaysia 5.4
United States of America 6.1
Japan 14.1
China 20
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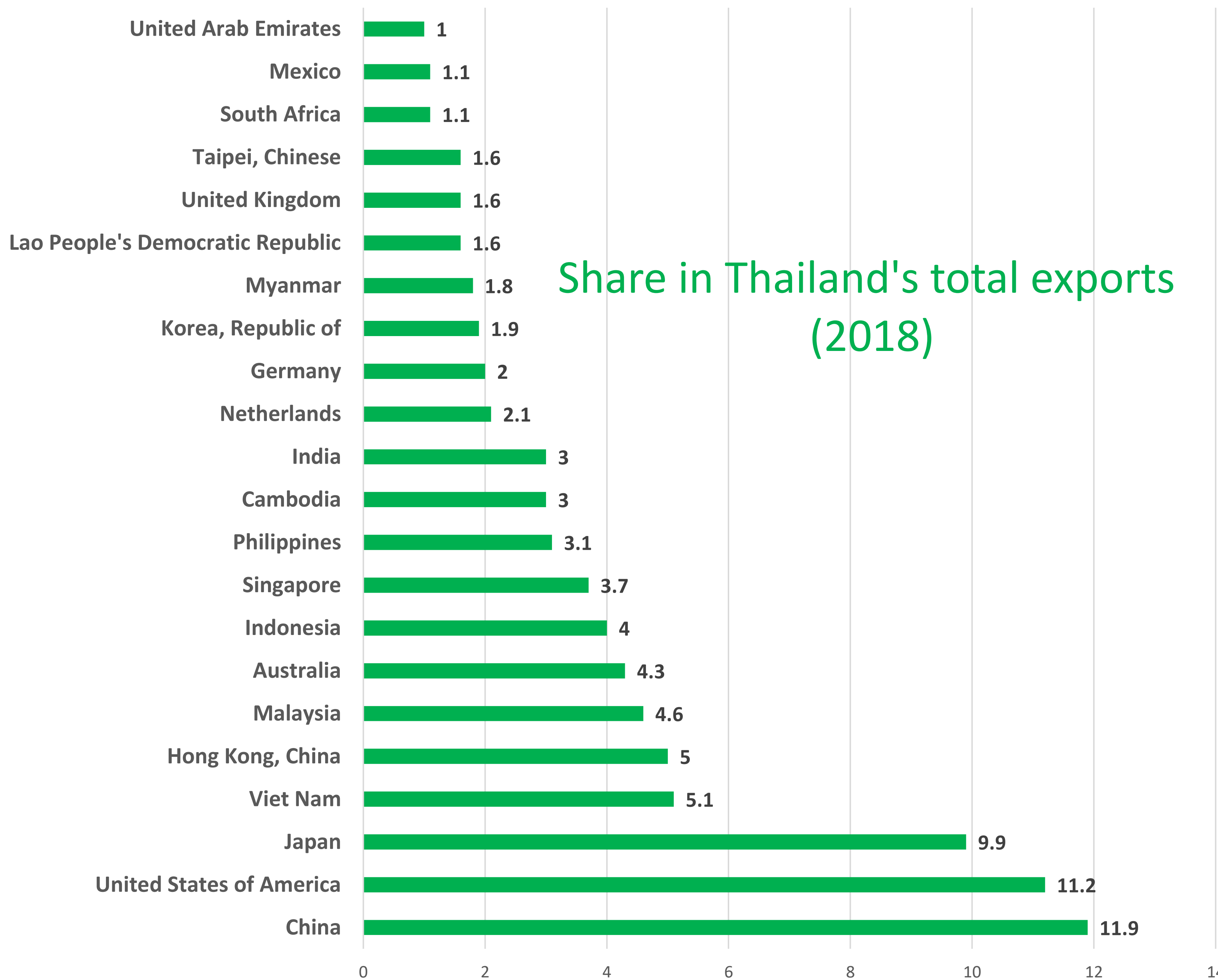
5
10
15
20
25



Share in Thailand's total exports (2018)
United Arab Emirates 1
Mexico 1.1
South Africa 1.1
Taipei, Chinese 1.6
United Kingdom 1.6
Lao People's Democratic Republic 1.6
Myanmar 1.8
Korea, Republic of 1.9
Germany 2
Netherlands 2.1
India 3
Cambodia 3
Philippines 3.1
Singapore 3.7
Indonesia 4
Australia 4.3
Malaysia 4.6
Hong Kong, China 5
Viet Nam 5.1
Japan 9.9
United States of America 11.2
China 11.9
0
2
4
6
8
10
12
14

4. Multiple FTAs: Thorny issues

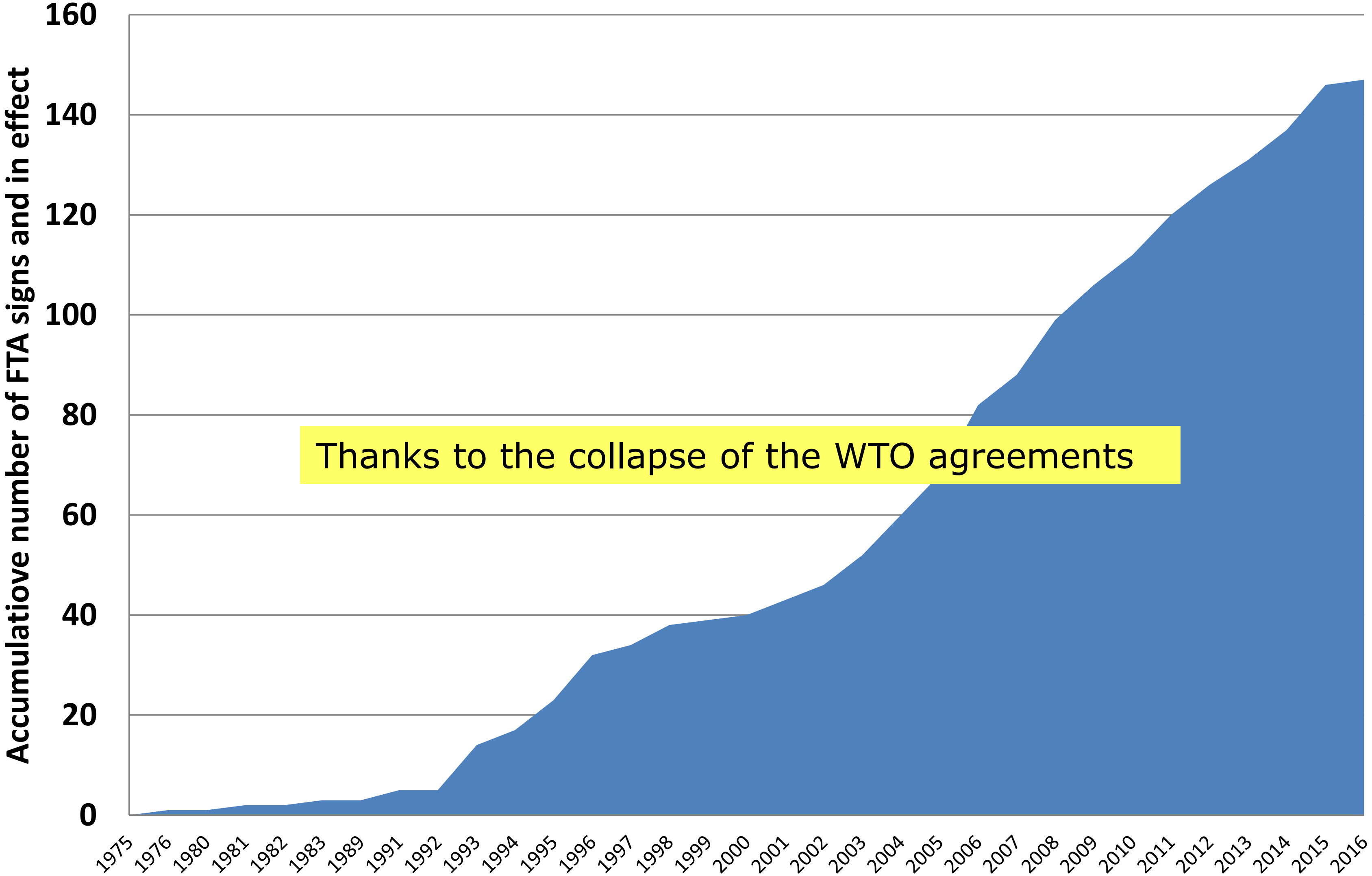
- Thailand rushed to negotiate FTAs with many countries, including USA, Japan, Australia, New Zealand, Bahrain, India, China, Chile, and Peru.
- Although Japan had already established FTAs with Singapore, Thailand was a ***more difficult*** case for Japan, since negotiations involved **agriculture** and labor issues.
- ***Singapore*** had already removed most of her tariff barriers, while the two countries' levels of per capita income do not differ much.

FTAs usually exclude agriculture

- Thailand had to withdraw ***rice*** from the FTA negotiation with Japan.
- Rice is also excluded from Korea's FTAs with other countries
- Most of bilateral trade agreements exempt agriculture.
- Food security is always an issue
- *In 2020, medical supply security (face masks, PPE, respirators) is a hot issue*
- *What commodity was exempted from the FTA between USA and Australia?*

FTAs: Cumulative Agreements in Asian Countries: 1973-2016

Source: Asia Regional Integration Center



Economic Partnership Agreement (EPA): ***Beyond the FTA***

- **EPA** between Thailand and Japan includes cooperation in education, environment, energy, sciences and technology, tourism, and human resource development.
- EPA goes ***beyond*** what WTO has stipulated since it allows ***partners*** to take advantage of **each other's strength** and recognize the **value of cooperation**.
- That sounds beautiful in words

RoO and NTBs

- **Rules of Origin** (RoO) must be simplified to facilitate administration procedure without causing trade diversion or act as a hidden instrument to protect domestic industry.
- The ***spaghetti bowl*** effect may have been exaggerated.
- **Non-Tariff Barriers** (NBT) such as Sanitary and Phytosanitary Standards (SPS) must be agreed upon to make sure that they are not substitutes for the tariff reductions.
- And then there is the Labor right issue.

Most Favored Nation (MFN)
No discrimination to any nations

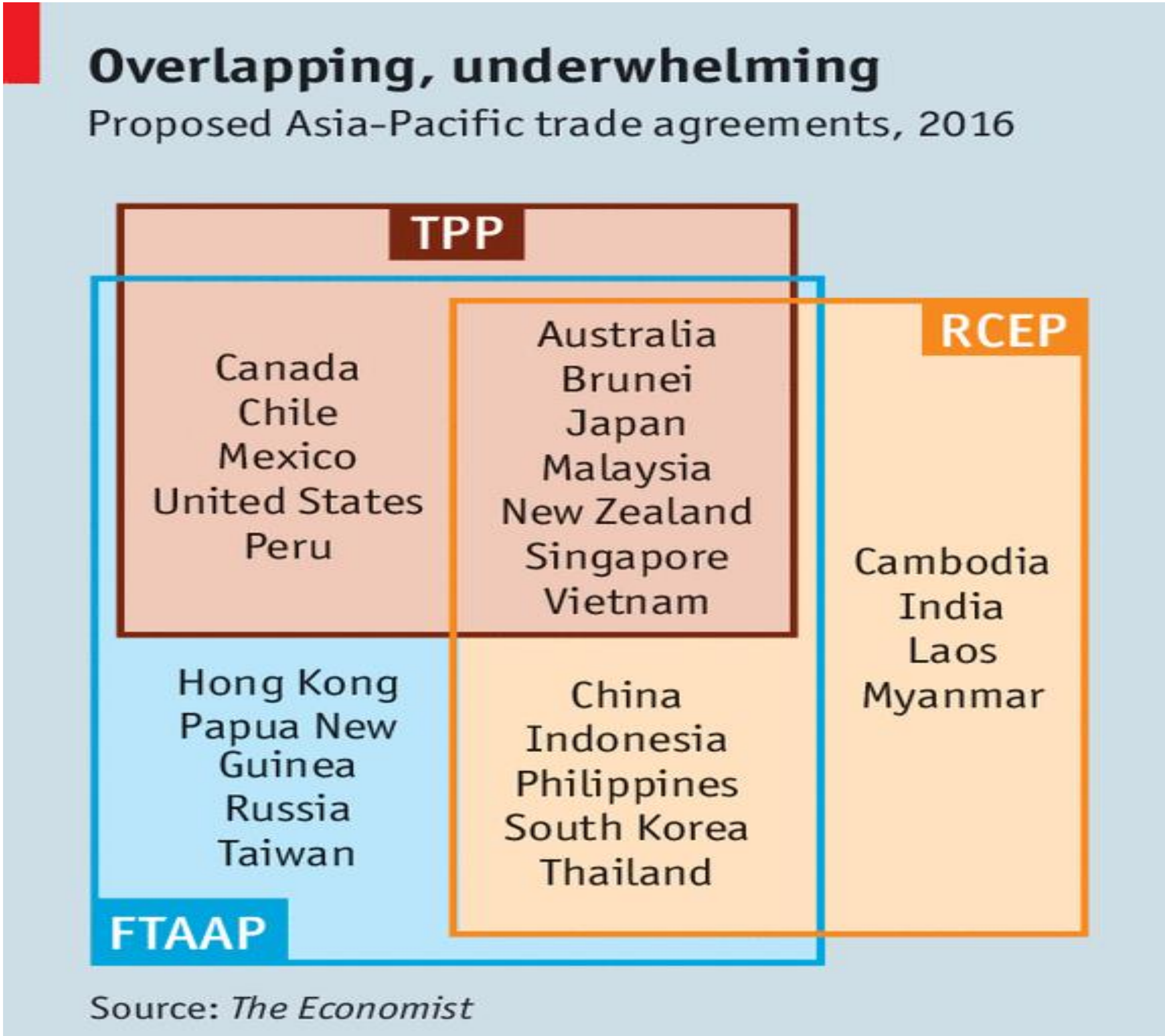
- The members of the WTO agree to accord MFN status to each other.
- Exceptions allow for preferential treatment of developing countries, regional free trade areas, and customs unions (e.g., The EU)
- In bilateral reciprocal relationships a particular privilege granted by one party ***only*** extends to other parties who ***reciprocate*** that privilege, while in a ***multilateral reciprocal relationship*** ***(or MFN)*** the same privilege would be *extended* to the group that negotiated a particular privilege.
- ***MFN clause is one of the cornerstones of WTO trade law, but it delays the process of global liberalization when there is no consensus among members.***

Suspended FTA: Thailand and USA

- In October 2003, G.W. Bush announced the US's intention to negotiate an FTA with Thailand to deepen trade and investment and encourage economic and regulatory reform, improving IP protection, transparency, and the rule of law.
- But the negotiations **were suspended in 2006** following the dissolution of Thailand's parliament and subsequent military coup.
- In 2015, the U.S. was Thailand's third-largest trading partner, after China and Japan. The two-way trade between Thailand and the US amounted to $38 billion.

5. Mega Trade Blocs

- The stalemate in the WTO Doha Round negotiations gave rise to a surge in FTA activities.
- The latest emergent negotiation of mega-trade blocs in 2014: Asian RCEP, the trans-pacific TPP, and the *Transatlantic Trade and Investment Partnership (TTIP)*.



Overlapping, underwhelming
Proposed Asia-Pacific trade agreements, 2016
TPP
Canada
Chile
Mexico
United States
Peru
Australia
Brunei
Japan
Malaysia
New Zealand
Singapore
Vietnam
RCEP
Cambodia
India
Laos
Myanmar
Hong Kong
Papua New Guinea
Russia
Taiwan
China
Indonesia
Philippines
South Korea
Thailand
FTAAP
Source: The Economist

Asia RCEP: **Regional Comprehensive** Economic Partnership

- Launched in November 2012, RCEP (16 countries) with 3.4 billion population (48.6% of world), 21.1 trillion dollar GDP (29.2% of world) and 10.3 trillion dollar goods trade (27.9% of world) in 2012.
- RCEP reinforces ASEAN centrality in regional economic integration, using framework set by ASEAN+1 FTAs, EAFTA, **ASEAN+6** proposal (Japan, Korea, **China**, India, Australia, and New Zealand)
- ***RCEP targets removal of 95% of tariff on goods*** and achieve sizable liberalization in services and investment
- Special and differential treatment for CLMV.

The long delayed RCEP

- Japan urges Thailand's to conclude the RCEP, and supports Thailand to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) trade pact.
- Thailand hopes attempts by the 10 Asean members and six free trade partners to finalize the China-backed RCEP will be concluded during the Asean and other summits from Nov 2-4 in Bangkok.
- There are still remaining problems on market access and protected goods.

ASEAN (10) + 6

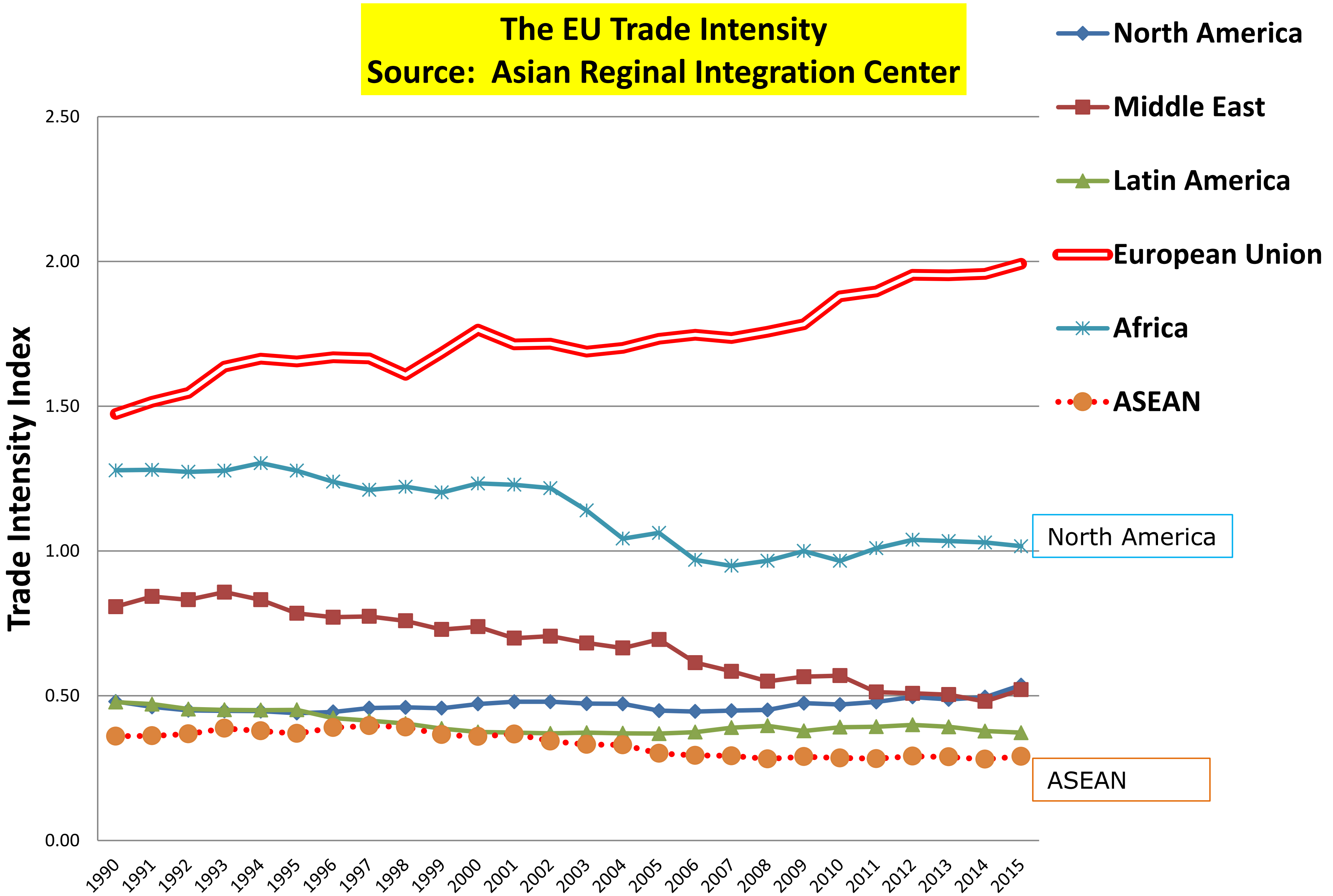
- The RCEP comprises 10 Asean nations, and six trading partners -- China, Japan, South Korea, India, Australia and New Zealand.
- Slow progress has been made since its initiation in 2012, mainly due to the lack of free trade agreements between some partners, such as between China and Japan and ***China and India.***
- Once the RCEP comes into effect, the agreement will cover nearly half of the world's population or about 3.5 billion people.
- Asean economic ministers have yet to sign an agreement on mutual recognition arrangements (MRAs) for automobiles and parts because several countries are not ready.
- ***Six remaining chapters have yet to be agreed on -- namely trade competition rules, and measures to mitigate the negative side-effects of RCEP***

The Differences

- RCEP and TPP ***overlap*** in many areas: trade in goods, services, market access, rules of origin, trade remedies, sanitary standards, technical barriers to trade, investment and intellectual property (IP).
- Unlike TPP, ***RCEP has no environment and labor standard provisions***, which are pushed by the US but unpopular with other countries, most importantly, China which is a member of RCEP.

Comprehensive TPP (CPTPP)

- Under the current trade turmoil, the formation of mega-FTAs has actually been accelerated.
- ***CPTPP*** involves only 11 nations, excluding the U.S., after President Trump says no to the TPP.
- The CPTPP was signed by 11 countries in March 2018 and was in effect among six countries, i.e., **Mexico, Japan, Singapore, New Zealand, Canada, and Australia**, on December 30, 2018. ***Vietnam followed*** on January 14, 2019.
- Thailand, *Chinese Taipei*, and other East Asian countries seriously start considering the accession to the CPTPP.



The EU Trade Intensity
Source: Asian Reginal Integration Center
North America
Middle East
Latin America
European Union
Africa
ASEAN
Trade Intensity Index
2.50
2.00
1.50
1.00
0.50
0.00
1990
1991
1992
1993
1994
1995
1996
1997
1998
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2009
2010
2011
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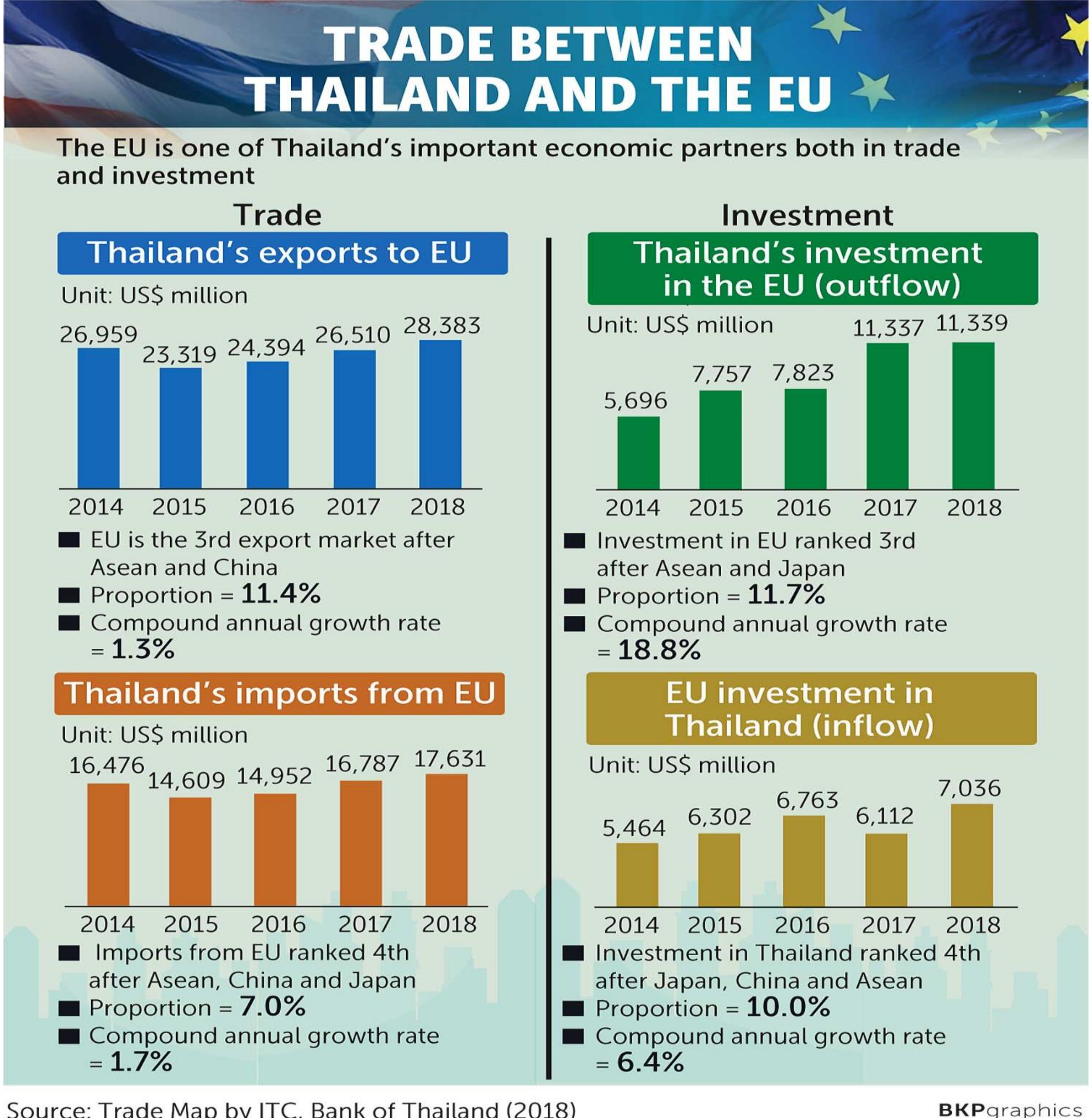
2015
North America
ASEAN

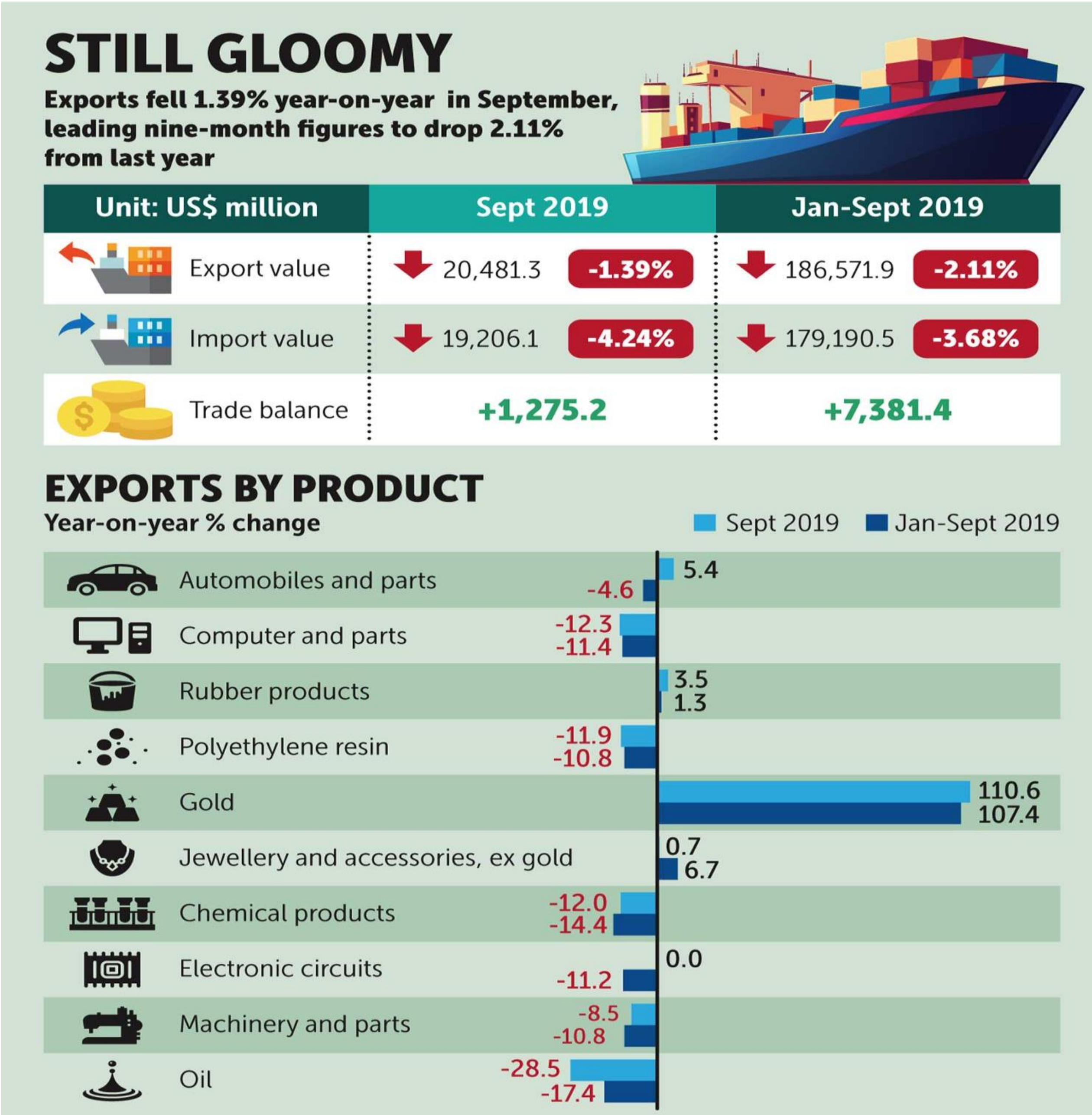

TRADE BETWEEN THAILAND AND THE EU
The EU is one of Thailand's important economic partners both in trade and investment
Trade
Thailand's exports to EU
Unit: US$ million
26,959
23,319
24,394
26,510
28,383
2014
2015
2016
2017
2018
EU is the 3rd export market after Asean and China
Proportion = 11.4%
Compound annual growth rate = 1.3%
Thailand's imports from EU
Unit: US$ million
16,476
14,609
14,952
16,787
17,631
2014
2015
2016
2017
2018
Imports from EU ranked 4th after Asean, China and Japan
Proportion = 7.0%
Compound annual growth rate = 1.7%
Investment
Thailand's investment in the EU (outflow)
Unit: US$ million
5,696
7,757
7,823
11,337
11,339
2014
2015
2016
2017
2018
Investment in EU ranked 3rd after Asean and Japan
Proportion = 11.7%
Compound annual growth rate = 18.8%
EU investment in Thailand (inflow)
Unit: US$ million
5,464
6,302
6,763
6,112
7,036
2014
2015
2016
2017
2018
Investment in Thailand ranked 4th after Japan, China and Asean
Proportion = 10.0%
Compound annual growth rate = 6.4%
Source: Trade Map by ITC, Bank of Thailand (2018)
BKPgraphics

The EU protested Thailand's suspension of democracy

- FTA negotiations between Thailand and the EU were **put on hold after the 2014 coup** and for the subsequent military rule.
- Thailand needs to speed up FTA talks with the EU as the bloc has already signed FTAs with **Singapore and Vietnam**.
- The more Thailand delays negotiations, the more export opportunities will be lost as the export product structures of Singapore and Vietnam are almost identical to Thailand's.

The EU-Thailand FTA: Benefits and Challenges

- Thai products expected to reap benefits from a pact include automobiles and parts, garments, electronics, chemicals, rubber, plastic, food and processed food products, machinery and parts, construction and leather products.
- Thai products likely to feel the pinch from the FTA would be dairy product, sugar, tobacco and alcoholic drinks.



Source: Trade Policy and Strategy Office

BKPgraphcs

Exports(imports) declined by 2.1 (**3.7**) % Jan-September 2019

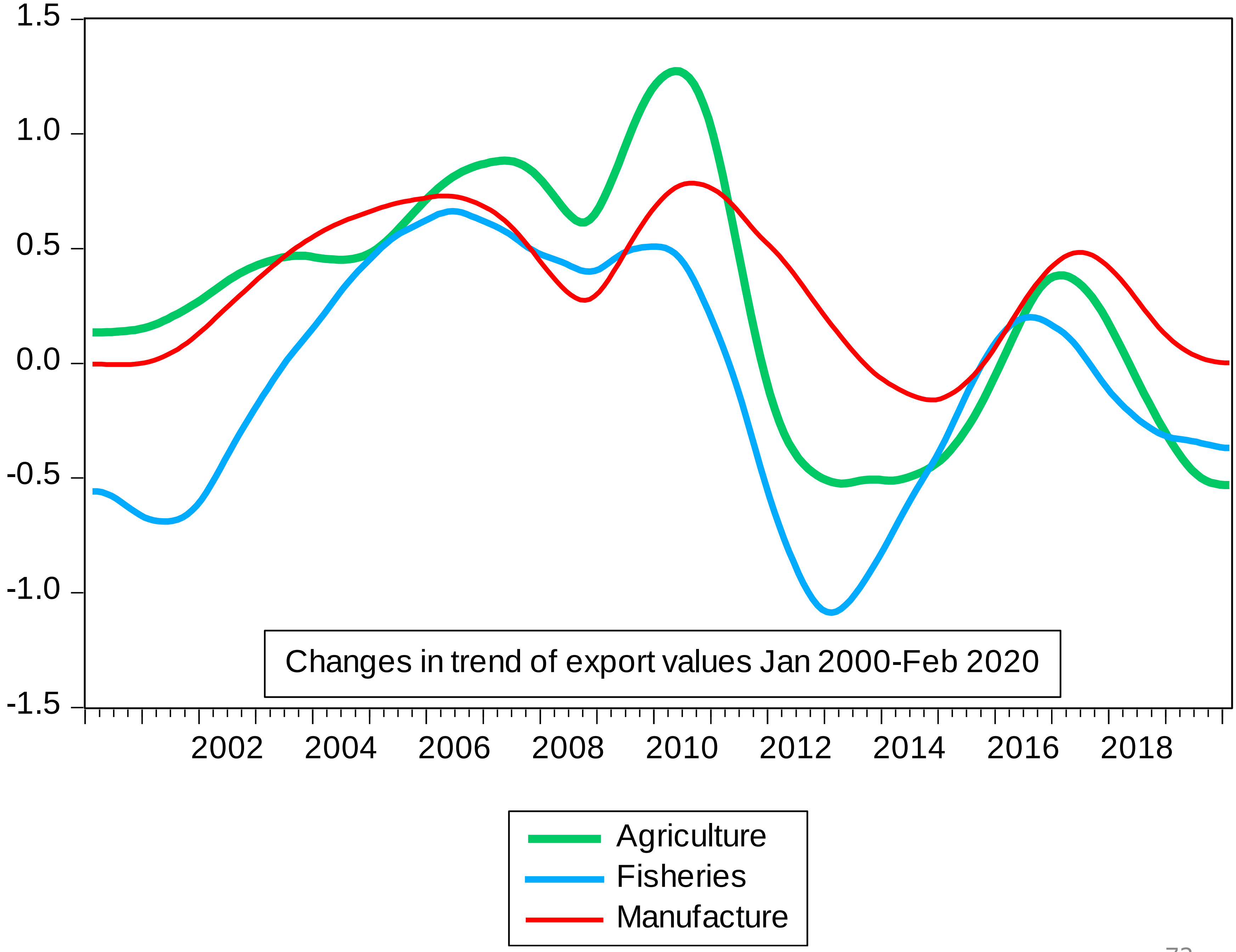
Automobiles, computers and parts electronics, Chemical products, Machinery and parts

6. GSP Removals by the U.S.

- ***The US will suspend 1.3 billion dollars worth of duty-free*** trade for certain items from Thailand, claiming that Thailand has not taken steps to protect labor rights.
- Because Thailand had not taken steps to recognize worker rights.
- The US Trade Representative's office said the move amounted to a suspension of 1.3 billion dollars in trade preferences under the Generalized System of Preferences (GSP) program.
- *At present, the GSP program covers around 4.5 billion dollars worth of Thai exports.*
- The suspension, which will take effect in six months, affects about a third of Thai products included in the program, including all of Thailand's seafood exports to the US.

Biggest beneficiary of the U.S.'s GSP

- *Thailand is the second biggest beneficiary of the US's GSP, after India*, which was the largest GSP beneficiary with 5.7 billion dollars in imports to the US in 2017.
- A wide range of Thai export items currently receive GSP benefits. The biggest beneficiaries are ***electrical appliances and electronics like air conditioning and electronic components, and washing machines, followed by food and agriculture products and machinery***.
- Thailand is the United States' 20th largest goods trading partner, and two-way trade totaled USD44.5 billion in 2018. The U.S. goods *trade deficit* with Thailand was USD19.3 billion in 2018.
- Washington decided to terminate *India's designation as a beneficiary developing nation in May 2019.*


1.5
1.0
0.5
0.0
-0.5
-1.0
-1.5
2002
2004
2006
2008
2010
2012
2014
2016
2018
Changes in trend of export values Jan 2000-Feb 2020
Agriculture
Fisheries
Manufacture

Concluding remarks

- Integrating the Thai economy with regional trade blocs can serve as an instrument to speed up ***domestic reform***
- ***Temporary subsidies*** must be given to adversely ***affected*** industries to ease adjustment costs during the transition period to free trade agreements.
- Do not expect the GSP to remain forever; it is high time the country improve the efficiency and reduce the cost of production to compensate the GSP removal from both the EU and the U.S.