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# บทคัดย่อ

# A joint study investigating the benefits of a Closer Economic Partnership (CEP) agreement between Thailand and New Zealand

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## A joint study investigating the benefits of a closer economic partnership (CEP) agreement between Thailand and New Zealand **(การศึกษาร่วมกันเพื่อจัดทำความตกลงหุ้นส่วนเศรษฐกิจที่ใกล้ชิดกันยิ่งขึ้น (CEP) ระหว่างไทย-นิวซีแลนด์)**


การศึกษาร่วมกันเพื่อจัดทำความตกลงหุ้นส่วนเศรษฐกิจที่ใกล้ชิดกันยิ่งขึ้น (CEP) ระหว่างไทย-นิวซีแลนด์ ได้เริ่มศึกษาตั้งแต่ปี 2003 ถึงปลายปี 2004 โดยเป็นการศึกษาร่วมกันระหว่างกระทรวงพาณิชย์ของไทยกับกระทรวงการต่างประเทศและการค้าของนิวซีแลนด์ ทั้งนี้ทั้งสองประเทศเห็นว่า การค้าระหว่างประเทศเป็นส่วนสำคัญในการผลักดันให้เศรษฐกิจเจริญเติบโต ต้องดำเนินการให้เป็นไปตามกฎเกณฑ์ขององค์การการค้าโลก ต้องให้ความร่วมมือในฐานะสมาชิกกลุ่มเคร์น นอกจากนี้ทั้งสองประเทศยังเห็นว่า ความตกลงการค้าทวิภาคีสามารถทำให้ทั้งสองประเทศบรรลุความสำเร็จ และได้รับประโยชน์จากการเปิดการค้าเสรี ช่วยขยายตลาด ตลอดทั้งส่งเสริมการแข่งขันการผลิตภายในประเทศ ทั้งสองประเทศจึงได้ศึกษาร่วมกันเพื่อให้ประชาชนและธุรกิจได้รับประโยชน์อย่างแท้จริง

**ผลการศึกษา** สรุปสาระสำคัญได้ว่า สินค้านำเข้าส่วนใหญ่ของนิวซีแลนด์ร้อยละ 95 มีอัตราภาษีอยู่ที่ร้อยละ 0 นิวซีแลนด์ส่งออกสินค้าสำคัญมายังไทยได้แก่ ผลิตภัณฑ์นม เนื้อ อาหารทะเล ผลิตภัณฑ์จากป่า และผลิตภัณฑ์จากพืชสวน ส่วนไทยส่งออกสินค้าสำคัญไปยังนิวซีแลนด์ได้แก่ อุปกรณ์รถยนต์ เครื่องใช้ไฟฟ้า พลาสติก เหล็กกล้า อาหารกระป๋อง และสิ่งทอ ซึ่งคาดว่าถ้าประเทศทั้งสองมีการลดอุปสรรคทางการค้าแล้ว จะทำให้มีการซื้อขายกันเพิ่มขึ้น

ด้านการศึกษา ในปี 2002 มีนักเรียนไทยไปศึกษาในนิวซีแลนด์ ประมาณ 3,500 คน และต้องจ่ายค่าเล่าเรียนประมาณ 34 ล้านเหรียญสหรัฐ ซึ่งนิวซีแลนด์จะได้ประโยชน์

ด้านการท่องเที่ยว ในปี 2003 คนไทยไปท่องเที่ยวนิวซีแลนด์ปีละประมาณ 19,000 คน และคนนิวซีแลนด์มาท่องเที่ยวไทยปีละประมาณ 60,000 คน ไทยจะได้ประโยชน์มากกว่านิวซีแลนด์

# THAILAND - NEW ZEALAND CLOSER ECONOMIC PARTNERSHIP

A JOINT STUDY INVESTIGATING THE BENEFITS OF A CLOSER ECONOMIC PARTNERSHIP (CEP) AGREEMENT BETWEEN THAILAND AND NEW ZEALAND

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## Joint Ministerial Foreword

Thailand and New Zealand have an excellent relationship underpinned by a high level of interaction between Thais and New Zealanders through business connections, education, tourism, and immigration. We also have a long history of working together internationally and in the Asia-Pacific region to promote trade and economic liberalisation, facilitation, and cooperation.

In today's increasingly competitive international environment, small countries like Thailand and New Zealand need to take all opportunities available to us to improve our competitiveness and to forge partnerships which will strengthen our positions in the global marketplace. It was with these broad objectives in mind that Prime Minister Thaksin Shinawatra of Thailand and Prime Minister Helen Clark of New Zealand agreed that our two countries should pursue a bilateral closer economic partnership agreement.

International trade is an essential driver of economic growth in both Thailand and New Zealand. The optimum vehicle for trade liberalisation and rule-making is through the WTO, where we cooperate closely as Cairns Group members. However, both countries see bilateral trade agreements with like-minded partners as a means of achieving the benefits of trade liberalisation, in terms of access to markets and promoting domestic competitiveness, on a faster track.

Global connectedness is equally crucial to economic growth. Establishing a strategic partnership between our two countries will highlight opportunities for New Zealanders and Thais to work together, utilising our combined expertise, ideas, technology and resource bases to compete more effectively in overseas markets.

This study identifies real benefits for the people and businesses of Thailand and New Zealand from the implementation of a comprehensive bilateral closer economic partnership agreement. This is an opportunity to build a vibrant economic relationship for the 21st century, which will stimulate greater interaction and cooperation between Thais and New Zealanders in all spheres and enhance both countries' regional and global positions.

H.E. Watana Muangsook
Minister of Commerce
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Hon Jim Sutton
Minister for Trade Negotiations
New Zealand

## Executive Summary

Thailand and New Zealand are open and dynamic economies that depend on international trade for stimulating economic growth. Strong global connections and improved access to markets are fundamental to the economic strategies of both countries. With this in mind, the Governments of Thailand and New Zealand pursue active trade policy agendas and are leaders in regional trade and economic liberalisation and facilitation initiatives.

At the 2003 APEC Leaders' Meeting in Bangkok, Prime Minister Thaksin Shinawatra of Thailand and Prime Minister Helen Clark of New Zealand agreed to undertake a joint study into a Closer Economic Partnership agreement with subsequent negotiations to be completed by November 2004. The Closer Economic Partnership (CEP) agreement is expected to cover not only comprehensive, preferential liberalisation of trade in goods but also a range of other issues which will extend and deepen ties across the wider trade and investment relationship.

This study:

- provides information on Thailand's and New Zealand's trade and economic policies, the current political and economic relationship, and ways in which Thai and New Zealand business people work together;
- offers an evaluation of the strategic benefits and economic impacts of a CEP between Thailand and New Zealand; and
- explores various trade-related issues that could be addressed in a CEP and the potential for cooperation in these areas.

| **Thailand and New Zealand: Trade Relationship at a Glance (2003)** | |
|---|---|
| New Zealand is Thailand's 38th largest overseas market. | Thailand is New Zealand's 14th largest export market valued at US$211 million. |
| Thai exports to New Zealand worth US$335 million. | Dairy products and other agricultural products are the main export items. |
| Key export products include vehicles and manufactured items. | Around 19,000 Thais visited New Zealand. |
| More than 60,000 New Zealand tourists visited Thailand. | Thai students enrolled in New Zealand numbered 3,400 (in 2002). |

Thailand and New Zealand have a longstanding and healthy bilateral relationship. New Zealand has been an active partner in Thailand's development. A CEP will signal a significant step forward, reflecting the maturity of the relationship.

A CEP between Thailand and New Zealand will also underpin the two countries' leading role in multilateral and regional trade initiatives and enhance their longstanding cooperation in the WTO, APEC and AFTA/CER contexts. In the pursuit of trade liberalisation, the most important vehicle for both countries is the multilateral process through the WTO. Bilateral CEPs can however bring forward the benefits from international trade liberalisation, help add momentum to the global process, and offer wider benefits. It is therefore important that a Thailand-New Zealand CEP contributes to rather than impedes regional and multilateral trade liberalisation efforts. Thailand and New Zealand will need to take into account the compatibility of architecture and provisions with other agreements in the region and in particular those to which they are party while also exploring innovative approaches which can serve as examples of good practice.

Comprehensive and reciprocal elimination of trade barriers under bilateral CEPs allows people in both countries to benefit from increased competition, lower prices, and a greater variety of goods and services. Given the complementary nature of the two economies a CEP between Thailand and New Zealand is expected to lead to an increase in bilateral trade in some areas. However, as the volume of bilateral trade is relatively small compared to each country's total trade, the total impact of the CEP on each country's overall economy is expected to be modest. Similarly, the impact on existing production trends of removing bilateral trade barriers in protected sectors should be minimal and is not expected to harm domestic producers. In most areas, imported goods do not directly compete with domestic production. Expansion in bilateral trade is expected to result from increased demand for Thailand and New Zealand products rather than from displacing domestic production.

As with any preferential trade agreement, it is important that benefits from a CEP only accrue to Thai and New Zealand goods. The rules of origin should be trade facilitating and take into account the relevant domestic production processes in both countries. They should also be readily enforceable.

A CEP would facilitate trade in services between the two countries through lowering barriers to trade, improving market access, and encouraging mutual recognition of qualifications. The two governments should, however, retain the right to regulate in the public interest, and to provide, regulate and fund public services.

A bilateral CEP would highlight investment possibilities in both markets and improve awareness of the opportunities for joint ventures and strategic alliances. In addition to two-way investment flows, a CEP between Thailand

and New Zealand would provide a positive signal of greater certainty and economic stability to other overseas investors.

Thai and New Zealand business people are already working together in fields ranging from plastic moulding technology to timber processing to public relations. Greater economic interaction under a CEP should promote mutually beneficial business partnerships involving transfer of technology and skills, sharing of ideas and improvements in business practice, all of which will enhance both countries' competitiveness in the global market place.

The CEP can also serve as a basis for cooperation between the two governments on other trade-related issues. With the objectives of lowering transaction costs, promoting transparency and facilitating economic activity, cooperation in trade-related areas such as sanitary and phytosanitary measures, customs procedures, technical barriers to trade, competition policy and intellectual property, would benefit businesses in Thailand and New Zealand. In addition, the CEP provides an opportunity to demonstrate both countries' commitment to sound sustainable development policies, including in respect of labour and the environment.

# Chapter One: Introduction: Why Thailand and New Zealand are Negotiating a Closer Economic Partnership

At the APEC Leaders' Meeting held in Bangkok in October 2003, the Prime Ministers of Thailand and New Zealand, Thaksin Shinawatra and Helen Clark, agreed to undertake a joint study into a Closer Economic Partnership (CEP) between their two countries and subsequently to enter into negotiations. They called for negotiations to be concluded by the time APEC Leaders next meet, in November 2004.

This initiative reflects the longstanding friendship between Thailand and New Zealand, as well as both countries' commitment to forging closer regional economic linkages, and recognition of the gains that would potentially accrue to both Thailand and New Zealand. This study assesses the strategic and economic benefits from a comprehensive CEP agreement between the two countries. The study also looks at principles and objectives for individual elements likely to be discussed in the negotiating process.

A closer economic partnership of the kind proposed for Thailand and New Zealand involves not only preferential liberalisation of trade in goods but also a range of other issues which will extend and deepen ties across the wider trade and investment relationship. As well as addressing trade in services and investment, the study explores the scope for cooperation in areas such as standards and conformance, quarantine, competition policy, government procurement, e-commerce, labour and environment issues and technology transfer.

A bilateral CEP will help advance both countries' trade policy and economic development objectives. While Thailand and New Zealand are committed to pursuing international and regional trade liberalisation through the WTO, APEC and the AFTA/CER Closer Economic Partnership processes, both are keen to seek opportunities to generate benefits from trade liberalisation and facilitation on a faster bilateral track.

Global connectedness and cooperation are crucial for success in today's international market place, especially for small economies which are heavily dependent on international trade. Thailand's and New Zealand's trade policies recognise that strategic bilateral partnerships assist companies and business people to compete in third country markets through cooperation in exchanging ideas, production and marketing, and through access to competitively priced inputs.

The Government of Thailand is currently encouraging trade with secondary and new international markets in order to lower the economy's exposure to current markets and reduce the country's vulnerability to external shocks. Along with the diversification of markets, encouraging the production of higher valued products is a major element of Thailand's trade policy. In New Zealand, enhancing global connectedness, including through closer economic partnerships, is a key focus of the Government's Growth and Innovation Framework.

## Chapter Two: Overview of the Bilateral Relationship

Thailand and New Zealand have a strong, established political and economic relationship that has grown steadily since direct representation was established in early 1956. The two countries share similar perspectives on regional political, economic and security issues and have worked together since the 1950's on regional security, most recently in multilateral operations in East Timor and Afghanistan. Thailand and New Zealand are active in APEC and the WTO, where both are members of the Cairns Group of agricultural exporting countries, and cooperate closely on a wide range of international issues. As an ASEAN Dialogue Partner, New Zealand maintains close links with Thailand on regional issues and participates in the ASEAN Regional Forum.

For its part, Thailand, under Prime Minister Thaksin, is taking a lead in developing relationships beyond its immediate ASEAN neighbourhood including with North Asia, India, and the South Pacific (where it is currently seeking Dialogue Partner status with the Pacific Islands Forum).

Beginning in 1954, New Zealand has been an active partner in Thailand's development. Over the decades New Zealand funding has focused on education, through scholarships to New Zealand universities and assistance to Thai educational institutions, and on agricultural development. Under the Volunteer Service Abroad programme, between 1963 and 1998, eighty-six New Zealand volunteers provided expertise in a wide range of sectors, predominantly related to the development of Thailand's farm production. In partnership with Thailand, New Zealand has made a significant investment in the Mekong Institute at Khon Kaen University in North Eastern Thailand which provides human resource training for the Greater Mekong Sub-region. Khon Kaen has long been a focus of education cooperation with Thailand.

### Economic Links

Thailand and New Zealand have longstanding, strong economic relations at both the government and private sector levels. Increasingly close business-to-business relationships are underpinning the expansion of trade. Reflecting in part the growing number of New Zealand companies who have established an in-market presence in Thailand, the Thailand/New Zealand Chamber of Commerce has a membership of around 100 companies. In New Zealand, the Thai Chapter of the ASEAN/New Zealand Combined Business Council promotes business relationships.

In addition to a trade agreement[1], which was concluded in 1981, Thailand and New Zealand have bilateral agreements covering air services and the avoidance of double taxation. Since 1997 the two governments have held regular economic consultations.

**High Level Engagement**

An expansion of high level exchanges between political leaders and officials in recent times has in turn led to greater cooperation on bilateral and international matters of common concern. In 2003, the New Zealand Prime Minister visited Thailand for APEC and met Thai Prime Minister Thaksin. Late last year the Thai Foreign Minister Dr Surakiart visited New Zealand for official talks. Recent years have also seen visits to Thailand by New Zealand Ministers, a visit to New Zealand by a Thai parliamentary delegation, and numerous exchanges at officials' level in areas ranging from veterinary certification, to youth justice, to food safety.

**People to People Links**

People to people exchanges have become a key component of the bilateral relationship.

According to the 2001 New Zealand Census, more than 4,500 New Zealanders are of Thai descent, representing a significant growth in the number of Thais resident in New Zealand.

Building on longstanding links in the education field, the numbers of Thai students receiving education in New Zealand have grown in recent years. In 2003, with over 3500 students studying in New Zealand, Thailand was the leading source of fee-paying students from South East Asia in New Zealand. Many New Zealand teachers are also working in Thailand, primarily in the English language field.

Tourism provides the greatest opportunity for people-to-people links between Thailand and New Zealand, with the number of travellers growing in both directions. Over 18,700 Thais visited New Zealand in 2003 while over 60,000 New Zealanders visit Thailand each year.

Thailand and New Zealand are currently negotiating a Working Holiday Scheme. This agreement will provide opportunities for young Thais and New Zealanders to experience each other's culture and will progressively enlarge the pool of individuals in each country with understanding and

[1] This agreement, entitled *Trade Agreement Between the Government of New Zealand and the Government of the Kingdom of Thailand*, will need to be considered during CEP negotiations.

knowledge of the other. The scheme is expected to be approved in the second half of 2004.

The Asia 2000 Foundation, an organisation working for mutual understanding between New Zealand and its Asian neighbours, has sponsored numerous activities involving Thailand, including recent academic placements in the fields of archaeological mapping and the relationship between poverty and HIV/AIDS. Asia 2000 counts among its Honorary Advisors Dr Ajva Taulananda, President of Telecom ASIA Corporation Public Co Ltd, and Dr Supachai Panitchpakdi, Director-General of the WTO and former Minister of Commerce.

### The Role of the CEP in the Bilateral Relationship

Negotiation of a Closer Economic Partnership between Thailand and New Zealand is a clear manifestation of the growing importance the two countries attach to the bilateral relationship. Concluding a CEP will signal a significant advance in the overall relationship between Thailand and New Zealand, and also in both countries' aspirations to develop wider regional links. The impact can be expected to extend beyond the economic sphere and promote social and cultural interaction as mutual awareness grows.

# Chapter Three: Regional and Multilateral Context of the Thailand/New Zealand CEP

Thailand and New Zealand are leading players in regional and global trade liberalisation and economic reform.

The familiarity and common understandings that have developed between the two countries during their long history of working together in AFTA/CER, APEC and the WTO will underpin the negotiation of a bilateral CEP. At the same time, both countries are determined to ensure that the agreement supports rather than impedes future regional and multilateral liberalisation. Given the expansion of bilateral and plurilateral trade agreements in the Asia-Pacific region, it will also be important for Thailand and New Zealand to take into account the compatibility of architecture and provisions in a Thai/New Zealand CEP with those in other agreements within the region and in particular those to which they are party.

At the same time as showing a commitment to regional and multilateral initiatives, bilateral trade agreements provide the opportunity for countries to explore innovative approaches which can serve as examples of good practice.

## Contribution to AFTA/CER

Thailand and New Zealand are both active participants in the AFTA/CER Closer Economic Partnership. Thailand is a leader in economic reform and trade liberalisation in ASEAN. The AFTA/CER CEP, through its work programme, provides the principal mechanism for achieving AFTA/CER's objective of increasing regional trade and investment flows.

In negotiating a comprehensive bilateral CEP, Thailand and New Zealand can demonstrate the possible road forward in lifting the AFTA/CER CEP from its current focus on trade facilitation and capacity building towards trade liberalisation and moves towards greater regional economic integration.

The experience and knowledge of each other's economies derived from negotiating a CEP should aid Thailand and New Zealand in efforts to work more collaboratively in the AFTA/CER context.

## Asia Pacific Economic Cooperation (APEC)

Thailand and New Zealand are both active members of APEC and subscribe to the APEC Bogor Goals of free and open trade and investment within the region by 2010 for industrialised economies and 2020 for developing economies. Thailand’s commitment to APEC was shown in its successful hosting of the annual meetings in 2003 while New Zealand was equally successful in hosting the 1999 events.

In recent years there has been a proliferation of preferential trade agreements in the APEC region. The governments of Thailand and New Zealand recognise the importance of being involved in such initiatives but also acknowledge the need to ensure that bilateral agreements ultimately contribute to the APEC principle of open regionalism. Further, by establishing a comprehensive bilateral CEP, Thailand and New Zealand can promote high standards for FTAs in the APEC region.

Achievement of the Bogor Goals is expected to generate significant benefits for member economies through improved trading conditions and technical cooperation. A bilateral CEP between Thailand and New Zealand would bring forward some of those economic gains. Gains come from improved market access, business facilitation and efficiency gains in domestic production patterns in both countries. Through early trade liberalisation in a bilateral CEP, New Zealand and Thai producers will have time to adjust, become more efficient and therefore be in more competitive positions to capitalise on future APEC and multilateral liberalisation.

APEC encourages cooperation among members in technical areas (e.g. customs, business mobility, e-commerce, plant and animal health, food safety and standards) in order to facilitate and secure trade. In a bilateral CEP such cooperation could be concentrated on areas of direct interest to Thailand and New Zealand. A CEP should therefore look for opportunities to build on APEC principles of cooperation. Possible areas for negotiators to look at are outlined in chapter nine.

**World Trade Organisation (WTO)**

Thailand and New Zealand are committed to a rules-based multilateral trading system: liberalisation through the WTO is the primary international trade policy objective for both countries. Both Governments acknowledge that the greatest gains from trade liberalisation will accrue from successful multilateral negotiations. Thailand and New Zealand both enjoy a strong profile in the WTO. Former Thai Commerce Minister Dr Supachai Panitchpakdi is the current WTO Director-General while former New Zealand Prime Minister Mike Moore was his immediate predecessor. Successful conclusion of the Doha round of negotiations is in the interests of both countries. A high quality CEP between Thailand and New Zealand can be expected to add impetus to the Doha negotiations.

Under the rules of the WTO, preferential trade agreements between members must be notified to the organisation. In order to ensure that such agreements support the multilateral liberalisation process, Article XXIV of the General

Agreement on Tariffs and Trade requires that FTAs between members cover tariff removal on substantially all trade and Article V of the General Agreement on Trade in Services requires that agreements liberalising trade in services have substantial sectoral coverage. In the case of both goods and services, FTAs should not raise barriers to trade with non-members..

Comprehensive sector coverage offers the best assurance of bilateral preferential trade deals supporting rather than undermining multilateral trade liberalisation. As agricultural exporting countries, Thailand and New Zealand cooperate closely in the Cairns Group of WTO members, presenting a common position in the agriculture negotiations. Liberalisation of agricultural trade is however one of the most sensitive and difficult issues in the Doha round. A comprehensive bilateral CEP between Thailand and New Zealand that includes agriculture would send a strong signal of the two countries' commitment to real trade liberalisation and demonstrate the benefits of opening agriculture trade.

# Chapter Four: Overview of the Thailand and New Zealand Economies

## Thailand

### Background

Before the 1997 economic crisis, Thailand was one of the fastest growing economies in Asia and enjoyed a high rate of economic growth with price stability. In the mid 1980s, Thailand changed its development policy from industrialisation based on import substitution to an export promotion strategy, resulting in deeper integration into the world economy through stronger export performance and an increased total trade to GDP ratio.

While Thailand was the first country hit by the 1997 crisis, it has made an impressive and rapid recovery. Among the South East Asian countries hardest hit by the crisis, Thailand stood out in maintaining political stability, strong real economic performance, and investor confidence. Thailand's recovery since the economic crisis of 1997 is illustrated by macroeconomic performance and data in recent years. In 2002, GDP expanded by 5.3%, which was higher than forecast. This expansion took place amidst a lacklustre global economy and threats of terrorist attacks. Domestic demand, in particular private spending, was the major driving force. At the same time, external demand, as reflected in markedly increased exports, strengthened the country's economic recovery process. In addition, the government measures to support the real estate sector and policies to improve consumer purchasing power, especially in rural areas, were vital factors in Thailand's economic development. Following a strong performance in 2002, the Thai economy grew by 6.3% in 2003.

An excellent hub for business operations in South East Asia, Thailand provides a cost effective option and business friendly environment for New Zealand and other international companies seeking close proximity to wider Asian markets, especially those in the Greater Mekong Sub-Region.

### Economic Structure

Thailand was an agricultural based economy. However, during the past 30 years, Thailand has undergone a significant industrialisation process. The proportion of GDP attributed to the agricultural sector has declined to 12.4%, while industry has substantially expanded to account for more than 59% of GDP.

Similar to other developing economies in the 1970s, Thailand's industrialisation process began with labour-intensive industries such as textile, apparel and footwear. Thailand continues to move up the value chain and now produces predominantly electrical machinery, mechanical appliances, and computer parts and components.

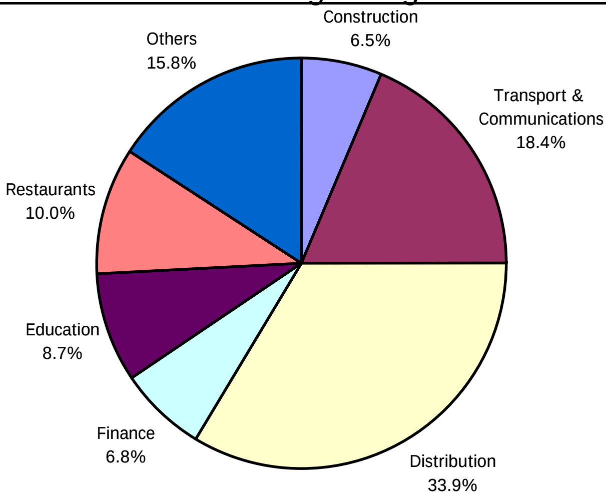
Table 4.1: Thailand - Selected Macroeconomic Indicators

| | **2001** | **2002** | **2003** |
|---|---|---|---|
| GDP (US$ bn) | 115.2 | 126.8 | 136.5 |
| Agriculture (%) | | | 12.4 |
| Industry (%) | | | 59.5 |
| Services (%) | | | 64.2 |
| GDP per capita (US$) | 1,832 | 1,990 | 2,149 |
| Real GDP Growth (% Change YOY) | 1.9 | 5.3 | 6.3 |
| Current account balance (US$ m) | 6.2 | 7.6 | 8.5 |
| Current account balance (% GDP) | 5.4 | 6.0 | 5.0 |
| Export (US$ bn) | 65.1 | 68.8 | 75.9 |
| Import (US$ bn) | 61.4 | 64.2 | 65.3 |
| Goods & Services exports (% GDP) | 66.1 | 64.8 | 66.2 |
| Inflation (% change YOY) | 1.6 | 0.7 | 1.6 |
| Unemployment rate (%) | 3.3 | 2.4 | 3.4 |

The service sector also plays an important part in Thailand’s economy. Services account for about 45% of GDP and about 40% of employment. In 2001, GDP originating from the service sector was over US$52 billion with an average annual growth rate of 3%. As illustrated in Figure 4.1, commerce (wholesale and retail trade) is the largest service sector (33.9%), followed by transport and communications (18.4%). Service sectors accounted for a large share of FDI, in particular, finance and retail trade.

On the international side, the recovery of external demand from 2001 was another factor that helped the Thai economy grow beyond expectations. In 2002, the continued expansion of domestic demand coupled with the recovery in exports led to a 4.6% increase in import value, to a total of US$64 billion. In 2002, the current account registered a surplus of US$7.6 billion. This was higher than the previous year’s surplus due to a recovery in exports together with the net service income and transfers account recording a surplus comparable to the earlier years. At the same time, the capital account, registering a deficit of US$4.7 billion, also improved over the previous year as external debt repayment slowed down. Thus, the balance of payments registered an overall surplus of US$4.2 billion.

Figure 4.1: Thailand's GDP originating from Services in 2001




Source: National Economic and Social Development Board

## 2003 and Beyond

The Thai economy has continued to improve well since 2003 despite external uncertainties and shocks such as SARS. The key drivers have been the strong performance of export and private consumption. Exports of goods reached a record high in May 2003 at US$6.5 billion and have since remained at a monthly average of US$6.4 billion with average export growth around 12% year-on-year. This growth is attributed to the diversification of Thai exports, both in terms of product types and market destinations. Exports are well balanced between agricultural, agro-industrial, and manufactured goods. Economic growth in the private sector is strong. On the one hand, a strengthening of consumer confidence in future income has induced strong household spending. On the other hand, consumers have benefited greatly from lower interest rates and greater access to financial lending institutions, leasing firms, and other non-bank institutions.

In the years to come, Thailand's economy is expected to perform satisfactorily, with the continued support of favourable external and internal forces. Exports are likely to increase as the US and Japanese economies recover and as China continues to grow in importance as an export market. Consumption growth will be maintained through the low interest rate policy. To prepare for new challenges, the Thai Government will put in place measures to help sustain the economic recovery, particularly to foster the expansion of exports and consumption. These measures are designed to encourage private investment, a new driver of growth in Thailand's economy. Future Thai economic development is expected to be driven by a combination of export and investment growth.

## New Zealand

Background

In recent years New Zealand has been one of the fastest growing economies both in the region and among OECD countries.

During the 1950s and 1960s New Zealand was one of the world's most successful economies, enjoying a period of sustained full employment and annual average GDP growth of 4%. However, by the early 1970s weaknesses were beginning to emerge. Access to key world markets, especially for agricultural commodities, became increasingly difficult. High levels of protection and government borrowing dampened productivity growth, reduced competitiveness, and led to balance of payment problems. By the early 1980s the combination of expansionary macro policies and industrial assistance had led to significant macroeconomic imbalances, structural adjustment problems and a rapid rise in government indebtedness.

From 1984 onwards, the direction of economic policy in New Zealand turned away from intervention. On the macroeconomic level policies were aimed at achieving low inflation and a sound fiscal position, while microeconomic reforms opened the economy to world prices and competitive pressures.

Following the mid to late 1980s period of reform, New Zealand's economic performance improved. GDP growth over the 1990s averaged 2.7%, with particularly strong output growth in 1993 and 1994. Against a backdrop of a slowing and uncertain world economy, the New Zealand economy has been resilient, recording average growth above 3% since 1999. Economic performance over 2002 and 2003 has been even stronger, ranking among the top OECD performers at around 4%.

Growth over this period was aided by solid agricultural output, high commodity prices, a competitive exchange rate and a robust labour market. In addition, strong net migration levels have supported domestic economic activity. While 2003 saw a reversal in some of these favourable conditions (particularly lower commodity prices and the appreciation of the New Zealand dollar), buoyant domestic demand has sustained growth.

The labour market remains strong, with the unemployment rate falling steadily over 2003 to reach its lowest level in sixteen years and the fifth lowest in the OECD. Since 2000 inflation has remained comfortably within the Government's target range of 1-3% over the medium term.

Economic Structure

After an adjustment period, the phased reduction of protection in the manufacturing sector has led to long-term improved productivity. Throughout the 1990s New Zealand's manufacturing sector experienced output growth of 31% and increased employment. Increased trade has been the primary driver of growth, with annual growth in manufactured exports averaging 8% since 1990.

While accounting for only 4.9% of GDP[2], the agriculture sector is critical to New Zealand's economy. Accounting for 52% of goods exports and generating 150,000 jobs, the sector and its downstream effects have a significant influence on the overall health of the New Zealand economy. Key agricultural products include dairy products, meat, wool, apples, kiwifruit, onions, wine and processed vegetables.

In addition to favourable pastoral conditions, New Zealand enjoys significant natural energy resources, with reserves of coal, natural gas, geothermal fields, and a geography and climate which support substantial hydroelectric development. The forestry, fishery and minerals sectors account for 2.7% of GDP and 18% of total goods exports. Table 4.2 sets out relevant selected macroeconomic indicators.

Table 4.2: New Zealand - Selected Macroeconomic Indicators

| Indicator | 2001 | 2002 | 2003 |
|---|---|---|---|
| GDP (US$ billions) | 45.3 | 52.1 | 67.6 |
| Agriculture | | | 5.9% |
| Fisheries, Forestry and Mining | | | 2.6% |
| Manufacturing | | | 14.7% |
| Services | | | 72.2% |
| GDP Per Capita (US$) | 11,575 | 13,108 | 16,746 |
| Real GDP Growth | 2.5 | 4.3 | 3.5 |
| Current Account Balance (Deficit) (US$ billions)[1] | -1.3 | -2.0 | -3.3 |
| Current Account Balance (% GDP)[1] | 3% | 4% | 5% |
| Goods and Services Exports (US$ billion)[1] | 18.2 | 19.0 | 21.7 |
| Goods and Services Exports (% GDP)[1] | 40% | 36% | 32% |
| Inflation (CPI) | 1.8% | 2.7% | 1.6% |
| Unemployment Rate | 5.4% | 4.9% | 4.6% |

[1] September 2003 year

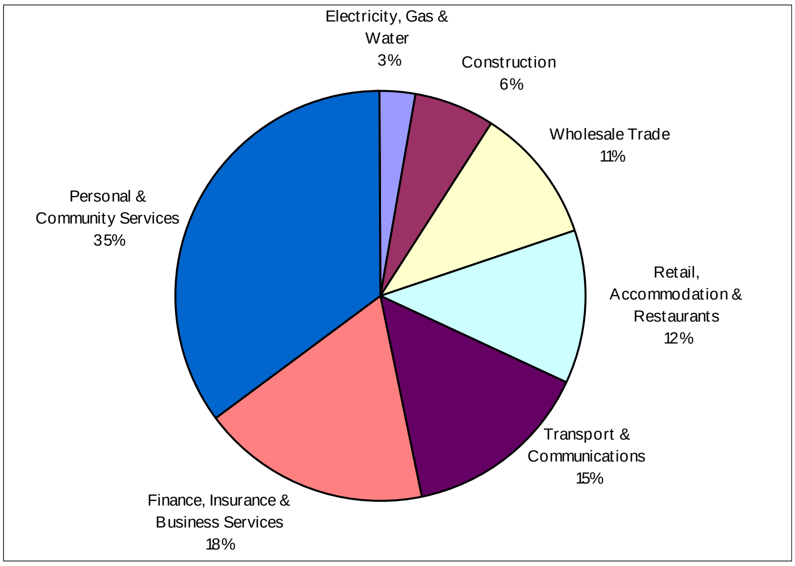
Sources: Statistics NZ, dx Database, NZIER

Like most developed economies, the services sector in New Zealand is significant, accounting for over two thirds of GDP and three-quarters of all jobs. Over the last decade service industries have grown strongly, even during

[2] Note these figures exclude downstream manufacturing of agricultural products and other activities (e.g. transportation, rural financing, retailing).

periods when the economy as a whole under performed. The finance, insurance and business services group is the largest services sector when examined against contribution to GDP (Figure 4.2). Other noteworthy areas include tourism and international education, which rank among New Zealand's top five sources of foreign exchange revenue. In 2003 over 2.1 million tourists visited New Zealand, while in 2002, 82,000 international students contributed an estimated US$793 million dollars to the economy.

Figure 4.2: Service Sectors in New Zealand (contribution to GDP, 2003)




Source: Statistics New Zealand

## The Growth and Innovation Framework

Looking to the future, the New Zealand Government has formulated a set of growth-oriented policies designed to deliver the long-term sustainable growth necessary to improve the living standards of all New Zealanders. The Growth and Innovation Framework (GIF) has set a goal of returning New Zealand's per capita GDP to the top half of the OECD.

The Framework identifies innovation and knowledge as key drivers of growth. It seeks to increase innovation throughout the economy by:

- enhancing the innovation system (for example, through improving incentives for research and development and the networks that spread new knowledge);
- developing skills and talents to innovate and use innovation;
- increasing global connections (including identifying and tapping into international market opportunities);
- strengthening the foundations for economic growth (for example, by improving infrastructure); and

- focusing resources and government effort on areas of the economy (including information and communications technology, biotechnology, screen production and design) seen as having the potential to grow in their own right and also have a positive impact on productivity across the whole economy.

# Chapter Five: Thailand and New Zealand: Global Economic Relationships

## Thailand

Thailand is an open economy that has long followed economic reforms based on the idea of a market economy. In terms of trade policy, liberal and transparent polices have contributed to Thailand's past impressive economic growth and strong recovery after the 1997 financial crisis. With preferential trade agreements now being widely used to pursue trade liberalization to supplement the WTO process, Thailand has adjusted to this trend. In addition to actively participating in the WTO, Thailand has embarked on FTA negotiations at both the regional and bilateral level with the ASEAN countries, China, India, Australia, and Bahrain. In the near future, Thailand also plans to begin negotiations with the US, Japan, and Peru as well as New Zealand.

As a result of its economic and trade policies, Thailand is one of the most trade-oriented nations. In 2003, the value of Thailand's trade was approximately 110% of GDP. International trade accounts for a significant portion of Thailand's economy, with goods and services exports amounting to approximately 65% of GDP. In 2003, Thailand's total merchandise trade was US$141.2 billion. Exports were valued at US$75.9 billion and imports at US$65.3 billion, providing a trade surplus of US$10.6 billion. Thailand was ranked as the 23rd most significant exporter with a 1.19% share of world exports and the 22nd importer with a 1.1% share of total world imports.

### Merchandise Trade

Thailand's major trading partners and products in 2003 are indicated in Table 5.1.

Exports in 2003 were worth US$75 billion, a rise of 9% on 2002. The main export destinations were Japan, the United States and China. Despite slow growth in some of these markets, Thailand was less affected than before as the growth of intra-regional trade helped shore up demand for exports. Export sectors which expanded in this period included hi-tech industrial products, automatic data processing machines and parts, electronic integrated circuits, and agricultural goods and processed seafood. Of Thailand's total exports, 76.48% are manufactured products and 18.4% are agricultural and agro-industry products.

On the import side, capital goods represented 44.8% of total imports, consumption goods 8.3%, and mineral and fuel products 11.8% (Figure 5.1). The main import sources were and the US, Japan, Singapore and China.

Import categories which experienced significant growth were consumer goods, capital goods, raw materials and semi-raw materials.

Figure 5.1: Thailand's Trade structure

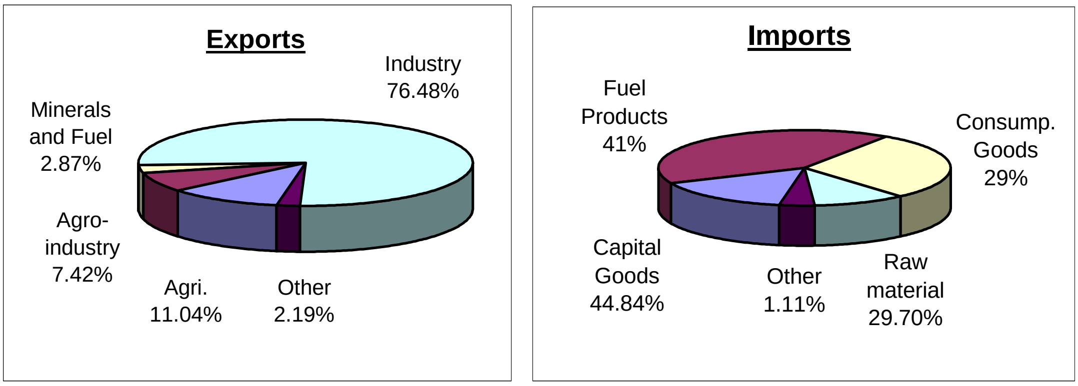



Table 5.1: Thailand's Major Trading Partners and Key Products

| Major Exports | US$ millions | Export Destinations | % of Total |
|---|---|---|---|
| Total | 75,900 | | |
| Computers & parts | 8,192 | United States | 18 |
| Electronic integrated circuits | 4,626 | Japan | 15 |
| Motor cars and parts | 3,975 | Singapore | 7 |
| Rubber | 2,788 | Hong Kong | 5 |
| Precious stone and jewellery | 2,514 | China | 5 |

| Major Imports | US$ millions | Import Sources | % of Total |
|---|---|---|---|
| Total | 65,300 | | |
| Electrical machinery and parts | 7,988 | Japan | 28 |
| Machines for industrial use | 7,834 | United States | 11 |
| Crude oil | 7,113 | China | 9 |
| Chemicals | 6,196 | Malaysia | 7 |
| Electronic integrated circuits | 4,213 | Singapore | 5 |

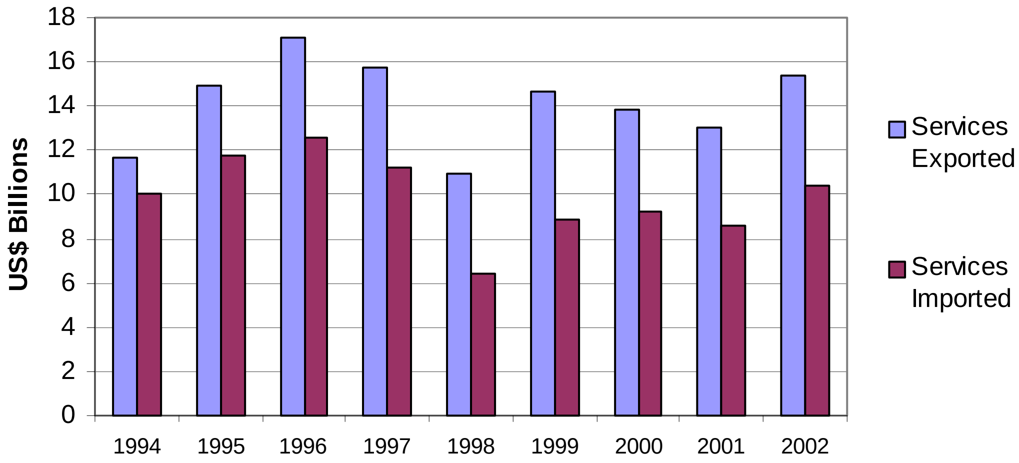
## Trade in Services

Thailand is the world's 26th largest services exporter and 24th largest services importer in the world. Thailand is a growing net service exporter with exports equivalent to 18% of total Thai exports. International tourism and transport are the two key exported services accounting for around three quarters of the total. On the import side, international tourism, royalties and licence fees, and transport services make up about 60 percent of imported services.

Figure 5.2 portrays Thailand as a growing net service exporter. The value of services exported in 2002 was approximately US$15 billion. Major export services include tourism (54.3%), passenger transport (17.7%), freight transport

(4.7%), and construction services (2.3%). The currency devaluation and a large number of active tourism promotion schemes since 1997 have resulted in high growth in the export of tourism services. The value of services imported in 2002 was US$10.7 billion. Major imported services were other services (43.1%), tourism (34.3%), royalties and licence fees (9.6%), freight transport (8.2%), and passenger transport (4.8%).

Figure 5.2: Thailand's International Trade in Services in 1994 – 2002




Source: Bank of Thailand

## New Zealand

New Zealand is a small export oriented economy trading in a broad range of goods and services. It relies heavily on trade with the international community to maintain and improve the standard of living for its citizens.

New Zealand's share of overall world merchandise trade is small, just 0.22% of world exports and 0.23% of world imports[3]. While a small player overall, there are several important areas where New Zealand is a key player. Dairy produce and meat are two examples. New Zealand is developing a reputation for supplying specialist products and services in a number of smaller niche markets with a particular focus on fostering innovation and harnessing new technologies.

Recognising the importance of trade (total exports of goods and services are equivalent to 44% of GDP) and the barriers facing these exports,
New Zealand's trade policy has focused on obtaining better access to overseas markets. This is undertaken primarily through multilateral negotiations in the WTO, as well as through complementary regional initiatives such as APEC and

[3] UNCTAD Statistics

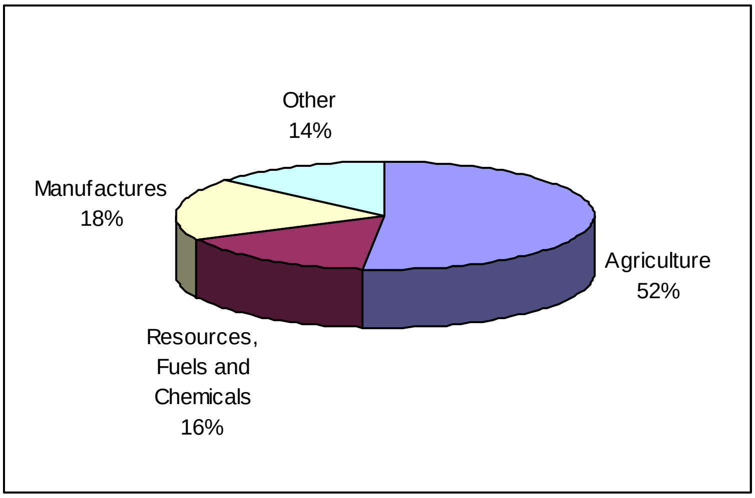
bilateral trade agreements such as the 1983 Closer Economic Relations (CER) agreement with Australia and the 2001 CEP with Singapore. New Zealand sees CEPs as an opportunity to deepen economic integration with trading partners across the wider trade and investment relationship and to promote mutually beneficial collaboration to enhance both parties' global competitiveness. In addition to the planned negotiations with Thailand, New Zealand is engaged in CEP initiatives at various stages with Chile and Singapore (Pacific Three CEP), Hong Kong and China.

Merchandise Trade: Exports

New Zealand's merchandise exports totalled US$16.5 billion in 2003, split equally between agricultural and non-agricultural goods. Despite sluggish world demand, New Zealand exports have recorded annual average growth of over 7% since 2000. An appreciation of the New Zealand dollar in 2003 dampened the external sector's performance but export values remain well above 1999 levels.

In 2003 agricultural products accounted for 52% of total merchandise exports[4] (Figure 5.3). This compares with an OECD average of just 6.8%[5]. Most of New Zealand's agricultural and resource exports face barriers in global markets. These obstacles include prohibitive tariffs, import quotas, subsidised domestic production and other non-tariff measures. The problem of "tariff escalation" whereby tariffs increase as value is added to the primary resource also affects New Zealand's value-added exports.

Figure 5.3: Composition of New Zealand's Exports




Source: World Trade Atlas

[4] Note: the World Trade Organisation defines seafood and forestry as non-agricultural products.
[5] OECD In Figures (2003 Edition): 2001 Year.

Dairy products and meat, the two largest export earners for New Zealand (Table 5.3), are areas where New Zealand has a comparative advantage in production due to favourable natural resources and conditions. New Zealand's natural resources of forest products and seafood are harvested in a sustainable manner and contribute strongly to the country's export profile. Production from New Zealand's manufacturing sector is increasingly destined for international markets particularly in niche areas such as whiteware (e.g. dishwashers and refrigerators), electrical components, and telecommunications equipment. Recent growth in New Zealand's manufactured exports has centred on innovative and high-tech products.

Table 5.3: New Zealand's Major Merchandise Exports and Principal Markets

| **Major Exports** | **US$ millions** | | **Export Destinations** | **% of Total** |
|---|---|---|---|---|
| Total | 16,487 | | | |
| Dairy | 2,780 | | Australia | 22 |
| Meat | 2,409 | | EU | 16 |
| Wood | 1,212 | | United States | 15 |
| Machinery | 816 | | Japan | 11 |
| Seafood | 620 | | China | 5 |

New Zealand's export destination profile is diverse, spanning the globe. Australia is New Zealand's single largest export market, followed by the EU, the US, Japan and China. Since 1991 the economies of ASEAN have also become an increasingly important destination for New Zealand exporters.

Merchandise Trade: Imports

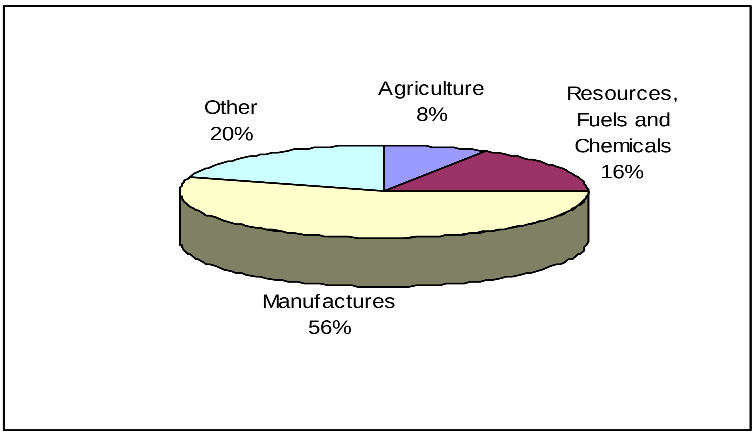
Imports in 2003 totalled US$18.6 billion, a significant increase of 22% on 2002 levels. The primary drivers were favourable currency conditions and solid domestic economic performance feeding into strong consumer demand. Figure 5.4 and Table 5.4 show that manufactured products, particularly electrical machinery, motor vehicles and textiles, clothing and footwear, are key imports for New Zealand.

Table 5.4: New Zealand's Major Merchandise Imports and Principal Sources

| **Major Imports** | **US$ millions** | | **Import Sources** | **% of Total** |
|---|---|---|---|---|
| Total | 17,422 | | | |
| Motor Vehicles | 2,742 | | Australia | 24 |
| Mechanical Machinery | 2,390 | | EU | 21 |
| Electrical Machinery | 1,597 | | United States | 13 |
| Mineral Fuels | 1,578 | | Japan | 12 |
| Plastics | 646 | | China | 10 |

Figure 5.4 also shows the importance of fuel imports, with crude and petroleum oils making up the majority of resource, fuel and chemical imports. Mirroring the destination of its export destinations, New Zealand's major sources of imports are Australia, the EU, US, Japan and China.

Figure 5.4: Composition of New Zealand's Imports

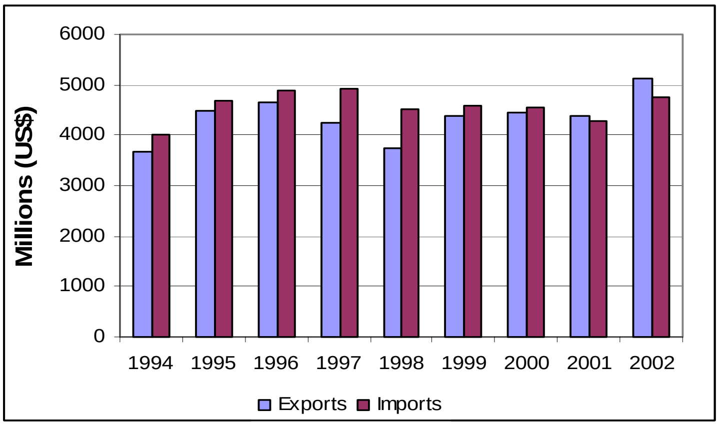



Source: World Trade Atlas

## Trade in Services

Since 1994 growth in total services trade has outpaced increases in merchandise trade flows. Trade in services has also delivered surpluses to New Zealand over the past two years. New Zealand services exports are now worth around a quarter of total New Zealand exports. Tourism and education are the two big ticket services items and rank in the top five foreign exchange earners for New Zealand. Tourism and international education, along with transport, are the commonly identified services exports but New Zealand companies are also actively providing more specialised professional, consultancy and communication services to clients around the world.

Figure 5.5: New Zealand's International Trade in Services in 1994 - 2002




Source: Statistics New Zealand

In the year to September 2003 exports were valued at US$6 billion, primarily comprising tourism and international education earnings but other significant service exports include transportation and other business services (including legal services, accounting, management consultancy, public relations, architectural and engineering services).

Imports of services in the September 2003 year were worth US$5.4 billion, largely made up of travel, tourism and ‘other’ business services.

## Chapter Six: Bilateral Trade in Goods[6]

Thailand and New Zealand are natural trading partners with complementary export profiles. The economic structures and trade patterns show that the two countries have comparative advantages in different product groups. As Chapter Five illustrated, New Zealand specialises in exporting primary products and intermediate goods. In turn, the focus of Thailand's trade is in manufactured products. Even within agricultural trade there are complementarities. Thailand's most important agricultural exports include sugar, rice, chicken and preserved fruit compared to New Zealand's production of dairy, meat, temperate fruits[7] and vegetables.

Merchandise trade is the major component of bilateral trade between Thailand and New Zealand accounting for more than 80% of total trade including services.

Table 6.1 illustrates the complementary nature of Thailand and New Zealand's bilateral trade profiles. Industrial goods, predominantly automobiles and parts, machinery, plastic products, and processed seafood accounted for 83% of total Thai exports to New Zealand over the past three years. New Zealand's exports to Thailand were dominated by the agricultural and processed foods sectors, which have accounted for two thirds of total exports to Thailand since 2001.

**Table 6.1 Bilateral Trade By Sector (December Year, US$ millions)**

| | NZ Imports from Thailand | | | Thai Imports from NZ | | |
|---|---|---|---|---|---|---|
| **Product** | **2001** | **2002** | **2003** | **2001** | **2002** | **2003** |
| Agriculture (HS 01-14) | 12.2 | 13.2 | 16.0 | 101.8 | 85.5 | 104.1 |
| Processed Food (HS 15-24) | 22.8 | 28.5 | 31.3 | 45.0 | 39.3 | 42.9 |
| Minerals (HS 25-27) | 6.3 | 1.4 | 5.0 | 0.7 | 0.8 | 3.6 |
| Industrial (HS 28-97) | 172.7 | 218.7 | 282.5 | 62.5 | 63.5 | 60.6 |
| **Total** | **214.1** | **261.7** | **334.8** | **209.9** | **189.1** | **211.2** |

Source: World Trade Atlas

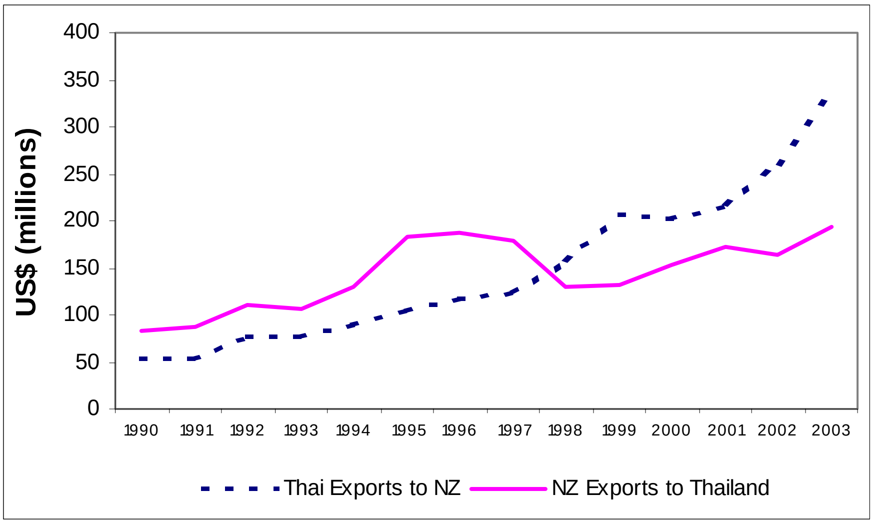
Figure 6.1 presents a picture of the historical trading relationship. Over the seven-year period 1991-1997 New Zealand exports to Thailand more than doubled. During the Asian financial crisis, New Zealand exports to Thailand fell by US$70 million, as the Thai economy shrank and the Baht depreciated. Apart

[6] Trade data consistency is a problem. The export data from one country will, for a variety of reasons, seldom reconcile with the import data of the partner country. To overcome this problem the study follows the practice of using the respective import statistics from each partner to represent the official trade flow. For example in this study New Zealand export figures are based on Thai Customs import data. This practice reflects the generally held view that imports are scrutinised more closely than exports. All data are expressed in US dollars (In 2003 the average NZ$/US$ exchange rate was NZ$1 = US$0.58 while the Thai Baht averaged 41.6 Baht to the US Dollar).

[7] E.g. apples and kiwifruit.

from a small dip in 2000, Thai exports to New Zealand have enjoyed a period of sustained growth, expanding fivefold since 1990.

Figure 6.1: Thailand – New Zealand Historical Trade




Source: Statistics New Zealand

Table 6.2 details trade flows between Thailand and New Zealand since 1998. Growth has been solid over the past six years, with bilateral trade expanding by over US$200 million. This growth has largely been driven by an expansion of Thai exports to New Zealand and has resulted in Thailand maintaining a merchandise trade surplus since 1999. For the 2003 year this surplus stood at US$124 million. In 2003 Thailand ranked as New Zealand's fourteenth largest export destination and tenth largest source of imports. Conversely New Zealand ranked as Thailand's 38th largest export market and 37th largest source of imports.

**Table 6.2 Bilateral Trade Flows (December Years, US$ million)**

| | Total Trade | | Thai Exports to NZ | | NZ Exports to Thailand | |
|---|---|---|---|---|---|---|
| Year | Value | Growth | Value | Growth | Value | Growth |
| 1999 | 384.1 | 14% | 207.2 | 33% | 176.9 | -2% |
| 2000 | 399.7 | 4% | 203.1 | -2% | 196.6 | 11% |
| 2001 | 424.0 | 6% | 214.1 | 5% | 209.9 | 7% |
| 2002 | 450.8 | 6% | 261.7 | 22% | 189.1 | -10% |
| 2003 | 546.0 | 21% | 334.8 | 28% | 211.2 | 12% |

Source: World Trade Atlas

### Thailand's Exports to New Zealand

Thailand's exports to New Zealand have increased continuously since 1999 except in 2000 when exports declined by 2%. From 1998-2003, annual average exports from Thailand to New Zealand were US$229.5 million. In 2003, the value of exports amounted to US$334.8 million, up 28% on the previous year.

**Table 6.3 Thailand's Top Ten Exports to New Zealand (December Year 2003, US$ millions)**

| Product | Export Value | % of Total | Import Market Share | Ad Valorem Tariff Rates |
|---|---|---|---|---|
| **Total Exports** | **334.8** | | **1.80%** | |
| Vehicles and Automotive Parts | 84.3 | 25% | 3% | 0 - 10% |
| Machinery | 42.7 | 13% | 2% | 0 - 10% |
| Electrical Machinery | 26.3 | 8% | 2% | 0 - 10% |
| Plastics | 25.8 | 8% | 4% | 0 - 19% |
| Canned and Processed Seafood | 12.2 | 4% | 29% | 0 - 6.5% |
| Glass and Glassware | 11.9 | 4% | 9% | 0 - 10% |
| Fish and Seafood | 9.8 | 3% | 36% | Free |
| Furniture and Bedding | 9.4 | 3% | 4% | 0 - 12% |
| Rubber | 8.4 | 3% | 4% | 0 - 11.5% |
| Iron and Steel | 7.9 | 2% | 3% | 0 - 6.5% |

Source: World Trade Atlas

Thailand's major export commodities to New Zealand include automotive parts, machinery, computer parts, air conditioning machines, plastic products, canned and processed seafood, and glass products, as shown in Table 6.3. These product groups account for approximately 70% of Thailand's total exports to New Zealand. At present, they encounter tariff rates ranging from of zero to 19%.

## New Zealand Exports to Thailand

In 2003 New Zealand merchandise exports to Thailand totalled US$211 million. Although export flows have fluctuated somewhat since 1998, overall growth has been 16% per annum. Details of New Zealand's top exports to Thailand are provided in Table 6.4.

**Table 6.4 New Zealand's Top Ten Exports to Thailand (December Year 2003, US$ millions)**

| Product (HS Code) | Export Value | % of Total | Import Market Share | Ad Valorem Tariff Rates |
|---|---|---|---|---|
| **Total Exports** | **211.2** | **-** | **0.28%** | **-** |
| Dairy | 87.6 | 41% | 32% | 5 - 30% |
| Infant Milk Food Formula | 34.9 | 17% | 21% | 5% |
| Wood | 16.3 | 8% | 3% | 1 - 20% |
| Seafood | 9.6 | 5% | 1% | 5 - 30% |
| Woodpulp | 5.9 | 3% | 2% | 1% |
| Wool | 5.7 | 3% | 4% | 1 - 10% |
| Electrical Machinery | 5.6 | 3% | 0% | 0 - 30% |
| Sheepskins | 4.1 | 2% | 73% | 5% |
| Plastics | 3.7 | 2% | 0% | 5 - 30% |
| Leather, Skins | 3.5 | 2% | 1% | 0 - 10% |

Source: World Trade Atlas

Mirroring New Zealand's overall export profile, dairy products form a significant proportion of total goods exports to Thailand. In 2003 dairy products, predominantly milk powder, accounted for 41% of total exports. When infant milk food is included, this rises to nearly 60%. Other significant exports include wood and wood pulp, seafood, wool and electrical machinery.

Market share information shows that New Zealand is a key supplier in Thailand's dairy, infant milk food and sheepskin markets. Other sectors where New Zealand has a significant interest include wood and wood pulp, temperate fruits, and seafood.

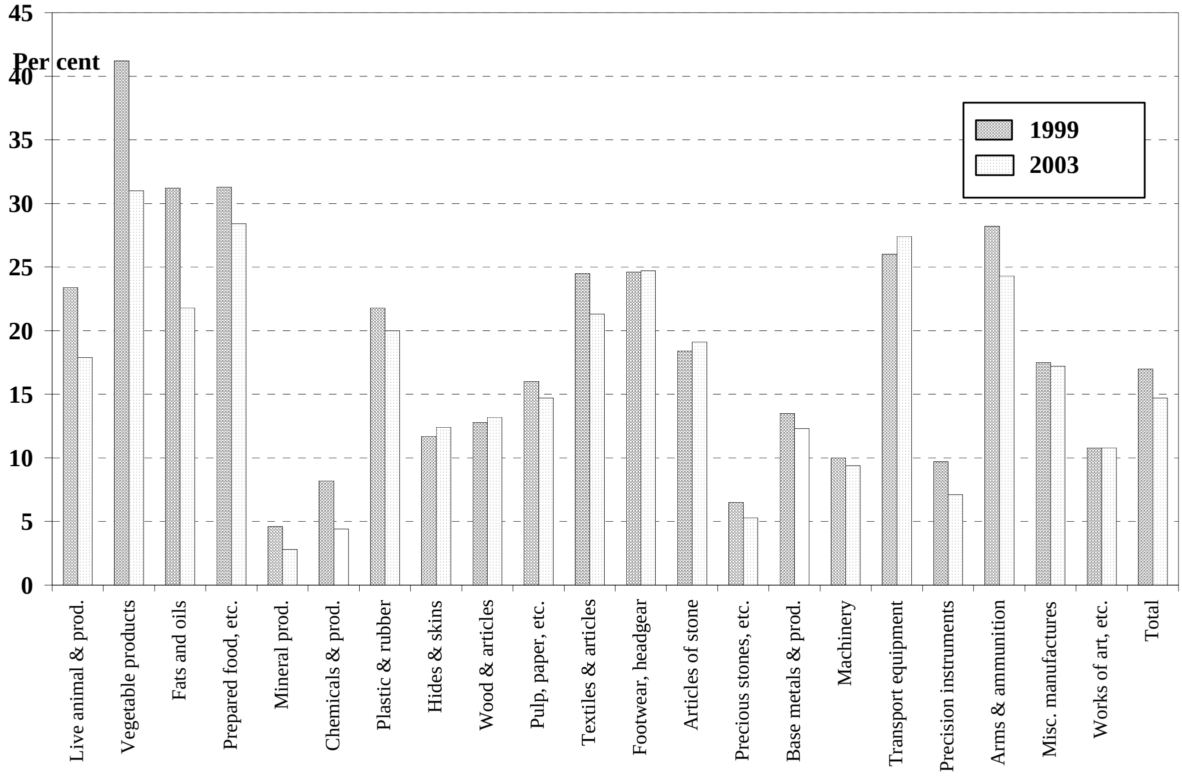
## Thailand's Tariff Policy

Figure 6.2 shows Thailand's average tariffs by tariff chapter. Thailand's tariffs are relatively high on agricultural products[8] and labour-intensive industries such as footwear, headgear, umbrellas and articles made of feathers.

Thailand's average MFN applied tariff rate is 14.7%, with lower rates in industrial sectors (12.9%) and higher protection in the agricultural area (25.4%).

[8] Agriculture in this context is defined as defined as chapters 1 to 24 of the international trade Harmonised System.

Figure 6.2: Thailand's Simple Average Applied MFN Tariff Rates (1999 and 2003)




Note: **Excluding in-quota rates. Including AVEs provided by the authorities for specific rates, as available. The *ad valorem* part of alternate rates are taken into account for the calculations. The 1999 tariff is based on HS96 and the 2003 tariff on HS02 nomenclature.**

*Source*: **Trade Policy Review of Thailand 2003, WTO Secretariat calculations, based on data provided by the Thai authorities.**

## Tariff Quotas

At present, Thailand maintains tariff rate quotas on 23 products, namely milk and cream, potatoes, onions, garlic, coconut, copra, coffee, tea, pepper, maize, rice soya beans, onion seeds, soya oil, palm oil, coconut oil, sugar, instant coffee, soya bean cake, tobacco, raw silk, and dried longans.[9]

In 2003, tariff quotas covered 1.0% of all tariff lines (at HS 7-digit level)[10]. Tariff quotas do not apply to imports from ASEAN countries, which may, in principle, supply unlimited quantities at preferential AFTA rates, unless they are excluded from the AFTA scheme. This is the case, for example, with palm oil. As of 1 January 2000, all products were, in principle, to be included in the AFTA

[9] For more information, see Trade Policy Review, Thailand (2003), World Trade Organisation.
[10] Existing tariff quotas relate to the 23 agricultural product groups.

scheme, with maximum duties of 20%. Quotas are under-filled for several products.

## Import licensing and prohibition

Some products are subject to import licensing in Thailand. Import licensing is used primarily for the administration of tariff quotas. Quota allocations may not be transferred.[11] In addition, imports of four items (used tyres, used motorcycle engines, gaming machines and CFC refrigerators) are prohibited for health, public moral, and environmental reasons. The legislative authority for regulating imports is provided by the Export and Import Act B.E. 2522 (1979). The Act empowers the Minister of Commerce, with the approval of the Cabinet, to control imports for specific reasons such as economic stability, public interest, public health, national security, peace and order, moral grounds, or for any other reason in the national interest.

## Duties on New Zealand Exports to Thailand

Thailand applies a combination of tariffs (both *ad valorem* and alternative specific rates), tariff rate quotas, and other regulations to imports. *Ad valorem* rates are a percentage cost charged against the import value[12]. Alternative specific tariff rates differ from *ad valorem* in that a precise monetary value is attributed to each import unit (for example New Zealand kiwifruit attracts a charge of 25 Baht per kilogram imported).

Table 6.5 below sets out an estimate of the duties paid on New Zealand exports to Thailand in the June 2003 year[13]. Exports of US$195 million attracted estimated tariff charges of US$21.3 million, at an average rate of 10.9%.

**Table 6.5 Duty Paid on New Zealand Exports to Thailand (June Year 2003, US$ millions)**

| Tariff Brackets* | Exports | Duty Paid | Average Rate (%) | % of Exports |
|---|---|---|---|---|
| ZERO | 12,624,806 | 0 | 0.0 | 6.5 |
| ZERO TO 5% | 100,304,145 | 3,789,238 | 3.8 | 51.5 |
| 5.1% TO 10% | 11,338,182 | 1,096,824 | 9.7 | 5.8 |
| 10.1% TO 20% | 58,770,325 | 11,143,064 | 19.0 | 30.2 |
| 20.1% TO 40% | 9,097,971 | 2,843,381 | 31.3 | 4.7 |
| GREATER THAN 40% | 2,762,665 | 2,396,944 | 86.8 | 1.4 |
| **TOTAL** | **194,898,094** | **21,269,451** | **10.9** | **100.0** |

* Alternative Specific Rates have been converted to Ad Valorem for the purposes of presentation in this table

Source: Ministry of Foreign Affairs and Trade, New Zealand

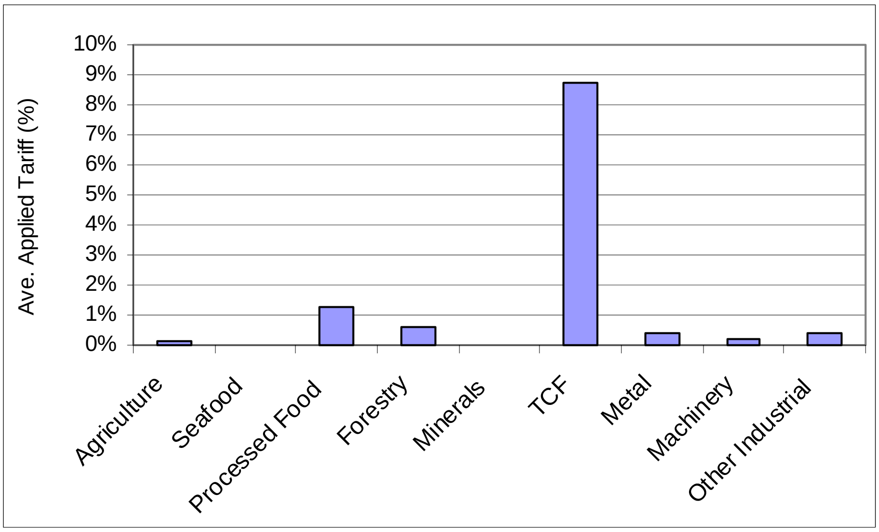
[11] Procedures for the allocation of quotas are described in a WTO document G/AG/N/THA/38/Add.1, 8 February 2002.
[12] Import valuation for customs purposes is based on a Cost, Insurance, Freight (CIF) or a Free on Board (FOB) methodology. Royal Thai Customs uses a CIF valuation, whereas Customs New Zealand uses FOB.
[13] Note: this estimate is based on a current copy of the Thai Tariff Schedule and includes consideration of both ad valorem and alternative specific rates.

## New Zealand Tariff Policy

Currently 95% of global imports enter New Zealand duty free, either because the normal Most Favoured Nation (MFN) tariff is set at zero or because of preferential tariff arrangements with Australia, Singapore, Pacific Island countries, and Least Developed Countries. New Zealand applies 'normal' tariff rates to countries which are not party to preferential tariff arrangements. 'Normal' tariff rates on protected sectors in New Zealand are typically in the region of 5-7%. However, certain sectors receive higher protection. For example, clothing, carpets and certain footwear items are currently protected by a 19% tariff (or more when "alternative specific" tariffs, expressed in dollars per garment, are applied to low cost clothing). New Zealand's average applied MFN tariff rate is 4.1%[14]. Average rates applied to agricultural and industrial products are 2.1% and 4.4% respectively. The average rate for textiles, clothing and footwear is 9.5%.

The outcome of the New Zealand Government's post-2005 review of tariffs was announced on 30 September 2003. Under the review decisions New Zealand's applied tariff rates will reduce to either five or ten percent. All tariffs currently at 12.5% or lower will reduce to 5% by 1 July 2008. New Zealand's highest tariffs (17-19%) will reduce gradually between 1 July 2006 and 1 July 2009 to 10%. Tariffs currently between zero and 5% will remain unchanged. All alternative specific tariffs will be converted to *ad valorem* rates on 1 July 2005. A further tariff review in 2006 will determine tariff policy after 2009.

Figure 6.3: New Zealand's Average Applied Tariff Rates (Trade Weighted)




Source: New Zealand Customs[15]

[14] World Trade Organisation Secretariat, *Trade Policy Review of New Zealand*, 2003.
[15] This graph is based on New Zealand Customs raw data. This data does differ from official trade statistics produced by Statistics New Zealand which is subject to editing and compilation according to international standards.

Duties on Thai Exports to New Zealand

Like Thailand, the New Zealand Government imposes tariffs (both ad valorem and specific rates) on some imports. By comparison, the overall level of protection is much lower, especially in the agricultural sector.

Table 6.6 below sets out the actual duties paid on Thai exports to New Zealand in the June 2003 year. Exports of US$291 million attracted tariff charges of US$4.0 million, at an average rate of 1.4%.

**Table 6.6 Duty Paid on Thai Exports to New Zealand (June Year 2003, US$ millions)**

| Tariff Brackets* | Exports | Duty Paid | Average Rate (%) | % of Exports |
|---|---|---|---|---|
| ZERO | 204,154,914 | 0 | 0.0 | 70.2 |
| ZERO TO 5% | 54,441,707 | 1,444,910 | 2.7 | 18.7 |
| 5.1% TO 10% | 26,631,220 | 1,576,789 | 5.9 | 9.2 |
| 10.1% TO 20% | 5,218,641 | 825,065 | 15.8 | 1.8 |
| 20.1% TO 40% | 253,968 | 68,376 | 26.9 | 0.1 |
| GREATER THAN 40% | 33,905 | 17,815 | 52.5 | 0.0 |
| **TOTAL** | **290,734,355** | **3,932,955** | **1.4** | **100.0** |

* Although New Zealand has a maximum Ad Valorem tariff rate of 19%, all alterntaive specific rates have been converted to Ad Valorem equivalents for the inclusion in this table

Source: Statistics New Zealand

## Non Tariff Measures (NTMs)

As well as addressing tariffs and quantitative restrictions, CEPs can consider non-tariff measures to ensure that trade is facilitated as far as possible without incurring safety risks to human, animal or plant life and health and the environment. This study examines NTMs in more detail in Chapter Nine.

## Sector Analysis

This section takes a closer look at some of the key export interests for Thailand and New Zealand as identified earlier in this chapter.

Automotive

Vehicles and automotive parts is one of the most important industrial sectors in Thailand, generating exports of approximately US$3 billion each year and making it a significant source of foreign currency for Thailand.

This is also the most important sector in Thailand's exports to New Zealand. Within the product group, jeeps, vans and pick-up trucks are the main export items. The export value of vans and pick-up trucks has increased during the past two years. Although exports of vans and trucks declined in 2001 by US$18 million, they have since recovered to US$65.1 million, taking up to 30% of market share.

The Thai government has long had a vision to build Thailand as a centre of automotive production. Beginning from an import-substitution strategy, the Thai government embarked on promoting exports of automotive products in the late 1980s.

New Zealand imposes relatively high tariffs, ranging from zero to 17.5% on imports of some automotive parts including radiators, exhaust pipes, alloy wheels, and other accessories. There are also some tariffs levied on imports of bicycles and trailers. Imports of cars and most light commercial vehicles have been duty free into New Zealand since 1998.

Relatively high tariffs on parts and accessories partly explain the higher export volume of finished products such as vans and station wagons to New Zealand in relation to vehicle components of which Thailand is also a major exporter internationally. Tariff reduction under a Thailand-New Zealand CEP should enhance trade in vehicle parts and components between the two countries and allow Thailand's exports to obtain a greater share of the New Zealand market.

New Zealand also has an interest in the automotive industry, with exports topping US$120 million in 2003. Despite the competitiveness of Thailand in this area, New Zealand exporters still face considerable tariffs especially in the automotive parts sector in Thailand. Key exports of tyres, mufflers and other parts encounter tariff barriers ranging from 10 to 42%.

<u>Electrical Equipment and Machinery</u>

Thailand is an increasingly competitive exporter of electrical equipment and machinery and exports to New Zealand have increased considerably in the last three years. For example, exports of refrigerators increased from US$213,762 in 2000 to more than US$1 million in 2003. Exports of compressors for refrigeration equipment and air conditioning machines to New Zealand increased 150% from 2000 to 2003. Market share data showing a steady increase since 2000 generally presents a positive picture of Thailand's competitiveness despite a high level of competition from other countries in Asia. There appears to be increasing demand for imports of this product group in New Zealand.

New Zealand's tariffs on mechanical appliances range from zero to 10%. About 50% of Thailand's exports already enter New Zealand tariff free. Nevertheless, as shown in the above table, export products of importance to Thailand still faces tariffs. Elimination of tariffs under the CEP framework will stimulate trade in this sector and increase Thailand exports' competitiveness in the New Zealand market.

New Zealand is also a competitive exporter of mechanical and electrical machinery in certain niche areas. Exporters in these sectors face significant tariff barriers in the Thai market. For example, refrigerators, freezers, dishwashers, and washing machines face tariff barriers of between 20 and 30%.

Plastic Products

Plastic products are another Thai export that has great potential to expand in the New Zealand market. The export value has continuously increased from US$13 million in 2000 to US$20 million last year. Thailand has only a small market share in New Zealand, roughly 3.7% of New Zealand's total imports of plastic products.

New Zealand maintains moderate tariff levels on plastic products, ranging from 0 to 7%. However the tariff on plastic articles of apparel (e.g. jackets) is 19% with some specific rates also applied.

New Zealand also exports significant volumes of plastic articles to Thailand. In 2003 exports totalled US$6.3 million, predominantly made up of plastic containers, acrylic polymers and other plastic articles. Thailand's tariff barriers on plastic items are moderate, ranging from 5 to 30%.

Clearly both economies would profit from reciprocal tariff liberalisation through a CEP, with exporters gaining increased cost leverage compared with other foreign suppliers, while the economy as a whole derives benefits through reduced product costs.

Steel

At present steel is one of Thailand's major exports to New Zealand, generating approximately US$6 million of sales each year.

From 2000 to 2003, both export volumes and market share have generally increased. For example, exports of bars and rods of iron have increased about 20%. More significantly, exports of some iron and non-alloy steel have increased more than 100%. Thailand's market share of angles, shapes and sections of iron or non-alloy steel and U sections in New Zealand has also increased. While New Zealand's steel imports have increased, Thai products account for only a small portion of imports.

New Zealand maintains some tariffs on steel products ranging from zero to 6.5%. Tariff elimination under the CEP would provide preferential market access for Thailand.

While New Zealand still maintains relatively low tariff barriers on steel products, an Infometrics report found that for many New Zealand companies producing steel products tariff protection was not a priority issue for their business[16]. Firms have instead focused on developing niche markets, including incorporating difficult to replicate design and manufacturing into business processes that differentiate themselves from foreign competitors.

Canned and processed food

Canned and processed food is Thailand's major agricultural export. Processed fish, shrimp and prawns are the main items. Exports to New Zealand from 2000-2003 show that trade values of both products are close to US$12 million, and are generally increasing despite some fluctuations in 2001 and 2002. Thailand's processed fish, shrimp and prawns exports have captured more than 70% of the market in New Zealand. However, the trend from 2000-2003 shows that Thailand slightly lost market share in shrimps and prawns by about 10%. For processed fish, market share grew to 47.5% in 2001 but declined to 43.3% in 2003.

Thailand's competitiveness in fish and shrimp products partly lies in its comparative advantage. Having access to the sea, natural resources, labour and technology to produce these products, Thailand manages to export good quality canned and processed food at a reasonable price. Furthermore, in the past, the Thai government also vigorously promoted the development of shrimp farms and other seafood industries.

New Zealand still maintains tariffs on processed fish and shrimp products. Relatively low tariff rates range from 0 to 6.5%.

New Zealand's exports of quality raw products are important inputs to production for Thailand's food processing sector. Lowering the tariffs for the import of New Zealand food and other agricultural products entering Thailand will help meet demand in this growing industry.

Thailand's world-leading seafood processing industry is an important market for New Zealand's primary fisheries products, including tuna and fish fillets. See the seafood section below for further discussion.

Textile Clothing and Footwear (TCFs)

Thailand's textile, clothing and footwear exports to New Zealand totalled around US$10 million in 2003. The highest trading value is in textile articles (e.g. bags) which accounted for more than US$2 million. The trade value of man-made staple fibres increased from US$1.6 million in 2002 to US$2.1 million in 2003.

[16] Infometrics Business and Economic Research Ltd, *Review of Import Tariffs Beyond 2005,* December 2002.

Articles of apparel and clothing accessories (not knitted or crocheted) also increased from 2002 to 2003. This demonstrates that Thailand has a comparative advantage in exporting TCF products.

Thailand's exports have consistently held a small share, about 1%, of New Zealand's total TCF imports. This is primarily a result of competition from China. In 2003 Thailand was New Zealand's 12th largest source of TCF imports. Preferential tariff reduction following a CEP will improve Thailand's competitiveness in this sector.

For apparel products, New Zealand applies either ad valorem or alternative specific tariffs on imports. The ad valorem rates range from 0 to 12.5% on textile commodities and 0 to 19% on apparel products.

The TCF sector is currently protected by New Zealand's highest tariffs. This protection has declined significantly since the mid 1980s (when typical tariffs stood around 45%) and is scheduled to reduce further under the provisions of the post 2005 tariff review. In recent years New Zealand has experienced a transformation of its TCF sector. Production and resources have to a large extent switched from unsustainable low-cost clothing and footwear areas to niche high-value clothing sectors. Manufacturers have chosen to build on areas of natural advantage such as fast turnaround (something which distant competitors struggle to match), quality, design and fit of product to retain competitiveness. A shift of focus towards design, logistics and marketing (with some firms choosing to outsource production) are also features of the industry over the past decade.

Given the factors outlined above and wider trade liberalisation through New Zealand unilateral tariff reductions, the WTO process and other bilateral FTAs, a CEP with Thailand is likely to have only minimal effect on existing trends within New Zealand's TCF sector. Benefits from a Thailand/New Zealand CEP may also flow to some of New Zealand's high-end clothing manufacturers who, under reciprocal tariff liberalisation, will benefit from cheaper production inputs and enhanced market access.

Dairy

The dairy sector is a key contributor to the New Zealand economy, accounting for 17% of total merchandise exports (New Zealand's single largest export sector) and generating approximately 24,000 jobs in rural New Zealand[17]. New Zealand is an open economy and welcomes competition in the dairy sector, with 15% of all dairy products consumed domestically being foreign sourced.

[17] This figure is a measure of farm workers only and excludes downstream employment in areas such as processing.

New Zealand ranks as the world's second largest exporter of milk and cream products. While clearly an important global player, New Zealand's share of world milk production is relatively small at just 2.5%. In addition the range of destinations is diverse, with over twenty-five countries receiving more than 1% of New Zealand's total dairy exports.

Consumers and processors in Thailand as well as New Zealand exporters benefit from the trade in dairy products. Imports of skim and whole milk powder are essential to offset the shortfall in Thailand's domestic milk supply both for consumption and as an input to the processed food sector. Despite recent increases in domestic raw milk production, output continues to meet only half of total fluid milk demand.

The New Zealand dairy sector has delivered certainty of supply to the Thai market over the past five years, with exports remaining stable since 1998, despite New Zealand overtaking Australia as the largest foreign supplier. Thailand is New Zealand's eleventh largest market for dairy products, taking 6% of total milk powder exports.

New Zealand dairy producers encounter a number of barriers in the Thai market. A 55,000 tonne quota, tariffs and local content regulations concerning supply to the Thai Government's milk for schools initiative control the import of skim milk powder. In-quota imports attract a 20% tariff, increased from 5% in early 2003 and the maximum allowable under Thailand's WTO commitments. Out of quota imports attract prohibitive duties in excess of 200%. While whole milk powder products are not subject to a quota, the current applied tariff rate is 18%. Tariffs on butter and cheese are set at 30%. Infant milk food (not for retail sale) attracts a 5% tariff. New Zealand is currently the dominant foreign supplier of milk formula to Thailand, although Australia exports a similar product for retail sale.

A large portion of New Zealand milk powder exports to Thailand goes into the ingredient market for use in the food-processing sector. Demand for high-quality ingredients has surged following a Thai Government strategy aimed at facilitating growth in the food-processing sector. Reducing import barriers for dairy products will enable this sector to meet rapidly expanding demand and benefit from lower production costs. Enhanced competitiveness of the Thai food-processing sector will also provide further rationale for increased investment in Thailand's dairy processing capacity.

New Zealand's export focus on supplying powdered milk to Thailand's food-processing sector differs from Thailand's domestic dairy production which predominantly supplies liquid milk to local consumers and the school milk programme. This different focus, coupled with growing demand in the ingredients market and forecasts of a 10% increase in domestic dairy consumption, suggests there should be ample room in the market for both local dairy producers and New Zealand producers to grow their sales.

A final factor to consider when examining the Thai dairy sector is the Thailand-Australia Free Trade Agreement (TAFTA). With enhanced dairy access already negotiated with Australia, further opening of the market to New Zealand products is unlikely to impact significantly on Thai dairy producers.

In the pursuit of a market economy and freer trade, Thailand is cautious of trade liberalisation that would adversely affect farmers and workers in the agricultural sector. Even though the Thai economy has significantly industrialised, the majority of people in rural areas are still involved in the agricultural sector. Thailand has maintained relatively high tariffs and stringent quantitative restrictions on dairy products to support the local farmers' production. Nevertheless with the global trend towards liberalisation and free trade, Thailand's overall approach is to look at reducing trade barriers while undertaking close monitoring and consultation with affected parties.

<u>Meat</u>

Like dairy, the meat sector is a significant part of the New Zealand economy, representing 15% of merchandise exports. In 2003 meat exports totalled US$2.4 billion, comprising predominantly sheep meat and beef. The number of New Zealanders employed in beef and sheep farming was estimated at just over 29,000 in 1998. However since the early 1980s sheep numbers, and more recently beef farming, have reduced as land utilisation has shifted to dairy and deer farming, and forestry. Increases in livestock productivity have offset this somewhat.

As in the dairy sector, most production is sold in international markets. Approximately 85% of beef and veal production, and 80% of sheep meat are exported. New Zealand is a net importer of frozen pork meat and bacon products.

Despite the strong representation of meat exports in New Zealand's overall export profile, exports of beef, sheepmeat and veal to Thailand are modest. In 2003 meat accounted for less than 1% (US$834,000) of New Zealand's total exports to Thailand. Thailand's total imports of red meat are low at just US$5.6 million, which is likely driven by a combination of factors including trade barriers and consumption patterns.

Thailand's tariffs on New Zealand's key red meat exports of beef and sheep meat cuts are currently at 50% and 30% respectively. Removing these tariffs in a CEP would allow both Thai consumers and the Thai tourism industry to enjoy the benefits of a range of competitive supply sources. As Thailand's hotel and tourism sector grows, so too does the demand for quality red meat to feed overseas visitors. New Zealand meat has a reputation for meeting such demands elsewhere in the region.

Due to the climate and resources, Thailand does not have comparative advantage in meat production. Nevertheless, as with dairy products, the potential impact on Thai farmers of liberalisation of meat imports has to be considered carefully. Most of Thailand's meat production serves the lower-end domestic market. Therefore, increased imports of high-quality New Zealand meat products for the high-end market should not significantly affect Thailand domestic producers.

Fruit and Vegetables

Since 1990 the New Zealand horticultural industry has expanded markedly. Exports to over 110 countries have almost doubled over the past thirteen years, driven primarily by growth in kiwifruit, apple, onion and wine exports. Employment in this sector totals over 30,000 people.

Thailand maintains significant and restrictive tariffs of between 10% and 60% on imports of temperate fruits and vegetables. Many products also attract specific charges per kilogram (for example, estimated specific duties on US$1.9 million worth of frozen processed potatoes exports totalled US$1.6 million in 2003, an effective tariff rate of 84%). In addition, restrictive quotas are used to control imports of a number of vegetable products, including onions and potatoes.

Due to well-established business relationships and the high-quality reputation of New Zealand product there is still significant demand for New Zealand fruit and vegetables in Thailand, despite the tariff barriers. New Zealand's fruit and vegetables exports totalled US$6.8 million in 2003, with the main items being apples (which face tariffs of 40%); carrots (40%); and frozen potato products (84%). Following a bilateral CEP, the benefits of increased trade would accrue not only to New Zealand producers but also to Thai consumers and the tourist caterers who would gain from enhanced competition, quality and choice. New Zealand growers and exporters have a strong focus on food safety which is a pre-requisite for many of the high-end hotel and supermarket chains.

The complementary nature of Thai and New Zealand production, coupled with the fact that many New Zealand horticultural products are destined for the Thai tourist sector, suggests a CEP would offer further opportunities for New Zealand exporters but not displace Thailand's domestic industry. Further, a CEP would allow New Zealand producers to compete with Thailand's other FTA partners.

Seafood

The fishing and seafood sector is a significant component of the New Zealand economy and like many other primary sectors is of particular importance to

New Zealand's regional economies. Seafood exports totalled US$678 million in 2003, accounting for 4% of total exports. The New Zealand fisheries industry is based on the principle of sustainable harvesting which aims to guarantee the long-term sustainability of New Zealand's seafood industry. Since 1990 the sector has seen substantial investment by New Zealand companies, particularly in the area of marine farming.

New Zealand's seafood exports for re-export currently go into Thailand's world-leading[18] seafood processing sector tariff free. The global dominance of Thai seafood processors is a prime example of the value of removing trade barriers for production inputs.

Thailand does however maintain tariff barriers of up to 30% on seafood imports for domestic consumption. New Zealand is predominantly a producer of temperate to sub-Antarctic fish and shellfish species, compared to Thailand's tropical species.

A Thai/NZ CEP could deliver benefits to Thai consumers and supply the demands of the high-value, high-quality hotel and tourism industry.
New Zealand's major exports of tuna, lobster and other fish products would benefit from reduced barriers and enable exporters to compete on a level playing field with Thailand's other trading partners.

### Forestry

The forestry sector is a significant contributor to the New Zealand economy, accounting for 1.2% of GDP. Apart from small volumes used in onshore manufacturing, the majority of New Zealand's timber production is exported. Domestic factors have however significantly affected the forestry sector recently. For example, the recent housing and property investment boom in New Zealand has resulted in record lumber sales. Strong building activity has also fed through to domestic consumption of wood panels (such as veneer and fibreboard).

While unprocessed wood entering Thailand faces low barriers (0-1%), intermediate timber products including key New Zealand export interests of veneer, fibreboard, plywood and other shaped board incur a 12.5% tariff. Higher value finished products, such as joinery products, furniture, paper and packaging, incur higher rates of 20% (and in some cases specific rates). This is known as 'tariff escalation'[19]. This higher level of protection for processed wood products restricts New Zealand's exports to Thailand to US$168,000, compared

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[18] While Thailand is a significant importer of fish, with total imports exceeding US$1.1 billion (1.6% of total imports), it is also the world's leading exporter of fish commodities (US$4.4 billion in 2000).

[19] See "Tariff Escalation in the Forestry Sector" at www.mfat.govt.nz/foreign/eco/tariff

with total exports of US$352 million. Meanwhile unprocessed timber and wood pulp exports to Thailand totalled US$19.4 million in 2003.

Tariff liberalisation through a CEP could deliver benefits to Thailand's growing paperboard and furniture export industries through enhanced access to key primary and intermediate wood production inputs. Rather than displace domestic production, New Zealand imports are likely to be employed alongside Thai raw products to supply an expanding international market. In turn, New Zealand exporters could benefit from enhanced market opportunities in Thailand's heavily protected joinery and furniture component sectors.

**Rules of Origin**

Thailand and New Zealand consider Rules of Origin (ROO) to be a vital ingredient to preferential trade arrangements since they determine whether goods are subject to the tariff preference or whether MFN tariffs should apply.

The ROO should maximise economic welfare while recognising realities such as the geographical location of the parties and the makeup of their productive sectors. The ROO must also be practicable in terms of administration and enforcement. ROO should facilitate trade between the CEP parties while ensuring that the principal benefits from a CEP only accrue to the parties involved. Thailand and New Zealand are open to considering alternative models in developing ROO in a CEP provided that the ROO:

- recognise genuine local content;
- recognise substantial transformation as an important principle;
- provide a net economic benefit to parties;
- do not impose unnecessary administrative costs on business;
- are compatible with the ways in which businesses operate in a global trading environment;
- show efficiency gains to be captured as markets open up;
- can be readily enforced at the border; and,
- are periodically open for review, taking into account changes in both countries' tariff regimes and international developments on the treatment of ROO.

In a low tariff environment, rules which require unduly high scrutiny generate excessive governance costs which are disproportionate to their rationale and act as a hindrance to the partner economies.

Thailand has a preferential trade agreement with countries in South East Asia, the ASEAN Free Trade Agreement (AFTA). Under this Agreement, ROO are used to ensure that exported products receiving preferential treatment from a member country are either wholly produced in a member country or have undergone substantial transformation in the territory of the exporting member country. The AFTA ROO require a minimum local content of 40% of the FOB price as the measure of substantial transformation.

In the Thailand Australia Free Trade Agreement (TAFTA) negotiations, for products to qualify for preferential treatment they must be either wholly obtained or produced in Thailand or Australia; or meet specific rules which consist of Change of Tariff Classification (CTC) and Regional Value Content (RVC) components. The CTC rule is applied to all products but for some product groups, such as textiles and garments, machinery and electronics, the CTC and RVC requirements are applied together. The RVC is set at 40% with the exception of textiles and clothing products where a minimum of 30% Thai content is required provided that the value of materials imported from developing countries amounts up to 25% to meet an RVC of 55%. The calculation method used in TAFTA negotiations is similar to the formula of AFTA, using the FOB price of export and the build-down method. The formula appears below:

$$\frac{\textit{FOB} - \textit{Value of Imported Materials}}{\textit{FOB}} \quad X \quad 100$$

New Zealand has, to date, followed an undifferentiated value-added approach in its CEPs. Based on ex-factory or ex-works cost, this differs from the AFTA FOB model in that it omits virtually all costs incurred after the traded good has been manufactured. Two key principles underlie the ROO currently used by New Zealand. These are that a local or area content threshold is achieved (50% of the ex-factory or ex-works cost under the CER agreement with Australia and 40% in the CEP with Singapore) and that the last process of manufacture takes place in the preferential trade area.

## Implications of Comprehensive Goods Trade Liberalisation

Thailand and New Zealand should aim to remove tariffs and quotas on all goods on a reciprocal basis under the CEP. The pace at which trade is liberalised will be subject to negotiation.

Quantifying the impact of removing barriers to trade in goods is a difficult exercise. The reality is that there are many variables affecting international business transactions and trade barriers are only one element. It is however possible to draw some general conclusions on the likely impact. Reflecting consultation with trade academics from both countries, this section examines the likely impact of a bilateral CEP on the economies of Thailand and New Zealand.

As Thailand and New Zealand are pursuing a number of trade liberalisation initiatives from the WTO process down to bilateral agreements, the impact on trade in goods from this CEP will complement and build on the economic benefits from the general trade policies of both nations. Given the relative size and complementary nature of the Thai and New Zealand economies, the impact of the CEP on each country's total GDP is expected to be modest. As outlined earlier in this chapter, however, there can be real benefits for both countries through increased trade and lower prices in a number of key sectors.

Static Gains

According to economic theory, trade liberalisation between two complementary economies will lead to welfare enhancement for both countries due to reduced prices, trade creation and a reduction in deadweight loss through improved economic efficiency.

Following tariff elimination, consumer welfare will increase from a reduction in import prices and a greater variety of available goods and services. This also applies to producers who rely on imported inputs to production. Also on the production side, tariff reductions will encourage resources to flow from less competitive industries to export sectors where there is comparative advantage. These gains will lead to stronger rates of economic growth.

In the short run tariff reductions will reduce this source of government revenue.

Dynamic Gains

In addition to the static gains from trade, a bilateral free trade agreement can bring dynamic benefits to the two economies. In a longer timeframe, a free trade agreement will not only change relative prices in the economies, but also the economic environment and economic relations between the two countries. For example:

- Free trade agreements encourage investment into the economies of the parties to take advantage of the preferential market access. Other potential implications of the CEP for investment are outlined in Chapter Eight.

- Countries participating in free trade agreements can enjoy greater efficiency from increased labour and capital productivity, the exchange of technology and knowledge and specialisation in competitive industries.

These dynamic effects will, in the long run, become even more important than the static gains as economic structures adjust to the new and improved conditions.

In the case of the bilateral CEP between Thailand and New Zealand the principal dynamic benefit accruing to Thailand is expected to be from increased production efficiency while New Zealand should gain from improved terms of trade.

Due to the complementary nature of the two economies and export profiles, a trade liberalising CEP would be expected to bring net benefits to both parties. A CEP between Thailand and New Zealand would result in some minor economic adjustment but would not significantly affect current production trends. Despite the different cost structures in Thailand and New Zealand, increased imports of Thailand's manufactured products to New Zealand would not have a substantial adverse effect on New Zealand's manufacturing sector as on the whole there is little production of like products. Thailand's imports of some New Zealand agricultural products would be expected to increase as a result of a CEP. This would improve consumer welfare in Thailand but would not be expected to displace Thai domestic production in most cases.

## Conclusion

Thailand and New Zealand are a classic example of complementary economies and this is reflected in the current pattern of bilateral trade in goods. Thailand exports manufactured goods to New Zealand in return for primary goods and some industrial items. Removing tariffs and other barriers will allow this natural trade to reach its full potential, resulting in economic benefits to both countries. There are real welfare benefits for the people of Thailand and New Zealand in the form of lower prices for consumers and improved opportunities for exporters. These benefits will in turn stimulate greater economic activity in both countries providing for more jobs and increased production. Technology and investment exchanges that accompany the flow of goods will also lead to productivity gains.

Thailand's key export sectors of interest are automotive products, electrical appliances, plastics, steel, canned and processed food and textiles.
New Zealand's main export items to Thailand are dairy, meat, seafood, forestry products and horticulture. All these sectors stand to benefit from a bilateral CEP. It is also expected that, following the reduction of trade barriers and publicity surrounding the CEP, other exporters in both countries will have access to new and profitable opportunities. Given the size of trade between Thailand and New Zealand relative to each country's total international trade only a minimal impact from the bilateral CEP is expected on production trends in sectors currently protected by trade barriers.

## Chapter Seven: Trade in Services

The services sector is becoming increasingly important in the international market place and contributes significantly to countries' foreign exchange earnings. The export of services can take many forms, from the provision of a service to overseas consumers in the provider's home country through to service suppliers establishing a commercial presence or being employed overseas.

In Thailand foreign investment in services trade is subject to the Foreign Business Act (1999). Further details are provided in Chapter Eight and Annex I. A qualified foreigner is permitted to work as a manager, executive, or specialist in a foreign company except in 39 professions described in the Royal Decree Prescribing Works Relating to Occupations and Professions in which an Alien is prohibited to engage, B.E. 2522 (1979). These include architecture, brokerage, civil engineering, legal services and tour guiding. Further details can be obtained from the Department of Employment website[20].

By international standards, New Zealand's services sector is considered to be open with few barriers to foreign services suppliers. Indeed, where immigration and qualification requirements have been met, national treatment is generally extended to foreign suppliers of professional services.

Foreign investment in the provision of services is subject to the Overseas Investment Commission (see Chapter Eight for details) while financial institutions with a commercial presence in New Zealand remain subject to the provisions of the Financial Reporting Act 1993 and the Companies Act 1993.

Immigration legislation and policy is administered by the New Zealand Immigration Service (NZIS), which is part of the Department of Labour. The key legislation is the Immigration Act 1987, along with the Immigration Regulations 1999. Government Residence Policy and Government Immigration Policy are set out in the NZIS Operational Manual. All the documents cited are published on the NZIS website[21].

Services trade between Thailand and New Zealand is governed by the WTO General Agreement on Trade in Services (GATS). While trade in services is relatively modest in the overall bilateral economic relationship between Thailand and New Zealand, an increasing number of Thai and New Zealand companies are establishing cross border operations.

[20] www.doe.go.th
[21] www.immigration.govt.nz

## Impact of a CEP on Services Trade

The broad aim of the CEP agreement would be to facilitate the trade in services between Thailand and New Zealand. Barriers that restrict services trade between both countries will need to be examined and the scope for improving market access, predictability and transparency explored. Means of protecting the government's right to regulate as well as the provision, regulation and funding of public services will be important components of the agreement.

There is scope for progressing the mutual recognition of qualifications under a bilateral CEP. Mutual recognition would assist service suppliers in both countries and would encourage increased education and institutional linkages. Both countries continue to support mutual recognition initiatives in the WTO and in APEC particularly in the area of professional qualifications such as engineering.

A CEP could explore means for facilitating the movement of persons engaged in legitimate business activities between the two countries.

## Possible Areas of Interest in a CEP

Given the nature of the two economies and the specific clusters of expertise in which Thailand and New Zealand have become specialised, there is scope in the CEP to explore opportunities for increasing opportunities for services trade. Public consultations in both Thailand and New Zealand will need to be conducted in order to identify specific areas of interest.

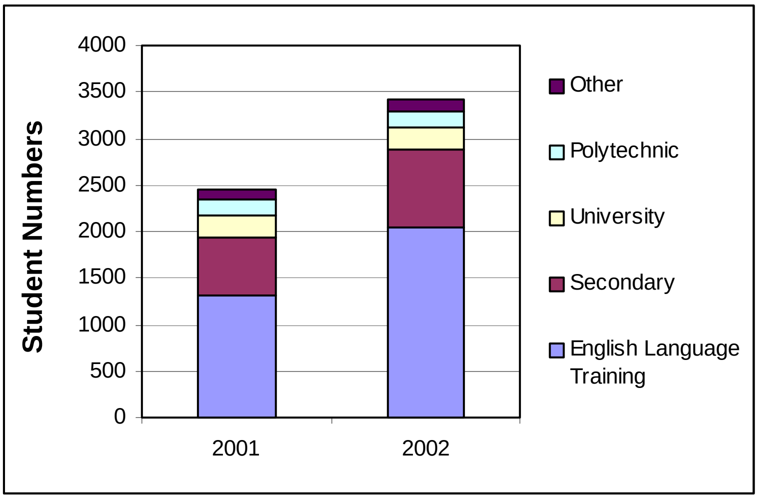
## Sector Analysis

This section looks at some key services sectors in more detail.

<u>Education</u>

Education linkages between Thailand and New Zealand have grown considerably over the past five years. Since 1998 student enrolments (both secondary and tertiary) have doubled, placing Thailand as New Zealand's fourth largest source of students from Asia. Figure 7.1 displays the breakdown of enrolments in 2001 and 2002. In 2002, around three and a half thousand Thai students attended New Zealand education institutions, contributing an estimated US$34 million to the economy. The majority (60%) of these students were enrolled in English language courses.

Figure 7.1: Thai Students in New Zealand

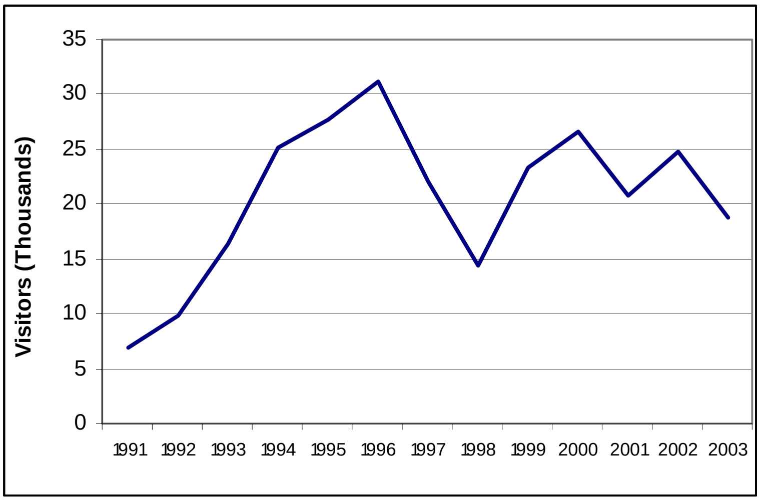



Source: Ministry of Education

## Tourism

While SARS and other global uncertainties hindered growth in the global tourism sector during 2003, Thailand-New Zealand links remained tight. Last year nearly 19,000 Thais visited New Zealand as tourists. In turn, 60,000 New Zealanders travelled north to Thailand.

Figure 7.2: Thai Visitors to New Zealand (1991 – 2003)



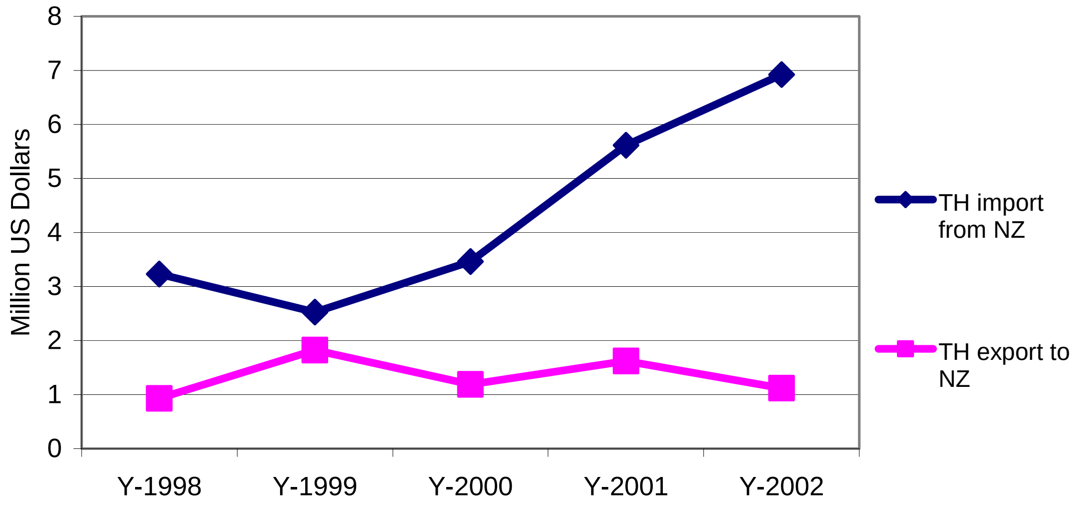

Source: Tourism New Zealand

Figure 7.2 displays Thai visitor flows to New Zealand since 1991. Throughout the early to mid 1990s the number of Thai visitors grew strongly, peaking at 31,000 in 1996. The impact of the Asian Financial Crisis on tourism flows was severe, with Thai visitor numbers halving between 1997 and 1998. While a partial recovery was witnessed over 1999 and 2000, the impact of SARS during 2003 has again temporarily seen a fall in Thai visitors to New Zealand. It is hoped that the profile-raising effect of a CEP would help to increase these numbers.

Other services

Figure 7.3 shows the growth in trade in other services (i.e. excluding education and tourism) between Thailand and New Zealand 1998 to 2002. In 2002, Thailand imported services from New Zealand valued at US$6.9 million with an average annual growth rate of 22.8% while Thailand exported services to New Zealand valued at US$1.1 million with an average annual growth rate of 4.1%.

Figure 7.3: Services Trade Relationship between Thailand and New Zealand




Source: Bank of Thailand

In support of the wider economic and trade relationship, service suppliers in the fields of professional services, consultancy services, construction services, health services, and other business services, play an increasingly important role. Greater bilateral economic activity resulting from a CEP would help foster the services relationship between Thailand and New Zealand by providing additional opportunities for service suppliers in both countries. Increased trade in services also assists with the exchange and transfer of skills and knowledge as the ideas and experience of Thai and New Zealand service suppliers can be combined in order to offer more competitive service products on the world stage.

## Chapter Eight: Investment

Overseas investment is an important element of modern economies. The Governments of Thailand and New Zealand both actively encourage the inward flow of capital. Inward investment not only provides capital for increased production and job creation but also assists in the exchange of technology, skills and sector knowledge.

In 2003, Foreign Direct Investment (FDI) in Thailand and New Zealand totalled about US$4.2 billion and US$26 billion respectively. For Thailand, France, the United Kingdom, Germany, Japan, and North America were the main sources of FDI. For New Zealand, Australia, the United Kingdom, and the United States were the main sources of FDI and were also the main destinations for New Zealand companies investing overseas. Both economies welcome and encourage overseas investment and offer attractive, stable and open business environments.

Thailand's foreign investment is subject to the Foreign Business Act[22] 1999, administered by Ministry of Commerce. The Act restricts foreign majority participation in some business activities related to national security, the social and natural environment, and non-competitive businesses. However, since 1999 there has been a reduction in the number of FDI restrictions allowing foreign investors to hold more than fifty percent of the shares in a number of business sectors which were reserved only for Thai nationals, including accounting, legal, engineering, and architectural services, hotel, distribution services, brokerage and contruction.

In 2004, the Thai Government has continued to improve its overall investment liberalisation policy and to use its strategic location to attract foreign investment with the aim of becoming a premier investment destination in the region. The Board of Investment (BOI) is the government agency responsible for formulating investment policies and providing incentives and privileges for investment. In 2004, the Thai government has provided greater incentives to stimulate investment in particular industries: namely agro-industry, fashion, automotive, electronic and ICT equipment, and high value-added services such as the film industry, regional operating headquarters, long–stay health care services, call centres, and convention and exhibition businesses. Details of general restrictions and promotion relating to foreign investment can be obtained from the BOI website[23].

Under New Zealand's overseas investment regime, administered by the Overseas Investment Commission (OIC), some significant investments are subject to an approval process. The approval process relates primarily to the

[22] A summary of the Foreign Business Act is contained in Annex I.
[23] www.boi.go.th

sale of land and is also used for statistical purposes. See Annex II for further details.

The New Zealand Government is currently undertaking a review of the Overseas Investment Act. The objective of this review is to maintain a liberal overseas investment regime and reduce compliance costs to businesses while providing greater protection to iconic sites of special historical, cultural or environmental significance. This review is expected to be completed in mid-2004 with any changes implemented from 2005.

Investment New Zealand[24] is the country's national investment promotion agency and a division of New Zealand Trade and Enterprise. The agency actively promotes New Zealand as an investment destination, working closely with New Zealand companies and foreign investors on significant opportunities. It looks to match high growth potential New Zealand businesses with current and potential international investors, supports the management of multi-nationals' New Zealand subsidiaries to attract further investment from their overseas parents, and promotes New Zealand as a relocation destination.

Investment New Zealand's activities focus around six core sectors: Biotechnology; Creative Industries; Information & Communications Technology; Specialised Manufacturing; Food and Beverage; and Wood Processing. The first three sectors listed form the basis of the New Zealand Government's Growth and Innovation Framework. In addition the New Zealand Government currently offers a tax incentive for large-scale film and television projects produced in New Zealand.

To date investment flows between Thailand and New Zealand have been modest. Both countries could benefit from an increase in bilateral investment, and the exchange and transfer of knowledge, technology, ideas and export opportunities that would flow from it. Intra-industry investment is particularly beneficial in the export sector as companies are able to share international market information and strategies leading to improved competitiveness in the global market place.

Publicity surrounding the signing, implementation and promotion of the CEP will highlight investment possibilities in both markets and improve awareness of the opportunities for joint ventures and strategic alliances. The substantive “national treatment” obligations contained in a bilateral CEP could further support two-way investment flows by providing greater predictability and certainty for overseas investors by providing legal guarantees of national treatment, subject to scheduled exceptions.

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[24] Visit www.investnewzealand.govt.nz for further details about investing in New Zealand and information on the services offered by Investment New Zealand.

**Investment Case Study: iPSTAR New Zealand Limited**

iPSTAR New Zealand Limited (iPSTAR NZ) is a wholly owned subsidiary of Shin Satellite Public Company Limited, Thailand. iPSTAR has been established to own and operate a telecommunications business, marketing and selling the satellite-based iPSTAR broadband service in New Zealand.

iPSTAR New Zealand's Services

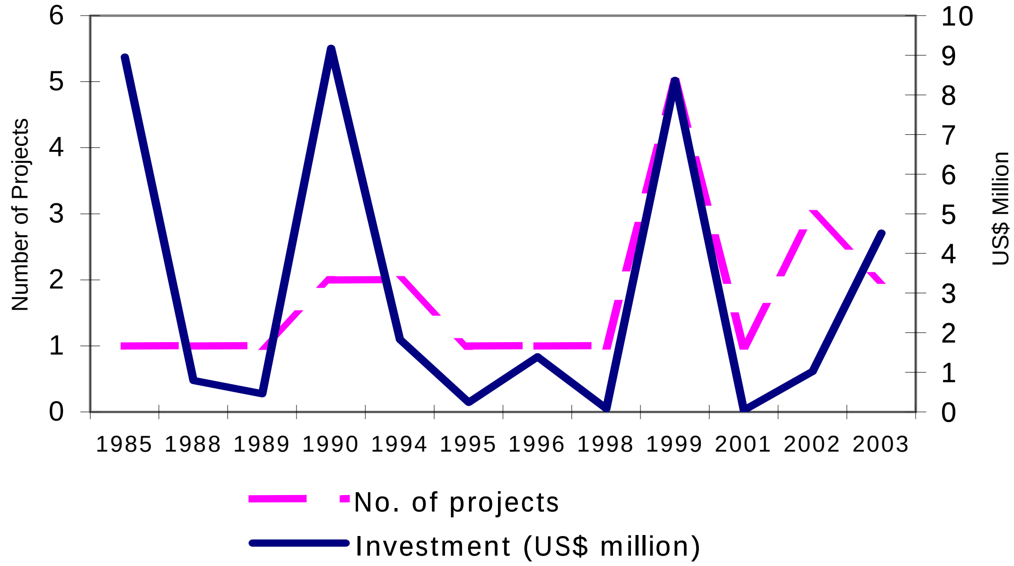
The iPSTAR Broadband Satellite System will provide telecommunications and multimedia services to households, business and public organisations. Consumers will have a wide variety of pay television and video on demand services, low cost IP voice telephony, and high-speed internet connections. Organizations will access two-way high-speed corporate "Internet Works" and use Ultra Small Aperture Terminals ("USAT") or Virtual Private Networks (VPN) in addition to consumer services.

Benefits to New Zealand

- Capital investment in New Zealand;
- Strategic commercial relationship with New Zealand companies including:
    - Stratos NZ Ltd, for gateway hosting and facilities services
    - Ericsson Communications Ltd, as a channel partner;
- iPSTAR NZ will be in a position to directly support employment growth and training in the New Zealand telecommunications industry; and
- With the natural features of satellite technology, the services will be available anywhere, in conjunction with the sophisticated technology of iPSTAR, allowing rural New Zealand to access broadband services at a competitive cost.

New Zealand is the 43$^{rd}$ largest investor in Thailand. The accumulated investment value in projects approved by the Board of Investment between 1985 and 2003 totalled US$25.5 million or equal to 0.03% of total FDI in the approved projects. Figure 8.1 shows that the peak period of New Zealand investment in Thailand was in 1999 when US$8.3 million was invested in manufacturing clothing and furniture, and in an aquarium business.

Figure 8.1: New Zealand Investment Projects Approved by BOI in 1985 – 2003




Source: Board of Investment

However, some New Zealand investment has not been channelled through the BOI. New Zealand investors have been involved in a wide range of activities in Thailand. Examples of New Zealand related investment in Thailand include:

- Manufacturing (e.g. ACS Asia, Aragon, Goldindo International (Thailand), La-Z-Boy (Thailand), Meshtec International, Univanich Palm Oil Public, New Zealand Milk Products)
- Consultancy services (e.g. Baldwin Boyle Group (Thailand), Brunsworth Limited, Hume Management Consultant)
- Engineering services (e.g. Transit Maintenance)
- Education (e.g. New Zealand Education Office (Thailand))
- Health services (e.g. Thai Nakarin Hospital)
- Recreation services (e.g. Underwater World Pattaya)
- Transport (e.g. Air New Zealand)
- Tourism (e.g. I&E Trading, NCC New Zealand)

# Chapter Nine: Other Trade-Related Issues

In order to maximise the benefits from closer economic interaction, bilateral CEPs go beyond the liberalisation of goods, services and investment. Cooperation in other areas of economic policy can help facilitate trade by improving the conditions for doing business in each other's economy. A bilateral CEP is the perfect vehicle for developing mutually beneficial cooperation between countries which in turn can contribute to improved economic performance. This chapter looks at other trade-related issues that could be addressed in a CEP between Thailand and New Zealand.

## Technical Barriers to Trade (TBTs)

Exporters often face red tape and bureaucratic difficulties when introducing their goods and services into a new market. Different countries have different regulations governing the technical requirements for products and it can be difficult and expensive for overseas providers to understand and comply with the foreign parameters.

With a view to minimising technical barriers affecting trade between Thailand and New Zealand, and specifically with the aim of reducing the transaction costs to business associated with different standards and regulatory approval, a CEP could contribute to the harmonisation of technical regulations through:

- improved co-operation between regulators;
- unilateral or mutual recognition based on acceptance of test reports and certification;
- harmonisation to international standards where appropriate;
- simplifying administrative procedures; and
- identifying mechanisms for addressing issues.

Not only will this allow both Thailand and New Zealand to expand their bilateral trade but it will also maximise the benefits of a CEP by minimising disguised technical barriers and by smoothing the progress of trade between the two countries.

### Standards and Conformance

Thailand and New Zealand have institutions that set standards for the effective conduct of business and trade and to minimise risks to health, safety and the environment.

Thailand has been a party to the Agreement on Technical Barriers to Trade (TBT Agreement) under the WTO since 1995. The Thai Industrial Standards Institute (TISI), under the Ministry of Industry, was designated as Thailand's TBT enquiry point and notification authority. However, since October 2002 as part of restructuring the bureaucracy, Thailand has two designated TBT enquiry points/notification authorities: TISI for industrial products, and the National Bureau of Agricultural Commodity and Food Standards (ACFS) for agricultural and food products.

Government departments as well as relevant regulatory authorities responsible for the implementation or administration of technical regulations, standards and conformity assessment procedures have also been informed of their obligations under the Agreement. The National Committee on Technical Barriers to Trade, comprising representatives from relevant public and private organizations, was established to ensure that Thailand's implementation and administration of technical regulations, standards and conformity assessment procedures are in compliance with the TBT Agreement.

Technical regulations, standards and conformity assessment procedures are published in the Thai Government Gazette before entering into force. In order to improve transparency, they are sometimes notified on the website (www.tisi.go.th) and in other publications, such as local newspapers in the case of mandatory standards, or the TISI newsletters for standards developed by the Thai Industrial Standards Institute. During 1995-2003 Thailand submitted 219 TBT notifications to the WTO.

In New Zealand conformity assessment is primarily structured through institutions that accredit third-party assessment bodies. Its specialist technical standards and conformance institutions and the enabling legislation consist of:

- Measurement Standards Laboratory of New Zealand (MSL). MSL is a Crown-owned company which carries out physical metrology functions in New Zealand;

- Measurement and Product Safety Service (MPSS). MPSS is part of the Ministry of Consumer Affairs and carries out physical metrology functions in New Zealand;

- Standards New Zealand (SNZ), a standard-setting body. SNZ is the trading arm of the Standards Council, a Crown-owned entity operating under the Standards Act 1988;

- International Accreditation New Zealand (IANZ). IANZ is the operating arm of the Testing Laboratory Registration Council, a statutory body established by the Testing Laboratory Registration Act 1972. It accredits testing laboratories; and

- Joint Accreditation System of Australia and New Zealand (JAS-ANZ), an international organisation established by a treaty between the New Zealand and Australian governments. JAS-ANZ accredits inspection bodies that certify management systems and organisations that license products.

- The Trans-Tasman Mutual Recognition Act 1997 provides for the recognition in New Zealand of regulatory standards adopted in Australia regarding goods and occupations and vice-versa.

The Ministry of Economic Development has responsibility for overseeing the standards and conformance infrastructure and for monitoring the effects of regulation, standards and conformance on industry. It strives to maintain the most appropriate and cost-efficient approach to standards and conformance, thereby reducing the effect of TBTs. New Zealand is a full member of the WTO and is a party to the Agreement on Technical Barriers to Trade. New Zealand's TBT enquiry point for all non-agricultural products is Standards New Zealand. The SPS enquiry point (for agricultural products) is the Ministry of Agriculture and Forestry. From 1995-2003 New Zealand submitted 45 TBT notifications to the WTO.

**Sanitary and Phytosanitary (SPS) Issues**

The WTO Agreement on the Application of Sanitary and Phytosanitary Measures (SPS Agreement) establishes the international rules-based framework for developing and adopting SPS measures. The SPS Agreement acknowledges the right of members to undertake measures to protect human, animal or plant life or health. It requires that such measures are not used to restrict trade unnecessarily, are based on scientific principles and are not maintained without sufficient scientific evidence. It recognizes the international standards, guidelines and recommendations of the International Office of Epizootics (OIE) for animal health; the International Plant Protection Convention (IPPC) for plants; and the Codex Alimentarius Commission for human health.

As a member of the WTO, Thailand recognises its rights and obligations under the Agreement on the Application of Sanitary and Phytosanitary Measures. However, as a part of the governmental restructuring, the National Bureau of Agricultural Commodity and Food Standards (ACFS), established under the Ministry of Agriculture and Cooperatives, has assumed responsibility as Thailand’s enquiry point/notification authority under the SPS Agreement since October 2002. The establishment of the ACFS aims to consolidate work related to formulation of agricultural commodity and food standards under various authorities within one entity.

The National Committee on Sanitary and Phytosanitary Measures, comprising representatives from relevant public and private agencies , was established to ensure that Thailand’s implementation and administration of agricultural commodity and food standards, quarantine procedures, control, import and export inspection, and certification systems, are in compliance with the SPS Agreement and to achieve an appropriate level of protection in domestic and international markets. As a member of and an active participant in various international organizations, including Codex, OIE, and the IPPC, Thailand has maintained SPS measures in compliance with those international standards.

Like New Zealand, the Thai Government places high priority on SPS standards and food safety. A serious attempt has been made to raise the standards and inspection system of Thai agricultural commodities in order to improve competitiveness and export opportunities for Thai agricultural products. Thailand’s aim is to promote Thailand as the "Kitchen of the World".

In New Zealand, the Ministry of Agriculture and Forestry is the primary government department responsible for implementing the SPS Agreement. New Zealand manages its SPS systems in accordance with its rights and obligations as a member of the World Trade Organization (WTO), Office International des Epizooties (OIE), Joint FAO/WHO Codex Alimentarius Commission (Codex) and party to the International Plant Protection Convention (IPPC), and the Plant Protection Agreement for Asia and Pacific Region.

New Zealand is a major participant internationally in SPS issues. Officials from both the Ministry of Foreign Affairs and Trade and the Ministry of Agriculture and Forestry regularly represent New Zealand's interests at the WTO SPS Committee in Geneva. Officials from the Ministry of Agriculture and Forestry, including the New Zealand Food Safety[25] Authority, also hold key positions in the relevant international standard-setting organisations recognised by the SPS Agreement (such as the OIE, Codex and IPPC), chairing international committees, serving on expert panels and providing high-level technical input.

New Zealand's approach to the development of SPS standards is based on the use of risk analysis consistent with international standards and the WTO SPS Agreement. The Ministry of Agriculture and Forestry works with exporting countries to develop country and commodity specific import health standards that mitigate risks associated with imported products. In its Trade Policy Review (2003) of New Zealand, the WTO notes that it is especially difficult for some products (eggs and chicken meat being of interest to Thailand) to be imported since they do not meet the required standards.

A Closer Economic Partnership could reiterate the commitment of Thailand and New Zealand to the WTO SPS Agreement. On a bilateral level the CEP could encourage technical cooperation between the regulatory agencies of the two

[25] The New Zealand Food Safety Authority is mandated with protecting and promoting public health and safety and facilitates access to markets for New Zealand food and food-related products.

countries in order to enhance implementation of the rules-based framework of the SPS Agreement and to facilitate bilateral trade.

**Competition Policy**

In 1999 Thailand enacted a set of new laws to prevent unfair trade practices. These new laws consist of the Trade Competition Act and the Act on the Price of Goods and Services. The objective of the Trade Competition Act is to create fair competition amongst private enterprises in Thailand, while the Act on the Price of Goods and Services aims to prevent the fixing of purchase and distribution prices and/or the setting of unfair conditions and trade practices. Both Acts will contribute to fairer business practices and create a more liberal trade and investment climate in Thailand. In addition to raising levels of productivity, efficiency, and international competitiveness, the acts will provide protection for the recently amended Constitution and current National Economic and Development Plan, which were designed to support a free market economic system. Both Acts also complement other liberal legislation such as the Foreign Business Act and the Civil and Commercial Codes.

New Zealand maintains robust competition laws, which proscribe any act that restricts or obstructs competition, with some limited exceptions. The main legislation governing competition in New Zealand is the Commerce Act 1986. It prohibits business arrangements (e.g. price fixing) and mergers and acquisitions that substantially lessen competition, as well as abuse of market power. Although there are a few examples of sector specific regulations, these are aimed at supplementing certain aspects of the generic competition law in these sectors. The Commerce Commission, an independent statutory body, is responsible for enforcing competition law and the Ministry of Economic Development is responsible for advising the Government on competition policy matters.

A competition chapter in the CEP between Thailand and New Zealand could promote competition in markets and help curtail anti-competitive behaviour. Such an undertaking would reinforce both countries' commitment to the APEC Principles to Enhance Competition and Regulatory Reform. Co-operation between the two countries under the CEP could include exchange of information, notification and consultation on the development of competition policy and competition law enforcement.

**Intellectual Property**

Thailand and New Zealand are Parties to the WTO Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPs) and maintain comprehensive legal frameworks for the protection of intellectual property rights.

In following the TRIPS principles the Government of Thailand has issued a number of laws in recent years such as the Copyright Act, the Patent Act, the Trademark Act and the Trade Secrets Act in order to eliminate infringement of intellectual property rights (IPRs). Thailand aims to create awareness amongst the Thai public and to provide sufficient information on technology and intellectual property rights to promote research and development in the intellectual property field.

New Zealand legislation involves a series of Acts including patents, trade marks, copyright and design and plant variety rights, with enforcement carried out at the border and through primarily civil action in the courts.

In support of economic growth, the enforcement of intellectual property rights is important for fostering innovation and product development. Cooperation in a CEP might include exchanging information and material on programmes pertaining to education in and awareness of intellectual property rights, as well as encouraging and facilitating the development of contacts and cooperation between the countries' respective government agencies. An appropriate balance between the interests of right holders and users of intellectual property should also be maintained.

### Customs Cooperation

Cooperation between Customs agencies is an important means of facilitating international trade. In today's increasingly challenging trading environment, it also provides an avenue to secure the flow of goods against terrorist-related activity in a way that can meet the expectations of our international trading partners.

There is scope in the context of a Thailand/New Zealand CEP to implement the APEC Principles for Customs Cooperation to facilitate and protect trade, and provide economical, modern border protection. While the New Zealand Customs Service maintains a liaison post in Bangkok, a CEP provides options to enhance mutual assistance between the New Zealand and Royal Thai Customs including, inter alia, information exchange on a range of enforcement matters, technical assistance, promotion of paperless trading, risk management and verification of origin. The CEP could provide the framework for the respective Customs administrations to agree on an Arrangement that will implement these and similar initiatives.

### E-Commerce

The increasing use of electronic communications by business is improving the efficiency and reducing the cost of transactions. Access to digital technology and the development of digital networks are bringing markets closer together, facilitating existing trade and introducing new services. Small and medium sized enterprises in particular profit from the use of e-commerce as it lowers the cost of entering new markets and reaching a wider range of international suppliers and customers.

Over the years the Thai government has focused its attention to the development of electronic commerce by developing the national electronic commerce framework and issuing laws facilitating the use of electronic commerce by Thai people. Such laws include Electronic Transactions Bill (entering into force in April 2002) and another four, i.e. the Electronic Fund Transfer Law, the Data Protection Law, the Computer Crime Law, and the National Information Infrastructure Law being under consideration for passage.

Electronic commerce is increasingly influential in Thai society. Thai internet penetration is rapidly growing. The record shows that domestic internet traffic volume reached a high level of 6351.4 GB per day in 2003. Meanwhile, total internet users have grown year-on-year basis reaching 6 million in 2003. This growth will continue due to the support of the Thai government through new laws and initiatives.

In 2000, the New Zealand Government launched its e-commerce strategy. It detailed the Government's commitment to provide leadership and to work in partnership with business and the broader community to build the e-commerce capability of New Zealanders. The Strategy recognised the opportunities and risks associated with the e-commerce and information technology revolution and set out the goals and principles to guide the Government's response. The Strategy identified three broad roles for government:

- leadership and communication, including in particular e-government;
- helping to build capability in business and the broader community; and
- ensuring an enabling regulatory environment for e-commerce.

To date, the Government has implemented a significant number of initiatives in all these areas including:

- consumer protection such as the New Zealand Model Code for Consumer Protection in Electronic Commerce;
- legislative changes including the Telecommunications Act 2001 and the Electronic Transactions Act 2002, and proposed legislation to outlaw spam.
- education initiatives to drive uptake of e-commerce by SMEs such as the work of the E Commerce Action Team; and

- continued rollout of e-government at the central and local government levels.

Currently, 75% of New Zealanders regularly access the internet, from home, work or public access points. In addition, business use is high, with 95% of large firms and 75% of small firms using the internet.

Cooperation between Thailand and New Zealand on e-commerce could encourage the coordination of legislation and regulations, facilitating trade in digital products and ensuring that the development of electronic commerce is not impeded by unnecessary or burdensome national regulations. Work on e-commerce is also being undertaken in multilateral fora such as APEC, the UN and the WTO.

**Government Procurement**

Government expenditure is an important component of total economic activity in both Thailand and New Zealand. Both countries participate in the WTO Working Group on Transparency in Government Procurement but neither is a member of the Government Procurement Agreement. Thailand requires its public agencies to apply specific local preference policies to promote local businesses.

Thailand has committed to improve the government procurement regime to be in consistency with the APEC Non-binding Principles on Government Procurement, namely transparency, value for money, open and effective competition, fair dealing, accountability and due process, and non-discrimination. In 2002, Thailand launched the Public Sector Reform Act that changed the structures and functions of agencies in the public sector. The public procurement management function is one of the major reforms. Previously responsibility for procurement was spread among different central agencies, but is now solely the responsibility of the Comptroller General's Department, Ministry of Finance.

The Department of Comptroller General intends to develop the Public Procurement Reform Plan to be a framework which will promote good governance in the public sector in the near future. The master plan will cover all concepts and issues that will improve regulations, including electronic procurement development, procurement professional development, SME participation in supply and international agreements. Moreover, the reform plan will emphasise the need for development of all procurement issues to be in line with international practices.

New Zealand's government procurement policy is to provide an open and transparent market based on the principles of best value for money; open and effective competition; full and fair opportunity for domestic suppliers and improving business capabilities. The global non-discriminatory approach is reinforced by bilateral commitments with New Zealand's CEP partners Australia and Singapore. For a description of New Zealand's government procurement policy regime see "Government Procurement in New Zealand: Policy Guide for Purchasers" (July 2002) [26].

A bilateral CEP could help facilitate access by New Zealand and Thai goods and services providers to the government procurement markets in both countries, through cooperation to address any restrictions. A framework consistent with the APEC Non-binding Principles on Government Procurement could be developed to improve transparency of market opportunities and information exchange. It is also an objective of Thailand to develop its Government Procurement regime in line with international best practices.

### Trade Remedies

While the main purpose of the CEP is to facilitate trade, there maybe times when measures might be taken to counter unfair trading practices such as product dumping. The WTO has rules relating to anti-dumping, countervailing duties and safeguards. Handling of trade remedies in the context of a CEP could be discussed in relation to the objectives of maintaining adequate protection from unfair trading practices while ensuring that the benefits of trade liberalisation are not undermined.

### Export Subsidies

Thailand and New Zealand are committed to the early elimination of all forms of export subsidies on all agricultural products in the current Doha Round of WTO negotiations. This position recognises the trade-distorting nature of export subsidies and their harmful effect on agricultural trade and development. The CEP could address the elimination of export subsides on bilateral trade and reinforce the parties' multilateral commitments in this area.

### Labour and Environmental Standards

Sustainable development is a core national objective for both Thailand and New Zealand. The linkages between social, economic, environmental, and cultural aspects of sustainable development require an integrated approach to policy development and implementation.

Thailand and New Zealand both acknowledge the importance of core labour standards and the principles underlying them, as contained in the International Labour Organisation's (ILO) Declaration on the Fundamental Principles and

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[26] (www.med.govt.nz/irdev/gov_pur/purchasers/index.html).

Rights at Work. Both countries are committed to ensuring domestic compliance with these fundamental principles.

Since the early 1990s, Thailand has introduced a number of laws and regulations relating to environmental conservation and pollution prevention. The landmark Enhancement and Conservation of the National Environmental Quality Act of 1992 provides a comprehensive framework for subsequent environmental conservation and pollution prevention measures that are still in force today.

The New Zealand Government has produced a sustainable development Programme of Action to ensure the well being of current and future generations. In line with this approach, the New Zealand Government has developed frameworks to integrate labour and environment considerations more effectively in trade agreements. These frameworks can be viewed on the Ministry of Foreign Affairs and Trade website[27]. In New Zealand the Ministry for the Environment[28] and the Department of Labour[29] are responsible for policy advice and implementation relating to environmental and labour issues.

Thailand and New Zealand have worked together both bilaterally and multilaterally on sustainable development including the promotion of labour and environmental standards. New Zealand has hosted delegations of Thai labour officials, providing opportunities to exchange information on labour systems. In the multilateral arena Thailand and New Zealand work together in many organisations including the International Labour Organisation and the Environmental and Sustainable Development Division of the United Nations Economic and Social Commission for Asia and the Pacific, which is based in Bangkok. Both Thailand and New Zealand participated in the World Summit on Sustainable Development and were party to resolutions which it adopted including the Johannesburg Plan of Implementation.

Closer Economic Partnerships provide an opportunity to demonstrate a country's commitment to developing and applying sound sustainable development policy, which will in turn create a stable and attractive climate for foreign investment. Labour and environment provisions can be utilized to formalise and enhance existing relationships and explore areas for future cooperation and dialogue both together and in concert with other countries in multilateral fora.

These provisions would recognise the diversity of social, environmental, legal, cultural and economic circumstances in individual countries and should not deny legitimate comparative advantage arising from different circumstances.

[27] Trade and Labour: www.mfat.govt.nz/foreign/tnd/wtonegotiations/labourframework.html; and Trade and the Environment: www.mfat.govt.nz/foreign/tnd/wtonegotiations/envframework.html
[28] www.mfe.govt.nz
[29] www.dol.govt.nz

The form and content of any labour or environment component would reflect the mutual interests of Thailand and New Zealand and objectives both countries want to promote.

Possible areas for Thailand and New Zealand to explore include: the role of relevant international organisations and instruments (e.g. the International Labour Organisation's Declaration on Fundamental Principles and Rights at Work and Multilateral Environment Agreements); implementation of domestic laws; mechanisms for cooperation and dialogue; and scope for cooperation in capacity building.

## Other Issues

Treaty of Waitangi

The Treaty of Waitangi (signed in 1840) is the founding document of New Zealand's partnership in governance between the Crown and Maori (New Zealand's indigenous people). Due to the importance of the Treaty of Waitangi, New Zealand has included exceptions both in its GATS commitments and in its CEP with Singapore related to Maori. The relevant clause in the New Zealand/Singapore CEP allows the New Zealand government to implement policies related to Maori without being constrained by CEP commitments provided these policies are not used as a means of arbitrary or unjustified discrimination against persons of the other Party or as a disguised restriction on trade in goods and services or investments.[30] New Zealand would seek to include a similar provision in a CEP with Thailand.

Taxation

Taxation regimes are an important element in influencing international business transactions. Addressing this matter Thailand and New Zealand signed a bilateral agreement on the avoidance of double tax (DTA) in 1998. Comments and ideas relating to taxation that may arise in the context of a CEP could be fed through to any future review of the DTA.

[30] The full text of the Singapore – New Zealand CEP is available on line at: www.mfat.govt.nz/foreign/regions/sea/cepsingdocs/singcepcontent.html. Article 74 refers to the Treaty of Waitangi.

# Chapter Ten: Working Together

Especially in light of the complementary nature of the Thai and New Zealand economies, there is extensive scope for businesses to work together in mutually beneficial ways which go beyond the seller-buyer relationship. A CEP which liberalises and facilitates trade in goods and services will increase and highlight the opportunities available for Thai and New Zealand business people to collaborate to mutual advantage through the transfer of technology and skills, sharing of ideas and improvements in business practice.

The previous chapter looked at ways in which the governments of Thailand and New Zealand can cooperate and coordinate activities in support of the economic relationship. This chapter provides examples of existing business relationships which are benefiting both countries. In many cases, the companies concerned consider that the opportunities to expand these relationships could be improved following a CEP.

### D M Palmer New Zealand Ltd

D M Palmer New Zealand Ltd began working with Thai company Sakolchai Transpack in the mid-1990s. Together, the two companies market industrial grade pine timber for use in packaging. The packaging is used for exports from Thailand of car parts and a range of other manufactured goods.

D M Palmer packaging provides essential support for major Thai export industries including the automotive and manufacturing industries and therefore contributes to significant employment for Thai people.

While initial processing occurs in New Zealand, Sakolchai Transpack carries out further processing at its factory in Laem Chabang to meet specialised customer needs. In recent years, Sakolchai Transpack has expanded production significantly to meet demand for D M Palmer products. A new factory was built in Thailand specifically to meet this demand.

### Mastip Technology

Mastip Technology is a New Zealand-based manufacturer of “hot runner” systems for manufacturing plastic goods. These systems keep plastic molten throughout the manufacturing process, which reduces waste and increases efficiency. Mastip exports to more than 30 countries and began exporting to Thailand 10 years ago, through its Thai distributor Mastip Thailand Co Ltd, which sells to a wide range of industries including automotive, computer, packaging and telecommunications.

Mastip's technology brings significant benefits to Thai industries by increasing production speed and efficiency, reducing the number of rejects and the amount of waste, and helping improve product quality. This saves costs and improves the global competitiveness of Mastip's Thai clients. Mastip pioneered "hot runner" technology in Thailand and has provided seminars and worked with technical institutes to educate Thai engineers on its use.

**Carter Holt Harvey (Thailand) Co Ltd**

Carter Holt Harvey (CHH) began operating in Thailand in the mid-1990s, exporting prefabricated timber frame construction systems. Over time, the company has expanded its range to include outdoor timber products and structures such as pergolas. CHH has a factory in Bang Pa-In near Ayudhaya. The company employs about 12 people directly. A further 60 contractors work exclusively for CHH. Sales have grown fourfold in the past seven years.

CHH's products use sustainable, plantation-based timbers. This leaves native hardwood timbers available for conservation or use in added-value industries such as furniture manufacturing. CHH has introduced new technology to Thailand and trained Thai engineers in new skills. Apart from the chief executive, all employees and contractors are Thai. CHH is researching the feasibility of using Thailand as a base for exporting to other countries in Asia, which could lead to further growth in employment.

**Baldwin Boyle Group (Thailand) Co Ltd**

Since it was established in 1981 Baldwin Boyle Group has grown to become the largest independently owned public relations consultancy specialising in the Asia-Pacific region.

Baldwin Boyle Group set up a company in Thailand in 2002. However prior to this it provided advisory services out of its Singapore office. It currently employs ten people in Thailand, and works as an in-house consultant for Thai companies working in areas such as change management, financial PR, brand building, website development and customer communications.

Baldwin Boyle Group is possibly unique in Thailand in its emphasis on communications strategy. Until recently public relations has been rather reactive and focused mainly on media, advertising and event management. However corporate clients are increasingly recognising the role that communications can play in implementing management strategies.

Skill transfer is a very important part of Baldwin Boyle Group's role in Thailand. In addition to training its own Thai employees it is actively training staff employed by its clients.

Since Baldwin Boyle Group was successful in setting up a company it has not faced barriers to its operations, although the administrative side of operating a business can be arduous – including the “90 day checks” required of all expatriates living in Thailand.

### Pacific Wide (New Zealand) Ltd

Pacific Wide (New Zealand) Ltd has been exporting sphagnum moss to Thailand for eleven years and has recently introduced bark. Both these products are important fertilisers for Thailand’s lucrative orchid production and exporting industry.

There is no Thai production competing with Pacific Wide but tariffs of up to 60% are currently restricting exports to Thailand. Removing the tariffs on sphagnum moss and bark imports into Thailand through the CEP will significantly lower production costs for the Thai orchid industry, improving their export competitiveness and increasing earnings.

### Intermech Ltd

Intermech Limited is a New Zealand based manufacturing, technology and development company and is a world leader in CNG compression technology. They employ sixty-five people and 100% of their products are exported. Intermech produces compressed natural gas (CNG) refuelling station equipment and has been increasing its exports by 30-40% each year. Intermech is active throughout much of the world (South East Asia, China, Latin America and the Middle East) and began exporting into the Thai market in 2002. Intermech’s sales to Thailand in 2003 comprised a total of 20 CNG refuelling stations.

As CNG is a clean fuel, CNG refuelling equipment supplied by Intermech is assisting Thailand to reduce its dependence on oil for fuelling transportation services and reducing air pollution. Aside from the environmental benefits, use of CNG would allow Thailand to cut down on oil imports and processing, bringing savings to the wider economy.

Intermech exports to Thailand currently attract import duties of up to 20%. Removing this tariff would make Intermech’s products more affordable to Thai customers, facilitate technology transfer and help make alternative energy more commercially viable in Thailand.

## Conclusion

A comprehensive, trade facilitating bilateral closer economic partnership between Thailand and New Zealand will provide real benefits for the people, businesses and economies of both nations.

This study has identified specific ways in which a bilateral CEP could contribute to the wider trade policy and economic objectives of Thailand and New Zealand. Both countries are already leaders in regional economic reform and trade liberalisation, working cooperatively in the Cairns Group at the WTO, as members of APEC and in the AFTA/CER process. A quality CEP negotiated between Thailand and New Zealand has the potential to set a high standard for preferential trade agreements in the region while at the same time helping to advance the APEC and WTO trade liberalisation processes.

The aim of a CEP should be to ensure that the greatest possible benefits from bilateral trade accrue to both parties. To achieve this a CEP should include the comprehensive elimination of tariff and other barriers that currently restrict bilateral trade.

Thailand and New Zealand’s complementary trade structures mean that there is large potential for trade creation following a CEP. Exporters in both countries will directly benefit from the removal of tariffs and reduction of other trade barriers allowing greater quantities and a larger variety of goods and services to be exchanged. Equally consumers in Thailand and New Zealand could benefit from increased competition, lower prices and access to a greater selection of goods and services. Thailand’s growing food processing sector would be expected to gain from lower prices when importing quality raw ingredients from New Zealand. In the other direction, New Zealand businesses and consumers stand to benefit from imports of manufactured goods and processed products from Thailand. In services, Thailand and New Zealand have developed different areas of expertise and the sharing of these skills following a CEP could benefit many sectors of society.

As with any preferential trade agreement, it is important that benefits from a CEP only accrue to Thai and New Zealand goods. The rules of origin should be trade facilitating and take into account the relevant domestic production processes in both countries. They should also be readily enforceable.

In general the economic structures of Thailand and New Zealand are complementary. There are however areas where there is competing production which is covered by tariff barriers. Given the size of trade between Thailand and New Zealand and the production capacity in each country, a bilateral CEP is, in isolation, not expected to impact significantly on current industry trends.

The governments of Thailand and New Zealand actively encourage the inflow of overseas investment. A CEP can create a more stable and transparent platform for foreign investment while raising the profile of the two investment markets both bilaterally and internationally.

Economic partnership agreements between two countries can stimulate mutually beneficial cooperation at many levels. This study examined a number of industries where existing trade and investment relationships are producing significant spin-offs and where a CEP could introduce new opportunities. Greater economic interaction under a CEP should in turn lead to exchanges of technology, capital, innovation and knowledge which are all valuable assets for both countries to operate more competitively in the global market place.

Businesses in Thailand and New Zealand can also benefit from improved cooperation between the two governments. A bilateral CEP could include provisions for government-to-government cooperation and facilitate understanding of regulations including in the areas of sanitary and phytosanitary measures, customs procedures, technical barriers to trade, e-commerce and paperless trading, intellectual property and labour and environmental practices. Such collaboration would lower transaction costs for doing business in the partner market and facilitate trade and other economic transactions between Thailand and New Zealand.

Improving transparency of government procurement and removing barriers to trade could provide new opportunities for suppliers of goods and services and allow more cost efficient purchasing for the government agencies of Thailand and New Zealand.

Thailand and New Zealand have a long and warm bilateral relationship across the spectrum of society, the economy and culture. This relationship has steadily developed over the years and a CEP agreement would cement this excellent association into the future.

## Annex I: Thailand's Foreign Business Act, Limitations on Foreign Entry

This annex contains a summary of Thailand's Foreign Business Act. A full description is available at: www.boi.go.th.

A "Foreigner" means:

(1) Natural person not of Thai nationality
(2) Juridical person not registered in Thailand.
(3) Juridical person registered in Thailand having the following characteristics:
   - Having half or more of the juridical person's capital shares held by persons under (1) or (2) or juridical person having the persons under (1) or (2) investing with a value of half or more of the total capital of the juridical person.
   - Limited partnership or registered ordinary partnership having the person under (1) as the managing partner or manager.

(4) Juridical person registered in Thailand having half or more of its capital shares held by the person under (1), (2) or (3) or a juridical person having the persons under (1), (2) or (3) investing with the value of half or more of its total capital.

The minimum capital used at the commencement of the business operation shall not be less than that prescribed by ministerial regulations and shall in no case be less than 2 million Baht. In cases where the business requires the licenses under the List One, Two, or Three, the minimum capital to be prescribed in the ministerial regulations for each of the business shall in no case be less than 3 million Baht.

Foreigners shall be prohibited from operating the business described in List One.

<u>List One</u>: These business are not permitted for aliens to operate in due to special reasons:

(1) Newspaper business, radio broadcasting or television station business;
(2) Rice farming, farming or gardening;
(3) Animal farming;
(4) Forestry and wood fabrication from natural forest;
(5) Fishery for marine animals in Thai waters and within Thailand special economic zones;
(6) Extracting of Thai herbs;
(7) Trading and auctioning Thai antiques or national historical objects;

(8) Making or casting Buddha images and monk alms bowls;
(9) Land trading.

Foreigners may operate the business under List Two only if Thai nationals or juridical persons that are not foreigners hold shares valued at not less than 40% of the capital of those foreign juridical persons. Unless there is a reasonable cause, the Minister of Commerce with the approval of the Cabinet may reduce the proportion requirement but it shall not be less than 25% and the number of Thai directors shall not be less than 40% of the total number of directors.

List Two: The business related to the national safety or security or affecting arts and culture, tradition, folk handicraft or natural resource and environment:

Group One: The business related to the national safety or security
(1) Production, selling, repairing and maintenance of:
- (a) firearms, ammunition, gun powder, explosives;
- (b) accessories of firearms, ammunition, and explosives;
- (c) armaments, ships, aircrafts or military vehicles;
- (d) equipment or components, all categories of war materials;

(2) Domestic land, waterway or air transportation, including domestic airline business.

Group Two: The business affecting arts and culture, traditional and folk handicraft:
(1) Traditional antiques or art objects being Thai arts and handicraft;
(2) Production of carved works;
(3) Silkworm faming, production of Thai silk yarn, weaving Thai silk or Thai silk pattern printing;
(4) Production of Thai musical instruments;
(5) Production of gold ware, silverware, nielloware, bronze ware or lacquer ware;
(6) Production of crockery of Thai arts and culture.

Group Three: The business affecting natural resources or environment:
(1) Manufacturing sugar from sugarcane;
(2) Salt farming, including underground salt;
(3) Rock salt mining;
(4) Mining, including rock blasting or crushing;
(5) Wood fabrication for furniture and utensil production;

Foreigners shall not operate the business under List Three unless permitted by the Direct General of Department of Business Development with the approval of the Foreign Business Committee

<u>List Three</u>: The business which Thai nationals are not yet ready to compete with foreigners:

(1) Rice milling and flour production from rice and farm produce;
(2) Fishery, specifically marine animal culture;
(3) Forestry from forestation;
(4) Production of plywood, veneer board, chipboard or hardboard;
(5) Production of lime;
(6) Accounting service business;
(7) Legal service business;
(8) Architecture service business;
(9) Engineering service business;
(10) Construction, except for
  (a) construction rendering basic services to the public in public utilities or transport requiring special tools, machinery, technology or construction expertise having the foreigner's minimum capital of 500 million Baht or more
  (b) other categories of construction as prescribed by the ministerial regulations.
(11) Broker or agent business, except:
  (a) being broker or agent for underwriting securities or services connected with future trading of commodities of financing instruments or securities;
  (b) being broker or agent for trading or procuring goods or services necessary for production or rendering services amongst affiliated enterprises.
  (c) being broker or agent for trading, purchasing or distributing or seeking both domestic and foreign markets for selling domestically manufactured or imported goods in the manner of international business operations having the foreigners' minimum capital 100 million Baht or more.
  (d) being broker or agent of other category as prescribed by the ministerial regulations.
(12) Auction, except:
  (a) auction in the manner of international bidding not being the auction of antiques, historical artifacts or art objects which are Thai works of arts, handicraft or antiques or having the historical value;
  (b) other categories of auction as prescribed by the ministerial regulations.
(13) Internal trade connected with native products or produce not yet prohibited by law;
(14) Retailing all categories of goods having the total minimum capital less than 100 million Baht or having the minimum capital of each shop less than 20 million Baht;

(15) Wholesaling all categories of goods having minimum capital of each shop less than 100 million Baht;
(16) Advertising business;
(17) Hotel business, except for hotel management service;
(18) Guided tour;
(19) Selling food or beverages;
(20) Plant cultivation and propagation business;
(21) Other categories of service business except that prescribed in the ministerial regulations.

## Annex II: Summary of the Overseas Investment Policies of New Zealand

New Zealand welcomes and encourages overseas investment from all countries. This is reflected by the facilitative nature of the Government's overseas investment policies. However, a minimal level of controls over "significant" overseas investment are maintained:

a) to ensure investment inconsistent with government criteria is discouraged, particularly in relation to certain land; and
b) for statistical purposes.

The Overseas Investment Commission (the Commission) administers the Overseas Investment Regulations 1995 (the Regulations). Under the Regulations an "overseas person" must obtain consent to acquire or take "control" of 25% or more of New Zealand:

a) businesses or property worth more than $50 million;
b) land over 5 hectares and/or worth more than $10 million;
c) land on most off-shore islands; and
d) land over 0.4 hectares that includes or adjoins "sensitive" land over 0.4 hectares (e.g. on specified islands, containing or next to reserves, historic or heritage areas, or lakes); and
e) land over 0.2 hectares that includes or adjoins the foreshore.

While 100% overseas ownership can be approved in all industry sectors some New Zealand based companies have restrictions relating to foreign ownership.

The Commission also administers sections 56 and 57 of the Fisheries Act 1996. An "overseas person" must obtain either an exemption under section 56 or permission under section 57 to acquire or continue holding quota, an interest in quota, annual catch entitlement or provisional catch history.

The Minister of Finance is responsible for policy relating to controls over overseas investment in New Zealand. This responsibility is shared with the Minister for Land Information in respect of certain land and with the Minister of Fisheries in respect of fishing quota applications.

Further details of assets subject to the approval process and the criteria they are required to meet can be obtained from the OIC website[31] or the New Zealand Embassy in Bangkok.

[31] www.oic.govt.nz/invest/policies.htm