

**Australia-Thailand
Free Trade Agreement
Joint Scoping Study**

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

May 2002

Executive Summary

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

An FTA would bring significant benefits to both countries

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

Relations are already close ...

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

... but there are significant impediments to trade and investment

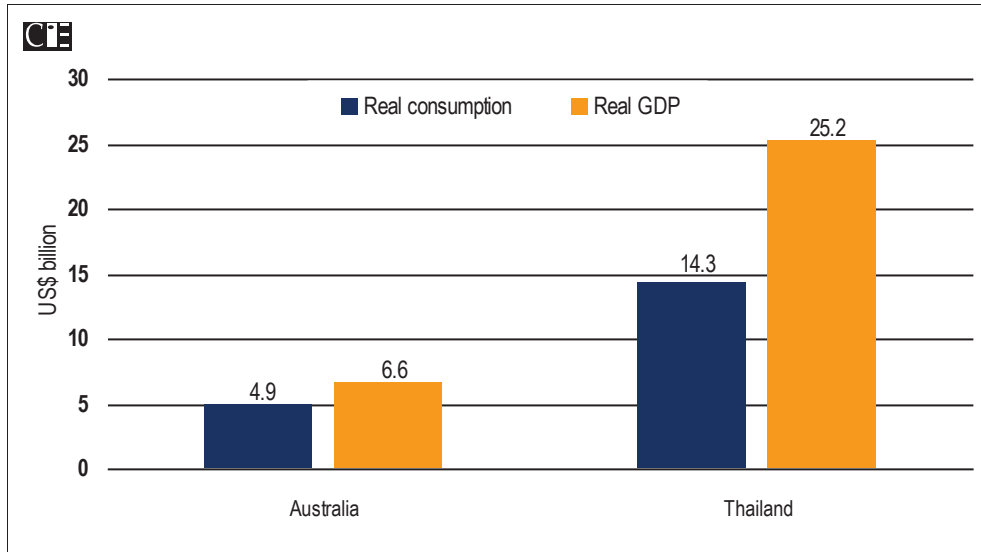
Although both countries have undergone trade liberalisation over the past decade, there are still important impediments to trade and investment. Tariff barriers are significant in some sectors for both Australia (for passenger motor vehicles, textiles, clothing and footwear) and Thailand (e.g. motor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

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

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

Gains from Immediate Implementation of an FTA: Modelling Results

Net Present Value 2002 \$US billion^a



^a Discounted by model generated real interest rate.

Trade would increase in both the goods and services sectors

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

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

Investment flows to Thailand would tend to increase

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

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

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

Liberalisation in agriculture would benefit both economies

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

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

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

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

² In net present value terms, over 20 years.

An FTA would open up new opportunities in textiles and clothing

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

... and intensify existing links in sectors like education and tourism

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

Adjustment costs would be small

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

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

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

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

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

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

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

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

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

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

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

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

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

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