How Do FTAs Affect Exporting Firms in Thailand?*

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Jirawat Panpiemras
Sumet Ongkittikul**

1. INTRODUCTION

Since the 1970s, outward-oriented policies have transformed Thailand into a regional production hub and improved economic prosperity. As of 2010, automobiles and automobile parts and electronics make up a quarter of the exports from this upper-middle-income economy. From the 1990s, Thailand has emphasized regional trade agreements as a vehicle of commercial policy. The country has participated since 1993 in the Association of Southeast Asian Nations (ASEAN) Free-Trade Area (AFTA) and has pursued bilateral free trade agreements since 2001. By December 2009, Thailand was one of East Asia’s most active users of free trade agreements (FTAs), having concluded 11 FTAs and engaged in another six FTA negotiations.

In response to the trend toward FTAs, there is growing academic interest in ex ante and ex post evaluation of Thailand’s FTAs. Ex ante studies use globally computable general equilibrium (CGE) models to simulate the economic effects of alternative FTA scenarios. The Thailand Development Research Institute (TDRI) (2006) suggested that higher welfare effects of tariff reduction were visible from bilateral FTAs with traditional markets, such as Japan and the United States (US) than those with new markets. Kawai and Wignaraja (2009a) found that ASEAN FTAs generated significantly larger welfare gains for Thailand, especially if the CGE analysis incorporated reductions in tariffs, services barriers and improvements in trade facilitation.

Ex post studies rely on industry analysis to assess the effect of FTAs. In a study of the automobile sector, Archanun and Juthathip (2006) concluded that overall FTA utilization rates were relatively low and that FTA export creation was not significant. In contrast, TDRI (2006) found relatively high utilization rates for the Thailand-Australia FTA and the Thailand-India FTA but relatively low rates for the ASEAN-China (PRC) FTA. TDRI (2006) also found that automobiles benefited more than textiles from implemented FTAs. Using revealed comparative advantage analysis, Chalongphob (2003) suggested that the full impact of the ASEAN-PRC FTA may be underestimated as China’s range of comparative advantages over Thailand is broad.

The few available studies of Thailand’s FTAs provide only partial insights. The CGE estimates highlight welfare gains from bilateral FTAs with traditional markets and ASEAN FTAs. Yet they are unable to clarify how much such welfare gains are realized. Furthermore, industry studies seem inconclusive on FTA utilization rates and effects on different sectors. In the absence of adequate industry information, enterprise surveys can help investigate the impact of FTAs on Thailand’s exporters.

This study is the first systematic analysis of how FTAs affect exporting firms in Thailand. The research explores five key issues in current academic and policy debates: (a) awareness of FTA provisions and use of FTA preferences; (b) the relative importance of different FTAs and net benefits of FTAs; (c) enterprise responses to FTAs; (d) the burden imposed by multiple rules of origin (ROO) and the extent of the Asian “noodle bowl” effect; and (e) harmonization of ROO. These issues were investigated using a survey of 221 exporters of

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three leading Thai exports—textiles/garments, electronics, and auto/auto parts—undertaken from April 2007 to May 2008.

2. SURVEY FINDINGS

This section presents the main findings from the survey of 221 firms involved in the manufacture of textiles/garments, electronics, and auto/auto parts. The sample covers firms of different size (small and medium-sized enterprises (SMEs), large firms, and giant firms) and ownership (domestic and foreign). The sample and sampling methodology are described in Appendix 1. The survey dealt with issues that can be arranged under six headings, as follows:

2.1 Awareness and Use of FTA Preferences

FTA texts, particularly for comprehensive agreements, tend to be long and written in complex legal and technical language. Given their complexity, an important issue is the extent to which business has studied the detailed provisions in Thailand’s FTAs and is fully aware of their implications.

Some firms claimed to be aware of provisions in Thailand’s FTAs. Of the sample firms, 43.5 percent (87 firms) claimed to have thorough and detailed knowledge of the FTA provisions that affect their business. Another 26.0 percent of sample firms claimed to have some knowledge of some aspects of the relevant FTA provisions. Larger firms tended to be more knowledgeable about FTAs than smaller firms were. While 66.2 percent of large firms and 65.0 percent of giant firms claimed that they have thorough knowledge of FTA provisions, only 23.6 percent of SMEs provided the same response (Figure 1). Expectedly, a high proportion of SMEs (44.3%) reported that they had no knowledge at all of FTA provisions that affect their business.

Textiles/garments had the highest proportion of firms that claimed to be knowledgeable about FTA provisions (53.4%). However, without more detailed case studies of firms, it is hard to verify these claims. The levels of awareness of FTA provisions may reflect that the sample firms are mostly in (or near) major cities in Thailand and have access to information on FTAs, training, and other FTA-related services provided by government and business associations. Awareness levels are likely to decline with increasing distance from the capital city and ready access to FTA services.

Negotiating multiple FTAs requires investment of scarce resources. Yet, there is speculation about the utilization of preferences in Thailand’s concluded FTAs and plans for preference utilization in FTAs under negotiation. The pattern of current and future preference utilization should be examined. Another issue is how much have FTAs influenced the behavior of businesses and the formulation of their business plans.

Utilization of preferences in existing Thai FTAs seemed reasonable and set to rise. Survey results suggest that 24.9 percent of respondents (55 firms) used Thai FTAs. When future use is factored in, the use/plan-to-use rate rises to 45.7 percent of respondents (100 firms). The utilization rate from survey findings generally accords with the utilization rate (26.7% in 2008) provided by Suthiphand (2008) based on certificate-of-origin data from the Thai Ministry of Commerce. Table 1 provides a breakdown of the pattern of FTA preference utilization. Larger firms were more likely to use FTA preferences than SMEs were.

Figure 1 Awareness of FTA Provisions that Affect Business
(percentage of responding firms in each size category)

Source: Authors’ calculations based on survey data.
It is interesting to consider which FTAs were important to firms that used or planned to use prefer- ences. About 32.4 percent of firms reported the five FTAs in effect, namely AFTA, ASEAN-PRC FTA, Thailand-Australia FTA, Thailand-New Zealand Com- prehensive Economic Partnership Agreement (CEPA), and Thailand-India FTA. Meanwhile, 67.5 percent of these firms reported the FTAs under negotiation, i.e., US-Thailand FTA and Japan-Thailand Economic Partnership Agreement (EPA), to be the most important for their business. Thus, the evidence seems to suggest moderate levels of utilization of preferences in existing Thai FTAs as of 2007–2008, but FTA utilization rates in Thailand are likely to increase when the major FTAs under negotiation become effective.

Meanwhile, 26.0 percent of the sample firms did not use preferences, mostly domestic SMEs. In-depth interviews with firms revealed interesting insights on why firms are not keen on using FTA preferences. Apart from the non-FTA preferences available to firms, such as the Information Technology Agreement (ITA), the demand for products from the FTA partner may be too small relative to the administrative cost associated with utilizing FTA preferences. Furthermore, most-favored nation (MFN) rates are also available to firms, which can sometimes be more competitive than FTA preference rates.

2.2 Ranking of FTAs and Net Benefits

The growing number of FTAs involving Thailand raises the issue of the relative importance of different FTAs for business, particularly those concluded versus those under negotiation. FTAs are associated with positive (e.g., higher export sales) and negative aspects (e.g., increased competition from imported products). A related issue is whether they have brought net benefits to business in Thailand.

**The US-Thailand FTA and the Japan-Thailand EPA were the most important FTAs for the sample firms.** Table 2 provides a ranking of the importance of Thai FTAs. Of the 221 firms, 22.6 percent of them chose the US-Thailand FTA while another 21.7 percent selected the Japan-Thailand EPA as being most vital to their businesses. The two FTAs under negotiation thus emerged as being relatively more important for the sample firms than those already in effect. Other FTAs indicated in the survey include AFTA (14.5%), Thailand-Australia FTA (8.1%), Thailand-PRC FTA (Early Harvest Program [EHP]) (2.7%), ASEAN-PRC FTA (2.3%), Thailand-India FTA (EHP) (0.9%), and Thailand-New Zealand CEPA (0.4%). These findings underscore the role of Thailand’s FTAs in strengthening its ties with large, traditional export markets (e.g., ASEAN, Japan, and the United States) and gradually improving access to new markets (e.g., Australia, China, India, and New Zealand).

The majority of the firms that selected the US-Thailand FTA or the Japan-Thailand EPA were larger firms, accounting for more than half of large firms (56.6%) and 64.5 percent of giant firms. Meanwhile, AFTA was the most popular among smaller firms. Of the 32 firms that selected AFTA as being the most important to their business, 75 percent were SMEs.

A distinct pattern of interest in given FTAs emerges by sector and ownership, reflecting linkages with global supply chains. The US-Thailand FTA was overwhelmingly the most important FTA for textiles/garments, particularly for domestic firms. Meanwhile, the Japan-Thailand EPA was the most important FTA for electronics and auto/auto parts, particularly for foreign firms.

Among the concluded FTAs, firms saw AFTA as the most important to their business, followed by the Thailand-Australia FTA. Expectedly, these two FTAs were popular among auto/auto parts firms, given the lower FTA preferential tariff rates and higher tariff margins relative to other FTAs. However, even if AFTA preference is low for textiles/garments (2.9%), it did not seem to be important for firms in this sector.

The 59 firms that had no response are noteworthy too. The majority of these are SMEs. Some firms are domestic electronics producers that supply parts and components to exporters (i.e., indirect exporters). Meanwhile, others are covered under agreements such as the ITA, which eliminate duties on selected information technology (IT) products.

### Table 2: Utilization of FTA Preferences (percentage of responding firms in each size category)

<table>
<thead>
<tr>
<th>Use of FTA preferences</th>
<th>All</th>
<th>Textiles/garments</th>
<th>Electronics</th>
<th>Auto/auto parts</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>SME</td>
<td>Large</td>
<td>Giant</td>
<td>SME</td>
</tr>
<tr>
<td>Use or plan to use</td>
<td>45.7</td>
<td>37.5</td>
<td>45.8</td>
<td>50.0</td>
</tr>
<tr>
<td>Plan to use</td>
<td>28.3</td>
<td>28.1</td>
<td>54.2</td>
<td>12.5</td>
</tr>
<tr>
<td>Do not use</td>
<td>26.0</td>
<td>34.4</td>
<td>0.0</td>
<td>37.5</td>
</tr>
<tr>
<td>All firms</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Number of responding firms</td>
<td>219</td>
<td>32</td>
<td>24</td>
<td>8</td>
</tr>
</tbody>
</table>

Source: Authors’ calculations based on survey data.
### Table 2 Ranking of FTAs (number of firms that indicated the FTA as the most important to business)

<table>
<thead>
<tr>
<th>FTAs</th>
<th>All</th>
<th>SME</th>
<th>Large</th>
<th>Giant</th>
<th>SME</th>
<th>Large</th>
<th>Giant</th>
<th>SME</th>
<th>Large</th>
<th>Giant</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Concluded</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AFTA</td>
<td>32</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>10</td>
<td>2</td>
<td>1</td>
<td>13</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Thailand–Australia FTA</td>
<td>18</td>
<td>2</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>3</td>
<td>1</td>
<td>5</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Thailand–PRC EHP a</td>
<td>6</td>
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<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
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<td>1</td>
<td>1</td>
<td>0</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>Thailand–India FTA</td>
<td>2</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
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<tr>
<td>Thailand–NZ CEPA</td>
<td>1</td>
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<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Under negotiation</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>US–Thailand FTA</td>
<td>50</td>
<td>11</td>
<td>16</td>
<td>7</td>
<td>3</td>
<td>5</td>
<td>0</td>
<td>3</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Japan–Thailand EPA b</td>
<td>48</td>
<td>3</td>
<td>3</td>
<td>0</td>
<td>7</td>
<td>11</td>
<td>3</td>
<td>4</td>
<td>12</td>
<td>5</td>
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<tr>
<td>Number of respondents</td>
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<td>20</td>
<td>19</td>
<td>7</td>
<td>22</td>
<td>22</td>
<td>6</td>
<td>30</td>
<td>22</td>
<td>14</td>
</tr>
<tr>
<td>No response</td>
<td>59</td>
<td>12</td>
<td>5</td>
<td>1</td>
<td>11</td>
<td>11</td>
<td>1</td>
<td>12</td>
<td>6</td>
<td>0</td>
</tr>
<tr>
<td><strong>All firms</strong></td>
<td>221</td>
<td>32</td>
<td>24</td>
<td>8</td>
<td>33</td>
<td>33</td>
<td>7</td>
<td>42</td>
<td>28</td>
<td>14</td>
</tr>
</tbody>
</table>

a The Thailand–PRC agreement is under the ASEAN–PRC FTA.
b Signed and in effect since November 2007 but under official negotiation at the time of the survey.

Source: Authors’ calculations based on survey data.

**On the net benefits of FTAs, firms typically reported more positive than negative impacts.** Around two-thirds of the sample (131 firms) reported at least one positive impact of FTAs on their business, while only 13.1 percent (29 firms) reported at least one negative impact (Figure 2). The positive impacts of FTAs were reported to include wider market access that results in higher export sales (81 firms), concentration of production (58 firms), intermediate goods/raw materials that are easier to import due to lower preferential tariffs (44 firms), and new business opportunities, including joint ventures (41 firms).

Meanwhile, the main negative impact of FTAs was increased competition from imported products (22 firms), while documentation of FTA use for clients and competitive disadvantage with other FTAs were chosen as reasons by six and three firms, respectively.

Figure 2 shows a breakdown of the impacts of FTAs by firm size. The positive impacts are visible across all firm sizes. Accordingly, market access was indicated as a benefit by 32 SMEs, 38 large firms, and 11 giant firms. Interestingly, improved market access was generally perceived as positive across all three sectors, while increased competition was seen as especially negative by auto/auto parts firms and to some extent by textiles/garments firms.

### 2.3 Business Strategy Responses

**Over half the firms reported that FTAs had influenced their business plans.** Some 45.9 percent of respondents (100 firms) reported that they had changed or would change business plans in response to FTAs. Another 13.3 percent (29 firms) may do so. The positive response rate to FTAs (59.2% combined) was significantly higher than the rate of those that did not plan to change business plans (31.7%).

[Figure 2 Perceived Positive and Negative Impacts of FTAs (number of firms that reported an impact)*]

Note: * Multiple answers allowed.

Source: Authors’ calculations based on survey data.
Figure 3 shows the distribution of the firms across firm sizes that reported business strategy responses to FTAs. Larger firms seemed to be more responsive to FTAs than smaller ones, as higher proportions of large and giant firms had changed or would change business plans compared with SMEs. Only 33.7 percent of SMEs reported that they had or planned to change business plans, which was lower than the 60.0 percent and 48.3 percent of large and giant firms that had done so, respectively.

One striking feature of the group of firms that have changed or will change business plans is that the majority chose the US-Thailand FTA and Japan-Thailand EPA as the most important FTAs to their business. This indicates that firms seem to anticipate a favorable impact of the FTAs on their business, since these two FTAs have not yet taken effect as of early 2010. Meanwhile, domestic firms dominate the groups that reported no change in business plans in electronics and auto/auto parts.

2.4 Burden Imposed by Multiple Rules of Origin

The growing number of FTAs in Thailand has triggered concerns that the attendant rules and administrative procedures might increase the cost of doing business. If the country’s agreements were mutually consistent, especially concerning ROO, then the costs of a new FTA would be minimal for business. If not, such costs could be considerable. The key issues relating to ROO in Thailand are as follows: Are ROO an obstacle to using FTA preferences? Does this observation vary by firm size? If multiple ROO are a problem, would this significantly add to business costs? Are there benefits from harmonization of ROO?

A few firms saw individual ROO as an obstacle to using FTA preferences. Table 3 shows whether firms perceive ROO as an obstacle to using FTA preferences. About 14.9 percent of firms reported that ROO in Thailand’s FTAs were an obstacle to using FTA preferences. Meanwhile, 21.7 percent said that ROO might be an obstacle in the future with the projected growth of Thai FTAs. In general, auto/auto parts firms, with large amounts of components and parts as well as complex manufacturing processes, perceived ROO to be more of a problem than the other two sectors (20.2% of firms in this sector).

Large firms seemed to be more concerned about ROO than were SMEs and giant firms. Except for auto/auto parts firms, large firms account for the highest

<table>
<thead>
<tr>
<th>Use of FTA preferences</th>
<th>All</th>
<th>Textiles/garments</th>
<th>Electronics</th>
<th>Auto/auto parts</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>SME Large Giant</td>
<td>SME Large Giant</td>
<td>SME Large Giant</td>
</tr>
<tr>
<td>Is an obstacle</td>
<td>14.9</td>
<td>9.4 25.0 0.0</td>
<td>6.0 15.2 0.0</td>
<td>11.9 28.6 26.8</td>
</tr>
<tr>
<td>May be an obstacle</td>
<td>21.7</td>
<td>6.2 41.7 0.0</td>
<td>15.2 24.2 42.9</td>
<td>30.9 21.4 7.2</td>
</tr>
<tr>
<td>Is not an obstacle</td>
<td>46.2</td>
<td>37.5 29.2 87.5</td>
<td>54.6 51.5 57.1</td>
<td>42.9 39.3 57.1</td>
</tr>
<tr>
<td>Do not know</td>
<td>17.2</td>
<td>46.9 4.1 12.5</td>
<td>24.2 9.1 0.0</td>
<td>14.3 10.7 7.1</td>
</tr>
<tr>
<td>All firms</td>
<td>100.0</td>
<td>100.0 100.0</td>
<td>100.0 100.0 100.0</td>
<td>100.0 100.0 100.0</td>
</tr>
<tr>
<td>Number of responding firms</td>
<td>221</td>
<td>32 24 8</td>
<td>33 33 7</td>
<td>42 28 14</td>
</tr>
</tbody>
</table>

Source: Authors’ calculations based on survey data.
proportion of firms that reported that ROO were an obstacle to using preferences (25.0% for textiles/garments and 15.2% for electronics). Accordingly, giant firms accounted for the highest proportion of firms that did not see ROO as obstacles. This result suggests that giant firms, which have wider and deeper market penetration, can take advantage of FTA preferences and more easily prove origin of goods than smaller firms.

Interestingly, 46.2 percent of sample firms said that ROO were not an obstacle to using FTA preferences. One reason was that at the time of the survey, Thailand had concluded only seven FTAs, largely with new markets, while FTAs with the country’s traditional markets were still under negotiation. Accordingly, by 2010 firms in Thailand were beginning to see multiple ROO as an obstacle to using FTA preferences, and this trend is likely to become more marked after 2010 when more FTAs are concluded.

Some firms said that dealing with multiple ROO in Thai FTAs would significantly add to business costs. Of the responding firms, 26.2 percent (57 firms) indicated that dealing with multiple ROO would significantly add to their business costs, including many electronics firms and a smaller percentage of textiles/garments firms.

While firms of all sizes are concerned about the Asian “noodle bowl” effect, giant firms seemed to complain the most (Figure 4). Of the giant firms that responded, 35.7 percent (10 firms) reported that dealing with multiple ROO significantly adds to business costs while only 24.3 percent of SMEs (26 firms) and 25.3 percent of large firms (21 firms) shared the same view. As users of multiple FTAs, giant firms are more exposed to the business costs of dealing with multiple ROO than smaller firms.

Firms typically estimated that these costs would be less than 1 percent of total export sales. Our interviews with firms indicated that the business costs of dealing with ROO can take several forms. These include wages of human resources employed to process customs documents and costs associated with changing business strategies to comply with the ROO, such as undertaking separate production runs, limiting product types, and changing import source.

2.5 Harmonization of Rules of Origin

There are benefits to be gained from the adoption of harmonized ROO. Large and giant firms seemed to recognize the benefits to be gained from the harmonization of ROO, particularly textiles/garments and auto/auto parts firms, more than SMEs did (Table 4). This could be attributed to the finding that SMEs are less likely to use FTA preferences than larger firms (see discussion on FTA preference utilization in section 2.1).

![Figure 4 Firm Size and Burden Imposed by Multiple Rules of Origin](image)

Source: Authors’ calculations based on survey data.

### Table 4 Benefits from Adoption of Harmonized Rules of Origin (percentage of sample firms in each size category)

<table>
<thead>
<tr>
<th>Responses</th>
<th>All</th>
<th>Textiles/garments</th>
<th>Electronics</th>
<th>Auto/auto parts</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>All</td>
<td>SME</td>
<td>Large</td>
<td>Giant</td>
</tr>
<tr>
<td>There are benefits</td>
<td>40.4</td>
<td>46.7</td>
<td>66.7</td>
<td>50.0</td>
</tr>
<tr>
<td>There may be benefits</td>
<td>32.6</td>
<td>16.7</td>
<td>29.2</td>
<td>37.5</td>
</tr>
<tr>
<td>There are no benefits</td>
<td>11.0</td>
<td>6.7</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Do not know</td>
<td>16.1</td>
<td>30.0</td>
<td>4.2</td>
<td>12.5</td>
</tr>
<tr>
<td>All firms</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Number of responding firms</td>
<td>218</td>
<td>30</td>
<td>24</td>
<td>8</td>
</tr>
</tbody>
</table>

Source: Authors’ calculations based on survey data.
Accordingly, the examination of the profile of firms that saw benefits to be gained from the adoption of harmonized ROO (88 firms) revealed that the majority had studied the text of the FTA provisions which affect their business (58.7%). Most firms had also changed or planned to change their business plans in response to FTAs (64.8%) and were currently using or planning to use FTA preferences (61.4%).

3. SUMMARY AND POLICY IMPLICATIONS

This study dealt with a pressing policy issue for Thailand—how do the country’s FTAs affect the behavior of exporting firms? Using a relatively large sample (221 firms) in three key sectors (textiles/garments, electronics, and auto/auto parts) in Thailand, the study analyzed FTA use, costs and benefits of FTAs, ROO, and demand for services for business adjustment. Where possible, these issues were examined by sector, firm size, and ownership.

Key findings from the study are as follows:

- FTAs with Thailand’s major traditional markets, especially the Japan-Thailand EPA and US-Thailand FTA (with the latter still under negotiation), were more important for the sample firms than those with non-traditional markets;
- Firms typically reported that FTAs have had more positive impacts (e.g., market access, concentration of production, new business opportunities, and preferential tariffs) than negative ones (e.g., increased competition);
- The evidence suggests reasonable use of preferences in existing Thai FTAs. Also, more firms used (or planned to use) tariff preferences in FTAs than otherwise thought. Survey results show that a quarter (24.9%) of the respondents (55 firms) used Thai FTAs, and 45.7 percent either used or planned to use them with the rate generally matching up with the utilization rate (26.7%) provided by Suthiphand (2008) based on certificate-of-origin data;
- Over half the firms, particularly foreign electronics and auto/auto parts firms, reported that FTAs have influenced their business plans;
- About 14.9 percent of firms saw ROO as an obstacle to using FTA preferences, and larger firms were more likely to view them as such. About 26.2 percent of firms said that multiple ROO would add to business costs (typically less than 1% of sales);
- Most firms said that the adoption of harmonized ROO would reduce transaction costs under FTAs.

The findings point to several recommendations through which businesses could benefit more from FTAs. These can be grouped under four headings:

**Policies to build awareness of impacts from FTAs**

Although the enterprise survey indicated high awareness among sample firms, other studies (e.g., TDRI 2006) have suggested that awareness varies among Thai firms (especially SMEs). Accordingly, they may not fully capture benefits from FTAs and are less likely to change their business plan to cope with potential losses. Furthermore, many firms are unsure whether they are eligible to use the preferences. To increase awareness of FTAs, the government should do the following:

- Provide timely information on FTA provisions and progress achieved in FTA negotiations;
- Encourage business associations and interest groups, including SMEs, to become more involved in FTA negotiations and provide opportunities for them to do so;
- Arrange regular conferences to educate firms, particularly SMEs, on the potential impacts of FTAs and ways in which firms can utilize preferences;
- Assess the effects of concluded FTAs (including surveys of firms) to help mitigate the losses of the losers and help intensify the gains of the gainers.

**Policies to Encourage Utilization of FTA Preferences**

Some Thai importers and exporters might perceive as complex the customs procedures and other procedures needed for using FTA preferences. Hence, many firms do not deal with the customs procedures by themselves but hire customs brokers to do so for them. From the firms’ perspective, having to obtain a certificate-of-origin increases the complexity of the whole procedure. This is because, in addition to knowing the process, the firms need to know the harmonized system codes of their products, their cost structure, and relevant ROO. To encourage utilization of FTA preferences, the government can do the following:

- Make customs procedures clearer and more transparent. Every firm should be treated equally. In addition, the customs procedures should be accelerated in line with international best practices;
- Arrange workshops or conferences to introduce importers and exporters, as well as business associations, to new e-customs systems that streamline import and export procedures, as well as reduce documentation costs;
• Create a campaign to build understanding that using preferences is not as complex as the firms might think;
• The government should negotiate for the best tariff preference in FTAs to reduce tariffs significantly. Specifically, the government should go for the lowest tariff rate, compared with the MFN rate, in targeted products;
• Put effort into accelerating tariff reduction in textiles/garments under AFTA in order to take advantage of FTAs between ASEAN and major importing countries and regions such as the European Union, Japan, and the United States;
• For the Thailand-India FTA, the government should negotiate to include more tariff lines in order to create market access for a wider range of products.

Policies to Increase Competitiveness of Local Firms

Despite notable tariff preferences in some FTAs, many firms are still unable to increase their exports to FTA partners. This is largely due to firms’ technological gaps relative to international standards. Production costs are sometimes high relative to those of competitors, so that tariff preference is not enough to increase exports. The government can increase enterprises’ competitiveness, particularly that of Thai SMEs, through the following measures:

• Restructure tariffs that are unnecessarily high and distorted. Currently, tariffs on many inputs are high (for example, some auto parts and inputs for garments), resulting in high prices for finished products, which cannot compete internationally;
• Since competitiveness is dynamic and changeable, encourage further international technology transfer, particularly through the import of capital goods, technology licensing, and foreign direct investment (FDI), to businesses;
• Continue to improve and upgrade existing metrology, standards, quality, and other technology support services, particularly for SMEs, so that Thai firms reach global standards in these areas;
• Promote both public and private research and development (R&D) via tax incentives, access to new technologies, and closer linkages between firms and R&D institutions in order to move Thai products up the supply chain and add value to the products. As lower-wage countries, such as Cambodia, China, and Viet Nam, become increasingly prominent in labor-intensive manufactured exports, Thailand is losing its competitive advantages in many products, such as garments;
• Support industrial clustering in the three sectors—through infrastructure improvements, new business development services, and simplification of business procedures—to strengthen linkages among supply chains and the technological upgrading of firms.

Dealing with the Asian “Noodle Bowl” Effect

The survey of firms indicates that the Asian “noodle bowl” effect is emerging as an obstacle for some firms and that it is likely to intensify after 2010 as FTAs involving Thailand proliferate in the region. This is a regional and international issue involving Thailand, other East Asian countries, and the World Trade Organization (WTO). Nonetheless, the government could contribute in this direction by doing the following:

• Advocate the benefits of harmonized ROO within ASEAN so that ROO become less influential in the choices of suppliers among members of ASEAN;
• In the negotiation of future Thai FTAs, consider negotiating ROO that are as competitive as possible, at least for all traded products;
• Support accelerated reduction of MFN tariffs within the WTO until ROO become meaningless under completely free trade (zero MFN tariffs). In addition, advocate global harmonization of ROO.

APPENDIX 1
SAMPLE PROFILE AND SAMPLING METHODOLOGY

In this study, firms were selected using a simple random sampling methodology. First, a list of firms was obtained from the Ministry of Labour that included firms in electronics (1,080 firms), auto/auto parts (767 firms), and textiles/garments (6,525 firms).

Small and medium-sized enterprises accounted for 34.9 percent of electronics firms, 52.6 percent of auto/auto parts firms, and 65.0 percent of textiles/garments firms. Because the study focused on how FTAs affect firms in the three main export sectors, the sample covers only exporting firms and excludes non-exporting firms. Consequently, about 52 percent of the total firms in electronics, 54 percent in auto/auto parts, and 60 percent in textiles/garments were excluded from the sample. The remaining firms in the sample were randomly selected, and 221 firms responded during the survey. The distribution of the sample by sector, firm size, and ownership type is shown in Table A1.
Table A1 Sample Profile

<table>
<thead>
<tr>
<th></th>
<th>All firms</th>
<th>Textiles/garments</th>
<th>Electronics</th>
<th>Auto/auto parts</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No.</td>
<td>% Dist. (column)</td>
<td>% Dist. (row)</td>
<td>No.</td>
</tr>
<tr>
<td>Number of firms</td>
<td>221</td>
<td>100.0</td>
<td>100.0</td>
<td>64</td>
</tr>
<tr>
<td>By firm size</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SME</td>
<td>107</td>
<td>48.4</td>
<td>100.0</td>
<td>32</td>
</tr>
<tr>
<td>Large</td>
<td>85</td>
<td>38.5</td>
<td>100.0</td>
<td>24</td>
</tr>
<tr>
<td>Giant</td>
<td>29</td>
<td>13.1</td>
<td>100.0</td>
<td>8</td>
</tr>
<tr>
<td>By ownership</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign</td>
<td>99</td>
<td>44.8</td>
<td>100.0</td>
<td>7</td>
</tr>
<tr>
<td>Domestic</td>
<td>122</td>
<td>55.2</td>
<td>100.0</td>
<td>57</td>
</tr>
</tbody>
</table>

a SMEs have 100 or fewer employees; large firms, 101 to 1,000; and giant firms, over 1,000.
b A firm with more than 10 percent foreign equity is classified as a foreign firm (UNCTAD definition).

ENDNOTES

1 See Kawai and Wignaraja (2009b) for a summary of the FTA “noodle bowl” phenomenon.
2 Giant firms have over 1,000 employees; large firms have 101 to 1,000; and SMEs have 100 or fewer.
3 In this study, a firm is classified as a foreign firm if the share of foreign equity is more than 10 percent (UNCTAD definition). The pattern of FTAs by sector and ownership is as follows: 31 domestic and three foreign firms from the textiles/garments sector selected the US-Thailand FTA; 3 domestic and 18 foreign firms from electronics, and 5 domestic and 16 foreign firms from auto/auto parts indicated that the Japan-Thailand EPA was their most important FTA.
4 FTA preferential tariff rates in auto/auto part sector provided in AFTA and Thailand-Australia are 4.8 percent and 0.3 percent respectively, while tariff margins provided in AFTA and Thailand-Australia are 23.2 percent and 6.8 percent respectively.
5 Firms were allowed to provide multiple answers.

REFERENCES


