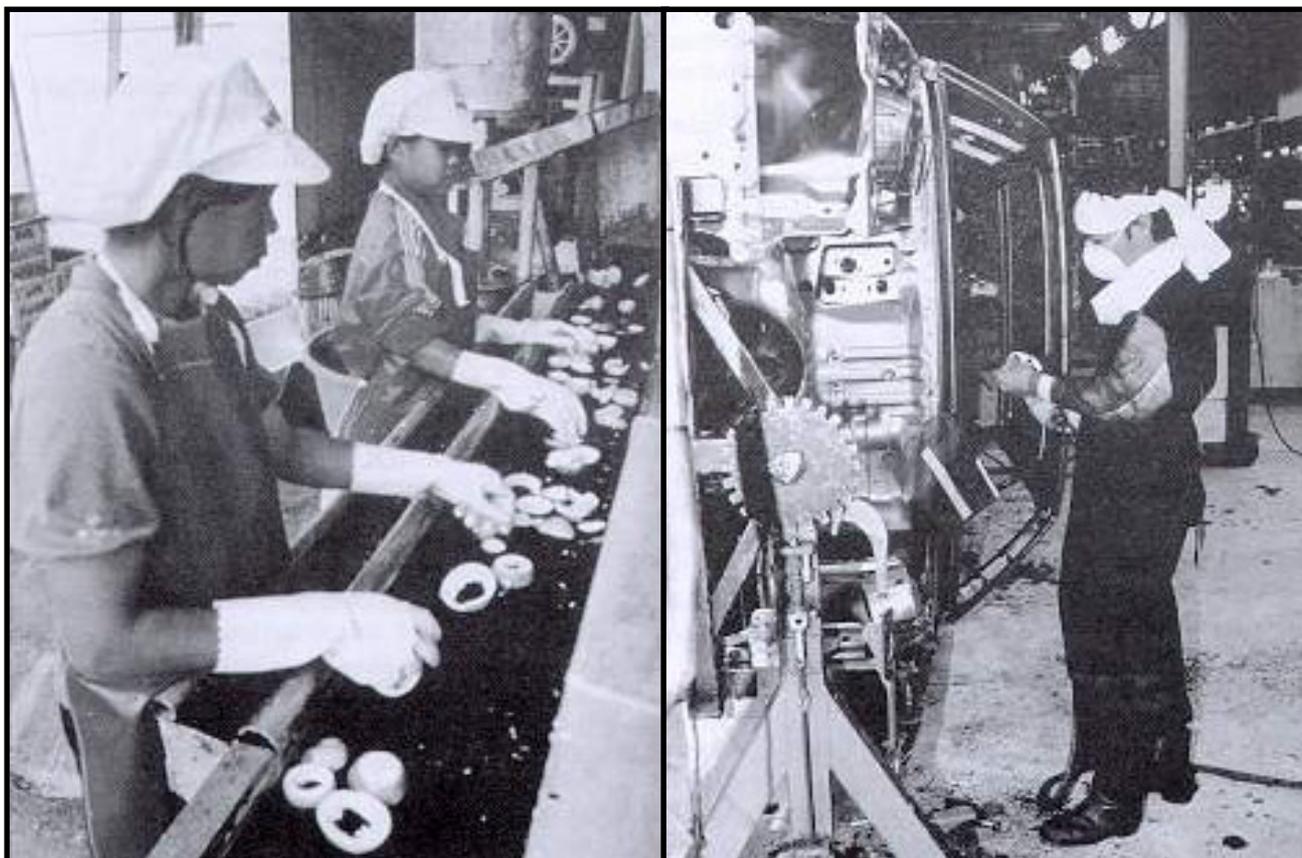


TDRI

Quarterly
Review

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How will Thailand be affected by the China-ASEAN FTA? Fierce competition but also opportunities and indirect benefits. See related article on page 13.

Opening Speech of the 2002 Year-end Conference on “Meeting the Challenges from Globalization”

By

H.E. Mr. Anand Panyarachun*

This is a translation of the speech given at the Opening Session of the 2002 Year-end Conference on “Meeting the Challenges from Globalization,” co-organized by the Chai Pattana Foundation, the Office of the National Economic and Social Development Board, the Ministry of Commerce, the Community Organizations Development Institute, and the Thailand Development Research Institute, at the Ambassador City, Jomtien, Chon Buri, December 14-15, 2002.

Distinguished Guests

I would like to welcome all of you to the 2002 Year-end Conference on “Meeting the Challenges from Globalization.”

The theme of this year’s conference may seem to be different from those in recent years which dealt with:

- “Poverty Reduction Strategies” in the year 2001;
- “Transparency and Uncorrupt Society” in the year 2000; and
- “Sufficiency Economy” in the year 1999.

The themes of the conference in the past three years seemed to place emphasis on national affairs. This year, we look at the outside, at globalization, both in terms of the opportunities to harness the forces of globalization for national development, as well as the risks and challenges that accompany globalization, where we need to strengthen ourselves in order to cope with volatilities and severe competition inherent in globalization.

However, if we think it over carefully we will realize that national and international affairs cannot normally be clearly separated since our country is also a part of the global society, and has faced and coped with the challenges from globalization for many centuries. And we should be proud that we have been more

successful than most of the other countries in successfully coping with the past challenges from globalization and benefiting from it. This ranges from the ability to maintain our independence through the era of Western colonization to the development of the economy to become one of the world’s biggest exporter of many agricultural products. A decade ago, Thailand was also an important part of the so-called “East Asian Miracle.”

If we look back a decade or so, we find that in 1989 the Thailand Development Research Institute held the Year-end Conference on “Thailand in the International Economic Community,” which is a theme similar to that for this year. The reason for choosing that theme at the time was because that period was the beginning of the “Golden Age of the Thai Economy.” Industrial exports were growing extremely rapidly and the Thai economy was growing at double digit rates.

The success from that period gave us a lot of self confidence. We believed that whatever we do would be successful. In fact, we became overconfident; whether in the private sector that borrowed and invested excessively, or the household sector that consumed excessively, and the public sector that used almost all of the country’s foreign reserves to try to prop up an overvalued exchange rate, leading eventually to the crisis in 1997.

The King’s philosophy on “Sufficiency Economy” reminded us that the excesses and irrationalities that were prevalent in all parts of Thai society before the economic crisis will bring disaster to us. If we don’t improve ourselves and develop sufficient protection against the risks and volatilities, whether from factors internal to the country or from globalization, then crises could easily reoccur, with severe socio-economic consequences. Today, five years after the start of the economic crisis in 1997, we are still unable to repair all the damages that arose as a result of the crisis.

This year is a good opportunity for all of us, from various sectors and groups, to come together to focus on

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globalization, and share ideas on how to meet its challenges.

The new round of the WTO negotiations has already started, and next year Thailand will be hosting the APEC meeting. At the same time, there are many new economic cooperation initiatives, such as between ASEAN and China, ASEAN and Japan, or various bilateral initiatives, such as between Thailand and Australia. Even within ASEAN, a lot more efforts are needed to make AFTA fully effective. The AFTA project was initiated when I was Prime Minister. I still remember that Minister Suthee, Minister Amaret and Dr. Narongchai helped me work on this issue. Today Dr. Narongchai is attending this seminar here. He knows about AFTA very well. Currently I have heard that the implementation of AFTA still does not cover the whole system. For example, the main principle on tariff reduction should be carefully followed. Tariffs should be reduced for every product. It is not right to reduce it for this item and not to reduce it for that item. There is currently also a problem with tariffs on raw materials, which have not been treated equally with finished products. Both the Federation of Thai Industries and producers are anxious about this matter, so I hope that Dr. Narongchai, who is now an adviser to the Minister of Finance as well as holding many other official positions, can take action on this matter.

In addition, there are currently many different perspectives within Thai society on globalization and how to meet its challenges. I consider this to be normal since each person or group has very different experiences in coping with the economic crisis. Some groups came through the crisis without too much difficulties, and have become even more prosperous than before the crisis. Some groups have just recovered to the condition they were at prior to the start of the crisis, while some groups were very severely affected and may not be able to survive.

It is normal for there to be differences of opinions. For some topic, particularly the theme of this conference, the differences may be wider than for other topics. The important thing, and this is what I hope to

see in this conference, is to share and exchange ideas with reason and understanding, and with respect for other people's opinions. No one knows everything. To listen and have respect for other people's points of view lead to mutual understanding and learning. It is the way to wisdom and unity, and is one important component of how Thai society will be able to successfully meet the challenges from globalization.

My personal observation is that globalization will remain with us and we cannot just turn our back on globalization. In fact, we should not do so as we can create benefits from globalization. However, we have to prepare ourselves to actively "create" benefits from globalization, rather than simply to wait passively for benefits or adverse consequences. At the same time, we must not forget that there are risks associated with globalization. We, therefore, must strengthen ourselves, and build up sufficient economic and social protections, especially for the vulnerable groups that need special attention and assistances from the government.

Finally, I would like to thank all the co-organizers of this conference, the Chai Pattana Foundation; the Office of the National Economic and Social Development Board; the Ministry of Commerce; and the Community Organizations Development Institute. I would like to observe that all the co-organizers, including the Thailand Development Research Institute, symbolize a successful approach to deal with the challenges from globalization. That is, we need broad cooperation and understanding among diverse parties within our society; from the public sector as planners and implementers, from academic institutions, as well as non-government organizations and the people sector. At the same time, participation of the private sector is crucial, and there are many representatives from private sector organizations at this conference. From the diverse groups of participants, I hope that this conference will be able to clarify the effective ways that we can meet the challenges from globalization to the overall benefit of our country.

Thank you.



Pak Mun Dam Revisited

Songkram Grachangnetara*
Pacharee Bumrungham**

As part of a report by the World Commission on Dams (WCD)¹ on dams and their impact on societies worldwide, the Thailand Development Research Institute (TDRI) undertook – under given terms of reference – to re-examine the economic premises of Thailand's Pak Mun hydroelectric project which was selected as one of WCD's case studies. The construction of Pak Mun dam by the Electricity Generating Authority of Thailand (EGAT) began in 1990. As a flagship state enterprise, EGAT has had long-standing acknowledged record of generously compensating and providing exemplary after-care community welfare for people dislocated by its projects. According to the baseline survey, about 250 households needed to be re-settled representing 20 percent of the total households in 11 villages directly affected by the risen water level upstream of the dam in the dry season. The dam's structures and installations were completed in 1994 and Pak Mun was fully commissioned in 1995 to produce electricity, regulated by flood-gates, from the flows of the Mun river in Thailand's northeast.

In re-assessing Pak Mun as a power project, TDRI's report² concluded that the economic case *a priori* for the dam as presented by EGAT's project feasibility study³ was dubious. The report found the assumptions of the EGAT study exceptional and the project's re-calculable net benefit at best marginal. The decision of the Council of Ministers (the Cabinet) to approve Pak Mun's construction, and the World Bank's subsequent endorsement of the project's justification⁴ in agreeing to finance it, rested on EGAT's claims of benefits in terms of the dam's peak load energy output.

It is not unusual in cost-benefit analyses of power projects to solve for the least-cost investment solution to a given load forecast scenario. The feasibility of a proposed project is then decided by the difference in its costs in comparison to the next-best alternative investment yielding similar benefits. In the case of Pak Mun, EGAT assumed for comparable alternative investment a gas turbine plant of 150 MW capacity. But Pak Mun's run-of-the-river design depends on the characteristics of the Mun's flows to generate energy load under pre-set operating rules. Such flows predictably vary with the hours of the day, the months, and in particular with the seasons: the dry season between January to May and the rainy season thereafter. The dam's

dependable capacity for energy output – estimated at 75 MW in the feasibility study – was a calculated balance between regulated run-offs and the Mun's daily and seasonal flows. The power generation regime was programmed for energy production within set water level limits upstream of 105 meters and 108 meters MSL respectively for the dry and the rainy seasons. Energy output under the operating regime, estimated at 280 GWh annually, together with the dam's restricted height of 17 meters and its selected location 5.5 kilometers from the point of confluence of the Mun with the Mekong, were designed to minimize the need to relocate households on the riverbanks affected by the water level. A higher elevation of the dam structure at any point further upstream, or any higher peak load output under a different power generation regime with less restrictive water level limits, would have added to the project's financial costs in compensations resettlements of households and to the economic costs of dislocations and environmental impacts. But within the parameters of the given design and restrictive operating rules, EGAT's project document nonetheless confidently rested the dam's economic case squarely on the value added in peak load electricity production, and included no supplementary benefits in irrigation (or the associated necessary costs) in its calculations.

As it turned out, the project's cost overruns were considerable. The financial costs of the dam and its installations were 63 percent above the original estimates as first presented to the Council of Ministers. Overruns of the compensations, resettlement and environmental components were very significantly higher. At the closing of project accounts in 1995, the accumulated payments for compensation, resettlement, and environmental impact mitigation totalling over 800 million baht were 3.5 times over the feasibility study's estimate of 230 million baht. Nonetheless compensations continued to be paid out by EGAT to a sum total of over 1,100 million baht thereafter to 1998. The continuing compensation payments, on the government's instructions, were made under rulings not foreseen nor provided for in the project's feasibility study. They related to claims of lost livelihoods in fishery, which were extended to those of households in villages outside the core project area and to some which were downstream of the dam. The compensation process was a protracted, public

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and serial affair, not without political dimensions. The negotiations on behalf of the villagers were organized, punctuated and brokered by NGO's.

More importantly, it was also becoming evident in the few years following the dam's commission that neither the operating rules nor the actual water flows supported the level of sustained peak load energy output and management as envisaged in the feasibility study. TDRI's report noted the study's questionable conceptual relationship between the dam's rated dependable capacity of 75 MW, and the 150 MW capacity of the gas turbine alternative power plant used in proxy to estimate the dam's economic benefits. The difference in the respective capacities was crucial to EGAT's method of analysis, for if the capacity and the costs of the alternative power plant were overstated, so also would be the project's benefits which were assumed to be the net difference in costs avoided by *not* investing in the alternative. The point is further reinforced when Pak Mun's peak and off-peak power outputs cannot be differentiated from accessible operational records, but available hydrological data suggest that only a fraction of the dam's total annual energy output can be put to peak load demand. The economic benefits *a posteriori* of Pak Mun as a power project therefore remain questionable and unproven, whereas the environmental costs of the impact on the Mun's fish population – particularly the migratory species – and the difference that the dam's operating rules make on fishery in the long term, are self-evident although unmonitored. By way of mitigating the dam's impact on fish spawning grounds upstream, a concrete fish ladder had been added to the dam structure. But it was in the nature of an afterthought. The ladder's design was untested for the purpose and its intended benefits with respect to each migratory species of fish and on the varieties of the Mun's riverine life cycle were undetermined.

Environmental impacts of the dam – mainly on the fish species – certainly added to the project's real costs, but were either unquantified or understated in the feasibility study. Re-examination of the cost-benefit premises and of the facts at hand suggests that the dam's transparent failure to deliver the expected load output is enough to undo the calculation of net benefits over costs assumed in the feasibility study. The balance of evidence *against* Pak Mun as an economically feasible investment stands on the diminished benefits of its peak load output, without weighing in the added costs on the environment. In deciding whether to accept or reject the project's economic case as appraised, costs to the environment are moot. On EGAT's own terms of project feasibility based on energy output alone, the project's costs already outweigh the benefits.

It does not necessarily follow however that in failing the test of good investment, Pak Mun should now be closed down. In the post-construction phase, resources that have been invested in the dam and its installations become 'sunk costs'. No value is assigned in project analysis for sunk costs, which are in effect written off the project's balance sheet. Cost-benefit analysis can then be

conducted under a timeframe put forward. The current and future benefits if any of an ongoing project are then tested against whatever may remain of its ongoing costs. Such a test corresponds to the shift in focus from project re-assessment, looking back to the previously assumed premises, to the justification of continuing operations. It addresses the issue of the dam's ongoing power generation, the question of whether or not the project should terminate, and if some or all of Pak Mun's flood-gates should be to be opened and the barrage lifted for some or all periods of the year. In particular, it addresses the future stream of costs in which sunk costs do not figure, and measures them against the future stream of benefits.

This was the context of the recently-completed report commissioned by the government to investigate the dam's latent impact and to recommend an acceptable solution for the future.⁵ From the perspective of cost-benefit analysis, interest was focused on estimated income losses from fishing on the Mun as a livelihood since the dam's construction, and on the gains that could be expected from re-opening the floodgates and turning back the environmental clock.

The economic value of fishing as livelihood was a neglected variable in the Pak Mun feasibility study, despite EGAT's commissioning of an environmental impact study to establish local socio-economic benchmarks prior to the dam's construction. Compensations had first been conceived primarily as payments for land and material properties affected by the dam's construction and the water level, not for lost or reduced livelihoods. By the time it became necessary to compensate the villagers against claims of lost income from fishery, it was also necessary to reconstruct the pre-project benchmarks with belated *ad hoc* surveys. The circumstances of the reconstructions were however not ideal for the collection of uncorroborated income data spanning periods before and after an event over which the authorities were seen to be giving ground – on the terms and scale of the compensations. The respondents to such survey questionnaires were largely confined to the population of eligible villages. Generally there has been no verifiable information elicited on the unit prices, quantities, and the kinds of indigenous fish caught and sold for the declared cash incomes.

Over the period of January to July 1994 EGAT and the Department of Fisheries (DOF)⁶ recorded the species, numbers, and the respective weights of fish caught by beach seine in the Mun and downstream Mekong river in the vicinity of the dam site. The ten most abundant species are listed in Table 1 in italics. Their relative percentages by number and weight are shown against the prices in baht per kilogram as compiled in a study by the Southeast Asia Rivers Network (SEARIN)⁷ activist research team on the Mun fish population based on interviews with local villagers. For every 100 kilogram catch weight, these ten most abundant species can be expected to account for 51 kgs. based on the frequency distributions by weight of catches as recorded by EGAT and DOF, with a combined current

value of 1,564 baht based on the estimated unit prices of the respective species. The less abundant species below the top ten are also shown in Table 1 corresponding to the SEARIN research group's compilation of species and known prices. These relatively less common species can

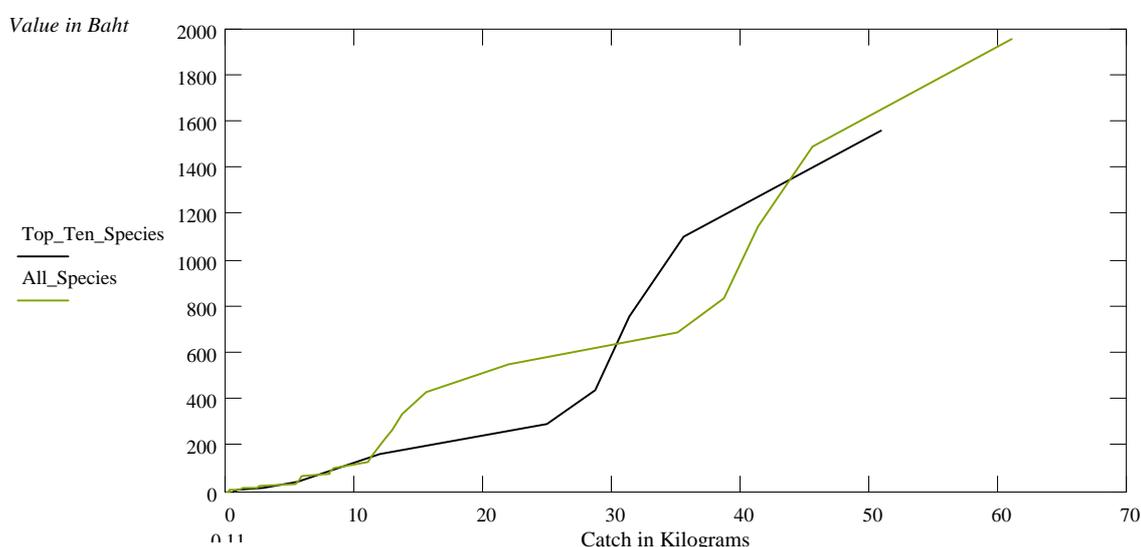
be expected to add 10 kgs. to the weight and 530 baht to the value, making a total saleable weight of 61 kgs. and cash value of 1,953 baht for every 100 kgs. of catch weight as shown in comparative X-Y plots of values against weights in Figure 1.

Table 1 Listing of the Mun's Fish Species by Relative Abundance with Known Market Values

Scientific Name	Common Name	Local Thai Name	% Number	% Weight	Baht/Kg
<i>Sikukia gudgeri</i>	sikukin barb	ปลาน้ำมิ่ง	20.82%	13.07%	10
<i>Paralabuca riveroi</i>	glassfish	ปลาแตบ	8.38%	2.64%	8
<i>Henicorhynchus sp.</i>	barb	ปลาสร้อย	7.30%	15.36%	30
<i>Hampala dispar</i>	eye-spot barb	ปลาจุดจุด	6.23%	6.34%	20*
<i>Mystacoleucus greenwayi</i>	yellow-fin carp	ปลาเกะเกะ	6.14%	2.09%	5*
<i>Pangasius macronema</i>	Siamensis pangasius	ปลายนหนอยก	5.65%	4.27%	80
<i>Parambassis notatus</i>	glassfish	ปลาคับของ	4.86%	0.68%	5
<i>Puntioplites proctozysron</i>	smith barb	ปลาสกางแปร	4.10%	3.65%	40
<i>Clupeichthys aesarnensis</i>	Thai river sprat	ปลานกั้ว	3.84%	0.25%	20
<i>Cyclocheilichthys enoplos</i>	soldier river barb	ปลาโจก	2.91%	2.65%	120
<i>Acanthopsis choirorhynchus</i>	thorn-eye, loach	ปลารากกล้วย	2.30%	2.00%	45
<i>Pangasius pleurotaenia</i>	catfish	ปลายนตาโต	2.25%	0.53%	70
<i>Cyclocheilichthys apogon</i>	Indian river barb	ปลาดอกจิ้ง	1.07%	1.16%	5
<i>Osteochilus hasselti</i>	bony lipped barb	ปลาอีโต้	1.03%	2.82%	3
<i>Probarbus labeamajor</i> , (julienni)	golden-price carp	ปลาเอิ้น	0.57%	0.61%	80
<i>Tenualosa thibaudeaui</i>	Laotian shad	ปลาหมากผาง	0.46%	0.11%	5
<i>Oxyeleotris marmorata</i>	sand goby	ปลาบู่	0.18%	0.35%	80
<i>Raiamas guttatus</i>	carp	ปลาสะนาก	0.17%	0.23%	5
<i>Pangasius larnaudii</i>	black-ear catfish	ปลาบั้ง	0.14%	0.68%	100
<i>Macrognathus siamensis</i>	spiny eel	ปลาหลดนา	0.12%	0.25%	70
<i>Cirrhinus sinensis</i>	mud carp	ปลาแกง	0.07%	0.07%	40
<i>Mystus cavasius</i>	long fatty-finned mystus	ปลากะแยงขาว	0.05%	0.22%	45
<i>Kryptopterus apogon</i>	common sheatfish	ปลาน้ำเงิน	0.04%	0.11%	80
<i>Kryptopterus bleekeri</i>	sheatfish	ปลานาง	0.03%	0.09%	120
<i>Osteochilus melanopleura</i>	greater bony lipped barb	ปลานกเขา	0.02%	0.24%	40
<i>Mystus nemurus</i> , <i>Hemibagrus nemurus</i>	yellow mystus	ปลากดเหลือง	0.02%	0.08%	80
<i>Mastacembelus armatus</i>	armed spiny eel	ปลาหลด	0.02%	0.45%	70
<i>Chilata blanci</i>	striped featherback	ปลาดองลาย	0.01%	0.01%	70
<i>Kryptopterus kryptopterus</i>	sheatfish	ปลาปึกไก่	0.01%	0.02%	50
<i>Cirrhinus microlepis</i>	small-scale mud carp	ปลาพอน	0.01%	0.01%	60
Total			78.80%	61.06%	

Note: Prices with asterisks (*) are estimates for the top ten most abundant species with no known market prices. All others are the reported local market values from SEARIN study, from which are also taken the local Thai names for the species.

Figure 1 Fish Catch Value from the Mun and Weight Sampling Data 1994 at Current Prices



The most abundant species are not the most marketable. The more valuable species make up a very small proportion of the catch. The data in Table 1 suggest that the ten most abundant species of fish account for 70.2 percent of the total number of all species caught, and for 80 percent of the known cash value at current prices, with a mean of 19.53 baht per kilogram of catch. The crucial variables which underlie typical household fishing incomes are the frequency distributions of the species population, their respective catch weights and the market values. The sampling catch data collected by EGAT and DOF in 1994 therefore provided one yardstick in relation to which any estimate of past or future incomes derived from fishing on the Mun and in the vicinity of the Pak Mun dam should be calibrated, and against which the basis for fishery income claims should be checked.

Table 2 reproduces the average annual catch weights and net household fishery income figures from the results of past surveys from 1982 to 1999⁸ which were cited in the WCD report on Pak Mun,⁹ to which were added the results of the latest survey by Ubon Ratchathani University in 2000. The catch weights and income figures are shown in phases: for the pre-dam years, for the period of construction, and for post-dam years, listed by the year of publication of the

survey findings. The income value per kilogram of catch in each case is calculated from the given catch weight and the given income figure where both are available.

The widely varying ranges of the surveyed incomes from fishery spanning the different phases – from as early as 1982 to 2000 – as tabulated in Table 2 appear far from being conclusive, particularly with regard to the order of magnitude of the differences between the mean pre-dam fishery incomes recollected by affected householders and the much-reduced mean incomes for the post-dam phase. In the particular case of the Ubon Ratchathani University survey in 2000,¹⁰ the reported difference between 1990 pre-dam net income (25,742 baht) and 2000 post-dam (3,045 baht) is eight-fold. More significantly, the highest mean income per household for the pre-dam phase in one survey (69,035 baht) which was undertaken specifically for the WCD in 1999, varies by as much as twelve-fold over the lowest (5,577 baht) from another study undertaken prior to the dam's construction in 1991.⁸ The differences in the findings which are summarized in Table 2 raise the basic and pertinent questions of supporting evidence going beyond recollected past income figures regarding the underlying and corresponding catch weights, fish species, and market prices.

Table 2 Pak Mun: Average Annual Fish Catch and Fishery Net Income Per Household

Phase	Kgs		Baht		Baht per Kg		Author /Institution
	upstream or unspecified	down-stream	upstream or unspecified	down-stream	upstream or unspecified	down-stream	
Pre-Dam	1,171	688	13,872	9,146	11.85	13.29	<i>Kasetsart University¹</i>
Pre-Dam			5,577				<i>Thongkam et al., EGAT²</i>
Pre-Dam	7,590		69,035		9.10		<i>S.Choowaew, Mahidol University³</i>
Pre-Dam			25,742				<i>Ubon Ratchathani University⁴</i>
Construction			5,500				<i>P.Subsakul, AIT (M.Sc. thesis)⁵</i>
Construction	652		13,428		20.60		<i>Khon Kaen University⁶</i>
Post-Dam			8,758				<i>S.Phupaiboon, NIDA (M.A. thesis)⁷</i>
Post-Dam	763		19,047		24.96		<i>Department of Fisheries, MOAC⁸</i>
Post-Dam	422		8,695		20.60		<i>Khon Kaen University⁹</i>
Post-Dam	507		6,422		12.67		<i>S.Choowaew, Mahidol University³</i>
Post-Dam			3,045				<i>Ubon Ratchathani University⁴</i>

- References:
- ¹ Kasetsart University. Faculty of Fisheries. Fishery Resources in the Pak Mun River Basin, Ubon Ratchathani Province. Bangkok, 1982.
 - ² Thongkam et al. Fisheries Resources and Socio-Economic Study in the Lower Mun River. Fishery and Weed Control Section, Technical and Chemical Analysis Division, EGAT, 1991.
 - ³ Sansanee Choowaew. Social Aspects of Fisheries, Mekong River Basin / Pak Mun Dam Case Study for WCD. March 2000, from 63 cases surveyed in October 1999.
 - ⁴ Ubon Ratchathani University. Project to Study Approaches to Restoration of the Ecology, Livelihood, and Communities Receiving Impacts from Construction of Pak Mun Dam. Ubon Ratchathani, September 2002.
 - ⁵ P. Subsakul. Socio-economic Impact of Resettlement due to Dam Construction: the Case of Evacuees of Pak Mun Dam. M.Sc. thesis, Asian Institute of Technology. December 1994.
 - ⁶ Khon Kaen University. Baseline Data Study on Socio-economic Status of the Evacuees of the Pak Mun Dam Project. 1995.
 - ⁷ S. Phupaiboon. The Economic and Social Impact Study of the Pak Mun Evacuees. Master Thesis (Social Development), NIDA. 1995.
 - ⁸ Department of Fisheries. Report of Research Project on Fundamental Data of Fisheries Resources and Migratory Behaviours of Fisheries in Pak Mun Project Area. In Co-operation with EGAT, Phase 1 June 1995, Phase 2 September 1995.
 - ⁹ Khon Kaen University. Monitoring Environmental Impact Changes: Socioeconomics of Relocated People of Pak Mun Project, Final Report. For EGAT. 1997.

Since the completion of TDRI's report on Pak Mun for WCD in early 2000, the bi-annual National Rural Development Committee (NRDC) village census results for the years 1999 and 2001 have become available. These additions to the NRDC database complement the series from 1990 to 1996 on household incomes and other census variables indicative of rural livelihoods and welfare which were used in TDRI's report to analyze the social and economic impact of the dam. Figure 2 shows the household annual incomes from fishery of villages in the Pak Mun project area, for all the years of the NRDC census from 1990 to 2001, in percentiles and in baht value. The villages that make up the project area are defined as those in the core project area whose householders' land or properties have been affected by the construction of the dam or by its reservoir water level, and other villages whose householders have otherwise been compensated for losses in fishery livelihoods.

The NRDC database shows that in all the census years but one from 1990 to 2001, the median annual incomes from fishery in the project area villages have secularly risen, from 3,000 baht per household in 1990 and 1992 up to 8,000 baht in 2001. Only the 1994 census recorded a decline to 2,000 baht. This is represented in Figure 2 as a rightward shift, except for 1994, in the income percentile schedules, in which the median household fishery income for any year is the point at which the respective schedule crosses the 50th percentile line. With reference to the surveyed income figures in Table 2, a post-dam annual fishery income of 3,045 baht would place a household well below the observed median, at a point between the 18th - 19th percentiles, in the 2001 NRDC census, whereas a pre-dam income of 25,742 baht would put a household

well above the highest observed typical income per household from fishery in all the villages in the project area as recorded in the 1990,1992, and 1994 NRDC census data.

The additional census data for the years 1999 and 2001 do not detract from the conclusions of TDRI's report on Pak Mun which were drawn from the NRDC database up to the year 1996.¹¹ The added data indeed reinforce the report's analysis of the quantitative evidence from the database which suggested that financial compensations actually paid out against claims of reduced livelihoods in fishery on the Mun had been generous, and that the villages in the project area had become absolutely and relatively better off in terms of known incomes and other observable indicators of economic opportunities and welfare. From the database, Table 3 compares the household incomes from fishery and from paddy – the production of which has always been the principal means of rural livelihood – of villages in the Pak Mun project area as against other villages in the rest of the northeast and in all others in the country. The comparative figures show that although the median household fishery incomes of villages in the project area are consistently higher than elsewhere in the northeast, as well as in all other rural villages in the rest of the country except for 1994, such incomes do not exceed the median household incomes deriving from paddy production. Fishery incomes do not constitute the main livelihoods except for rare cases at the higher extremes of the percentile range, although they are significant supplementary cash income sources of villages in the project area relative to the rest of the northeast and the rest of the country.

Figure 2 Annual Household Fishing Income in Pak Mun Project Area

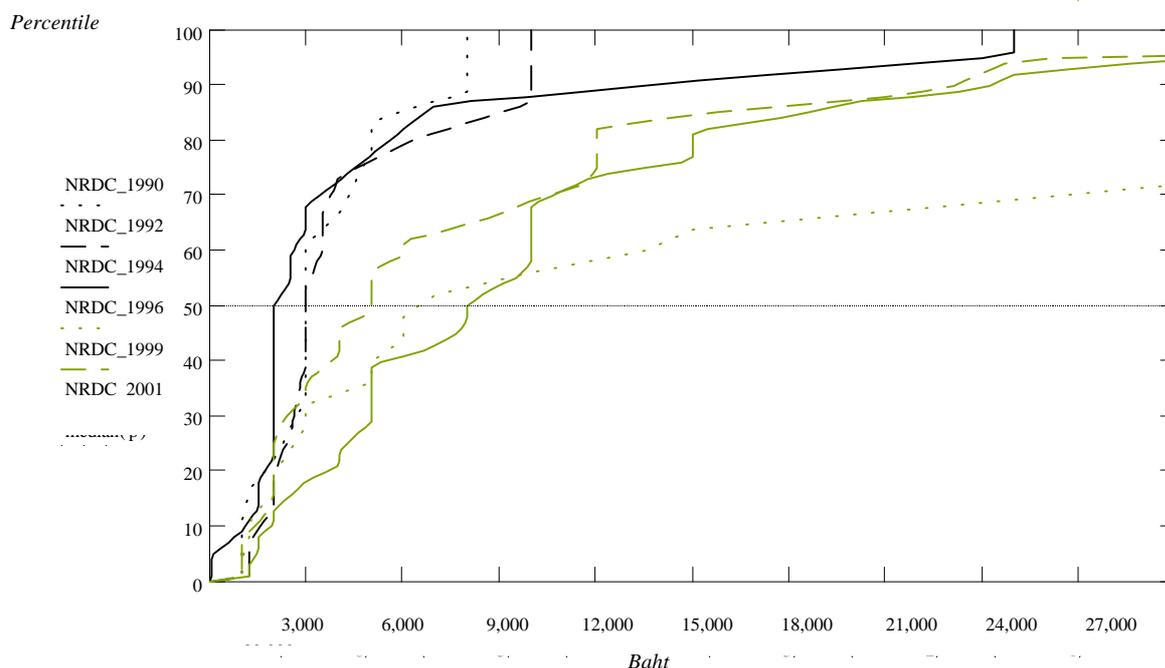


Table 3 Rural Household Annual Incomes from Fishery and from Paddy Production Compared

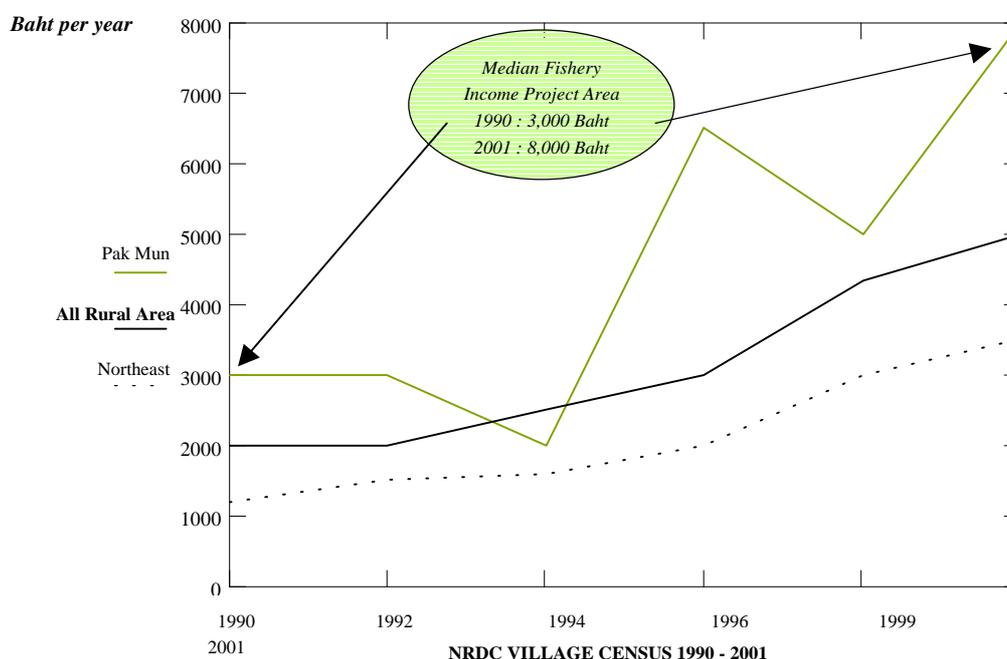
Unit: Baht

	NRDC 2001	NRDC 1999	NRDC 1996	NRDC 1994	NRDC 1992	NRDC 1990
A. Fishery Income						
<i>1. Project Area Villages</i>						
Samples	37	38	24	21	14	17
Mean	10,130	8,298	14,180	4,335	4,050	3,541
Standard Deviation	8,618	9,410	13,710	5,681	2,781	2,073
Median	8,000	5,000	6,500	2,000	3,000	3,000
<i>2 Northeast Villages</i>						
Samples	3,513	3,241	2,660	2,799	3,570	3,970
Mean	6,972	6,324	5,710	4,241	3,329	2,568
Standard Deviation	10,800	11,230	40,570	38,380	11,440	6,475
Median	3,500	3,000	2,000	1,600	1,500	1,200
<i>3 All Rural Villages</i>						
Samples	6,660	5,904	4,641	4,955	5,939	6,567
Mean	12,050	14,090	12,300	9,978	7,973	6,378
Standard Deviation	27,760	123,000	55,000	48,770	27,490	35,800
Median	5,000	4,338	3,000	2,500	2,000	2,000
B. Paddy Income						
<i>1. Project Area Villages</i>						
Samples	20	11	30	32	36	
Mean	24,020	27,550	22,330	20,030	15,060	
Standard Deviation	11,360	4,569	9,164	9,156	4,706	
Median	24,000	28,000	21,250	22,000	15,000	
<i>2 Northeast Villages</i>						
Samples	12,950	12,750	11,670	11,490	11,100	
Mean	29,210	29,390	19,200	16,110	14,860	
Standard Deviation	88,280	158,800	17,010	16,250	20,570	
Median	20,000	20,000	15,000	13,000	12,000	
<i>3 All Rural Villages</i>						
Samples	25,170	24,380	22,900	22,990	22,750	
Mean	37,590	35,870	24,490	21,720	20,940	
Standard Deviation	94,570	125,300	21,340	22,720	22,900	
Median	27,000	25,000	20,000	16,700	15,000	

Note: NRDC 1990 data on household income from paddy production are not available.

Figure 3 represents graphically the median household incomes from fishery of villages in Pak Mun project area for the years 1990-2001 as shown in Table 3 in comparison with villages in the rest of the northeast and the rest of the country. The economic justification for Pak Mun dam as advanced by EGAT and as supported by the World Bank rests

on doubtful grounds, and the project may in time be proven a misjudgement of catastrophic proportions in ecological terms, but the primary case against the dam and its continuing operations cannot reasonably be mounted on lost fishery incomes or unfair compensations for reduced livelihoods from fishery.

Figure 3 Median Income per Household from Freshwater Fishery (Baht @ 50th Percentile)

The higher values of median incomes derived from fishery in Pak Mun area as indicated in the census data are consistent with the higher median percentages of households in the project area engaging in fishery as livelihood. Table 4 shows the total number of households in villages reporting activity in freshwater fishery, the number of the respective village's households so occupied, and the median percentages of fishery households in the total number, for villages in Pak Mun project area, in the rest of the northeast, and in all other rural villages in the country.

The comparative median percentages of households engaged in fishery for the different classifications of villages by area are represented in Figure 4. Fishery

households in Pak Mun area rises from 36 percent of all households in 1990 to a high of 82 percent in 1996, settling down to 68 percent in 2001. In contrast, the median percentages of fishery households for villages in the rest of the northeast are relatively stable at 21-24 percent throughout the period, spanning back to the pre-dam census years of 1990 and 1992, and similarly for villages in the rest of the country at 13-15 percent of all households.

The percentiles of household fishery incomes for Pak Mun villages compared with the rest of the northeast and the rest of the country in 2001 are shown in Figure 5, which represents an approximation of the current situation pending the results of the next village census in 2003.

Table 4 Proportions of Fishery Households Engaged in Fishery as Livelihood

NRDC	TOTAL NUMBER OF HOUSEHOLDS			FRESHWATER FISHERY HOUSEHOLDS			Median % of Fishery Households		
	All Rural Area	Northeast	Pak Mun	All Rural Area	Northeast	Pak Mun	All Rural Area	Northeast	Pak Mun
2001	868,891	401,459	5,379	164,019	111,693	2,780	13.9%	21.9%	35.7%
1999	746,407	371,124	3,782	140,929	99,887	1,877	14.3%	22.2%	48.2%
1996	557,435	293,578	2,907	120,417	85,444	2,142	14.4%	24.1%	40.6%
1994	587,069	297,530	2,128	127,881	94,222	839	15.1%	21.8%	81.5%
1992	674,305	375,089	1,351	157,593	118,444	589	13.2%	20.5%	67.2%
1990	752,061	430,276	1,774	184,415	138,921	587	12.7%	20.7%	68.2%

Note: Selected data from villages reporting total households, freshwater fishery households, and fishery income per household.

Figure 4 % Households in Fishery

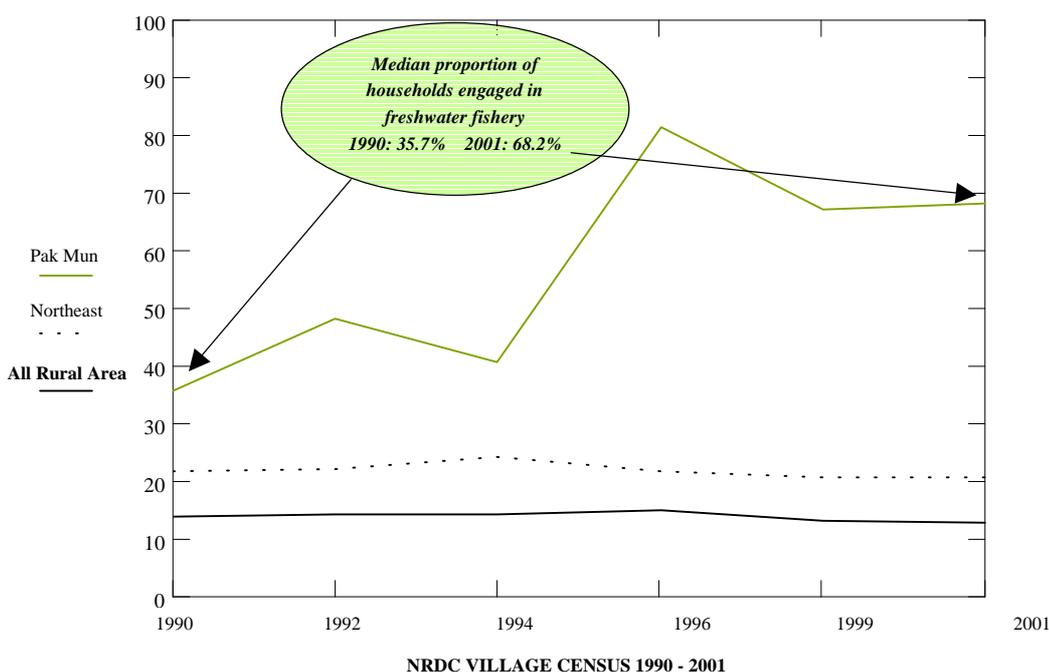
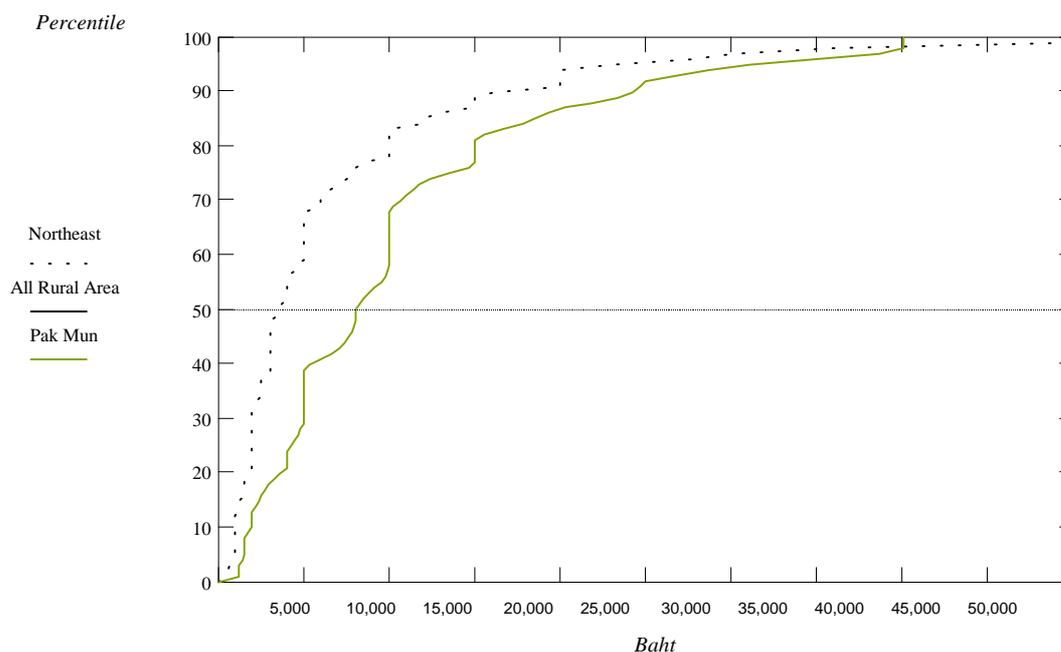


Figure 5 Annual Household Freshwater Fishery Incomes

Despite recognized shortcomings, the NRDC data series exhibit an evident degree of consistency and continuity in absolute as well as in relative terms, to which past *ad hoc* surveys of local incomes should at least have given a passing nod of acknowledgement or qualification, and to which future studies might be expected to address. Pending definitive and quantitative evidence to the contrary, the NRDC village census data show not only that Pak Mun fishing householders are not worse off than before in the pre-dam years in absolute terms, but also that they yet remain relatively better off, more of them deriving more incomes from fishery than elsewhere.

ENDNOTES

- ¹ Following the completion of the World Commission on Dam's terms of reference with the publication of its report, WCD Secretariat's functions are re-assigned to and continue under Dams and Development Project of the United Nations Environment Programme (UNEP).
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- ³ EGAT, Hydropower Engineering Department, *Summary Report: Pak Mun Multipurpose Development Project*, March 1988 (Report No. 31100-31103).
- ⁴ World Bank, *Thailand: Third Power System Development Project – Staff Appraisal Report*, Report No. 9173-TH, July 29, 1991.
- ⁵ Ubon Ratchathani University, *Project to Study Approaches to Restoration of the Ecology, Livelihood,*

and Communities Receiving Impacts from Construction of Pak Mun Dam, September 2002.

- ⁶ Department of Fisheries, *Report of Research Project on Fundamental Data of Fisheries Resources and Migratory Behaviours of Fisheries in Pak Mun Project Area*, In Co-operation with EGAT. Phase 2, September 1995, Table 14, p. 41.
- ⁷ SEARIN (Thailand), *Mun River: The Return of the Fisherman* (เครือข่ายแม่น้ำเอเชียตะวันออกเฉียงใต้ (ประเทศไทย), แม่มนูน การกลับมาของคนหาปลา บทสรุป และความรู้เรื่องปลาของคนปากมูน / งานวิจัยท้องถิ่น). October 2002, pp. 25-62.
- ⁸ Sansanee Choowaew, *Social Aspects of Fisheries, Mekong River Basin / Pak Mun Dam Case Study for WCD*. Faculty of Environment and Resource Studies, Mahidol University, March 2000, Table 8, p. 9.
- ⁹ World Commission on Dams, *The Pak Mun Dam in Mekong River Basin, Thailand. Final Draft*, October 2000 Section 4.6 Impact of Pak Mun Project – Social Aspects, Tables 28, 30, pp.52-53.
- ¹⁰ Ubon Ratchathani University, *Project to Study Approaches to Restoration of the Ecology, Livelihood, and Communities Receiving Impacts from Construction of Pak Mun Dam*, September 2002, p. 6 – 7.
- ¹¹ World Commission on Dams, *Pak Mun Dam Mekong River Basin Thailand, Draft Report for Discussion at the Stakeholder Meeting on 23rd February 2000, Pak Mun Dam Case Study by TDRI*, pp.12-17.



Thailand and the China-ASEAN FTA*

Chalongphob Sussangkarn**

IMPACTS OF CHINA'S RAPID DEVELOPMENT ON THAILAND

With a population of over 1.3 billion and a workforce of about 700 million workers, the integration of China into the world economy is bound to have significant impacts. This is the case irrespective of whether China joins the WTO or not, or whether China carries out free trade agreements (FTAs) with some regions or group of countries or not. Between 1990-2001, China's exports increased from about US\$ 62.1 billion to about US\$ 266.2 billion, while imports increased from about US\$ 53.3 billion to about US\$ 243.6 billion during the same period. China's share of world exports increased from about 1.8 percent to about 4.5 percent between 1990-2001 (Table 1).

Table 1 China's Merchandise Exports and Imports

(Million US\$)

	Exports	Imports	Export Share in World Trade
1990	62,091	53,345	1.81%
1991	71,843	63,791	2.04%
1992	84,940	80,585	2.26%
1993	91,744	103,959	2.44%
1994	121,006	115,614	2.83%
1995	148,780	132,084	2.91%
1996	151,048	138,833	2.83%
1997	182,792	142,370	3.31%
1998	183,809	140,237	3.38%
1999	194,931	165,699	3.48%
2000	249,210	225,094	3.99%
2001	266,160	243,610	4.45%
Average Growth Rate per Annum	14.15%	14.81%	

Sources: ADB and WTO.

Comparing the data for China with that for ASEAN countries in Table 2, it can be seen that ASEAN exports also grew substantially between 1990-2001, from about US\$ 142.1 billion in 1990 to about US\$ 384 billion in 2001. While the rate of growth of ASEAN

exports was slower than China's rate during this period, total ASEAN exports are still larger than those of China.¹ In more recent years, however, China has been quickly catching up with ASEAN in terms of total export value. Between 1990-1995, the absolute increase in ASEAN's exports was much larger than that for China, with ASEAN exports increasing by about US\$ 177.1 billion between 1990-95 compared to an increase of about US\$ 86.7 billion for China. The situation became reverse between 1995-2001, with ASEAN exports increasing by about US\$ 65.0 billion while China's exports increased by about US\$ 117.4 billion. This may indicate that demand is shifting away from exports of ASEAN to those from China, and should be a source of concern for most of the ASEAN countries. However, to get a more accurate picture of the potential competition between China and various ASEAN economies, one needs to compare in more detailed the trade structures of the ASEAN economies with China.

Table 2 ASEAN's Merchandise Exports

(Million US\$)

	Exports	Share in World Exports
1990	142,111	4.13%
1991	162,915	4.61%
1992	184,134	4.90%
1993	210,708	5.60%
1994	260,319	6.08%
1995	319,190	6.23%
1996	338,921	6.35%
1997	351,567	6.37%
1998	327,798	6.03%
1999	355,616	6.34%
2000	423,424	6.78%
2001	384,177	6.42%
Average Growth Rate per Annum	9.46%	

Note: Excluding Brunei.

Sources: ADB and WTO.

* Paper presented at the "Study Group on China" meeting, Ministry of Finance, Japan, February 3, 2003.

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For Thailand, the Thailand Development Research Institute has recently carried out a detailed study of Thailand's changing trade competitiveness and trade structures (Apichat et al. 2002). Some of the analyses in that study give insight into the relationships between Thailand and China's trade patterns and competitiveness.

The similarities of trade patterns between Thailand and other countries were studied by computing the Spearman's rank correlation between the Revealed Comparative Advantages (RCA) ranking of various product groups.² The data used was from PC-TAS for the year 2000 and covered about 100 product groups according to the Harmonized System (HS) of trade classification.³ The rank correlations with Thailand were calculated for about 35 countries, and the results are shown in Figure 1.

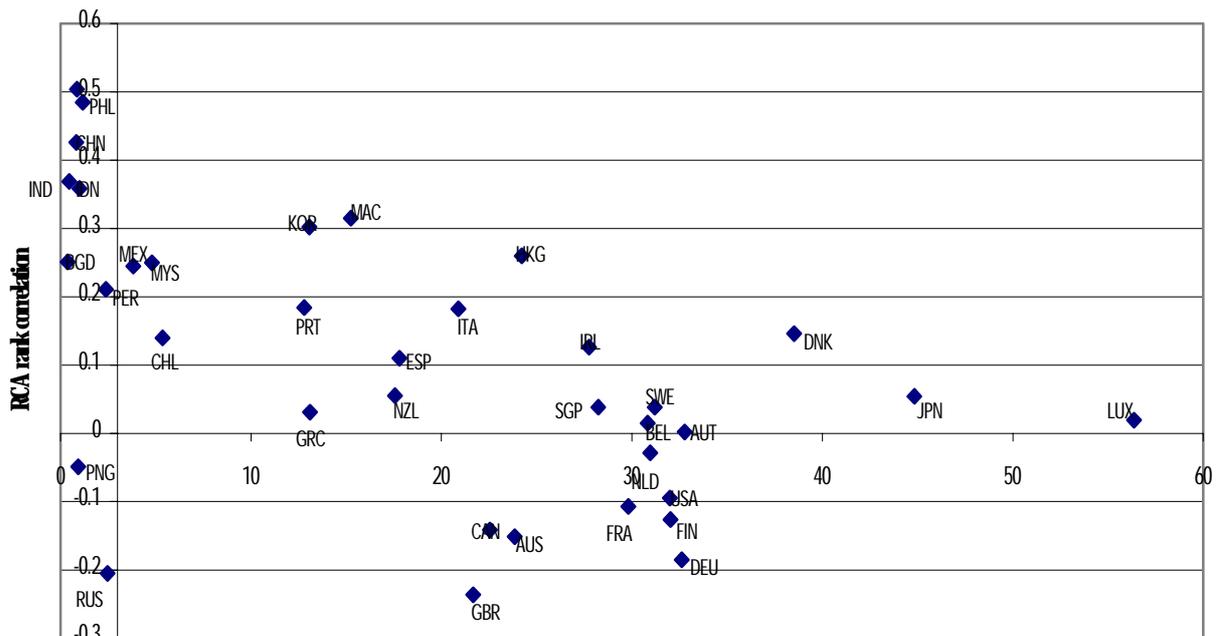
In Figure 1, the RCA rank coefficients are given along the vertical axis. The horizontal axis shows the per capita GDP of the various countries as an indicator of the relative cost of production in various countries. The vertical line toward the left of the figure indicates Thailand's level of per capita GDP. Countries with negative rank correlations or with a rank correlation not too far away from zero are those who do not compete directly with Thailand, and their demand structure may be complementary with the structure of Thailand's exports. For such countries, those that have a higher per capita income compared to Thailand are good potential markets for Thai exports, as consumers in these countries will be relatively well off. In Figure 1, some of the more significant countries in this group include the United States, Canada, Australia, Germany,

France, Japan and Singapore, basically the developed economies.

Countries with fairly high (and positive) rank correlations have similar export structures to Thailand. These countries tend to be competitive with Thailand in export markets. Such countries that also have lower per capita GDP to Thailand are particularly strong competitors, as they are likely to have lower cost of production. These countries include the Philippines, China, Indonesia and India. Thus, China is certainly one country that is a strong competitor to Thailand given the similarities of trade structures and lower cost of production.⁴

To look in more detailed at the similarities of export structures between Thailand and China, the RCA rank correlations can be carried out within various product groupings. Table 3 shows the rank correlations of RCA's within various International Standard Industrial Classification (ISIC) product codes, with the meanings of the ISIC codes shown in Table 4. Table 3 also shows the number of product items within each ISIC group and the value share of each group in Thailand's exports for 2000. It can be seen that the groups with relative high rank correlation coefficients and also significant shares in Thai exports include the followings: ISIC1 (Agriculture, Hunting, Forestry and Fishing), ISIC31 (Manufacture of Food, Beverages and Tobacco), ISIC32 (Textile, Wearing Apparel and Leather Industries), and ISIC38 (Manufacture of Fabricated Metal Products, Machinery and Equipment). These groups altogether account for about 75 percent of total Thai merchandise exports. Thus, the likely competition with China covers a very broad range of Thai exports.

Figure 1 Thailand's RCA Rank Correlation With Various Countries



Source: Computed from PC-TAS. GDP per capita from World Bank.

GDP per capita US\$ 1,000

Table 3 Rank Correlation with China within Product Groups

Product Group	Rank Correlation	No. of Product Items	Share in Thailand's Export (%)	Intra-Industry Trade Index (IIT)
ISIC1	0.32**	372	6.75	0.3
ISIC2	-0.02	112	1.45	0.6
ISIC31	0.43**	381	10.56	0.1
ISIC32	0.17**	863	10.48	0.9
ISIC33	0.65**	70	2.02	0.0
ISIC34	0.37**	151	1.26	0.1
ISIC35	-0.09**	1000	10.51	0.9
ISIC36	0.11	153	1.74	0.1
ISIC37	0.19**	358	2.19	0.2
ISIC38	0.33**	1317	46.91	18.9
ISIC39	0.18*	168	3.71	0.1

** Correlation is significant at the .01 level (2-tailed).

* Correlation is significant at the .05 level (2-tailed).

Source: Apichat et al. 2002. Calculated from data in PC-TAS, 2002.

Table 4 International Standard Industrial Classification (ISIC Revision 2)

1	Agriculture, Hunting, Forestry and Fishing
11	Agriculture and Hunting
12	Forestry and Logging
13	Fishing
2	Mining and Quarrying
21	Coal Mining
22	Crude Petroleum and Natural Gas Production
23	Metal Ore Mining
29	Other Mining
3	Manufacturing
31	Manufacture of Food, Beverages and Tobacco
32	Textile, Wearing Apparel and Leather Industries
33	Manufacture of Wood and Wood Products, Including Furniture
34	Manufacture of Paper and Paper Products, Printing and Publishing
35	Manufacture of Chemicals and Chemical, Petroleum, Coal, Rubber and Plastic Products
36	Manufacture of Non-Metallic Mineral Products, Except Products of Petroleum and Coal
37	Basic Metal Industries
38	Manufacture of Fabricated Metal Products, Machinery and Equipment
39	Other Manufacturing Industries

The above analysis shows that there are many similarities between the structure of Thai and Chinese exports. This suggests that the two countries are very competitive in the global export markets. An additional factor can be investigated further, and this is whether the two countries have a lot of mutual trade with each other in various product groups. Thus, while the export structures may be similar, if the two countries have a lot of intra-sector trading, then the similarity of export structures may indicate complementarities in trade as well as competitiveness. Thus, there could be a lot of intra-industry trading between the two countries. To check on this, one can look at the so-called Intra-Industry Trade Index (IIT).⁵ An IIT value close to 100 suggests a lot of intra-industry trading, and the growth in one country's exports could lead to a lot of demand for the other country's exports; for example through demand for intermediate products.

The IIT values for various product groups between Thailand and China are given in the last column

of Table 3. It can be seen that for most of the product groups, the IIT values between Thailand and China are fairly low, suggesting little complementarities between the export structures of the two countries. The only product group that the IIT Index is fairly high is the ISIC38 group (Manufacture of Fabricated Metal Products, Machinery and Equipment). Thus, in this group there could be some bilateral trading in machinery, equipment and parts. However, the overall IIT values suggest that Thailand and China are likely to be much more competitive rather than complementary in external trade.

To be more specific about Thai products that are facing strong competition from China in various export markets, one can look at product groups in major Thai export markets where Thailand has recently suffered declines in market shares and where China's market shares have been increasing. The relevant product groups in the US, EU and Japanese markets are given in Table 5.

Table 5 Sectors with Recent Declining Thai Shares and Increasing Chinese Shares by Markets

US Market	EU Market	Japanese Market
Shoes and Accessories	Garments	Animal Feed
Telecommunications Related	Textiles	Garments
Printed Circuits	Air Conditioners and Parts	Furniture
Electrical Appliances and Parts	Video and Audio Equipments	Plastic Products
	Television and Parts	Television and Parts
		Refrigerators and Parts

Source: From PC-TAS data, 2002.

As with the earlier analyses, Table 5 shows that the product groups that appear to be significantly affected by Chinese competition are very broad, ranging from food sectors to labor intensive manufacturing to the more technologically intensive products. This suggests that China's range of competitive advantage over Thailand is rather broad, and the emergence of China into the world market has and will significantly affect Thailand, irrespective of China's entry into the WTO or an FTA between China and ASEAN (or bilaterally with Thailand).

CHINA-ASEAN FTA

The "Framework Agreement on Comprehensive Economic Cooperation between the Association of Southeast Asian Nations and the People's Republic of China" was signed on November 4, 2002 in Phnom Penh, and is planned to be applicable on July 1, 2003. This is only about one year after the idea was introduced by China in 2001, and may appear rather surprising given the high competitiveness of the Chinese economy in a broad range of product areas. There are however various possible reasons why the China-ASEAN economic cooperation framework has progressed very quickly.

First, the Chinese economy has been the fastest growing economy in the region for a number of years, and it is expected to play a bigger role in absorbing some of the exports from ASEAN countries in the future. While the average per capita income in China is still lower than all the original ASEAN-6 countries except for Indonesia (Table 6), China's population is very large and its economy is diverse. The booming and well-off coastal areas in particular could be an important source of demand for relatively high quality products from ASEAN. Also, if China's economy continues to grow at 7-8 percent per year well into the future, the relative gap in per capita incomes between China and various ASEAN economies will likely narrow substantially.

Second, while China is competitive in a broad range of sectors, there are also tremendous opportunities for trade and investment in China. Some big businesses will certainly benefit by being able to more easily invest in China. For Thailand, there are already business groups that are major investors in China, in particular the CP Group, which also has very good connections with

the Chinese leaders.⁶ The CP Group is active in many sectors, including chicken, animal feed, motorcycles, and wholesale and retail trades. Just last year, the CP Group opened the largest shopping complex in China, the "Super Brand Mall" in Shanghai.

Table 6 Per Capita GNP (US\$)

	Year 2000
China	840
Brunei	12,751
Indonesia	570
Malaysia	3,380
Philippines	1,040
Singapore	24,740
Thailand	2,000

Note: Figure for Brunei is per capita GDP.

Sources: ADB and ASEAN Secretariat.

Some goods and services also have good potential in the Chinese market. High-end Thai rice already has an established market in China, and Chinese tourists are becoming more and more important to the Thai tourism industry, with about 800,000 arrivals in 2001 compared to about 450,000 arrivals in 1997. Other service sectors may also be able to exploit the Chinese markets, for example the telecommunications sector. Thus, there are plenty of opportunities available.

There are, of course, also many downside risks, both on the trade and investment side. However, the full negative impacts on ASEAN economies from the integration of China into the world market may not have been fully felt at the current time, and therefore the potential impacts may be somewhat underestimated at present. As already shown in Table 2, ASEAN exports over the past five years or so have still been rising, although the absolute increase in exports has become less than that for Chinese exports. The fact that ASEAN exports may have been helped in recent years by the depreciation of ASEAN currencies in relation to the Yuan as a result of the financial crisis may not have been sufficiently appreciated. With more stable exchange rates in ASEAN in the last couple of years, the competitive advantages from depreciating ASEAN currencies are no longer present, and this may help to explain why ASEAN exports declined sharply in 2001 while Chinese exports were still increasing at a healthy

rate (Tables 1 and 2). This could signal the trend of what may become more apparent in the future, although the picture is not absolutely clear at the present time.

The flow of cheap Chinese goods into ASEAN markets is also still at an early stage. In Thailand, the total imports from China was only about US\$ 3.7 billion in 2001, representing about 6.0 percent of total imports. While China's share of imports has doubled over the past five years, the still relatively low volume of Chinese imports has not yet created a lot of attention about possible adverse impacts on domestic production. However, over the past year or so, the competitiveness of Chinese imports is becoming more apparent. High-end products, such as DVD players and LCD computer monitors are now more widely available and at prices about 35-50 percent cheaper than products with comparable specifications from South Korea and Japan. This shows that China is competitive in a very broad range of products, from cheap low-end labor intensive products, such as garments, to high end products such as electronics and electrical appliances, and the impacts on the domestic markets of ASEAN economies may become much more apparent over the medium term.

Third, the inclusion of the "Early Harvest Programme" in the China-ASEAN Comprehensive Economic Cooperation Agreement is a master stroke of diplomacy. Many ASEAN economies have some comparative advantages in some food and agriculture sectors included as part of the programme (Table 7), and these economies (including Thailand) are therefore attracted to the benefits that could be gained in the relatively short-term.⁷ Some of the sectors are also complementary between tropical ASEAN and the more moderate climate China, such as fruits and vegetables.

Table 7 Sectors in Early Harvest Programme

HS Chapter	Description
01	Live Animals
02	Meat and Edible Meat Offals
03	Fish
04	Dairy Produce
05	Other Animal Products
06	Live Trees
07	Edible Vegetables
08	Edible Fruits and Nuts

Source: China-ASEAN Framework Agreement.

By introducing the "Early Harvest Programme," China also basically makes its economic cooperation framework proposal stand out from what could be matched by Japan (or South Korea), and in some sense took the leadership role away from Japan in the area of regional economic cooperation. While Japan has concluded an Economic Agreement for a New Age Partnership with Singapore, the fact that Singapore had a negligible agriculture sector was critical to the ability to conclude the agreement. It is highly unlikely that Japan can offer anything similar to ASEAN countries, so the Chinese agreement will stand out from anything that may

develop later between ASEAN and Japan or other countries in the region. I believe that an important part of the reason for the FTA initiative from China is to promote its own leadership role in the region.

Fourth, because the China-ASEAN agreement cannot be viewed purely from the economic benefits that may result from the agreement, but also from geo-political power play perspectives, particular between China and Japan and even between China and the United States, the China-ASEAN agreement is attractive for the ASEAN economies as it gives an impetus for other major economic powers to attach more importance to developing further economic cooperation with ASEAN.

Japan had to respond quickly to the China-ASEAN initiative, and surely enough a "Joint Declaration of the Leaders of ASEAN and Japan on the Comprehensive Economic Partnership" was announced on November 5, 2002, in Phnom Penh just one day after the signing of the China-ASEAN economic cooperation framework agreement. If China did not initiate the China-ASEAN FTA, then it is unlikely that Japan would have moved as quickly to develop a framework for economic partnerships with ASEAN. Apart from Japan, even the United States took notice of China's initiative, and also introduced an Enterprise for ASEAN Initiative (EAI) that opened the window for possible bilateral FTAs between the United States and members of ASEAN along the lines of the Singapore-US FTA.⁸ The China-ASEAN economic cooperation initiative therefore has implications beyond the direct impacts of the agreement because it became an impetus for other economic powers to develop more seriously greater economic cooperation with ASEAN. This is of great indirect benefit to ASEAN. For ASEAN, it appears to be of much greater benefit to develop an FTA with an economy that is at a more advanced stage of development compared to ASEAN than with a country that is still at a lower level of development on average compared to ASEAN. Because of geo-political considerations, while the agreement with China may be risky in competitive terms, if it can bring about indirect benefits through FTAs with countries such as Japan and the United States, the net benefits are likely to be significantly positive.

The China-ASEAN framework agreement has the goal to achieve zero tariffs for all products in the "normal" track by 2010 between China and ASEAN-6 and by 2015 between China and the newer ASEAN member countries. Some products could also be put into the so-called "sensitive" track, and the parties will have to negotiate specific agreements for these products. At this point, it is hard to say whether the negotiations under this framework agreement will proceed smoothly. The experience within ASEAN in trying to establish the ASEAN Free Trade Area (AFTA) shows that countries could try to exclude many sensitive sectors from the agreement, or delay the reduction of tariffs or non-tariff barriers on these sensitive sectors. The situation in the negotiations with China may develop in a similar

fashion, especially since China is already highly competitive in many sectors even without an FTA, and this will become clearer and clearer over the next few years or so.

During the process of moving toward an FTA with China, ASEAN needs to become much more serious in fully implementing AFTA to make the region more attractive as an investment destination. This also requires the harmonization of rules, procedures and regulations that will lower the cost of producing, transporting and generally doing business in ASEAN. One can already see that the investment destination of choice at the present time is China. ASEAN has lost much of its attractiveness, especially after the financial crisis in 1997. However, investors still have not abandoned ASEAN completely, partly from a need to diversify the production base to include other locations apart from China in order to reduce risks. Many major multinational companies are using a strategy of China+1, meaning that going to China is a must, but the company would also like one other significant destination to diversify the location of its production facilities. Unfortunately, the various ASEAN countries are competing with each other for the +1 part of this strategy at present. Unless ASEAN can get its act together in the not too distant future and merge to form one single market, there is real danger that each of the ASEAN economies will end up becoming marginalized.

For ASEAN, it is critical to be able to retain the foreign partners and investors that have helped to develop the region over the past couple of decades. Thailand has relied on partnerships with all countries to attract Foreign Direct Investments (FDI) and develop the domestic industrial capabilities. Thailand's partnership with Japan has been particularly close, and Japanese investment in numerous sectors in Thailand, and Japan's assistances throughout the period of the financial crisis are highly appreciated in Thailand. There is of course the worry that significant amounts of foreign investment may be diverted away from Thailand to China. However, even if Thailand is only competing for the +1 part of the multinational companies' investment strategy, I believe that Thailand is still sufficiently attractive as an investment location, particularly from the social and cultural perspectives, to be able to attract a significant amount of FDI for some sectors. As for investment from China as a result of the China-ASEAN agreement, it is unlikely to be as significant as the FDI from Thailand's traditional partners, such as Japan, Asian NICs, the US and Europe. The reason is that China itself is likely to be still highly attractive for domestic investment for some time, whether for the domestic or the export market, with a large pool of workers still available to be drawn upon and the large size of its markets. There will not be as much incentives for Chinese companies to seek foreign investment destinations as for example there were for Japanese companies to do so in the mid-1980s.

REGIONAL INTEGRATION IN EAST ASIA

Greater economic integration in East Asia in the medium to long term, whether in terms of trade, investment, finance or monetary matters, is inevitable and also desirable. While trade negotiations at the global level through the WTO should lead to a more liberalized global trade environment, this can be supplemented by special economic and trade relationships at the regional or sub-regional levels. Indeed, FTAs at the sub-regional level abound, and more continue to be negotiated. These sub-regional FTAs may not necessarily be impediments to expansions of inter-regional trades, but it seems clear that they tend to create an impetus for rapid expansion of intra-regional trade and investment.

Other parts of the world have moved rapidly toward sub-regional integration; the EU of course, together with the current plan for expansions to Eastern Europe, and also the Free Trade Area of the Americas (FTAA). These will create a great deal of intra-regional economic activities within these regions, with the potential to divert trade and investment flows from East Asia. It is therefore important that East Asian economies should develop their own modes of regional integration. There are of course many on-going regional cooperation schemes that will inevitably lead to closer economic integration in East Asia, such as AFTA, the China-ASEAN agreement, the Japan-Singapore economic agreement for a new age partnership, the proposed Japan-ASEAN Comprehensive Economic Partnership, and various ideas for greater economic integration of Northeast Asia involving Japan, the Koreas and China. These should eventually evolve into an integrated East Asian regional cooperation arrangement.

With closer economic integration in East Asia, each country/region will need to develop its own niches based on its natural comparative advantages. Thailand should be able to maintain its advantages in agriculture and food related sectors and socio-cultural service based sectors, such as tourism, for some time. Thailand's motor vehicles sector, which is now quite efficient and encompasses most of the major producers of the world, should also be able to withstand the fierce competition in the future. There will, of course, inevitably be a great deal of regional rationalization of production locations and division of labor. However, I do not think that production locations and division of labor in East Asia will fall neatly into simple patterns. The reason is that East Asia is a big region, whether in terms of geography, population or cultures. While there will be greater integration, there will continue to be a great deal of differentiation. Countries and sub-regions will cooperate and compete. There should be multiple interlocking partnerships and competitors, with no simple pattern of production location and division of labor.

There will also be greater financial and monetary cooperation in East Asia in line with greater economic cooperation in general. Recently, there have been many

suggestions of possible exchange rate arrangements, and even monetary integration in East Asia along the line of the EU. Of course, as the economic integration in East Asia deepens, a reduction of currency risks in intra-regional transactions will promote more efficient integration, and these proposals and analyses lay useful groundwork to support the long-term integration of East Asia. However, my own view is that too much focus on a common exchange rate arrangement or monetary union in East Asia at this stage is pre-mature and could be counter-productive. The socio-economic and political environment in East Asia is still a long way from being ready for any kind of integration that will involve a sacrifice of national sovereignty. Nevertheless, there are many promising lines of financial cooperation in East Asia that generate win-win solutions for all East Asian economies and also strengthen the financial leverage of the whole region (see Chalongphob 2002). East Asian economies possess about one trillion US dollars in official foreign reserves, accounting for almost 50 percent of the world's foreign reserves. They also have a combined saving surplus of about US\$ 200 billion annually at the present time. Judiciously leveraging on these huge financial resources would give the East Asian region much greater say in the development of the global financial system, and also generate greater financial stability for the region as a whole.

It was ironic that prior to the financial crisis in 1997, East Asian economies also had a lot of financial resources, whether in foreign reserves or in saving surplus, yet countries who had saving deficits had to resort to short-term foreign borrowing to finance their development. This led to a huge buildup of short-term foreign debt that eventually brought about the financial crisis in the region at huge economic costs to most of the regional economies. Financial cooperation in the region to promote the availability of long-term financing for development, such as the development of a regional bond market to recycle surplus saving in the region to countries in the region needing development financing would be one example of a win-win cooperation scheme. This is one area that the Thai government is actively pushing for at present, and much more can be done along these lines.

The main thing to bear in mind is that East Asian countries are very diverse, and there are a great deal of historical hurdles to overcome when exploring potentially effective regional cooperation arrangements. Some of the recent initiatives for regional economic cooperation clearly arose from competitive considerations between some countries in the region. However, as the region moves to rationalize all the various forms of economic cooperation initiatives to develop a truly integrated East Asian economic cooperation arrangement, all countries of the East Asian region will have to be involved. For this to happen effectively, the focus needs to be on initiatives and proposals that are win-win by nature, rather than those

that would lead countries to focus on what they might lose as a result of the cooperation.

ENDNOTES

- 1 However, the numbers in Table 2 include intra-ASEAN exports.
- 2 The Revealed Comparative Advantage RCA is computed as $RCA = (X_{IK}/\Sigma X_K) / (X_{IW}/\Sigma X_W)$ where X_{IK} is the value of sector I export of country K, and X_{IW} is the total value of world export of product I.
- 3 PC-TAS is the Trade Analysis System for personal computers developed by the International Trade Center UNCTAD/WTO, the United Nations Statistics Division.
- 4 The high correlation between Thailand's and China's export structures is also confirmed by another recent preliminary study being carried out by the World Bank on the Regional Impact of China WTO Accession.
- 5 The IIT Index is calculated as
$$IIT = \left(1 - \left| \frac{x_{ij} - m_{ij}}{x_{ij} + m_{ij}} \right| \right) * 100$$
 where x_{ij} is the value of country i's export of product j to the market under focus, and m_{ij} is the import value of in country of product j from the market under focus. See Felt and Wisarn (1995).
- 6 Mr. Dhanin Chearavanont was the only foreigner appointed to the committee to advise the Chinese government on the handover of Hong Kong back to China.
- 7 Countries can put some of these sectors and subsector on an exclusion list. Some of the newer ASEAN member countries did just that. Countries can also add various sectors to the Early Harvest Programme. For example, Thailand added some sectors related to coal.
- 8 The EAI was announced by President George W. Bush to the ASEAN Leaders in Los Cabos, Mexico on 26 October 2002.
- 9 For example Williamson (1999), Kwan (2001), Kawai and Takagi (2000) and Fabella (2002).

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