The 1989 TDRI Year-End Conference

"THAILAND IN THE INTERNATIONAL ECONOMIC COMMUNITY"

Background Paper No. 2

The Management System of the World Economy and the Response of Thailand's External Sector

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December 16-17, 1989

Ambassador City Jomtien, Chon Buri

Organized by the

Thailand Development Research Institute

This draft Year-end Conference paper presents the views of the authors and was written to be used only as background material for the 1989 TDRI Year-end Conference. It will be edited for publication after the conference.

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ACKNOWLEDGEMENTS

This research project was made possible through funding from Thailand Development Research Institute Foundation (TDRI). The researchers would like to especially thank Dr. Narongchai Akrasanee, who was the person responsible for guiding and supervising this entire project, from beginning to end. Also, we would like to express our gratitude to Dr. Somsak Tambunlertchai and Dr. Juanjai Ajanant who provided us new insight and constructive criticism on different issues of this study. The research work was closely and carefully assisted by Ms. Rosada Vesdapunt, who gave our research team the special help it needed. Ms. Jaruwan Chontanawat and Ms. Netrsuda Saligupta of TDRI gave encouragement and followed our progress throughout this study and Ms. Nancy Conklin patiently edited the entire report. The exchange of ideas among the various research teams enabled us to enlarge and shape our views, as presented in this report. Finally, we would like to thank those private and public agencies and organizations who provided us with the data and information for this study.

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PREFACE

Thailand's external sector has continued to increase in its importance to the Thai economy as a whole. With the growing globalization and interdependence of the world economy, this sector is, and will continue, to increasingly integrate into the world economic environment. At the same time, this sector is being again subjected to more protectionism from different countries. This has become obvious since the beginning of the 1980s, particularly regarding developed countries. Different protectionist types and measures are often in various forms, are complex to analyze, and are difficult to resolve. Trends show that different countries prefer to resort more frequently to non-tariff measures as their dominant method of protection rather than the former, more transparent tariff measures, which are now less important.

With the growing protectionism in the world economy, world economic management systems have also changed, they have become the major interests and forces prompted by the interrelationships between different countries. The multilateral management system, led by the General Agreement on Trade and Tariffs (GATT), is still maintained as an important focus for trade negotiations, although this institution is still not an effective forum or means by which to reduce or to effectively suppress widely used non-tariff measures. Bilateralism and unilateralism, meanwhile, have become increasingly involved in world economic management. The proliferation of unilateral actions against other countries and the setting of new bilateral arrangements have been viewed as threats to the world trading system established by the multilateralism of GATT. Moreover, regional and sub-regional management systems on different continents have challenged the overall view of tomorrow's world economies.

The dynamics of change in the management systems of the world economy will surely continue to have a tremendous impact on Thailand's external sector. In the coming decade of 1990s, the methods of conducing trade policy will change from liberal, free trade to more restricted, managed trade. Negotiations with different countries will be conducted more broadly and jointly between the public and private sectors. As competition impacts more strongly on its external sector, Thailand must clearly define its strategies and policy options, based on different management system levels. Overall, its ability to adjust should be flexible enough to allow for the maintenance of the external sector's competitiveness as well as to strengthen Thailand's negotiations for dealing with a new world economic management system climate.

EXECUTIVE SUMMARY

Recently, especially during the second half of the 1980s, Thailand's economy has shown strong economic growth. The country's economic structure has equally experienced significant changes during the past few years. In overall terms, the external sector has been one of the major contributors to this change.

In viewing the future course of development in the 1990s, the external sector will continue to share a strong association with the kind or shape of economic development toward which Thailand is moving. Thailand's international economic relations with major economic players such as the United States, Japan, and the European Community will continue to be crucially important.

As the world moves toward the end of the twentieth century, the world economy's management systems are receiving more attention than ever before. The systems are so dynamic, and complex that they now require major adjustments for all players, both old and new. Presently, several management systems level--multilateralism, regionalism, bilateralism and unilateralism--are closely interrelated.

The multilateral system, led by the General Agreement on Trade and Tariffs (GATT), has inevitably affected its subsystem; the regional and unilateral systems. Agriculture is one of the issues that appears to have had some success in being integrated into the present GATT round, causing the European Community and the United States to comply more with new regulations. At the same time, strong regional and bilateral systems could create norms that could affect or influence the multilateral system, particularly if the latter is more weakly organized. Examples are the integration of new issues--such as trade in services, trade-related investment measures and trade-related intellectual property rights--by developed countries in the GATT round.

Nevertheless, it is still true that GATT will continue to play an important role in establishing useful principles in multilateral trade negotiations. Consequently, multilateral principles will be resorted to as key ways to solve regional, bilateral or unilateral issues and in setting fair principles for all concerned parties. Somehow, each country must carefully weigh the ways and means and possible concessions needed to achieve its own objectives in bilateral negotiations.

Regarding the regional management system, the European Community program toward 1992 and beyond is becoming a new major challenge to the world economy. The move toward the Single Market concept at the regional level signals both a possible coming threat as well as possible opportunities. The crucial element is that different countries must quickly adapt themselves to new conditions in market and opportunities; otherwise, they will be subject to real losses. The Asia-Pacific Economic Community is another interesting setting for regional cooperation. Its creation aims at fostering economic ties for a number of issues between member countries. Yet, there are still uncertainties concerning participating countries and areas for cooperation, which are causing this regional effort to be subject to criticism.

Concerning the sphere closest to Thailand, ASEAN represents a subregional management system in which Thailand is able to more easily explore a greater range of possibilities. Intra-ASEAN economic cooperation especially the preferential trading arrangement (PTA) is still vigorous with the deepening of PTA and the inclusion of exclusion lists into the PTA, (even though PTA accounted for less than 5 percent of the agenda in the 1987 Manila Summit). Industrial cooperation is also growing large enough to be able to attain the realization of different ASEAN Industrial Joint-Venture (AIJV) projects. Somehow, ASEAN should continue to put more emphasis on this subregional management system and on extra-ASEAN economic aspects: GATT, the formation of trading blocs, and the major dialogue partners of ASEAN countries.

The interrelationship between bilateralism and unilateralism is gaining a strong foothold as part of the world's management systems. Through its exercise of the now-famous section 301 of the 1988 Trade Act an example of unilateral measures, the United States has declared that other countries should consider its unfair trade practices and that these countries' trade policies should correspond to the United States Trade Act. This has dramatically changed the view of the methods by which the United States conducts its trade policy, turning away from liberal, free trade toward restricted, managed trade. In a different manner, Japan has also long advocated unilateral measures to protect its own domestic market. These barriers are viewed to persist as Japan is uneasy about dismantling unilaterally. Countries wishing to trade with Japan, in a more balanced way should gain in-depth knowledge of how to work with the Japanese in order to overcome the existing imbalanced situation. However, it is not yet clear how to assess the implications of the new setting of bilateral agreements between the United States and Canada and the United States and Israel, which have been recently formed and which are now in practice.

This study also attempted to assess the implications of world trade management on Thailand's external sector. It was discovered that Thailand in the 1980s faced more trade barriers from different forms of protectionism--especially from the United States, the European Community and Japan, her major trading partners. The commercial transactions that formerly were based on free trade are now being increasingly replaced by managed trade. The 1988 quantitative assessment indicates that managed trade affected around one-third of

Thailand's exports to its three major trading partners. Managed trade accounts for 18 percent of Thailand's overall exports. The share of managed trade is the highest in the European Community, followed by the United States and Japan. Quotas, antidumping and countervailing duties are the primary forms of non-tariff measures considered to be managed trade.

As the world economy's management systems are increasingly put under more scrutiny by all players, it is expected that the magnitude of managed trade affecting Thailand's exports will continue to be strong in the 1990s. The trend of future trade will continue side by side with restrictions and arrangements broadened more and more in their coverage, value, and number. There is no doubt that all major sectors will be increasingly exposed to external disturbances. The country must then strengthen its ability to adjust more effectively to the new setting of management systems. The complexities of these management systems require that the people involved in these areas, have a larger perspective and not just concentrate on specific issues without enlarging their views accordingly.

1. AN OVERVIEW OF THAILAND'S INTERNATIONAL ECONOMIC RELATIONS

INTRODUCTION

Thailand's economy grew rapidly and underwent structural transformation during the 1980s.

After the economic slowdown that followed the second oil crisis in the early 1980s, the Thai economy took off, with an average yearly growth of around 8 percent. In 1988 the Thai economy recorded double-digit growth (11%) for the first time in 22 years, and 10 percent growth is forecast for 1989. The momentum of economic growth is being maintained because of the government's policy to internationalize the economy and thus boost Thailand's competitiveness in the international market.

Thailand's economic growth rate ranks among the highest in Asia and is better than the world average -- especially when compared with the average of both developed and developing countries. Thailand's economic growth is second only to that of the newly industrialized countries (see Table 1.1). The Fifth and Sixth National Economic and Social Development Plans stimulated major efforts to expand modern-sector activities, particularly manufacturing. These efforts played a major role in Thailand's rapid economic growth and structural change.

Thailand's GDP growth looks very good when compared to other countries in the region. During the economic recession of 1985-86, Thailand had the highest GDP growth in ASEAN at 3.5 percent, while Singapore, Malaysia, and the Philippines suffered from the world economic downswing. Then, while the world economy was at ease in 1988, Thailand's economy soared to a double-digit growth rate, where it is expected to stay through 1989. Thus, as a place for investment, Thailand's economy has shown balance and resilience even when world conditions are bad.

This chapter will summarize in detail the recent performance of the Thai economy. It then analyzes the factors influencing Thailand's rapid economic expansion. The thesis presented is that external factors are the main fuel for Thailand's growth.

1.1 Recent Performance of the Thai Economy

Economic expansion during the first two years of the Sixth National Economic and Social Development Plan, (1987-1991) began to alleviate the chronic economic and social problems that had been accumulating during previous years of the Fifth Plan. Indeed, economic development exceeded expectations. During the Fifth Plan, economic growth averaged 5.3 percent per year. In 1987, the first year of the Sixth Plan the Thai economy expanded by 8.4 percent. In 1988 the economy grew by 11 percent--the highest growth rate registered in 22

Table 1.1 World Output, 1971-1989 (a)

(Percentage)

	Average 1971-1980	1981	1982	1983	1984	1985	1986	1987	1988	1989 (d)
World(1)	3.9	1.8	0.7	2.8	4.5	3.4	3.2	3.2	4.1	3.3
Industrialized countries(1)	3.2	1.5	-0.3	2.8	4.9	3.4	2.6	3.4	4.1	3.3
Developing countries(1)	5.5	1.9	2.2	2.2	4.1	3.6	4.2	3.3	4.3	3.3
ASEAN(b)										
Thailand(2)	6.8	6.3	4.1	7.3	7.1	3.5	4.5	8.4	11.0	9.7 (4)
Indonesia(3)	7.9	7.9	2.2	4.2	6.0	2.5	4.0	3.6	4.7	5.1
Malaysia(3)	8.0	6.9	5.9	6.3	7.8	-1.0	1.2	5.2	7.8	6.5
Philippines(3)	6.2	3.9	2.9	0.9	-6.0	-4.3	1.4	4.7	6.6	6.3
Singapore(3)	9.0	9.6	6.9	8.2	8.3	-1.6	1.8	8.8	11.1	7.5
Newly Industrializing Economies(c)										
Hong Kong(3)	9.5	9.4	3.0	6.5	9.5	-0.1	11.9	13.8	7.4	6.0
Korea, Rep.of(3)	8.7	7.4	5.7	10.9	8.6	5.4	11.7	11.1	11.0	7.6
Taipei,China(3)	9.7	6.1	2.8	7.7	9.6	4.4	10.6	12.4	6.8	6.2
Japan(1)	4.8	3.7	3.1	3.2	5.1	4.9	2.5	4.5	5.7	4.5
China,People's Rep.of(3)	6.5	4.9	8.3	9.8	13.5	13.1	8.3	10.6	11.2	8.0

Notes: (a) Real GDP (or GNP) for industrial and developing countries and real net material product (NMP) for other countries. Composites for the country groups are averages of percentage changes for individual countries weighted by the average US dollar value of the respective GDPs (GNPs or NMPs where applicable) over the preceding three years. Because of the uncertainty surrounding the valuation of the composite NMP of the other countries, they have been assigned - somewhat arbitrarily - a weight of 15 percent in the calculation of the growth of world output.

(b) Excluded Brunei Darussalam.

(c) Excluded Singapore

(d) Estimated

Sources: (1) International Monetary Fund, World Economic Outlook, April 1989, p.125.

(2) Bank of Thailand, Monthly Bulletin, various issues(in Thai).

(3) Asian Development Bank, Asian Development Outlook 1989, p.178.

(4) General Economic Section, Department of Economic Research, Bank of Thailand.

years of development. Moreover, per capita income has also shown strong increase--to an estimated 9.2 percent in 1988 (see Tables 1.2 and 1.3).

Thailand's agricultural sector is also doing well, with a five percent average growth rate of five percent over the past two decades. This is the best of Asia's developing countries. In the 1980s agricultural production in Thailand was higher than during the 1970s and has grown faster than developing countries.

Agricultural production grew 8.6 percent in 1988, even though production in this sector had fallen by 2 percent in 1987. Favorable weather and sufficient rainfall, along with increased prices for primary commodities, accounted for this agricultural growth (which encouraged farmers to expand their cultivation) (see Tables 1.2 and 1.3).

The manufacturing sector has been performing exceptionally well since 1986, mainly in export industries. Production in manufacturing grew by 9.6 percent in 1986, 13.6 percent in 1987 and 12.4 percent in 1988. The mining sector is also on an upward trend. After the negative growth in 1986, mining production grew by 7.3 percent in 1987 and 13.5 percent in 1988. A rise in the demand for tin this year will help increase the value of tin exports to 3 billion baht, a 30 percent increase.

During the Sixth Plan, the construction sector also grew by 8.1 percent and 13.7 percent in 1987 and 1988 respectively, after a period of contraction in 1985 and 1986. There was a down side to the construction boom, however, as it resulted in steep price increases in construction materials. Construction costs soared by an estimated 20-30 percent in the first quarter of 1989. Condominium starts rose to 150 for just the first three months of 1989, and there are no indications of a slowdown.

Thailand's economic structure has changed significantly during the past ten years. In the 1970s, agriculture was the leading sector in the economy, with a 24.1 percent share of real GDP; manufacturing accounted for just 20.0 percent of the GDP. In 1981, however, manufacturing overtook agriculture as the leading sector of the economy. In 1988 manufacturing accounted for 23.0 percent of the GDP, while the agricultural sector accounted for 16.9 percent (see Table 1.4).

The service sector, has also grown in importance. Following an increased demand for services--particularly in the government, wholesale and retail trade subsectors--the service sector rose by 10.8 percent in 1988, to account for 53.7 percent of real GDP.

Until 1980 Thailand's balance of payments was routinely negative, a deficit caused largely by poor trade performance. The merchandise trade component of the current account has been negative every year, but this has been offset by a positive services balance. The current account registered strong deficits in 1981 and 1983-1984 due to the oil crisis; it was, however, in surplus in 1986 thanks to the mild

Table 1.2 Gross National Product at 1972 Prices by Industrial Origin,1970-1988.

(Million Baht)

Industrial Origin	1970	1975	1980	1981	1982	1983	1984	1985	1986	1987	1988(a)
Agriculture	42,064	50,700	61,770	65,093	67,082	70,061	73,977	78,539	78,725	77,163	83,772
- Crops	26,723	32,606	39,783	42,083	43,311	45,788	48,775	51,620	49,262	47,011	52,815
- Other	15341	18094	21987	23010	23771	24273	25202	26919	29463	30152	30957
Industry	37578	52597	86379	91005	93102	100548	109044	107999	115167	129294	145722
- Mining and quarrying	4,452	4,264	7,917	7,638	8,077	7,988	9,535	9,901	9,705	10,410	11,818
- Manufacturing	24,893	40,708	64,984	69,069	70,823	76,773	81,962	81,463	89,305	101,414	114,038
- Construction	8,233	7,625	13,478	14,298	14,202	15,787	17,547	16,635	16,157	17,470	19,866
Services	76052	101131	151323	162341	171196	184799	197717	207575	217922	239904	265880
Gross domestic product, (GDP)	155,694	204,428	299,472	318,439	331,380	355,408	380,738	394,118	411,814	446,361	495,374
Plus:net factor income payment from the rest of the world	311	322	-1404	-3353	-3444	-1076	-2954	-4965	-6554	-6449	-6719
Gross national product, (GNP)	156,005	204,750	298,068	315,086	327,936	354,332	377,784	389,148	405,260	439,912	488,655
Per capita GNP (Baht)	4,289	4,947	6,380	6,601	6,728	7,125	7,449	7,530	7,697	8,207	8,960
Population (Thousand persons)	36,370	41,388	46,718	47,735	48,740	49,734	50,714	51,683	52,654	53,605	54,536

Note: (a) Estimated.

Source: National Account Division, Office of the National Economic and Social Development Board, National Income of Thailand, various issues.

Table 1.3 Growth Rate of Gross National Product at 1972 Prices by Industrial Origin,1970-1988.

(Percentage)

Industrial origin	1970-1975	1975-1980	1981	1982	1983	1984	1985	1986	1987	1988(a)
Agriculture	3.7	3.9	5.4	3.1	4.4	5.6	6.2	0.2	-2.0	8.6
- Crops	4.0	4.0	5.8	2.9	5.7	6.5	5.8	-4.6	-4.6	12.3
- Other	3.3	3.9	4.7	3.3	2.1	3.8	6.8	9.5	2.3	2.7
Industry	6.7	9.9	5.4	2.3	8.0	8.4	-1.0	6.6	12.3	12.7
- Mining and quarrying	-0.9	12.4	-3.5	5.7	-1.1	19.4	3.8	-2.0	7.3	13.5
- Manufacturing	9.8	9.4	6.3	2.5	8.4	6.8	-0.6	9.6	13.6	12.4
- Construction	-1.5	11.4	6.1	-0.7	11.2	11.1	-5.2	-2.9	8.1	13.7
Services	5.7	8.1	7.3	5.5	7.9	7.0	5.0	5.0	10.1	10.8
Gross domestic product, (GDP)	5.4	7.6	6.3	4.1	7.3	7.1	3.5	4.5	8.4	11.0
Plus:net factor income payment from the rest of the world	0.7	n.a.	138.8	2.7	-68.8	174.5	68.1	32.0	-1.6	4.2
Gross national product, (GNP)	5.4	7.5	5.7	4.1	8.0	6.6	3.0	4.1	8.6	11.1
Per capita GNP (Baht)	2.9	5.1	3.5	1.9	5.9	4.6	1.1	2.2	6.6	9.2
Population (Thousand persons)	2.6	2.4	2.2	2.1	2.0	2.0	1.9	1.9	1.8	1.7

Note: (a) Estimated.
Source: Calculated from table 1.2.

Table 1.4 Share of Gross Domestic Product at 1972 Prices by Industrial Origin,1970-1988.

(Percentage)

Industrial origin	1970	1975	1980	1981	1982	1983	1984	1985	1986	1987	1988(a)
Agriculture	27.0	24.8	20.6	20.4	20.2	19.7	19.4	19.9	19.1	17.3	16.9
- Crops	17.2	15.9	13.3	13.2	13.1	12.9	12.8	13.1	12.0	10.5	10.7
- Other	9.9	8.9	7.3	7.2	7.2	6.8	6.6	6.8	7.2	6.8	6.2
Industry	24.1	25.7	28.8	28.6	28.1	28.3	28.6	27.4	28.0	29.0	29.4
- Mining and quarrying	2.9	2.1	2.6	2.4	2.4	2.2	2.5	2.5	2.4	2.3	2.4
- Manufacturing	16.0	19.9	21.7	21.7	21.4	21.6	21.5	20.7	21.7	22.7	23.0
- Construction	5.3	3.7	4.5	4.5	4.3	4.4	4.6	4.2	3.9	3.9	4.0
Services	48.8	49.5	50.5	51.0	51.7	52.0	51.9	52.7	52.9	53.7	53.7
Gross domestic product, (GDP)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Note: (a) Estimated.
Source: Calculated from table 1.2.

trade deficit and large net services balance (see Table 1.5).

Foreign capital inflows also play an important role in Thailand's economic development. The fluctuating pattern of capital flows is influenced both by Thailand's political environment and by conditions in international capital markets. Thailand's net capital flow fluctuated during the 1980s. Net capital flow declined in 1982-1983, before increasing dramatically in 1984--by 69.19 percent. During the economic recession of 1985 and then during 1986, net capital flow declined. However, since 1987 net capital flow has been into Thailand; and in 1988, it increased by a remarkable 232.96 percent (see Table 1.6).

In the 1980s foreign loans formed the major portion of capital flow into Thailand, averaging about 65 percent of the total net inflow. Public loans fluctuated, and were in declining trend, except in 1985. Similarly, private loans showed a declining trend between 1980 and 1987--except in 1984, when private loans peaked at 32.6 billion baht (see Table 1.7). However, foreign private loans to Thailand rose again in 1988, and for the first six months of 1989, they reached a new peak at 35.1 billion baht. This is because the large amount of loans went primarily to fund big infrastructure projects.

Direct foreign investment also fluctuated in the 1980s. The percentage of capital inflow, due to direct investment, peaked in 1986 and 1988, at 60.6 and 39.3 percent, respectively. This reduced the burden of official loans. The amount of investment steadily increased during the first half of the decade, but then dropped slightly in 1985. However, the figure sharply increased by 486 percent in 1988, reaching over 27.6 billion baht (see Tables 1.6 to 1.8). An important feature of private direct investment in Thailand has been a rapid increase in direct investment from Japan and from Asia's newly industrializing economies. Japan's net direct investment in Thailand rose sharply, by 346.3 percent, in 1988.

Portfolio investment in Thailand's market also increased. In the first half of the decade, portfolio investment accounted for a very low share of total capital flow. However, since 1985 of portfolio investment has made up an ever-larger share of foreign capital inflow--up to 20.34 percent during the first six months of 1989. It is expected that the pattern of portfolio investment will continue to increase as Thailand's economy continues to develop.

The international reserves position continues to be comfortable. In 1988, Thailand's reserves reached 7,112 million US dollars, or the equivalent of four months worth of imports. Throughout the 1980s, the ratio of reserves to imports was above four months (see Table 1.9).

Thailand's debt service ratio declined from a peak of 21.9 percent in 1985 to 12.5 percent in 1988. It reached a peak in 1985 due to the economic recession that year; however, a combination of declining interest rates, high export growth, good debt management policy and cheap loans helped reduce the Thai debt burden (see Table 1.10).

Table 1.5 Balance of Payments, 1970 - 1988.

(Million Baht)

Item	1970	1975	1980	1981	1982	1983	1984	1985	1986	1987	1988(a)
A. Merchandise:											
1. Exports (f.o.b)	14256.4	44364.5	132040.5	150218.2	157203.4	145076.1	173520.0	191703.0	231481.4	298099.1	399230.2
2. Imports (c.i.f)	-26406.7	-64525.7	-190025.3	-216000.1	-193332.2	-234278.5	-242283.6	-253333.7	-245690.3	-341376.3	-501400.8
3. Non-monetry gold	-107.8	0.0	0.0	0.0	-20.5	-34.7	-32.2	-40.8	-159.8	-550.6	-0.6
4. Trade balance	-12258.1	-20161.2	-57984.8	-65781.9	-36136.7	-89237.1	-68795.8	-61671.5	-14368.7	-43827.8	-102171.2
B. Services:											
1. Receipts:	10094.8	16551.6	43528.8	51399.0	59269.0	67136.0	72741.6	85879.6	87664.5	107187.1	149088.5
2. Payments:	-4058.6	-10390.8	-32383.9	-45356.6	-50474.0	-50561.8	-57542.2	-70627.0	-72694.9	-78473.7	-95065.5
3. Net services	6036.2	6160.8	11144.9	6042.4	8795.0	16574.8	15199.4	15252.6	14969.6	28713.4	54023.0
Net goods and services	-6221.9	-14000.4	-46839.9	-59739.5	-27341.7	-72662.3	-53596.4	-46418.9	600.9	-15114.4	-48148.2
C. Unrequited transfers:	995.3	1632.1	4430.5	3690.2	4203.5	6376.6	4128.1	4494.1	5913.6	5795.4	5910.0
Balance on goods, services and unrequited transfers	-5210.2	-12368.3	-42409.4	-56049.3	-23138.2	-66285.7	-49468.3	-41924.8	6514.5	-9319.0	-42238.2
D. Capital movements (non-monetary sector)	2462.7	7753.1	50736.6	55130.2	38345.2	34680.8	58364.7	51432.9	11353.6	21111.5	70292.0
1. Direct investment	880.8	1744.8	3816.0	6363.2	4338.6	8191.9	9624.3	4379.2	6880.1	4711.5	27628.7
2. Other private long-term:	1336.4	3554.2	33045.4	38250.0	19986.3	19661.3	27197.0	20951.8	2047.5	946.3	1898.1
2.1 Loans and credits to government enterprises	90.7	2203.0	18184.4	19173.3	15478.6	12372.2	11665.0	16482.0	5767.2	-5128.7	-11477.3
2.2 Loans and credits to private enterprises	1001.3	1316.7	13708.4	18948.0	3602.7	7158.7	14902.0	153.8	-6653.2	-7434.3	1468.1
2.3 Portfolio investment	237.0	27.4	1033.5	18.9	609.8	339.9	-86.6	3858.5	2516.9	12881.7	11191.2
2.4 Others	7.4	7.1	119.1	109.8	295.2	-209.5	716.6	457.5	416.8	647.6	516.1
3. Other private short-term:	183.4	2600.3	7665.6	2491.5	6423.4	738.7	15877.8	7098.9	9056.6	5598.7	29911.6
4. Local govenment project	53.1	-23.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
5. Central government:	9.0	-123.2	6208.6	8025.5	7596.9	6088.9	5665.6	19003.0	-6630.6	9855.0	11053.6
E. Overall balance	-2652.0	-2858.0	5179.3	2531.3	3314.3	-18078.0	10587.9	12463.9	33578.1	18182.7	40488.7

Note : (a) Preliminary.

Source : Bank of Thailand, Monthly Bulletin, various issues(in Thai).

Table 1.6 Growth Rate of Balance of Payments, 1970 - 1988.

(Percentage)

Item	1970	1970-1975	1975-1980	1981	1982	1983	1984	1985	1986	1987	1988(a)
A. Merchandise:											
1. Exports (f.o.b)	-0.08	22.70	21.81	13.77	4.65	-7.71	19.61	10.48	20.75	28.78	33.93
2. Imports (c.i.f)	3.87	17.87	21.60	13.67	-10.49	21.18	3.42	4.56	-3.02	38.95	46.88
3. Non-monetry gold	-24.14	n.a.	n.a.	n.a.	n.a.	69.27	-7.20	28.71	291.67	244.56	-99.89
4. Trade balance	8.50	9.95	21.13	13.45	-45.07	146.94	-22.91	-10.36	-76.70	205.02	133.12
B. Services:											
1. Receipts:	8.73	9.69	19.34	18.08	15.31	13.27	8.35	18.06	2.08	22.27	39.09
2. Payments:	18.30	18.80	22.73	40.06	11.28	0.17	14.22	22.74	2.93	7.95	21.14
3. Net services	3.12	0.41	11.86	-45.78	45.55	88.46	-9.30	0.35	-1.86	91.81	88.15
Net goods and services	14.28	16.22	24.15	27.54	-54.23	165.76	-28.05	-13.39	-101.29	-2615.29	218.56
C. Unrequited transfers:	-16.16	9.89	19.97	-16.71	13.91	51.70	-35.26	8.87	31.59	-2.00	1.98
Balance on goods, services and unrequited transfers	22.39	17.29	24.64	32.16	-58.72	166.48	-25.37	-15.25	-115.54	-243.05	353.25
D. Capital movements (non-monetary sector)	-2.35	22.94	37.57	8.66	-30.45	-9.56	69.19	-11.88	-77.93	85.95	232.96
1. Direct investment	-9.51	13.67	15.65	66.75	-31.82	88.81	20.18	-54.50	57.11	-31.52	486.41
2. Other private long-term:	-168.78	19.56	44.60	15.75	-47.75	-1.63	55.77	-22.96	-90.23	-53.78	79.45
2.1 Loans and credits to government enterprises	-137.81	63.80	42.21	5.44	-19.27	-20.07	-5.72	41.29	-65.01	-188.93	123.79
2.2 Loans and credits to private enterprises	-22.80	5.48	46.66	38.22	-60.89	98.70	200.63	-98.97	-4425.88	11.74	-119.75
2.3 Portfolio investment	135.52	-43.15	72.60	-98.17	3126.48	-44.26	-125.48	-4555.54	-34.77	411.01	-12.99
2.4 Others	-11.90	-0.83	56.40	-7.81	168.85	-170.97	-442.05	-36.16	-8.94	55.45	-20.31
3. Other private short-term:	-1.50	53.03	21.62	-67.50	157.81	-88.50	439.97	-55.29	27.58	-38.18	434.26
4. Local govenment project	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
5. Central government:	-96.87	n.a.	n.a.	29.24	-5.34	-19.85	-6.95	235.41	-134.89	-248.63	12.16
E. Overall balance	165.76	1.50	n.a.	-51.13	30.93	-645.45	-158.57	17.72	169.40	-45.85	122.68

Note : (a) Estimated.
Source : Calculated from table 1.5

Table 1.7 Net Foreign Capital Inflows.1980-1989

(Million Baht)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989 (a)
1.Direct investment	3.816	6,363	4.339	8,192	9.624	4.379	6,680	4,712	27,629	17.135
2.Portfolio investment	1,034	19	610	340	-86.6	3.859	2,517	12,862	11,181	13.598
3.Foreign loans	45,887	48.746	33.397	26,149	48,827	43,195	1,956	3,539	31,472	36.111
3.1 Private	20.674	14,678	12,322	9,735	32,614	11.385	3,149	-1063.4	31,871	35,096
3.1.1 Long-term	n.a.	8.269	3,898	6,949	15,619	611	-6236.6	-6786.7	1,984	10,067
3.1.2 Short-term	n.a.	6,409	8,424	2,786	16,996	10,774	9.386	5,723	29,887	25,029
3.2 Public	25,213	34,070	21,075	16,414	16,213	31,810	-1193	4,602	-399	1,015
3.2.1 Long-term	24.394	27,199	23,075	18.461	17,330	35,485	-864	4,726	-424	-2946
3.2.2 Short-term	819	6,871	-2000	-2047	-1117	-3675	-329	-124	25	3,961
4.Total net foreign capital inflows	50,737	55,130	38,346	34,681	58,365	51,433	11,353	21,112	70,292	66,844

Note : (a) Preliminary numbers of the first six months(January-June 1989).

Source : Balance of Payments Section.Bank of Thailand.

Table 1.8 Share of Net Foreign Capital Inflows.1980-1989.

(Percentage)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989 (a)
1.Direct investment	7.52	11.54	11.31	23.62	16.49	8.51	60.60	22.32	39.31	25.63
2.Portfolio investment	2.04	0.03	1.59	0.98	-0.15	7.50	22.17	60.92	16.92	20.34
3.Foreign loans	90.44	88.42	87.10	75.40	83.66	83.98	17.23	16.76	44.77	54.02
3.1 Private	40.75	26.62	32.13	28.07	55.88	22.14	27.74	-5.04	45.34	52.50
3.1.1 Long-term	n.a.	15.00	10.17	20.04	26.76	1.19	-54.93	-32.15	2.82	15.06
3.1.2 Short-term	n.a.	11.62	21.97	8.03	29.12	20.95	82.67	27.11	42.52	37.44
3.2 Public	49.69	61.80	54.96	47.33	27.78	61.85	-10.51	21.80	-0.57	1.52
3.2.1 Long-term	48.08	49.34	60.18	53.23	29.69	68.99	-7.61	22.39	-0.60	-4.41
3.2.2 Short-term	1.61	12.46	-5.22	-5.90	-1.91	-7.15	-2.90	-0.59	0.04	5.93
4.Total net foreign capital inflows	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Note : (a) Preliminary numbers of the first six months (January-June 1989).

Source : Calculated from table 1.7

Table 1.9 International Reserves,1982-1988.

(Million US Dollars)

Item	1982	1983	1984	1985	1986	1987	1988
Official reserves(1)	2652	2555	2689	3004	3776	5212	7112
Net foreign exchange position of commercial banks(1)	-249	-932	-994	-295	389	160	-681
Net internation reserves(1)	2403	1623	1695	2709	4165	5372	6431
Thai imports(million US dollars)(2)	8558	10299	10382	9257	9186	12999	20306
Reserves equivalent to (months of imports)	3.7	3.0	3.1	3.9	4.9	4.8	4.2

Source : (1) Bank of Thailand, Monthly Bulletin, various issues (in Thai).
(2) Department of Customs, Foreign Trade Statistics of Thailand, various issues.

Table 1.10 External Debt of Thailand and Debt Service Ratio, 1979-1988.

(Million US Dollars)

Item	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
External debt	3956.6	5704.1	7175.4	8317.7	9528.3	10796.9	16236.0	14071.4	15727.8	15362.5
-Private sector	1243.4	1751.4	2098.6	2296.3	2663.3	3372.0	3369.9	3117.1	2837.0	3019.4
-Public sector	2713.2	3952.7	5076.8	6021.4	6865.0	7424.9	9405.7	10954.3	12890.8	12343.1
Debt service payment as percent of exports	14.6	14.8	14.8	16.6	19.3	19.9	21.9	20.1	16.7	12.5

Source : Balance of Payments Section, Department of Economic Research, Bank of Thailand

All of the above indicators are clear evidence of the financial stability of Thailand's present economy.

1.2 <u>The External Sector: Engine of Growth</u>

Thailand's economic development is closely associated with the development of its external sector. Trade has been a prime activity and an inducement to growth in Thailand. Trade growth is so pervasive that exports now constitute around 30 percent of the GNP.

As Thailand's economy has been strengthened, its trade with the world has grown dramatically. In 1981, exports were 150 billion baht; by 1988, they more than doubled to 399 million baht, (exports fell only during 1983). During the past three years (1986-88), average export growth exceeded 20 percent.

As exports grew, imports also grew. In the early 1980s the growth rate of imports rose more slowly than that of exports--except in 1983, when imported oil prices were high. However, in 1987 and 1988 imports grew faster than exports, resulting in a larger negative trade balance. The high import values in the past two years are due mainly to the high capital value of imported machinery.

Due to the structural transformation from agriculture to manufacturing, the export value of agricultural products grew more slowly than that of manufactured products. As we mentioned earlier, exports of manufactured goods are one of the primary motivators in Thailand's economic growth. As Table 1.11 shows, the average growth of agricultural exports since 1977 has been around 9.6 percent. On the other hand, the growth of manufacturing exports averaged 26.3 percent. Manufacturing exports exceeded agricultural exports for the first time in 1985. In 1988, the value of manufacturing exports was more than double the value of agricultural exports.

There have been changes in the distribution of Thailand's exports and in the origin of its imports. New markets have been sought for Thailand's increasing production. The improvement and greater utilization of Thai facilities and the Thai transportation system have improved the country's share in the international market.

On the import side, supplies are now being brought in from more competitive sources. Some traditional imports had become expensive due to--among other things--changes in prices, tariff structures and exchange rates.

Japan is Thailand's largest trading partner. The share of Thai exports to Japan rose from 13.7 percent of total exports in 1982 to 16 percent in 1988. At the same time, imports from Japan also rose from 23.4 percent to 29.0 percent of total imports (see Tables 1.12 to 1.15).

The United States has been establishing itself as a major importer of Thai products and a supplier of Thai imports. US trade now accounts for about 20 percent of total Thai trade. The share of

Table 1.11 Growth Rate of Thailand's Export Value by Sector, 1977-1988.

(Million Baht)

Year	Agriculture	%	Manufacturing	%
1977	40,516		21,955	
1978	45,520	12.35	24,725	12.62
1979	58,004	27.43	33,970	37.39
1980	68,123	17.45	43,065	26.77
1981	79,773	17.10	54,743	27.12
1982	80,888	1.40	63,205	15.46
1983	74,818	-7.50	61,358	-2.92
1984	87,080	16.39	76,095	24.02
1985	84,353	-3.13	95,615	25.65
1986	94,870	12.47	129,170	35.09
1987	102,241	7.77	188,031	45.57
1988	128,072	25.26	263,737	40.26

Source: Bank of Thailand, Monthly Bulletin, various issues (in Thai).

Table 1.12 F.O.B. Value of Exports of Thailand ,1982-1988.

(Million Baht)

Major Trading Country	1982	1983	1984	1985	1986	1987	1988
World	159728	146472	175237	193366	231225	299853	403570
Japan	21947	22087	22787	25828	32479	44606	64412
Canada	657	1226	2110	2368	3191	4420	7208
The United States	20257	21895	30102	38016	41410	55728	80865
The European Community(a)	37384	31034	35971	35673	49546	66637	83843
1 Belgium	1730	1432	1677	2323	2842	3426	5364
2 Denmark	506	592	862	888	1221	1757	2082
3 France	3030	2813	3015	3595	5266	7314	9597
4 West Germany	5355	5106	5799	7220	10714	14770	18635
5 Ireland	32	37	39	53	70	107	190
6 Italy	2578	2072	3082	3248	3831	5616	7409
7 Luxembourg	0	1	1	3	2	4	9
8 Netherlands	21013	15883	17472	13772	16791	19991	22015
9 United Kingdom	3042	2990	3918	4703	7435	10721	14885
10 Greece	98	108	107	68	114	172	363
11 Portugal	18	22	133	617	857	794	912
12 Spain	220	295	204	383	904	1966	2384
ASEAN	25238	23002	24880	28011	33301	40818	47116
1 Brunei Darussalam	187	221	237	388	388	494	531
2 Indonesia	4251	2754	1101	1176	1517	1590	2160
3 Malaysia	8341	6561	8277	9647	10025	9970	11946
4 Philippines	806	1554	542	1451	761	1830	1500
5 Singapore	11654	11913	14722	15350	20597	26993	30981
6 Thailand	0	0	1	0	12	0	0
Rest of world	54244	47227	59387	63269	71298	87642	120130

Note: (a) 1982-1985 excluded Spain and Portugal.

Source: Department of Customs, Foreign Trade Statistics of Thailand, various issues.

Table 1.13 Share of F.O.B Value of Exports of Thailand, 1982-1988.

(Percentage)

Major Trading Country	1982	1983	1984	1985	1986	1987	1988
World	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Japan	13.7	15.1	13.0	13.4	14.0	14.9	16.0
Canada	0.4	0.8	1.2	1.2	1.4	1.5	1.8
The United States	12.7	14.9	17.2	19.7	17.9	18.6	20.0
The European Community(a)	23.4	21.2	20.5	18.6	21.4	22.2	20.8
1 Belgium	1.1	1.0	1.0	1.2	1.0	1.1	1.3
2 Denmark	0.3	0.4	0.5	0.5	0.5	0.8	0.5
3 France	1.9	1.9	1.7	1.9	2.3	2.4	2.4
4 West Germany	3.4	3.5	3.3	3.7	4.6	4.9	4.6
5 Ireland	0.0	0.0	0.0	0.0	0.0	0.0	0.0
6 Italy	1.6	1.4	1.8	1.7	1.7	1.9	1.8
7 Luxembourg	0.0	0.0	0.0	0.0	0.0	0.0	0.0
8 Netherlands	13.2	10.8	10.0	7.1	7.3	6.7	5.5
9 United Kingdom	1.9	2.0	2.2	2.4	3.2	3.6	3.7
10 Greece	0.1	0.1	0.1	0.0	0.0	0.1	0.1
11 Portugal	0.0	0.0	0.1	0.3	0.4	0.3	0.2
12 Spain	0.1	0.2	0.1	0.2	0.4	0.7	0.6
ASEAN	15.8	15.7	14.2	14.5	14.4	13.6	11.7
1 Brunei Darussalam	0.1	0.2	0.1	0.2	0.2	0.1	0.1
2 Indonesia	2.7	1.9	0.6	0.6	0.7	0.5	0.5
3 Malaysia	5.2	4.5	4.7	5.0	4.3	3.3	3.0
4 Philippines	0.5	1.1	0.3	0.8	0.3	0.6	0.4
5 Singapore	7.3	8.1	8.4	7.9	8.9	9.0	7.7
6 Thailand	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Rest of world	34.0	32.2	33.9	32.7	30.8	29.2	29.8

Note: (a) 1982-1985 excluded Spain and Portugal.

Source: Calculated from table 1.12

Table 1.14 C.I.F. Value of Imports of Thailand, 1982-1988.

(Million Baht)

Major Trading Country	1982	1983	1984	1985	1986	1987	1988
World	196616	236609	245158	251169	241358	334209	513114
Japan	46086	64757	66059	66587	63656	86864	148905
Canada	2770	3403	2965	3102	2984	3871	6757
The United States	26221	29708	32679	28434	34518	41612	69557
The European Community(a)	22634	25141	29625	36147	36463	52265	79389
1 Belgium	1449	2760	2238	2043	2791	4998	8255
2 Denmark	769	1176	1155	1347	1479	1411	1596
3 France	2917	3593	4116	6783	3956	5130	12413
4 West Germany	7624	11065	10304	13586	13924	19868	27572
5 Ireland	430	193	204	381	201	369	595
6 Italy	2107	3195	2848	2929	2583	4326	6094
7 Luxembourg	18	60	179	124	107	107	141
8 Netherlands	2275	2672	2721	2482	2429	3848	5461
9 United Kingdom	5023	388	5739	6335	7766	10834	15185
10 Greece	23	39	121	137	93	126	133
11 Portugal	154	80	108	96	133	112	274
12 Spain	515	626	925	940	1001	1036	1666
ASEAN	26778	32058	39635	46826	35311	52605	64728
1 Brunei Darussalam	2276	2760	5165	8971	4718	5869	4242
2 Indonesia	532	777	1868	1657	1642	2858	4390
3 Malaysia	10214	12737	11913	14825	10118	12767	10748
4 Philippines	444	356	470	1616	1642	3620	4816
5 Singapore	12455	14623	19373	18746	15844	26030	38196
6 Thailand	854	605	646	1011	1147	1463	2337
Rest of world	72129	81542	74195	70073	68426	96992	143778

Note: (a) 1982-1985 excluded Spain and Portugal.

Source: Department of Customs, Foreign Trade Statistics of Thailand, various issues.

Table 1.15 Share of C.I.F. Value of Imports of Thailand, 1982-1988.

(Percentage)

Major Trading Country	1982	1983	1984	1985	1986	1987	1988
World	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Japan	23.4	27.4	26.9	26.5	26.4	26.0	29.0
Canada	1.4	1.4	1.2	1.2	1.2	1.2	1.3
The United States	13.3	12.6	13.3	11.3	14.3	12.5	13.6
The European Community(a)	11.5	10.6	12.1	14.4	15.1	15.6	15.5
1 Belgium	0.7	1.2	0.9	0.8	1.2	1.5	1.6
2 Denmark	0.4	0.5	0.5	0.5	0.6	0.4	0.3
3 France	1.5	1.5	1.7	2.7	1.6	1.5	2.4
4 West Germany	3.9	4.7	4.2	5.4	5.8	5.9	5.4
5 Ireland	0.2	0.1	0.1	0.2	0.1	0.1	0.1
6 Italy	1.1	1.4	1.2	1.2	1.1	1.3	1.2
7 Luxembourg	0.0	0.0	0.1	0.0	0.0	0.0	0.0
8 Netherlands	1.2	1.1	1.1	1.0	1.0	1.2	1.1
9 United Kingdom	2.6	0.2	2.3	2.5	3.2	3.2	3.0
10 Greece	0.0	0.0	0.0	0.1	0.0	0.0	0.0
11 Portugal	0.1	0.0	0.0	0.0	0.1	0.0	0.1
12 Spain	0.3	0.3	0.4	0.4	0.4	0.3	0.3
ASEAN	13.6	13.5	16.2	18.6	14.6	15.7	12.6
1 Brunei Darussalam	1.2	1.2	2.1	3.6	2.0	1.8	0.8
2 Indonesia	0.3	0.3	0.8	0.7	0.7	0.9	0.9
3 Malaysia	5.2	5.4	4.9	5.9	4.2	3.6	2.1
4 Philippines	0.2	0.2	0.2	0.6	0.8	1.1	0.9
5 Singapore	6.3	6.2	7.9	7.5	6.6	7.8	7.4
6 Thailand	0.4	0.3	0.3	0.4	0.5	0.4	0.5
Rest of world	36.7	34.5	30.3	27.9	28.4	29.0	28.0

Note: (a) 1982-1985 excluded Spain and Portugal.

Source: Calculated from table 1.14.

total Thai exports that goes to the United States has increased from 12.7 to 20 percent between 1982 and 1988, while the share of total Thai imports that come from the United States increased slightly from 13.3 to 13.6 percent during the same period (see Tables 1.12 to 1.15).

Exports to the European Community declined from 23.4 to 20.8 percent of total exports between 1982 to 1988; still, the European Community remains the Thailand's second largest supplier. The share of Thai imports from the European Community grew from 11.5 percent in 1982 to 15.5 percent in 1988.

Thai trade with ASEAN countries is dominated by Singapore, whose role has gradually increased. In 1988, Singapore bought more than 65 percent of Thai exports to ASEAN members, and it provided 58 percent of total Thai imports from neighboring ASEAN countries.

Other countries besides' those mentioned above have failed to increase the amount of their trade with Thailand (see Tables 1.12 to 1.15).

On trade balance, Thailand has a consistent trade deficit with Japan and ASEAN. On the other hand, after having had a trade deficit with the United States until 1984, Thailand began to have a positive trade balance. The 1985 surplus with the United States was largely due to the devaluation of the Thai Baht by 14 percent in 1984. Thailand has always had a trade surplus with the European Community, except in 1985. This surplus is due to the large export share of Thai agricultural products to the European Community (see Table 1.16).

Thailand has a negative trade balance with Japan. This is due to the large amount of money spent buying Japanese machinery and equipment that is used in industries invested in by Japanese companies. With the increased volume of Japanese investment, Thailand's trade deficit with Japan doubled in 1988.

There is ample evidence to indicate that the external sector has become more important to the Thai economy.

- *The share of Thai exports* in the world market has gradually increased (see Table 1.17). While the percentage share is not very large due to the small volume of Thai exports, the figure reflects the relative growth of Thai exports. In 1971 the share of Thai exports in the world market was 0.23 percent. In 1987 the figure doubled to 0.45 percent. This trend of growing Thai exports, reflects the competitive advantages of many Thai export products.

- *The role of trade in fuelling Thailand's GNP growth* also become more important. Export's share of the GNP, which was 19.5 percent in the beginning of the 1980s, gradually increased to 27.7 percent in 1988. It is estimated that this figure will exceed 30 percent in 1989. Similarly, imports' share of GNP also increased--28.9 to 34.8 percent between 1981 and 1988. Income from service exports, particularly tourism, has also increased (see Table 1.18).

Table 1.16 Trade Balance of Thailand by Country, 1982-1988.

(Million Baht)

Major Trading Country	1982	1983	1984	1985	1986	1987	1988
World	-36888	-90137	-69921	-57804	-10133	-34356	-109545
Japan	-24138	-42670	-43272	-40759	-31177	-42256	-84493
Canada	-2112	-2177	-855	-734	207	549	446
The United States	-5963	-7813	-2577	9582	6892	14116	11308
The European Community(a)	14750	5893	6346	-274	13083	14372	4454
1 Belgium	281	-1328	-562	280	-449	-1572	-2891
2 Denmark	-263	-584	-293	-460	-258	346	484
3 France	113	-780	-1101	-3188	1310	2184	-2816
4 West Germany	-2269	-5960	-4506	-6366	-3210	-5098	-8937
5 Ireland	-397	-156	-165	-328	-132	-263	-406
6 Italy	471	-1123	234	319	1248	1290	1315
7 Luxembourg	-18	-59	-178	-121	-105	-103	-132
8 Netherlands	18738	13211	14751	11290	14362	16043	16553
9 United Kingdom	-1981	2602	-1821	-1632	-331	-113	-301
10 Greece	75	69	-14	-69	21	46	280
11 Portugal	-136	-58	25	521	724	682	837
12 Spain	-295	-331	-721	-557	-97	930	716
ASEAN	-1539	-9056	-14755	-18815	-2010	-11787	-17612
1 Brunei Darussalam	-2091	-2539	-4928	-8563	-4329	-5435	-3711
2 Indonesia	3719	1977	-767	-481	-126	-1266	-2231
3 Malaysia	-1873	-6176	-3636	-5179	-93	-2797	1198
4 Philippines	361	1198	72	-165	-1081	-1790	-3316
5 Singapore	-801	-2711	-4652	-3396	4753	963	-7215
6 Thailand	-654	-805	-845	-1011	-1135	-1463	-2337
Rest of world	-17885	-34315	-14608	-6804	2872	-9350	-23647

Note: (a) 1982-1985 excluded Spain and Portugal.

Source: Calculated from tables 1.12 and 1.14 .

Table 1.17 Share of Thailand Exports in the World Market, 1971-1987.

Year	Total Thai Exports (Billion US Dollars)	World Imports (Billion US Dollars)	Share (%)
1971	0.8	365.9	0.23
1975	2.4	902.4	0.26
1976	3.0	1015.0	0.30
1977	3.5	1160.6	0.30
1978	4.1	1348.6	0.30
1979	5.3	1689.1	0.31
1980	6.5	2051.1	0.32
1981	7.0	2034.1	0.35
1982	6.9	1899.8	0.37
1983	6.4	1875.2	0.34
1984	7.4	1982.1	0.37
1985	7.1	2015.0	0.35
1986	8.8	2213.3	0.40
1987	11.7	2576.0	0.45

Source: United Nations, Statistical Yearbook for Asia and the Pacific, various issues.

Table 1.18 Share of Exports , Imports and Service Sector in the Gross National Product, 1970-1988.

Year	Exports(1) (Million Baht)	Imports(1) (Million Baht)	Trade Balance(1) (Million Baht)	Income from Service Exports(1) (Million Baht)	Income from Tourism(1) (Million Baht)	GNP(2) (Million Baht)	Exports/GNP (%)	Imports/GNP (%)	Trade Balance/GNP (%)	Income from Service Exports/GNP (%)	Income from Tourism/GNP (%)
1970	14256.4	26406.7	-12150.3	10094.8	2170.0	147606.0	9.7	17.9	-8.2	6.8	1.5
1975	44364.5	64525.7	-20161.2	16551.6	4482.2	303306.0	14.6	21.3	-6.6	5.5	1.5
1980	132040.5	190025.3	-57984.8	43528.8	17765.4	653115.0	20.2	29.1	-8.9	6.7	2.7
1981	150218.2	216000.1	-65781.9	51399.0	21455.6	748160.0	20.1	28.9	-8.8	6.9	2.9
1982	157203.4	193332.2	-36128.8	59269.0	23878.8	807072.0	19.5	24.0	-4.5	7.3	3.0
1983	145076.1	234278.5	-89202.4	67136.0	25050.3	903353.0	16.1	25.9	-9.9	7.4	2.8
1984	173520.0	242283.6	-68763.6	72741.6	27317.4	961961.0	18.0	25.2	-7.1	7.6	2.8
1985	191703.0	253333.7	-61630.7	85879.6	31767.9	996802.0	19.2	25.4	-6.2	8.6	3.2
1986	231481.4	245690.3	-14208.9	87664.5	37321.0	1072242.0	21.6	22.9	-1.3	8.2	3.5
1987	298099.1	341376.3	-43277.2	107187.1	50023.9	1211431.0	24.6	28.2	-3.6	8.8	4.1
1988	399230.2 (a)	501400.8 (a)	-102170.6	149088.5 (a)	78858.8 (a)	1440406.0 (b)	27.7	34.8	-7.1	10.4	5.5

Notes: (a) Preliminary .
(b) Estimated.

Sources: (1) Bank of Thailand, Monthly Bulletin, various issues (in Thai).
(2) National Account Division, Office of the National Economic and Social Development Board, National Income of Thailand, various issues.

- If we look at Thai exports by sector, the figures for both agricultural and manufacturing exports support our argument. The ratio of agricultural exports to total agricultural products increased from 45 percent in 1980 to 52 percent in 1988. The percentage of manufacturing exports to total manufacturing production rose significantly as well--from 31 percent to 74 percent--during the same period (see Table 1.19). This sharp increase indicates that exports are playing a more important role in the development of both agriculture and manufacturing.

- As we discussed earlier, direct investment has played an increasingly important role in the Thai economy. Table 1.20 indicates that the proportion of foreign capital invested in projects approved by the Board of Investment has substantially increased. In 1985 foreign capital accounted for only 25.39 percent of total registered capital. However, in 1988 the share of foreign capital reached 53 percent, while Thai capital accounted for only 47 percent of the total registered capital. Since most projects approved by the Board of Investment in recent years have been larger than in the past, more foreign capital has been needed.

- As shown in Table 1.21, the share of foreign activity in the Thai stock market has also increased--from only 2 percent in 1982 to 12.86 percent (40.3 billion baht)in 1988.

It is apparent that continued rapid economic growth in Thailand hinges crucially on its ability to stay competitive in the international market and on the openness of its economic system. Unlike the majority of developing countries, Thailand's political and economic system is essentially stable and open. Furthermore, a major first step in Thailand's technological capabilities upgrading has already been undertaken with the successful completion of the National Petrochemical complex. Viewed in this light, the heavy industry that represents government efforts to increase Thailand's technological base and international competitiveness can result in Thailand becoming an industrialized country in the next decade.

1.3 Outlook for the Thai Economy

The outlook for the second half of this year and for next year is continued expansion, although it will not be as great as in 1988. The previous forecast for growth in real output was approximately 8.0 percent for this year. However, it is evident that the economy is performing more strongly than expected in the first half of this year. Therefore, many experts have revised their forecasts to predict that economic growth in 1989 will again be in double digits. However, the GDP growth may drop slightly during the next few years (see Table 1.22).

Table 1.19 Share of Exports in the Gross Domestic Product by Sector.1977-1988.

Year	Gross Domestic Product(1)		Export Value(2)		Ratio of Export Value to GDP	
	Agriculture (Million Baht)	Manufacturing (Million Baht)	Agriculture (Million Baht)	Manufacturing (Million Baht)	Agriculture (%)	Manufacturing (%)
1977	99,970	81,432	40,516	21,955	41	27
1978	119,638	97,658	45,520	24,725	38	25
1979	134,148	117,611	58,004	33,970	43	29
1980	152,852	139,936	68,123	43,065	45	31
1981	162,987	169,461	79,773	54,743	49	32
1982	156,839	176,360	80,888	63,205	52	36
1983	185,628	194,344	74,818	61,358	40	32
1984	175,190	218,050	87,080	76,095	50	35
1985	169,895	224,456	84,353	95,615	50	43
1986	180,841	255,029	94,870	129,170	52	51
1987	198,284	295,512	102,241	188,031	52	64
1988	247,748 (a)	357,851	128,072	263,737	52	74

Note: (a) Estimated.
Sources: (1) National Account Division, Office of the National Economic and Social Development Board, National Income of Thailand, various issues.
(2) Bank of Thailand, Monthly Bulletin, various issues (in Thai).

Table 1.20 Proportion of Thai and Foreign Capital in the Projects, Approved by Board of Investment, 1985-1988.

(Million Baht)

Item	1985	1986	1987	1988
No.of Application Approved by Board of Investment	210	295	626	1454
Total registered capital	7421	9203	18878	60297
	(100.00)	(100.00)	(100.00)	(100.00)
- Thai	5537	6064	10500	28333
	(74.61)	(65.89)	(55.62)	(46.99)
- Foreign	1884	3139	8378	31963
	(25.39)	(34.11)	(44.38)	(53.01)

Note : Numbers in parenthesis are in percentage.
Source : Board of Investment.

Table 1.21 Portfolio Investment.1982-1988.

Item	1982	1983	1984	1985	1986	1987	1988
1. Total securities transacted by foreigners(million baht)(a)	238.35	338.91	1185.27	1596.05	4617.20	25501.10	40276.07
(% growth)		42.19	249.73	34.66	189.29	452.31	57.94
2. Market trading volumes (million baht)	5965.72	9323.90	10871.20	16482.86	29848.22	123420.90	156649.36
(% growth)		56.29	16.59	51.62	81.09	313.50	26.92
3.Share of foreign activity in market (b) (% of 1/2)	2.00	1.82	5.45	4.84	7.73	10.33	12.86

Notes: (a) Total = purchases + sales.
(b) Calculated by {(purchases + sales) /2}/trading volumes.

Source: Security Exchange of Thailand.

Table 1.22 Key Economic Indicators of Thailand.

Item	1986(1)	1987(1)	1988(1)	NESDB Estimate 1989(3)	TDRI Estimate		
					1989(4)	1990(5)	1991(5)
Real growth of GDP(%)(a)	4.5	8.4	11.0	9.0 to 10.0	9.2	7.6	7.7
- Agriculture:	0.2	-2.0	8.6	3.0 to 4.0	3.2	2.6	1.9
Crops	-4.6	-4.6	12.3		2.9	2.2	1.4
Other	9.5	2.3	2.7		3.6	3.3	2.6
- Non-agriculture:	5.6	10.8	11.5	11.0 to 12.0	10.3	8.5	8.6
Industry:	6.6	12.3	12.7	12.4 to 14.3	11.8	9.4	9.5
Manufacturing	9.6	13.6	12.4	12.0 to 14.0			
Mining and quarrying	-2.0	7.3	13.5	10.0 to 11.0			
Construction	-2.9	8.1	13.7	16.0 to 18.0			
Services:	5.0	10.1	10.8	10.3 to 10.9	9.2	7.8	8.0
Structure of value added of GDP(%)(a)							
- Agriculture:	19.1	17.3	16.9	15.8 to 16.1	14.7	14.0	13.3
Crops	12.0	10.5	10.7		8.9	8.4	7.9
Other	7.2	6.8	6.2		5.9	5.6	5.4
- Non-agriculture:	80.9	82.7	83.1	83.8 to 85.3	85.4	86.0	86.8
Industry:	28.0	29.0	29.4	30.1 to 30.8	36.6	37.2	37.8
Manufacturing	21.7	22.7	23.0	23.4 to 24.1			
Mining and quarrying	2.4	2.3	2.4	2.4			
Construction	3.9	3.9	4.0	4.2 to 4.3			
Services:	52.9	53.7	53.7	53.8 to 54.6	48.8	48.8	49.0
Foreign trade(billion baht) (b)							
- Merchandise							
Exports:	231.5	298.1	399.2	514.0	505.9	608.1	712.7
(% growth)	(20.8)	(28.8)	(33.9)	(28.7)	(25.3)	(20.1)	(17.2)
Import:	245.9	341.9	501.4	640.0	628.1	773.8	890.6
(% growth)	(-3.0)	(39.0)	(46.7)	(27.6)	(25.8)	(23.2)	(15.1)
- Trade balance	-14.4	-43.8	-102.2	-126.0	-122.2	-165.7	-177.9
As percent of GDP:	-1.3	-3.5	-7.0	-7.6	-7.1	-8.4	-8.1
- Services							
Receipts:	87.7	107.2	149.1		157.7	170.9	187.5
(% growth)	(2.1)	(22.2)	(39.1)		(5.8)	(8.4)	(9.7)
Travel:	37.3	50.0	78.9				
(% growth)	(17.3)	(34.0)	(57.8)			(12.1)	(14.0)
Payments:	72.7	78.5	95.1		100.7	107.8	117.2
(% growth)	(3.0)	(8.0)	(21.1)		(5.9)	(7.1)	(8.7)
- Net services account	15.0	28.7	54.0		57.0	63.1	70.3
As percent of GDP:	1.4	2.3	3.7		3.3	3.2	3.2
- Current account	6.5	-9.3	-42.2	-55.0 to -60.0	-59.3	-88.3	-94.6
As percent of GDP:	0.6	-0.8	-2.9	-3.2 to -3.5	-3.5	-4.5	-4.3

Table 1.22 (continued) Key Economic Indicators of Thailand.

Item	1986(1)	1987(1)	1988(1)	NESDB Estimate 1989(3)	TDRI Estimate 1989(4)	1990(5)	1991(5)
Foreign exchange reserve(us$ million)	3776.4	5211.7	7111.8				
Debt service ratio(2)							
As percent of exports:	20.1	16.9	12.5				
Inflation rates(%)	1.9	2.5	3.9	5.5	5.0	4.3	3.4

Notes : (a) Estimated.
(b) Preliminary.

Sources: (1) Bank of Thailand, Monthly Bulletin, May 1989, vol.5 (in Thai).
(2) Balance of Payments Section, Department of Economic Research, Bank of Thailand.
(3) Overall Planning Division, Office of the National Economic and Social Development Board,"Economic Report (January-June 1989) and Trends in 1989," August 1989 (in Thai).
(4) TDRI, TDRI Quarterly Newsletter, June 1989, vol. 4 , No. 2 , p.5.
(5) TDRI, "An Economic Forecast for Thailand in 1988 and During the Sixth Plan Period," Paper presented at 1988 TDRI Year-end Conference on Income Distribution and long-term Development, Thailand, December 17-18, 1988.

The growth will be based on the rising price of primary commodities and on continued strong growth in the manufacturing sector, especially in export-oriented industries. GDP in the agricultural sector will rise by about 3 to 4 percent this year, despite the severe flood in the South, and manufacturing will grow by about 12 percent. Both exports and imports are expected to continue their rapid increase. Although exports will not grow as quickly as in 1988, they will still grow by 20 to 25 percent a year. Imports will also increase at a rate of 20 to 25 percent a year. Exports of agricultural commodities will rise to about 7.7 percent, while exports of manufactured goods will continue to grow at a rate of at least 30 percent. Total exports in 1989 will reach an estimated 514 billion baht, up by 28.7 percent from last year, and imports will reach 640 billion baht, a 27.6 percent growth rate.

With imports growing faster than exports, the trade account deficit will increase. The expected trade account deficit will be as high as 126 billion baht. The trade deficit will also get larger in the next few years, possibly reaching about 8 percent of total GDP. However, income from tourism is expected to strongly increase and thus will help to offset the current account deficits (see Table 1.22).

Growth in private investment is likely to be high, as indicated by the sharp increase in the number of projects and new industrial plants. Private investment increased by 37.8 percent in 1988 due to gains in industrial manufacturing and in the textile, automotive, chemical, plastic and construction sectors.

Given the favorable investment climate in Thailand, foreign direct investment is expected to increase in the next few years. Due to the current political unrest in China, Thailand can expect an influx of foreign investment this year, especially from Japan. As a result of the appreciation of the yen, Thailand has become more attractive to Japan as a new production base. Japanese investors are primarily interested in the manufacturing of electrical appliances and parts as well as computer and transportation equipment. Production of these items is mainly for export. A significant amount of Japanese investment in the service sector is also expected. Other countries expected to increase their investments in Thailand are Taiwan, Australia, Canada, and the United States.

Because of the high growth rate in almost every sector, credit demand will also markedly rise. As a result, the liquidity in the commercial bank system will drop, causing interest rates to rise.

Expansion in public and private construction will continue to accelerate. Large-scale government projects--notably, the Eastern Seaboard Project--are scheduled to be completed shortly. New projects that will start next year include the 40,000-million-baht, second-phase expressway; the 42,000-million-baht Skytrain project; the 100,000-million-baht electricity-generating projects; and the 25,000-million-baht project of the second phase of national petrochemical complex. Despite the higher prices expected for construction materials due to their scarcity, the construction sector will continue to expand at a satisfactory rate.

The Consumer Price Index is likely to rise by around 5 to 6 percent, slightly more than during previous years. This is due to the sharp price increases of food and construction materials.

The government's budget for the 1990 fiscal year will be balanced. Expenditures for fiscal 1990 will be 318,000 million baht, about 11 percent higher than 1989. On the other hand, revenues are expected to increase by 15 percent, to 276,880 million baht. This will result in a budget deficit of 8,600 million baht. The government will cover the deficit by borrowing from government saving banks, commercial banks and other financial institutions. The government's investment budget is expected to grow by 20 percent, to 64,000 million baht. However, the government still will face an investment savings gap of about 800,000 million baht in the next few years.

With the favorable world economic situation, the Thai economy looks very promising in the next decade. The business climate in Thailand should continue to be attractive to overseas investors. The government's open-door policy will continue in order to promote investment and assure long-term economic development.

1.4 Remarks

With the robust economic growth of the past few years, prospects look bright for the Thai economy. However, to maintain the momentum of economic growth, Thailand needs to assert itself in the international arena and strive harder to meet the challenge of protectionism. Although the world economy is continuing to expand at a moderate pace, a report by International Monetary Fund says: "The persistence of large fiscal and external imbalances still clouds the international economic outlook."*/ The report states that the economies of developing countries will grow faster, while the industrial economies will move at a slower pace than in the past. Consequently, many industrial countries are going through a structural adjustment to ease fiscal and external payment difficulties. Recently, progress was achieved toward reducing the real trade imbalances of the three major countries--the United States, Japan, and the Federal Republic of Germany. Despite large adjustments in the trade pattern, the nominal current-account imbalances of the three countries continued to widen. The United States deficit continues to increase, while the Japanese surplus is rising.

Over the last few years, the United States has been trying its best to adjust its economy. The US government believed that while most of its trading partners were enjoying almost unrestricted access to the large American market, US companies were restricted abroad--thus they experienced a mediocre performance in the world markets. This issue was explored with Japan, its largest creditor country, throughout two-and-a-half-decades. In order to reduce the trade

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*/ World Economic Outlook, 1989.

imbalance, the United States applied political pressure on Japan to import many agricultural items, such as beef and citrus fruits, despite protest from Japanese farmers. The United States has had limited success in coercing other countries to import more American products. Finally, at the Plaza Meeting in 1985, the G-7 countries decided to adjust the United States dollar vis-a-vis the Japanese yen; the resultant devaluation has helped reduce United States deficits in 1987 and 1988.

The offensive approach adopted by the United States is illustrated by the Omnibus Trade and Competitiveness Act of 1988. It was not limited to cases where "unfair" trade occurs, but it extended to many seemingly unrelated areas such as labor practices and intellectual property rights--copyrights, patents, trademarks, and so forth.

The United States has not alone created problems for Thailand. The European Community's goal of unity in 1992 has also sparked concern among Thai officials about that--despite the EC's assurances that the Common Market will in no way hamper the flow of trade--Thailand's access to the EC market will be further limited.

The next chapter will clarify some of the above-mentioned problems by explaining Thailand's role in multilateral and bilateral arrangements and by pointing out some difficulties Thailand is facing. Later, conclusions will be drawn.

2. AN ASSESSMENT OF DYNAMICS OF MANAGEMENT SYSTEMS IN THE WORLD ECONOMY

In the international economic community, the interstate relationships require a management system that involves three fundamental components: policy, law and organization. Policy means direction or guidelines to achieve the objectives set by states, such as monetary and fiscal policy, trade and investment policy, and so forth. Law is a set of rules and regulations that define rights and duties. Law can be supportive, prohibitive and compelling. Its violation must result in sanctioning. Organization is a vehicle to enforce and monitor so that law and order can be maintained and policy objective can be met. A general system of management should comprise these three principal components.

As the world approaches the end of the twentieth century, the management systems in the world economy have received more attention than ever before. The fact is that there now are more players, both old and new, in an enlarged field of international economic activities, bringing about more complexities and requiring major adjustments in the entire management system. This is because the management system in the international community is generally more complex than a domestic system is, due to the fact that the international community is based on the principles of state equality and state sovereignty. No centralism is created or recognized by the international community. These principles therefore deprive the international community of having its own organizations responsible for exercising the executive, legislative and judicial powers. Policies are determined through multilateral negotiations, in which individual states must give priority to their own national interests. Once policies or directions are agreed upon, law is created to foster rise to legal obligations between those who have agreed to such policies or directions. That law is normally in favor of international agreements, whether they are treaties, conventions or otherwise. Multilateral negotiations, the law-making process or the law-monitoring process are all under the purview of international organizations. Thus, international organizations are like platforms for interstate cooperation. They, too, need to be founded on the basis of state equality and state sovereignty.

At present, several levels of management systems in the international community--e.g., multilateralism, bilateralism and regionalism--are all closely interrelated. The multilateral system shall inevitably affect its subsystems--i.e., the regional and bilateral systems. But at the same time, strong bilateral or regional systems could create norms that could affect or influence the multilateral system, particularly if the latter is more weakly organized.

The regional management system of the European Community (EC), with its strong organization and abundant sets of regulations and policies, could affect and influence the multilateral system.

Additionally, the unilateral actions of individual economic powers such as Japan and the United States can do this too. The multilateral arrangement might attempt to have some control over the conduct and relationship of regional, bilateral or individual states, but a weak multilateral arrangement is often unable to resist the influence of a strong bilateral system or of individual powers. The multilateral trade negotiations (MTN) under GATT have been influenced by economic powers that attempt to push the MTN to move or to change the norms in order to suit their own interests.

This study will focus on state relationships at the unilateral, bilateral, regional and subregional, and multilateral levels, with special emphasis on each management system; its existence and its relationship with other systems; and their possible future implications for Thailand.

2.1 The Multilateral Management System in the World Economic Order

Multilateral management takes place mostly in the international organizations. GATT is the most prominent multilateral organization with regard to multilateral management. Other important related organizations are UNCTAD, WIPO and MIGA. In addition, other multilateral arrangements exist, which might be in the form of international agreements such as the MFA and other commodity agreements.

2.1.1 The Future Perspective of Multilateralism: A Reflection from GATT Mid-Term Review

GATT is the specialized United Nations agency in charge of international trade. Established in 1949 with free trade as an objective, GATT operates under the principle of equality among states, which leads to principles of reciprocity, nondiscrimination and Most-Favoured Nations (MFN). Meetings under GATT have been arranged in the form of Multilateral Trade Negotiations (MTN) to exchange rights and privileges. The present round of negotiations, which started in 1986, is called the Uruguay Round and is scheduled to conclude in 1990. The negotiations are not expected to succeed in all the items tabled in the agenda. Some might have to be delayed. The items tabled for this round of negotiations included both those items left outstanding and unresolved from the last round and the new issues (such as trade related to intellectual property rights, trade-related investment measures and trade in services). Of the fifteen items under the present round, this study will concentrate on items of vital interest to Thailand. They are: agricultural products; tropical products; safeguards; subsidies and countervailing measures; disputes settlement; intellectual property rights in relation to trade and counterfeit goods; the Gatt system; investment measures relating to trade; and negotiations on trade in services.1/

Before considering the progress of the negotiations based on the Mid-Term Review, attention should be drawn to some legal aspects concerning whether the successes and failures of various aspects of the negotiations at this stage will be legally binding in international law. Paragraph (ii) of the general principle governing negotiations, as stated in the Ministerial Declaration of the Uruguay Round, stipulated that: "The launching, the conduct and the implementation of the outcome of the negotiation shall be treated as parts of a single undertaking on a provisional or a definitive basis by agreement prior to the formal conclusion of the negotiations. Early agreements shall be taken into account in assessing the overall balance of the negotiations."2/ This provision allows for the possibility that an agreement reached before the formal conclusion of the negotiations could have legal effects and could be implemented. But in a case in which only a general framework--concerning that particular issue--but not the substantive part of it--is agreed upon, there may not be any legal binding effect on the contracting parties; an agreement can have a legal binding effect, only if the rights and duties of states are spelled out.

While the above provision applies as one of the general governing principles of the negotiations, another provision has been made specifically for standstill and rollback. In Section C of the Declaration, each participant agrees to apply a number of commitments until the formal completion of the negotiations. This means that any acceptable *status quo* must be maintained during negotiation process. Nothing contrary to the regulations shall be created. So in contrast to the above provision, under this heading only what is agreed upon at the formal conclusion of the negotiations will have legal effect.

Agricultural Products

With regard to agricultural products, the Ministerial Declaration only provide some very general provisions dealing with a state's policy on agricultural products and subsidies in various forms. The negotiating group on agricultural products wanted to emphasize, on the strengthening of GATT rules and exchange of interest, appropriate measures and procedures, which include effective implementation of commitment, on agricultural products. The negotiation on agricultural goods in the Mid-Term Review came to a halt because the European Community and the United States have different objectives in the negotiations.3/ The EC did not want to eliminate the agricultural subsidy measures completely, since the EC has to maintain its own CAP policy; The United States, however, wanted to see the complete elimination of subsidy measures. Compromises proposed by the Cairns Group to solve the problem suggested that the long-term elements and guidelines for reform and the short-term elements for reforms of agricultural products could be summarized up as follows:4/

1. To achieve full liberalization of agricultural trade, measures need to be taken to reduce subsidies on agricultural products and to open up the market without safeguard measures, as well as to gradually reduce all impending measures.

2. GATT rules must be improved and strengthened to regulate state conduct with regard to all type of NTBs, GATT escape clause and safeguards, which are still ambiguous and difficult to put into practice for effective implementation. These strengthened GATT rules must also encompass measures affecting subsidies and export competition, producers' subsidies equivalence, and sanitary and phytosanitary regulations.

3. There should be multilateral monitoring procedures for policy implementation.

With regard to short-term elements for reforms, the principle of standstill and rollback has been applied. Current domestic and export support and protection levels in the agricultural sector must be ensured not to exceed the present level. Tariff and non-tariff market access barriers in relation to agricultural products and processed agricultural products must not be intensified. In addition, harmonization of sanitary and phytosanitary regulations and measures shall be developed based on existing standards of organizations such as CODEX, Alimentarius Commission, International Office of Epizootic and the International Plant Protection Convention.

The outcome of the Mid-Term Review produced only the above headings and the principles of the negotiations as proposed by the Cairns group, while the negotiations themselves proceeded far too slowly. The Mid-Term Review has acquired the direction of the negotiations but not the substantial recommendations nor any clarity as to how GATT rules should be amended. However, from the general point of view, it is expected that some progress could be achieved to reduce import barriers and subsidy levels. At present, many industrialized countries such as the United States, the EC and Japan have adopted subsidy measures and restrictions on imports that affect all countries as well as themselves. Thus, it can be reasonably expected that some improvement could be made in this regard.

Despite the subsidies code produced at the Tokyo Round, no apparent clarification has yet been made determining what domestic subsidies, production subsidies and exporting subsidies are, as they will have different legal implications. While both production subsidies in general and exporting subsidies of agricultural products are permitted, the latter entails a number of restrictions, such as Article 16(3) of GATT. Under this provision, subsidies shall not be applied in a manner that would result in the contracting party wishing to grant the subsidies having more than an equitable share of world export trade in that product.5/

In practice, a problem of interpretation may arise as to how should one defines an equitable share of world export trade. The current negotiations of the Uruguay Round under the agenda of subsidies for agricultural products should therefore attempt to reach an agreement on the criteria of this condition. On the general elimination of quantitative restrictions as provided under Article IV, as a result of the United States' insistence, import restrictions can be imposed on agricultural or fisheries products, imputed in any form, if they are necessary to the enforcement of governmental measures. Such measures also cover the restriction of the quantities of the "like domestic products" permitted to be marketed or produced, or--if there is no substantial domestic production of a like product--of a domestic product for which the imported product can be directly substituted. What should be the criteria for the definition of "like domestic product," and what is a domestic product for which the imported product can be directly substituted? As a further provision to operate effectively, this Uruguay Round must succeed in resolving this ambiguity. As for the general exemptions under Article 20, importing countries are entitled to restrict the importation of products that do not comply with phytosanitary regulations, as generally outlined in the article. Although the Mid-Term Review has recognized the problems involved by suggesting the harmonization of sanitary and phytosanitary regulations and measures, based on the standards already established by relevant organizations such as CODEX, most of the industrialized countries have better expertise concerning standards. This should be an issue of special interest to all developing countries and should be closely monitored.6/

Concerning the implications for Thailand, the effect on her agricultural sector if all subsidies are to be eliminated must be taken into consideration. But since the level of subsidies in Thailand is not high, her agricultural sector may not be seriously affected or not affected at all. Moreover, as a developing country, Thailand will benefit from certain forms of subsidies, such as in irrigation. This should be regarded as infrastructural support and should not be considered as form of subsidies.

Without the strengthening of GATT rules base on the principle of transparency, it would be difficult for contracting parties to implement and enforce them more effectively. The strengthened more transparent defined GATT rule would allow a clearer identification of those who do not uphold obligation under GATT. However, since the agricultural trade issues under the negotiations are so broad, it could be reasonably predicted that not all of them would necessarily succeed at this round. But such issue as the reform of GATT rules should reach a conclusion. Moreover, the subsidy policy including the safeguard measures is likely to be substantially reduced as they receive favorable support by those economic powers.

Tropical Products

On tropical products negotiations, the tropical products countries submitted a list of products for tariff concessions, in accordance with Article V, at the Mid-Term Review in Montreal. This was because several industrialized countries has imposed high tariffs against imported tropical products. As a result of the Montreal meeting, some industrialized countries such as Australia, New Zealand, Austria and the Nordic countries agreed to the tariff concessions on some items, effective from January 1, 1989.7/

During the Mid-Term Review in Geneva, the meeting discussed the liberalization of trade in tropical products, which include both processed and semi-processed products. The negotiations covered seven groups of tropical products: tropical beverages; spices, flowers and planting products; certain oil seeds, vegetable oils and oilcakes; tobacco; rice; tropical roots, tropical fruits and nuts, and national rubber and tropical woods, (i.e. jute and bend fibers). These negotiations were aimed at the elimination of duties on unprocessed products, elimination or substantial reduction of duties on semi-processed and processed tropical products, and elimination or reduction of all non-tariff measures. It should be pointed out that regarding the semi-processed and processed products, it was still uncertain whether elimination would be possible. Hence, the phrase "elimination or substantial reduction of duties" was employed.

Developing countries, including Thailand--which are the main producers of tropical products--are expected to benefit more from the negotiating group on tropical products than from the fact that the same issue was included in the group of agricultural products. Many industrialized countries (such as the European Community, Norway, Sweden, Finland, Austria, Australia and New Zealand) have already agreed upon the reduction of tariffs on more than 1000 items, 124 of which are supposed to benefit Thailand. These items include rice, orchids, wooden furniture, rubber, car types, tobacco, canned pineapple and jute. It is expected that the list will be expanded to cover more products in the next few years. Somehow, Thailand should focus attention on the APC countries that are also producers of tropical products, as it could gain more advantages from the special relationships that these countries have with developed countries.

<u>Safeguards</u>

The issue of safeguards has been discussed in the Uruguay Round. Article 19 of GATT, which is regarded as an escape clause, laid down provisions for the reduction of imports for products that could cause, or threaten to cause, serious injury to domestic producers. In law, it is no simple task to prove that, as a result of unforeseen developments, a particular product is being imported in increased quantities and is causing serious injury to domestic producers.

GATT did not set down an exact definition of "serious injury," and this lack of definition has created lot of difficulties in practice. Therefore, contracting parties of GATT have often deviated from Article 19, preferring to impose the Voluntary Export Restriction Agreement (VER) to other countries. This is contrary to GATT principle of nondiscrimination.8/ Since VER has now become so common that it could be regarded as state practice, GATT believes that VER should be made legal under GATT regulations. For Thailand, VER would be of some benefit to the country in some cases. As an importing country, Thailand might have difficulty in proving VER. By relying solely on the provision of Article 19 to restrict imports, the country might find VER beneficial as an instrument to permit import restriction. In addition, such bilateral arrangements might create a favorable tariff condition, as in the case of the import restriction agreement on tapioca between Thailand and the European Community.

A result of the Mid-Term Review on safeguards should be the multilateral control of safeguards, and the emphasis should be placed on temporary safeguard measures. At present, the negotiating group is preparing the text to be used as the basic documentation for negotiations. Negotiations on safeguards are complex and could easily affect the interests of many countries, particularly the industrialized countries. It is possible that the negotiations will be difficult and that there will be further delays. For effective enforcement, there could be a need for a separate agreement on safeguard codes, which will take even more time.

<u>Subsidies and Countervailing Duties</u> (CVD)

Regarding subsidies and CVD, the wording in GATT's rules and subsidies code revised from the Tokyo Round is still ambiguous. But when considering both GATT rules and the subsidies code, we might find that different categories of subsidies exist--namely, export subsidies on products other than primary products, export subsidies on primary products and domestic subsidies.

Article XVI (4) of GATT formulated a condition under which a subsidy on the export of any product by contracting parties shall have to cease. This is when such a subsidy "results in the sale of such product for export at a price lower than the comparable price charged for the like product to buyers in the domestic market." But since there are no agreed criteria to determine the price level in comparison with the like producer, and since they were not specified in the subsidies code, a degree of uncertainty inevitably followed.9/

The subsidies code sets examples of what could be regarded as export subsidies. But these are only "examples" and do not suffice to give a clear definition or to make the law adequately transparent as to what are considered export subsides. The subsidies code does not specify what should be regarded as a primary product. GATT itself does not prohibit subsidies on primary products, Article XVI (3) stipulates that contracting parties should seek to avoid the use of subsidies on the export of primary products, except in the case where such subsidies result in that contracting party having a more than equitable share than all the contracting parties in a given period of time (normally 3 years) in a normal market condition. But these criteria cannot apply in all cases with any considerable degree of consistency. Take for instance a case in which subsidies are granted only on an occasional basis. What criteria are to be used? Which markets are to be considered--every market collectively, the markets of some relevant countries, and if so, which countries?

Although GATT prohibits export subsidies except on primary products, in the case of developing countries under special and differential treatment, no provisions prohibit domestic subsidies. The CVD measures cannot be applied without regard to GATT provisions.

Article XVI (1) of GATT stipulates that in the case of subsidies in general, any contracting party granting the subsidy shall notify other contracting parties of the extent and nature of the subsidization and its estimated effect on the quantity of the affected product. If it is determined that serious prejudice to the interests of any other contracting party is caused or threatened, there can be consultation between the contracting party granting the subsidy and other parties.

On CVD measures, Article VI stipulates that dumping is to be condemned if it causes or threatens material injury to an established domestic industry or materially retards the establishment of a domestic industry. No CVD shall be levied on any imported product in excess of an amount equal to the estimated bounty or subsidy determined to have been granted. The question is, therefore, what kind of subsidy against which CVD could be imposed? Could they be export subsidies, subsidies for domestic products or subsidies for primary products? This point is still unclear since GATT does not prohibit any particular type of subsidy. No clear distinction is made with regard to subsidies on domestic products and subsidies for exportation. GATT rules try to clarify this point. For example, Article VI (4) states that refunds or exemptions of the product from duties or taxes shall be regarded as subsidies, which can be subject to CVD. The problem remains, however, whether individual income tax exemptions and legal entities would be included in this provision. Some countries tend to levy CVDs on domestic subsidies against countries that apply very small subsidies directly on exports. These countries sometimes apply subsidies in terms of upstream subsidies--for example, in the form of long-term, low-interest loans to foreman or on road construction. These subsidies are aimed at supporting the production process and industry in countries that do not concentrate on exports. Some countries regard upstream subsidies as having effects on capital and creating unfair competition in the market.

Faced with all the above problems on subsidies, the Uruguay Round has set up a framework for negotiation to clarify the issue of which type of subsidy should be prohibited; which is not prohibited but could be subject to CVD; and which cannot be subject to CVD. Thus far, the review could identify what subsidies are to be prohibited and set up normative criteria. Since the issues of CVD and subsidies are complicated and state practice is also different, it is expected that the negotiation will take some time before clear results are achieved.

For Thailand, the issue of CVDs should seriously be taken into consideration. The ambiguity of GATT provisions has already resulted in Thailand being levied with CVDs on a number of products. With clarity of the rules pertaining to which subsidies can be subject to CVD and which cannot, our strategic planning would be facilitated in the long run. The conclusion of the negotiations on subsidies and CVDs will not easily be obtained within the next two years. This is why Thailand should closely monitor their progress.

Trade-Related Intellectual Property Rights

The issue of the protection of intellectual property rights has been included in the Uruguay Round. While it has been under the responsibility of WIPO, GATT regards this issue as being connected with trade problems, particularly relating to counterfeit goods. The major powers want to see GATT's role in this area increased. Article XX (d) of GATT, in fact, already enables any contracting party to adapt or enforce measures necessary to secure compliance with laws or regulations relating to *inter alia*: the protection of patents, trademarks and copyrights; and the prevention of deceptive measures, provided that those laws and regulations are not inconsistent with GATT provisions or are applied in an arbitrary or discriminatory manner.10/

The results of the Mid-Term Review in April, 1989 on this issue can be summarized as follows:11/

1. The basic principle of the GATT and relevant connotations shall be applicable. The scope and use of trade-related intellectual property rights shall be set up.

2. There should be provisions for effective and appropriate means for the imposition of domestic law on trade-related intellectual property rights.

3. The negotiations must take into account the development of a multilateral framework of principles, rules and disciplines dealing with the international trade in counterfeit goods.

4. The negotiation should be conducive to a mutually supportive relationship between GATT and WIPO as well as other relevant international organizations.

Based on the outcome of the Mid-Term Review, it appears that the industrialized countries would like to implement measures for the protection of intellectual property through the enforcement of domestic law. Industrialized countries might initiate the discussion of intellectual property rights into multilateral negotiations in order to bargain with developing countries in different areas of trade negotiations. Moreover, GATT has been empowered with more authority to control counterfeit goods or to inspect imports of products in violation of intellectual property rights.

The implementation of this measure requires the proof of violation, which takes time and which could be costly. In this respect, Thailand might need to modify her domestic laws. However, the extent of this modification must be determined by its effect on national interests. During negotiations with the United States, Thailand has maintained that it would introduce a patent law to Parliament consistent with international requirements within three years after the negotiations and that it will support the United States in pressing for an agreement at the Uruguay Round.12/

Trade-Related Investment Measures

This new issue should be of particular interest to the developing countries such as Thailand. It seems to be that the developed countries propose this issue at the time where they are facing more difficulties from important goods originated from those developing countries applying and export-oriented strategy development with a number of incentives and promotion program. The trade-related investment measures (TRIMs) will therefore be directly discussed at length concerning a number of proposals of how to converge these measures applying in different countries into GATT existing Articles. So far, the negotiation group on this particular issue has integrated the following elements into the negotiation process:

1. Additional identification of the trade restrictive and distorting effects of investment measures that are or may be covered by the existing GATT Articles, specifying those articles.

2. Identification of other trade restrictive and distorting effects of investment measures that may not be covered adequately by existing GATT articles but that are relevant to the mandate of the group given by the Punta del Este Menisterial Declarations.

3. Development aspects that require consideration.

4. Means of avoiding the identified adverse trade effects of trade-related investment measures, including, as appropriate, new provisions to be elaborated where existing GATT Articles might not cover them adequately.

Since the Mid-Term Review, progress was made in April 1989 on a follow-up to the negotiation's outcome. Related GATT rules and measures were specified, but no international investigation system was set up. The negotiations are to continue, and their conclusion is still largely unpredictable.

Dispute Settlement

There have been more impressive results on the dispute settlement. The improved and strengthened process of dispute settlement was agreed upon and became effective on 1 January 1989 and shall remain in effect until the end of the Uruguay Round. It clearly reflected the structure of GATT itself, combining diplomacy and law as illustrated in Articles 22 and 23:

Article 23 (1) provide for consultation with respect to "any matter affecting the operation" of the General Argument. If such bilateral consultation is not successful, *Article 22* (2) provides for the possibility of setting up a working party open to all GATT members, including the partners to the dispute. The finding and report of this working group or of the panel will be adopted and be put into effect. Its noncompliance could result in a withdrawal of concessions.

However, GATT's dispute settlement system has been criticized for its shortcomings on various points as follows:13/

1. The panels are composed of officials who are government representatives and who are dominated by national interests and economic policy. There should be other members as well.

2. The process is slow and lengthy--from setting up the panel, to preparation, to the adoption and approval of the report.

3. The panels often work on some ambiguous concept in response to the environment surrounding the case, rather than on any specific principles or legal rules.

4. Adoption of the panels report could be blocked by the council.

It was argued at this round of negotiations that improving this dispute settlement procedure would be based on the existing GATT framework. The parties in dispute could now opt for either conciliation or arbitration to settle their dispute. A timeframe has been fixed for the procedures in order to avoid delay, and the panel no longer comprises solely on the basis of government representatives.

The effectiveness of the improved system should be closely monitored, since enforcement of the report after its adoption by the Council could remain the same. What if the parties refuse to comply with the report? Will GATT still allow the injured party to withdraw or suspend retaliatory measures in effect? Wouldn't this be effective only if both parties are on an equal footing? And how could developing countries--even if they are found to be on the right side--retaliate against industrialized countries who are also economic powers, since they are dependent on the exporting markets of developed countries? Thailand has not been particularly in favor of settling disputes by legal means such as arbitration. Thailand would prefer consultation, which is a more flexible approach. If no compromise is achieved, then a working group or a panel can be set up to solve these matters.

<u>Trade in Services</u>

As a result of the North-South compromise, trade in services is included in the Uruguay Round. While developed countries preferred to keep the issue in the negotiations, the idea was rejected by many developing countries, such as Brazil and India. It was finally agreed that trade in services would be included in the second part of negotiations; but that they would be regarded as negotiations between the ministers of the respective countries--not the contracting parties, as in the GATT framework.14/

The objectives of the negotiations on trade in services as a guideline for negotiating groups (as provided by the ministerial declaration) are to establish a multilateral framework of principles and rules for trade in services. This includes elaboration of possible cooperative measures for individual sectors, with a view toward expanding of such trade under conditions of transparency and progressive liberalization in order to promote the economic growth of all trading partners, including developing countries. Such a framework shall respect the policy objectives of national laws and regulations in regard to services and shall also take into account the work of relevant international organizations.

The Mid-Term Review, however, did not give a definition of "trade in services." The question is, how to arrive at a definition that includes all sectors of trade in services. It was agreed, however, that the work on a definition should proceed on the basis that trade in services should include the following: cross-border movement of services; cross-border movement of consumers; cross-border movement of production factors; cross-border movement of payment service; specificity of purpose; and limited duration. The definition should be as broad as possible in order to cover all sectors of interest to all participants. The multilateral framework should be based on the principle of transparency and trade liberalization. It was agreed that there should be provisions to ensure the relevance to national laws and regulations as well as and administrative guidelines on trade in services--the negotiations should establish rules, modalities and procedures to provide for progressive liberalization of trade in service, taking into account national policy, the level of development of individual countries, and the flexibility provided for developing countries. Additionally, the questions of national treatment, nondiscrimination and the Most-Favoured Nations (MFN) remained important elements of trade in services issues.

However, trade in services a new issue in the negotiations, and the outcome may not be easily reached. The increasing significance of trade in services warrants a close look at this issue, especially in relation to whether the existing GATT rules designed for trade in goods would be suitably applicable to trade in services. The answer should be no for three reasons:

First, the economic characteristics of trade in services are different from trade in goods. International trade in services cannot be separated from the condition of capital movement across national boundaries. Domestic law, after all regulates the status and rights of foreign nationals; their rights are often less than those of nationals. National treatment, as a principal foundation of GATT, may be difficult to apply to trade in services. Therefore, liberalization of trade in services would be even more difficult.

Second, the GATT principles were developed in the context of a specific historical situation by countries at similar levels of industrialization and development; less developed countries were subsequently allowed some exemptions to the rules. But the framework of the negotiations on trade in services aims at creating a multilateral system applicable to all countries, with flexibility for developing countries.15/

Third, GATTs reciprocity principle would be difficult to apply for trade in services. Trade in services is often conducted on a bilateral basis. In a multilateral framework it might not be practicable for trade in services to provide an exchange of concessions on barriers to trade in services, such as those in banking and air services.16/

It can be predicted that the success of these negotiations will be difficult to achieve. Developing countries need to consider their national interests very carefully. The liberalization of market will also be difficult. Many countries would be reluctant to amend domestic laws and regulations, especially on the status and rights of foreign nationals. The outcome of the negotiations on trade in services will result in a broad framework, rather than a multilateral agreement. Bilateral negotiations on trade in services will be more successful since vast differences in interests exist for each individual country. Such a broad framework should not affect Thailand, as there would be no legal obligation. The framework will reflect the general guidelines for bilateral negotiations.

In conclusion, GATT is an international organization that serves as a diplomatic forum for multilateral negotiations. However, many people question whether GATT, as a lawmaker in international trade, is actually a paper-tiger. Past experiences have already shown that some countries--particularly major economic powers--have always been in violation of GATT regulations.

In order for any rule or regulation to be effective, it must be accompanied by sanction. Law without sanction is nothing but a continuation of the *status quo* in the international community. Rules and regulations cannot be enforced in the same manner as domestic laws in a domestic system. The former applies horizontal enforcement, while the latter applies vertical enforcement. The principle of equality in the international system dictates that vertical enforcement cannot be applicable. GATT is no exception to this rule. Its rules and regulations depend on horizontal enforcement. In addition, GATT is even more disadvantaged than other international organizations in two respects:

First, the fact that there have been no ratifications of GATT general agreements by contracting parties makes it nonenforceable in international law. GATT was empowered by the Protocol or Provisional Application (PPA) which was signed on 30 October 1947. In theory, only the Protocol17/ and not the agreement is applicable. The absence of ratification has weakened the agreement.

Second, no GATT provision allows for political or economic sanctions or the expulsion from the membership in cases of violations of GATT or of noncompliance with GATT guidelines. This also weakens GATTs enforcement power. The only provision that could be relied upon is Article XXIII, which provides that, as a result of another party's failure to carry out their obligation under GATT the injured contracting party could suspend the application of concessions to those parties. Such measures are still not legal sanctions; they are merely the result of consultations between contracting parties to authorize such actions against the violating parties.

Third, international trade is a question of national interests. Whenever national interests are affected, there will always be breaches in those areas. To be adequately flexible for general application, GATT contains a good number of exemption clauses to accommodate a wide range of national interests.

Nevertheless, it is true that GATT has played an important role in establishing useful principles in multilateral trade negotiations (MTN). These principles are often referred to by all countries--be they economic powers or developing countries. Thus in practice, the existing rules and regulations do apply. They set a framework for the conduct of international trade. Therefore, it is not the case that GATT is only a paper-tiger. The issue worth considering is whether or not GATT entails legal obligation: Frequent failure to carry out obligations and frequent violations due to domestic economic pressure have continued and should be carefully examined. On the other hand, violation of the law is always a possibility, as a law that is never violated might not have needed to be enacted.

2.1.2 The Organizations Relevant to Sectoral Arrangements

United Nation Conference on Trade and Development (UNCTAD).

UNCTAD is by nature the subsidiary organ of the United Nations General Assembly, established by Resolution 1995 (x/x) 30 December 1964. A number of its objectives are summarized as follows: Encourage international trade flow; accelerate the economic development of countries where development levels are different; strengthen international trade rules; and find solutions relating to commercial problems; initiate trade negotiations that lead to the conclusion of multilateral agreements.18/

At present, UNCTAD is the center of cooperation, especially for developing countries. Its major activities emphasize commodities arrangements aiming toward a realistic new international economic order. As suppliers of primary products, developing countries are in need of price adjustment mechanisms (such as buffer stock, price guarantee systems, etc.) that can effectively balance supply and demand of world market prices. Such mechanisms can indeed ensure the regular income necessary for the domestic growth of developing countries. There are eighteen primary products under the integrated Program of Commodities Agreements in the framework of UNCTAD, but only seven products have been concluded in multilateral agreements, no other agreement has yet been reached.19/ The Common Fund under the Integrated Program for Commodities was created in 1976 by the Fourth UNCTAD Conference in Kenya. Its objectives are to facilitate the work of the UNCTAD Integrated Program and stabilize its financial situation so that it can fully support the commodity agreements concerned and encourage commodity research programs for technical development. Additionally, this fund should be applied to low-interest financial loans.20/

Attention should be given about whether its operation will be effective and if Thailand's participation could be beneficial to the country. The answer should be yes for two reasons: On the one hand, participation in the Common Fund will enable Thailand to become more involved with the world commodity trade system, especially for four principal exported products--namely, sugar, natural rubber, jute and coffee. On the other hand, Thailand's contributive burden to the fund will be less than that given to the four organizations of commodities--the International Coffee Organization, the International Rubber Organization, the International Jute Organization and the International Sugar Organization. Even though Thailand needs to enter the Common Fund, the same difficulties arise from domestic law. Legislation empowered the Minister of Finance to issue only promissory notes in Thai currency. Therefore, a working group was set up to prepare a draft comprising the two issues concerned:21/

1. Empowered the Ministry of Finance to issue promissory notes in foreign currency

2. Accorded privilege and community to the Fund.

This draft is entitled, "Draft Bill for functioning the Common Fund for Commodities." In short, UNCTAD is a UN organ whose primary role is to protect the general interests of developing countries. Specific commodities issues, for which UNCTAD is responsible for achieving certain agreements, also exist. In summary, UNCTAD is far less significant than GATT for international trade. Rather, UNCTAD has served as a forum for developing countries. It has made some contributions toward creating some norms for international economic issues, especially in the field of international development law. But its activities are still limited in scope.

The Multilateral Investment Guarantee Agency (MIGA)

The World Bank has established a new international economic institution responsible for international investment, called MIGA (the Multilateral Investment Guarantee Agency). MIGA's primary objective is to encourage the flow of investments among the member countries. In general, one of the factors that often slows down international investment is noncommercial risks. The World Bank has tried to reduce those risks and to build some guarantees in different forms. In 1965 the convention on dispute settlement between state and private persons was signed, establishing CIRDI.22/ Its function is to settle investment disputes between private companies--mostly, multilateral corporations of developed countries--and the governments--mainly, those of developing countries. These corporations are often afraid of unilateral actions by the governments of developing countries--such as nationalization or breaches of contract--which could affect their investment.

The idea of establishing a guarantee agency has been around since 1950, when the World Bank was founded, but it only became true upon the signing of the convention founding MIGA in 1985. In order to achieve its objective, MIGA's functions would be as follows:23/

1. To issue guarantees against noncommercial risks in respect to investments in member countries that flow from other member countries.

2. To carry out appropriate complementary activities to promote the flow of investments to developing member countries.

3. To exercise other incidental powers necessary or desirable in the furtherance of MIGA's objectives.

The main operations of MIGA concerning investment are stipulated in Articles 11 to 24 and can be summarized as follows:

1. Risks to be covered by MIGA: Guarantee could be given against loss resulting from, *inter alia*, currency transfer, expropriation and similar measures, breach of contract, war and civil disturbance.

2. Eligible investments: In order to guarantee an investment, MIGA has to prove that such an investment must be, *inter alia*, economically sound, contribute to the development of the host country and comply with the host country's laws and regulations, etc.

3. Eligible investors: Any natural or juridical person may be eligible if that person is a national of a member of MIGA other than the host country.

4. Eligible host countries: Investments have to be made in the territory of a developing member country.

5. Payment of claims: This is decided by the president under the direction of the board.

6. Subrogation: the terms and conditions of subrogation shall be provided in the contract of guarantee.

Investment guarantee by MIGA has served as an incentive measure for an increase in investment in developing countries. Thailand has not yet joined MIGA. But its membership should not be detrimental or disadvantageous to the country, especially since Thailand has already decided to become an ICSID member. Article 58 of MIGA Convention provides that any dispute arising under an antiact of guarantee or reinsurance between the parties shall be submitted to arbitration for final determination. Such arbitration shall be set up, in effect, under ICSID rules.

Multifiber Arrangement (MFA).

A multilateral system in the world economic order does not necessarily have to be in the form of an international organization. It can also operate in the form of multilateral agreements--such as the Multifibre Arrangement, which is in force between 1986 and

1991.24/ Its objective is to liberalize the world trade of textile products to ensure equitable development of this trade and to avoid market disruption. To achieve its objectives, safeguard measures could be imposed by importing countries to correct market disruption.25/

Under the MFA mechanism, the level of quantitative restrictions for imports could be set up, which in effect should contradict Article 3 of GATT. But Article 3 allows for an exception in the case of the MFA, whereby the principle of *lex speciali derogat lex generali* applies. Under this principle, if the situation calls for restrictions on trade for a particular textile product, participating countries could fix the restriction level not lower than the level indicated in Annex B. According to this annex, such a level is determined by the level of actual imports or exports of such products during the twelve-month period terminating in two months or--where data are not available--three months preceding the month in which the request for consultation is made.

However, the MFA permits importing countries to impose safeguard measures if they can prove that the importation of such textile products causes market disruption.26/ For this reason, the majority of textile-importing countries have concluded bilateral agreements with textile-exporting countries to set up import and export quotas as provided in Article 4 of the MFA.27/ Moreover, such bilateral agreements could be even more liberal than measures provided for in Article 3 of the arrangement.28/

Although import restrictions are inconsistent with GATT rules, they can still be legally imposed. Economic powers could make use of such agreements to protect their market against textile imports and to put pressure on exporting countries which are usually developing countries with little bargaining power. Textile agreements may ensure certainly for exports, but countries like Thailand would not be able to bargain in their favor--especially with the United States and the EC and their increasing protectionist trends.

Attempts have been made in the Uruguay Round to include the textile and clothing sector in GATT by phasing out restrictions under the Multi-Fiber Arrangement and other restrictions on textiles and clothing not consistent with GATT rules and disciplines. There has been no progress in this regard from the Mid-term Review. Whatever the outcome of the Uruguay Round concerning this issue might be, it is certain that the MFA--due to expire in 1991--shall be renewed. For even if the Uruguay Round succeeds in integrating textiles and clothing into GATT, preparation would take some time to create new measures in place of MFA. But in the case where the Uruguay Round could not succeed in the textiles field, the VER (Voluntary Export Restraint) is still available--which at least would not be detrimental to Thailand. Import restriction could assure fixed markets, which could not be taken away by larger textile exporters such as South Korea, Taiwan and Hong Kong.

2.2 Regional Management Systems in the World Economic Order

Regionalism has again become the main focus of world attention in the late 1980s. This formation is considered an important factor contributing to the new setting of world trade and investment management in the coming years. The European Community is now regarded as the most successful regional organization in the free world that has tried to achieve a supranational character through the formation of the European Single Market in 1992. The program is expected to produce substantial changes in numerous areas, not only among members themselves, but also in the world community. This may be why the world is also witnessing other regional cooperative formations. The most challenging one that should be mentioned here is the effort to shape a new regional cooperation in the Asia-Pacific Region. The attempts and initiatives of this regional cooperation are still under question by different countries within and outside the region.

2.2.1 Asia-Pacific Cooperation: Myth or Reality

No matter whether Asia-Pacific cooperation is a myth or a reality, the important issue is its impact on Thailand. The purpose of this study is to focus primarily on the positions of the countries concerned--the United States, Japan and Australia--and the possibility of such cooperation.

If one looks at the world map, one will find that Asia-Pacific covers three continents--Asia, America (Norht and South) and Australia. About 58 percent of the world population is concentrated in this region. Its economic importance is relatively high because of abundant natural resources and a large market for world trade.29/ Furthermore, in the year 2000, this region's economic importance will increase even more than it has at present. However, different countries in this region are quite heterogeneous in nature.

There are three reasons that contribute to the rapid economic growth in this region. First, Japan's rapid economic growth greatly contributes to international trade in this region. Japan's demand for raw materials and foodstuffs are part of important capital and technology flows in the region. Second, there is consistently high economic growth in the Asian NIEs, and to a lesser extent, in ASEAN. Third, the structural adjustment in the world economy has been considered profitable to the economy in this region--which generally gains more from the relative share of world trade while the other part of the world is growing at a much slower pace. This phenomenon has given economic strength quickly to the region.30/

OECD and IMF studies, with the exception of a few countries, confirm that the economic growth in this region has been very high during the 1980s. Asian NIEs, compared with the economic growth in developed countries, was three time higher than the average. For ASEAN countries, Thailand and Malaysia have performed at high rates of economic growth, while the other ASEAN countries are quickly building their economic growth for the coming years. Therefore, it is possible to conclude that economic growth in this region will continue in the future.31/

In order to see what kind of economic cooperation and organization in the Asia-Pacific Region will evolve, one should overview the position of the countries that have leading roles in Asia-Pacific Cooperation.

For a long time, Japan has given a great deal of attention to the idea of Asia-Pacific Cooperation. Kojima has been one of the instigators of the idea. In 1960, Kojima had already proposed the idea of a PFTA (Pacific Free Trade Area) consisting of five industrial countries in this region--namely, the United States, Japan, Canada, Australia and New Zealand. Kojima proposed the idea of PFTA because he saw the economic integration of the European Community as a threat to the region. However, his idea was not realized, because the other four developed countries have a different view of economic policy; they prefer to cooperate with the European Community rather than set a new economic group to bargain with the European Community.

At present, the first organization that deals with the Asia-Pacific cooperation is PBEC (The Pacific Basin Economic Council). Its members consists of businessmen in five developed countries in the region. Its main activities are to organize international conference and seminars on the idea of "Pacific Economic Community." PBEC has representative offices in five developed countries, including the Philippines and Peru.

The second organization is PAFTAD (The Pacific Trade and Development Conference). This organization was set up in 1968 by the Japan Economic Research Center. Its members are politicians, businessmen and scholars. Its status and organization is that of an international organization similar to that of OECD, but the organization has much a lower profile than OECD.

The third organization that is active and plays a leading role is PCC (Pacific Co-operation Committee). Its members are businessmen, scholars and government officials of five developed countries and ASEAN, plus South Korea (5+5+1 formula). In 1983, this organization changed its name to PECC (Pacific Economic Co-operation Committee). The key person behind the organization at the initial stage was the former Minister of Foreign Affairs, Mr. Saburo Okita. The PECC has been one of the most active forums on the Asia-Pacific Cooperation until the creation of Asia-Pacific Economic Cooperation, initiated recently by Australia's Prime Minister Hawk.

When considering each important country behind the structure of APEC, Japan is one of the leaders behind this initiative. In fact, before the 1980, the Japanese Government was too occupied with other important matters--such, as China entering the international political stage, expansion of economic influence into ASEAN, the adjustment from the oil crisis and the north-south problem. It was only in 1980 that Japan started to show increasing conflicts with the United States and the European Community, because of the free-trade system, under which Japan is a leading beneficiary. As a first step, Prime Minister Ohira tried to set up Pacific OECD in order to call the United States' attention to the Pacific Region.32/ Japan also hoped that this regional organization would be one of the proper channels to solve trade problems with the United States. This initiative has failed because of the fact that the European Community will start the Single Market program in 1992 Japan perceives that this program will increase trade conflicts and that Japan does not have any other alternatives except to form its own economic alliances to strength its negotiation power. A number of people have pointed out that Japan is trying harder to set up Asia-Pacific Economic Cooperation because Japan is not yet secure in her role in international economic relations with major trading nations.33/

Today, the Japanese Government organ that is responsible for the Asia-Pacific Economic Cooperation is MITI (Ministry of International Trade and Industries). A set of committees called the Asian Pacific Cooperation Council, consisting of scholars and representatives from industrial sectors, was set up to study this matter.34/

On the other hand, the US's position concerning Asia-Pacific Economic Cooperation was first represented by a study called "Evaluation of a Proposed Asian-Pacific Regional Economic Organization" by Prof. Hugh Patrick and others. Senator John Glenn's participation in the Shimoda Conference in 1977 indicated for the first time that the United States is also interested in the idea of Asia-Pacific Cooperation.

Today, The US's position is reflected in Senator Bill Bradley's action plan which states that the members should:

1. Have an international conference of economically-related ministers, so that policy coordinaton--i.e., common position on agricultural goods in GATT--can be pursued further.

2. Have close policy coordination concerning monetary and fiscal policy. If possible, to set up Pacific Currency Regime with the hope that it will bring fair and stable exchange rate arrangements to the country members. The United States has higher expectations for this kind of currency regime, believing that if it comes into existence, it will resolve the unfair exchange rate practices between the US dollar and the Japanese Yen.

3. Have closer economic integration on trade policy, monetary and fiscal policies, interregional investment and regional management.

Senator Bradley's position has maintained its key features in the US proposal for the recent creation of APEC.

Australia is another country that plays an active role in the creation of Asia-Pacific Economic Cooperation. Numerous research projects on the matter indicate that Australia keeps close watch on the idea's development. According to Drysdale, the reason underneath Australia's active role is that Australia is in the process of changing its economic policy from looking at European Community to the Asia-Pacific Region.35/ Australia's proposal is to hold a ministerial level conference on economics and trade in the near future. Australia had offered to serve as host country for such a conference, with the expectation that this conference would be the first step toward planning the structure of future economic cooperation in the region. Prime Minister Hawk has emphasized that Asia-Pacific Cooperation is different from existing organizations such as ASEAN, PECC, PBEC, and PAFTAD. Asia-Pacific Economic Cooperation will mainly concern trade and monetary matters, and it is an outward-looking organization. On the other hand, existing organizations are regarded by Australia as inward-looking organizations, concerning mainly interregional problems. An outward-looking organization will overcome the fundamental problem of organizing countries in the region with various stages of economic development. Australia hopes that the success of Asia-Pacific Economic Cooperation will have a great impact on the world economy, which means the region will become the center of world economy and the dynamics of economic growth linking the world economy as the whole.

The activities that Australia is undertaking in the Asia-Pacific would include:

1. Trying to build up consensus in the region. Some countries in the region have already given positive responses.

2. To evaluate other proposals on Asia-Pacific Cooperation.

3. To evaluate the impact of 1992, when the European Community will become a single market and the US-Canada Free Trade Agreement (FTA) toward the Asia-Pacific region.

4. To hold or assist other countries to hold ministerial level conferences on trade and economic issues as soon as possible.

5. To give a signal to the United States that Asia-Pacific countries need serious attention to build up the Asia-Pacific Economic Cooperation.

On a separate manner, the European Community has not been included in the Asia-Pacific Economic Cooperation. The European Community has particularly blamed Australia, who is an important leader behind such an initiative. The European Community gives the reason that the Asia-Pacific Economic Cooperation is a large organization, equivalent to the OECD, and should include other important players meaningful to the region. The controversies over whether and how the European Community will participate in this organization are not yet resolved.

In conclusion, there is no definitive indication as to what kind of institution will be set up for the idea of cooperation.36/ For the moment, ESCAP is the only existing institution for Asia-Pacific Cooperation. However, ESCAP functions as UN-affiliated organization and has nothing to do with the purpose of economic cooperation. It appears that ASEAN countries do not want to be active in forming the Asia-Pacific Economic Cooperation. This is largely due to a concern that the regional grouping will make ASEAN weakened in some way as an entity in a wider organization.

There is a strong probability that any future institution that comes into existence will be only a consultative organ--not in the Free Trade Area--but in the form of a regional economic organization. This consultative organ will be different from other existing organizations because it will mainly concentrate on trade and economically-related issues to be discussed for the common interests of the region's membership.

2.2.2 The 1992 European Community Single Market and Its Implications to Thailand's External Sector

The European Single Market marks a new era of economic cooperation among states in international society. This unification constitutes a powerful economic grouping that could have an impact on economic relations between the European Community and its partners. All countries--especially developed countries--are carefully observing this movement with differing views; they are worried that this move towards regionalism will be a new form of protectionism. Asia-Pacific countries, under the initiative of Australia and Japan, are especially, concerned with this initiative and have started to prepare to strengthen their economic cooperation. The United States, meanwhile, has also concluded a number of treaties establishing a free trade area with Canada, Israel, and Mexico, respectively. These events show that in the future the revival of regionalism will play an important role and will become a priority in the world economic management of different countries.

A number of questions were raised: If this EC Single Market is realized, what would happen, since the program is aimed at tackling all existing barriers. It is also necessary to ask about the impact of such creating a Single Market in other countries, especially in Thailand's case. Our study will focus on three relevant issues: Legal dimension of the EC Single Market; the repercussions on Thailand from the formation of the Single Market in 1992; and other existing trade barriers to Thailand not to be affected by the creation of the Single Market.

Legal Dimensions of the EC Single Market.

The European Unification concept is really not a new concept. It can be traced back in the seventeenth century (as described in the memoirs of the Duc de Sally and William Penn's Essay," Toward the present and future peace of Europe").37/ But this idea was far from being realized until the end of the Second World War. At that time, Europe was divided into two blocs--the Eastern Bloc and the Western Bloc. Therefore, something needed to be done to keep Western Europe unified and to maintain it as a world power.

For this reason in 1950, French Foreign Minister Robert Schumamn, proposed a plan of action aimed at creating a European coal and steel community, to the six European partners. This plan was widely accepted; the organization was set up and had great success in its operation. Two years later, an effort was made to establish a defense organization Western Europe, but this political cooperation plan failed. Therefore, European leaders turned their attention again toward economic cooperation, in fields of atomic energy and economic integration. Finally, two organizations, named the European Economic Community and the European Atomic Energy Community, were created by the Treaty of Rome in 1957.38/

Objectives of the main European Organization--called the EEC or Common Market--were the creation of custom unions, removal of non-tariff barriers and the Common Agricultural Policy (CAP). A single internal market was also spelled out as one of the goals in the preamble of the Treaty of Rome. "The Community shall have as its task, by establishing a common market and progressively approximating the economic policies of member states, to promote throughout the community a harmonious development of economic activities..."

Nevertheless, before 1980, the vision of a common market was too difficult to attain. No action plan was shaped, and all kinds of barriers still existed, creating obstacles for the free movement of goods, people, services and capital. These situations caused the community to lose ground and to market to its main competitors--the United States and Japan.39/ On the contrary, the creation of a Single Market will prove to be of great benefit for the European Community, according to a study by economic experts and research institutes.40/ That is the reason why twelve member states decided to jointly complete the internal market, which is still pending. To do this, the Commission has specificed two instruments--namely the White Paper and the Single European Act, set up in 1985 and 1986--to provide guidance for the EC task. They have precise objectives and sufficient legal instruments for the realization of the Single Market within the scope of 1992.

o *The Substantial Matter of the Commission's White Paper*

The White Paper is a report prepared by the European Commission for determining various kinds of existing barriers in the European Community and for finding appropriate means to remove them by proposing almost three hundred directives in this regard. From the White Paper, three categories of barriers are specified: physical, technical and fiscal. Also proposed is the method to remove these barriers by means of the mutual recognition and the harmonization of national legislation.41/

Regarding the physical barriers, the internal custom posts are considered a great obstacle in ensuring free movement of the four primary factors necessary for completing an internal market. Even if custom duty was totally eliminated, custom posts still need to exist for several purposes: maintaining public security; controlling entry and exit of travelers; collecting Value Added Tax (VAT) and excises on goods being traded between member states; ensuring the compliance of the movement of animals and plants with national health requirements. According to the EC Commission's White Paper, custom posts must certainly be eliminated, but a number of problems concerning border controls could follow. In the Community's view, checking and controls might not necessarily be done at the border but may be undertaken at the point of departure, as well as at the points of destination within the community. Briefly, the controls at customs borders have to be removed and replaced by national checking systems. In order to facilitate this new work under each national responsibility, the Single Administrative Document, as well as harmonization of national legislation are required for common levels and policies in the areas concerned. Until now, a number of directives in this area are already enacted and are to be implemented by EC authorities.42/

Technical barriers in the European Community take their origin from the different internal legislation and administrative measures among member states. The free movement of goods cannot completely be done because the regulation and norms differ from one member state to another, especially in provisions of law regarding safety, health, environmental and consumer protection. People who cross the border without controls still can be restricted in their right of settlement throughout the community; similarly, capital movement and services cannot sufficiency be liberalized due to the protective clauses undertaken by member states.43/

In order to remove all the above-mentioned barriers, the principle of mutual recognition and harmonization of national regulations should be applied under the community lawmaking functions. It would mean that production and marketing that do not concern human health, safety, environmental and consumer protection are subject to national mutual recognition; on the contrary, such products need a high level of protection and have to meet acceptable community standards and requirements. Regarding community citizen's right of establishment, difficulties arise from differences in educational approaches. The commission is going to work on the mutual acceptance of vocational training qualifications for apprentices by planing to give a European "vocational training card" to whoever has reached a generally accepted standard.44/ Free capital circulation should be ensured by restricting the use of safeguard measures in time limits. Financial markets will be more liberalized by allowing optimal use of European savings through the free movement of financial services. In banking, two measures must be taken: mutually recognizing the Home Country Control and setting up common prudential regulations for high level saver guarantees (rules of authorization, credit rating ratios, share capital). Insurance services should be freely circulated for businesses (industrial risks) and individuals (group risks) throughout the community. Private use of the ECU should be promoted in form of land, deposit accounts, corporate accounting, and so forth. In the field of telecommunications, the community will try to enable the expansion of an efficient information market, including the creation of computerized networks for marketing and distribution by installing appropriate telecommunication networks meetings, in which common standards must be established.45/

The removal of fiscal barriers remains one of the most difficult problems for the European Community , because of the different indirect tax systems between member states. In the past, whenever goods were moved from one country to another, the fiscal authorities could collect the taxes (VAT and excise duties) to which they were entitled at the border. While custom posts do not exist, responding to a "Europe without frontiers" concept, another way has to be found for insuring that taxes on goods are paid when and where they are due. This new method of taxation is the "Clearing House" system, in which no tax control would be done on trade across borders, but would be undertaken by national authorities. To clarify the clearing procedure, the explanation is roughly given as follows:46/ Every member state will keep taxes on output into other member states and on input from other member states. At the end of a given month the balance of the two produces either a refund claim (in the case of a surplus of input tax) or a payment obligation (in the case of a surplus of output tax). Refund claims or payments will be directed to a central EEC authority in charge of establishing a tax balance among the states.

In short, the commission's White Paper set up community policies to be achieved, which consist of almost 300 directives being implemented and ended before 1992. Thus, the European Community should have more power to accelerate its task in completing the internal market. That is the reason why the Single European Act of 1986 was enacted to reinforce its functions throughout the community.

o *Legal Dimensions of the 1986 Single European Act*

To facilitate the Commission's task in completing the internal market, all member states have also adopted in parallel with the White Paper a treaty called the Single European Act, 1986. This act contains two major components: the first concerns the major amendments to the treaty of Rome since its adoption in 1957; and the second aims to build up a new procedure for cooperation in the sphere of foreign policy.

Regarding the first aspect of treaty amendment, this act tends to replace unanimity with a qualified majority for decision making. It means that for directives'adoption, the vote shall be weighted--instead of using "one state one vote," as required in the Treaty of Rome--as follows: Germany (10), France (10), Italy (10), United Kingdom (10), Spain (8), Belgium (5), Greece (5), the Netherland (5), Portugal (5), Denmark (3), Ireland (3), Luxembourg (2). In this sense, the total votes would be 76 and a qualified majority required of 54 from 76 votes.47/

Likewise, this amendment allows the European Parliament more participation than before in the Community legislative process.48/ Its functions are not limited to consultation but extend to the area of cooperation between both the Council and the Commission. This improvement is founded in many provisions of the act, the term "after consulting the Assembly" is replaced by the new phrase "in cooperation with the Parliament".49/ However, the consultative role of Parliament remains in the lawmaking process. In short, there are two distinct procedures for the adoption of a directive: the consultation procedure and the cooperation procedure (See Figure 1). The question is determining the scope and difference between the two of them. In both cases, a directive begins with a proposal from the Commission to the Council.

Under the consultation procedure, the Council requests opinions from the European Parliament and, in most cases, from the Economic and Social Committee. Once these have been given, the Commission then has the opportunity to amend the proposal if it so wishes. The proposal is then examined by the council, which may adopt it as proposed; adopt it in an amended form; or fail to reach agreement, in which case the proposal remains "on the table" (see Figure 1).

Under the cooperation procedure, the council requests opinions from the European Parliament and the Economic and Social Committee in the same way. Once these opinions have been received, the Council has to adopt what is called a common position, although it seems that the proposal will again remain "on the Table" failing any common position being reached. On a common position being reached, this is transmitted to the Parliament which has three months to accept, reject, or propose amendments to it on its second reading.

At this stage, the Commission may again amend the proposal if it wishes. The proposal is then returned to the council, which has three months to take a final decision. In the absence of a decision, the roposal lapses (see Figure 1). Whether the council can adopt a proposal by a qualified majority or has to reach a unanimous decision depends in the first instance upon the article of the treaty that is the basis for the measure. However, there are certain situations where unanimity must be reached by the Council:

1. To introduce amendments of its own initiative to a proposal

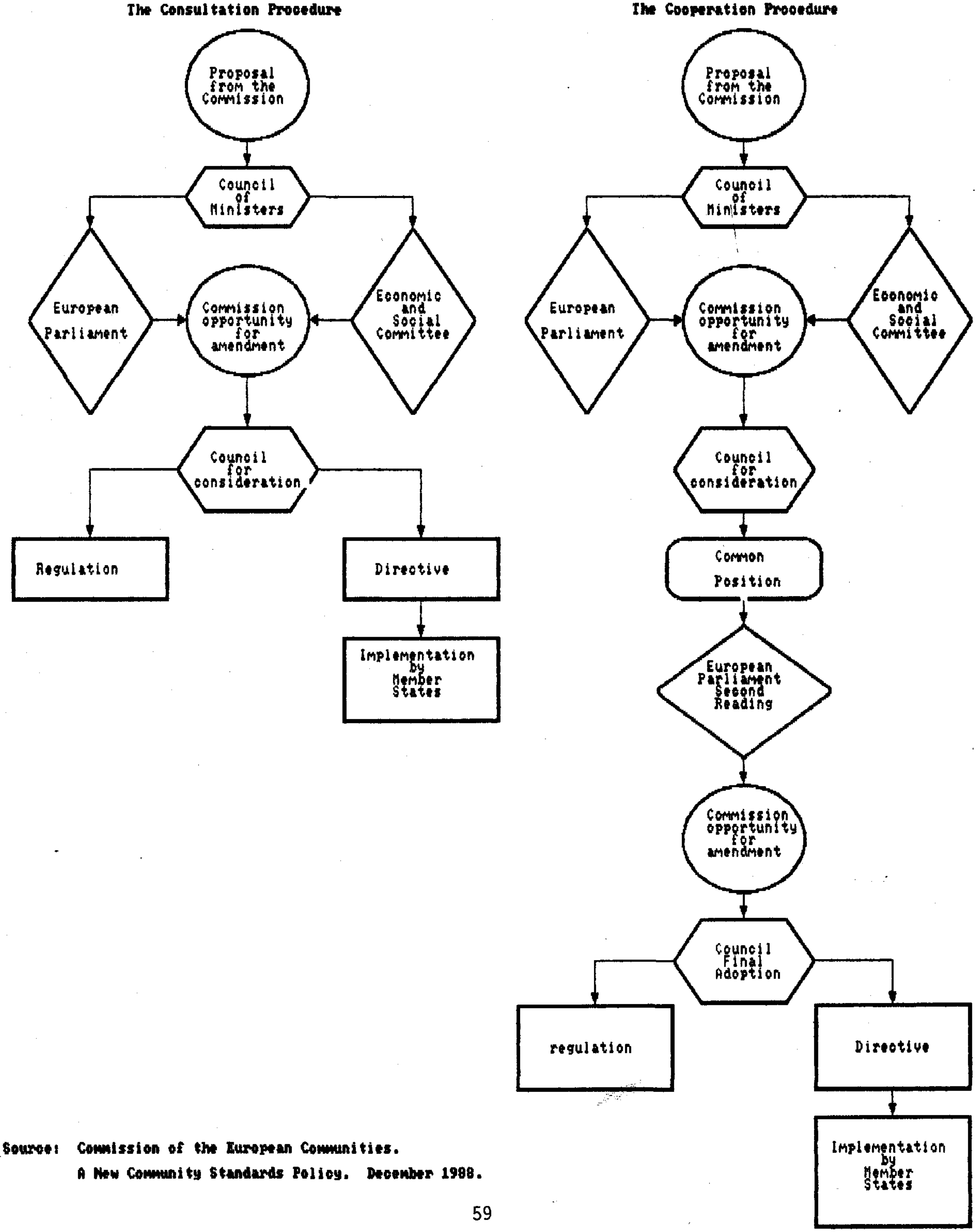
2. To adopt amendments proposed by the Parliament but not taken up by the commission.

3. To adopt a measure when the Parliament has rejected the council's common position under the cooperation procedure (see Figure 1).

The question of whether a directive or a regulation is subject to the cooperation procedure, the consultation procedure or neither of these depends on its legal basis, which may provide controversial discussions on the implementation phrase. For example, measures relating to the approximation of law concerning agricultural products should be based on Article 100 of the EEC treaty (unanimous decision by the council) or an Article 43 (majority decision).50/ Solution would be met by compromise between the Parliament and the Commission. The second aspect proposed for by the 1986 Single European Act is the new cooperation among state members in the sphere of foreign policy. Before the act enters into force, the EC external relation competence is only limited on economic areas.51/ Neither provision nor coordination machinery of foreign policy are foreseen within the

Figure 1

EEC Legislation from Start to Finish
(Directives and Regulations)



Source: Commission of the European Communities. A New Community Standards Policy. December 1988.

ambition of the community treaty. Since the act has been set up, the cooperation procedure is proposed for member states to "endeavor jointly in formulation and implementation of a European foreign policy".52/ Parties agree to inform and consult, and to take account of each other's positions, as well as to ensure that "common principles and objectives are gradually developed and defined.53/ Such cooperation should be done under the European Political Cooperation or the Community Council.54/ The effort to channel policies of all EC members along the same direction will enhance bargaining power to EC with the outside world.

Effects and Repercussions On Thailand From the Formation of the 1992 Single Market.

Regarding the economic relations between Thailand and the European Community, it is clear that Thai exports depend heavily on the community market but not *vice versa*. Hence, Thailand is often placed in a disadvantaged position in bilateral negotiations with the community and often finds herself in need of support from other groups such as ASEAN or even GATT to add weight to her negotiating stance.

While Thai exports to the European Community cover tapioca pellets, electrical circuits, canned food, textiles, sport shoes, rubber sheets, toys and frozen squid, the item expected to be most affected by the Single Market is canned food. The European Community has already issued standards concerning health and safety with regard to imported canned food.55/ Each member of the European Community already has its own different regulations on consumer protection, safety and health. These regulations shall be considered a form of NTBs when the Single Market is established. The Single Market would require the removal of all technical barriers in each member country and replace them with a unified set of regulations. Measures other than those concerning consumer protection, safety and health could be retained by member countries without discrimination in their implementation.56/

Despite the provision in the Treaty of Rome that requires free movement of foods, in practice, member countries have been preventing imports that contravene their standard regulations. In Cassis de Dijan 1989, the Court of the European Community ruled that the Treaty of Rome prohibited member countries from setting up domestic measures that could obstruct imports from other member countries.57/ However, the decision did not include domestic measures concerning the protection of public health and consumer protection. This type of measure is of imperative nature and outside the scope of the Treaty of Rome. The European Community, therefore, has issued directives to set up a common position on consumer-protection and standardization of foods broadly in the following areas:58/ (1) additives (2) contact materials (3) labeling (4) food for particular nutritional uses (5) official inspection of foodstuffs, (6) compulsory nutrition labeling (7) irradiation of foodstuffs.

Therefore, to avoid difficulties, all exported canned foods destined for the European Community must satisfy all the European Community's requirements. There shall no longer be a situation where canned foods of different standards could be selected for export to different members of the community. For example, in a case where France and Italy banned Thai canned foods that contained Ethylene Diamino Tetra-Acetic (EDTA), those foods could be redirected to other European Community members. Now, the European Community will have a standard committee to inspect imported food. The inspection would cover the use of raw materials, semi-finished products, finished products, standard of hygiene, maintenance of the machinery, etc.59/ Furthermore, the committee is empowered to have random sampling and analysis of food where necessary.60/

It is noted that these community regulations were drafted with a minimalist approach and without touching upon details such as compositional rules or recipe standards.61/ Such details have been left to the principle of mutual recognition between member countries in order to reduce import barriers. For example, under the Italian Law, vinegar is a product of the acetic fermentation of wine; other substances that are not a product of wine cannot be called vinegar. Under Dutch Law, gin is an alcoholic substance of light yellow color, containing a minimum alcohol content of 35 percent. Any substance that does not fit into this description could not be described as gin.62/

After the establishment of the Single Market, any Thai exports that do not contravene the European Community's rules on consumers' protection, health and safety shall be imported to the community, but subject only to standards of foods imposed by different member countries. However, problems could arise in the determination of consumer protection, health and safety measures, and the relationship between those measures that belong to the European Community and those imposed by individual member countries. As it is, there already exist several cases of interpretation problems regarding the borderline between domestic law and the European Community law. While the European Community rules are broad, it could decide to revise its rules and regulations on standardization of foods or to add further restrictions that could affect Thai exports. Thai exporters should closely monitor the European Community's moves in this connection.

It should also be noted that the Inspection Committee has a wide range of power that includes even the standards of cleaning and maintenance of products and machinery used in the production of foodstuffs. The criteria to be used for these purposes and the interpretation of the committee's power may create some problems. As for Thai exporters, problems could be avoided by studying and understanding the process with the assistance of European expertise. This question of goods standardization could, indeed, become an interesting new barrier in 1992. The law that is set up too broadly often leaves room for amendment and is often unclear.

In the case of toys, laws and regulations in member countries have now been harmonized. The European Community has now defined toys63/ to include only those items aimed for children at the ages of 14 and below and will not include Christmas decorations, fireworks, playground equipment and sports equipment. But if a member country feels that a toy is incorrectly bearing the EC mark, action shall be taken to withdraw it from the market. It must be noted that the law employs the word "feel" which denotes a very broad and subjective sense and lacks definite criteria. The interpretation will therefore heavily rest with the European Community.

In the case of services such as insurance and banking, the community's policy is based on nondiscrimination and reciprocity. Banks or other institutions that are already operative in any member state can continue their operation. But the EC shall insist that the EC banks in other countries must receive reciprocal treatment. If a Thai bank is allowed to operate mortgages in an EC country, an EC bank shall be expected to do so in Thailand as well. The question of services bears significant implications. So far, the Uruguay Round has hardly made any progress. Trade in services should not depend on reciprocity principles due to the differing degrees of economic development of the states concerned. Thailand should closely watch the development of this issue in the GATT in relation to such a development in the EC as well.

Other Existing Trade Barriers to Thailand Not Directly Affected by the Creation of the Single Market.

The Community has imposed two categories of trade barriers: tariff barriers and non-tariff barriers. Thailand is currently affected by the former, whereby high levies have been imposed over imported products such as sugar, rice and canned seafood. This is one of the measures to allow the operation of the Common Agricultural Policy to ensure that imported agricultural products are priced on the same level as Community products. Imports are subject to the Community's "variable import levy", which is the difference between the "threshold price" and the "target price" of the products involved in order to push up the price for imports to the desirable target price level,64/ i.e. the price of the same goods produced in the Community. These measures could be considered a form of subsidy.

Being subject to high levies, Thailand's exported canned seafood is of great disadvantage in the Community's market, especially when compared with similar items imported from the APC countries, which are exempted from such import levies. The solution for Thailand may lie within GATTs negotiation framework in order that tariff concession on those goods could be achieved. In the present Uruguay Round, barriers on agricultural products may be reduced. But while the Community's Common Agriculture Policy is still in operation, it will be impossible for the Community to lift such import levies altogether.

The change from the CCCN (Customs Co-operation Council Nomenclature) into the HS (Harmonized System) of the Community will certainly affect Thailand's export of tapioca. The change of the CCCN 0706 and CCCN 1104 tariff codes for tapioca flour into a single tariff rate in the harmonized system under code HS 0714 means that tapioca pellets would probably be subject to a 28 percent tariff under HS 0714 1010 while other tapioca products would be subject to only a 6 percent tariff under HS 0714 1090. When the VERA expires in 1990, Thai tapioca pellets would then be subject to a 28 percent and not a 6 percent tariff, as the European Community has ruled that they are made of tapioca flour.

Despite Thailand's protest that her tapioca pellets are made of tapioca and not its flour, the European Community has insisted that its ruling is correct. In any dispute such as this, Thailand, in needing to rely heavily on the Community's market, shall possess much less bargaining power. Even if Article 10 of the International Convention on Harmonized Commodity provides for settlement of disputes,65/ Thailand is not in favor of resorting to third party settlement of disputes but prefer negotiations without legal obligation. Therefore, in this case, the Netherlands Government ought to be lobbied, since the Netherlands is Thailand's major market. Economic implications from the classification that Thai tapioca pellets are made of flour meal and are thereby subject to a 28 percent duty ought to be spelled out. At least, the Dutch Government's representative in the Community Council should leave some considerable influence on the Council's decision. If negotiations eventually fail, the matter may be raised with the Harmonized System Committee to rule whether the classification and the interpretation are appropriate.

In addition, Thailand has had an export quantity protection agreement with the Community on tapioca, which expires in 1990. The agreement provides that it can be denounced by either party at least one year before the expiration date of the agreement66/. The question for Thailand is whether this agreement should be renewed or denounced. The issue has been extensively discussed. There are reasons both in favor and against the denunciation of the agreement. Those who are in favor of the agreement itself argued that the denunciation would create uncertainty. The European market for Thai tapioca could not be larger than the quota provided in the agreement, without which the market could be even more limited. Thailand will not use GATT as a negotiating forum in this respect. The dispute settlement process of GATT is also difficult to apply effectively, as it is based on the retaliation principle. The strength of the Thai economy does not allow itself to improve effective retaliatory measures against the European Community as the most powerful economic bloc.

Those who believe in the benefit of the denunciation argued that GATT provided an effective forum for negotiation. They referred to some legal obligations binding upon the Community, which are beneficial to Thailand. The Community is bound to grant tariff concession by imposing the 6 percent import duty without restricting the quantity of the tapioca to be imported, in accordance with what was agreed in the Kennedy Round and which could be changed only under the provision of Article 28 of GATT. Under this Article, the European Community would need to negotiate to reach an agreement with principal suppliers for change in tariff concessions. Furthermore, by implication, as a principal supplier under this Article, Thailand could be entitled to compensatory adjustment to any damage or losses arisen from the EC request to negotiate with it to alter the tariff concession that has been binding upon the community.

As the agreement expires in 1990, denunciation has to be made this year. Certainly, this depends on government policy. Nevertheless, it should be observed that if the agreement is denounced, a dispute with the European Community may have to be dealt with through the GATT process. Even if the outcome is in favor of Thailand, in this circumstance, how far can it be enforced?

Apart from subsidizing its agricultural product by imposing import barriers, the European Community also subsidizes its agricultural exports by making compensation, equivalent to the difference between the world market price and the Community price of such products, available to exporters. Thai goods affected by the Community's subsidizing measure are rice, eggs and sugar. As for the solution, Thailand alone is unable to put sufficient pressure on the EC. It needs a multilateral forum such as GATT to negotiate a reduction or abolition of subsidies.

It also needs support from other major economic powers whose economic strength could match that of the ECs. In the case of rice, for example, the United States has notified the surveillance body of GATT standstill and rollback to look into the EC rice subsidies. AT the same time, the GATT deliberation has been ambiguous in some cases. In the case of sugar, Australia argued that the Community subsidized its sugar. But GATT experts ruled that it could not be specified that the EC action had resulted in an increase in market share for the Community that was more than what is appropriately permitted under GATT rules. Therefore, it appears that pressures from other economic powers will be more effective than relying solely on the GATT mechanism.

As for ball bearings and monosodium glutamate from Thailand, the FEBMA and the CEPIC had made complaints to the Community that the European manufactures of both products had been affected by the Thai imports, as they are cheaper, and that the case should be regarded as a dumping of Thai goods. The European Commission announced the investigation of the matter in the official Journal of the European Community, 4 June 1988.

In practice, when the European Commission decides to open a case, an official team will be appointed to carry out the dumping investigation. The proceedings begin by having questionnaires forwarded to all exporters and importers that are known to be involved.67/ Once the questionnaires have been answered, the commission will review them and can request further information, if needed. The finding should be furnished within about six to eight months after the commencement of the proceedings. After the verification has been completed, the commission shall prepare it initial calculation and make its preliminary determination on dumping and injury. It may disclose its findings to the exporters, or it may impose provisional duty first which shall be published in the official Journal. This would normally be done about eight months after the proceeding had commenced. The final step in the proceedings is for it to be terminated, either by the composition of a duty, or by the acceptance of undertakings, or by no remedy being applied.68/

In certain circumstances, appeals could be made to the Court of Justice against a council regulation imposing an anti-dumping duty or terminating the proceeding. It is clear that complainants and exporters and producers who have taken part in the investigation and/or are named in any regulation can bring proceedings. As a general rule, importers and individual members of the Community industry who are not complainants cannot satisfy the legal requirement of direct and individual concern and thus cannot bring proceedings. As for Thai exporters who are affected by the CVD under the Anti-Dumping Regulation, they may need a careful study of the Community process of imposing such duties. The Thai Government should also provide preliminary information and recommend solutions to these exporters. The case of anti-dumping CVD is the question of having to comply with the Community process, not a question of negotiation for tariff exemptions as in GATT. In sum, these EC protectionist measures would continue, nevertheless, whether or not there is the Single Market in 1992.

Without doubt, the 1992 Single Market will have considerable effect on international economic relations, particularly on the ECs trade partners, including Thailand. A great volume of Thai exports is destined for EC countries, and the impact of the Single Market on these exports is inevitable, especially in relation to goods standards, health, safety and consumer protection. The laws of the community are basically the decisions of the Council of Ministers, with the European Parliament having some degree of contribution. These laws are often loosely set up and their interpretation, if need be, could be detrimental to such exporting countries as Thailand. At this stage, the production process of our canned and frozen foods should be adjusted to comply with EC regulations. In the future, if the EC decides to accelerate its application on the goods standard control, Thailand has to resort to multilateral negotiations in GATT or to form a common position among interested parties to put pressure on the European Community. It must be kept in mind that the European Parliament, unlike national legislative branches such as the United States Congress, is not a lawmaking body, and so there is no possibility of employing lobbyists. In addition, so far the ASEAN-EC dialogue has produced only small pressure on the European Community.

The unification of the European Community in 1992 is a move towards the objective set by the Treaty of Rome. But it will certainly not travel along a smooth and untroubled path. There are now twelve member states of the community, with Greece, Portugal and Spain the new members. The diversity of their level of economic development is all but most obvious. This factor could deter the effectiveness of the unification. Furthermore, state sovereignty will inevitably have to be affected. If all the advantages and benefits of the Single Market do not outweigh some negative impacts and if the Single Market does not achieve what its set out to accomplish the future of the Community will run into many difficulties. However, the Single European Act has allowed for a safeguard clause concerning the harmonization measure (Article 100A (41)) with reference to article 36 of the treaty of Rome. This clause provides that the application of the Community measures could b exempted under circumstances as indicated in Article 36--namely, those concerning public order or public morality, protection of public health, protection of animals and plants, and protection of industrial and trade property.

All these exception and flexibilities are necessary for the European Community, but such laws and regulations are not sufficiently clear and are subject to frequent changes for other countries. This means that these trading partners must have these laws and regulations closely monitored.

The Single Market will provide the Community with even greater bargaining power with the outside world. The EC effort to channel the policies of all member states along the same direction will additionally enhance such power.

In the area of trade in services, the community has adhered to the principle of reciprocity. For this reason, Thailand must take special care in cross border sector negotiation with the European Community and other industrialized countries that try to open up service markets in developing countries. They also have trade in services included as one of the fifteen items for negotiation in the Uruguay Round. At present, Thailand will benefit very little from the opening up of more service market to foreign countries while her domestic law provides protection against foreign undertakings in same area of trade in services such as banking and insurance

In the area of frozen and canned foods, study should be carried out with regard to the production process, standards of foods and EC laws and regulations, with close cooperation between the governmental and private sectors. Any amendments or movements in the Community's rules and regulations must be closely monitored.

2.3 Sub-Regional System of Management: An ASEAN Illustration

ASEAN has now stepped into its third decade of existence. In overall terms, the association has gained a better and clearer image in different international arenas. ASEAN is well along in the process of changing the connotations of not only maintaining peace and security in Southeast Asia, but of also focusing on strong economic growth based on its abundant resources. A new image of ASEAN countries has emerged from this success which makes outsiders more interested in the region. Thailand as a member of ASEAN, has served the organization well in fostering economic links between the ASEAN system of management and dealings with its major trading partners. Such mechanisms have helped ASEAN show unity and consensus in numerous multilateral trade negotiation issues in negotiating with different countries and organizations.

2.3.1 Continuing Efforts on the Post-Manila Summit Intra-ASEAN Economic Cooperation Process

The Manila Summit of 1987, the third of its kind to bring heads of Government together was different from the previous Summits held in 1976 and in 1977. At the Manila Summit, ASEAN continued to thrust forward--a necessary movement if ASEAN is to enjoy future opportunities. The greatest achievement of ASEAN, from now until the year 2000, when ASEAN will enter its fourth decade as an organization, must be enriched by bringing economic cooperation to the very core of the ASEAN process. This is why most economic issues were brought to the very heart at the Manila Summit--not to diminish in any way the political and security focus of ASEAN countries, especially vis-a-vis the Indochinese countries. Most of the pre-summit preparatory work had was achieved with great public-and private-sector cooperation and coordination at all levels, and this encouraged the strengthening of the ASEAN spirit and solidarity. Beyond issues dealing with political cooperation, the Manila Declaration of 1987 included new initiatives in the areas of economic cooperation and improving of the effectiveness of the machinery of ASEAN cooperation.

Although most new initiatives are in new form, the substance of these initiatives had already started and changed at the slow pace of serious decision making. Indeed, efforts to promote intra-ASEAN economic cooperation, from the time of the Bali summit to date, have not produced the spectacular results that many had expected in the five main areas of ASEAN economic cooperation: trade, industry, agriculture, banking, and transport.69/ Although an ASEAN Secretariat was set up to coordinate all levels of regional activities, the two programs established for ASEAN economic cooperation, trade and industrial cooperation, were put into effect in a weak manner.

In the area of trade cooperation, a large number of preferences were exchanges under the Preferential Trading Arrangements (PTA); however, in fact, most of the items had little relevance to intra-ASEAN trade. The preference margins were set too low to be effective and they did not include the exclusion lists for items introduced by each member state. An estimated five percent of total ASEAN trade was covered under the PTA before the Summit.70/ In the area of industrial cooperation, each ASEAN member had to come so far from the beginning of the ASEAN Industrial Projects (AIP) and the ASEAN Industrial Complementation (AIC) to opt for a more viable and practical form of industrial development, namely, the ASEAN Industrial Joint Ventures (AIJV).

The advent of the Manila Summit was an important occasion for ASEAN to look back on what had and had not been achieved, and on what needed to be done.71/ Nevertheless, one area which did seem to draw consensus was some form of future intra-ASEAN economic cooperation.

From the beginning to the present time, ASEAN countries have learned a great deal from their experience with these two very different forms of economic cooperation--trade and industrial cooperation. They learned that economic cooperation needed to be promoted and strengthened for the well-being of the organization. One conclusion of this summit was that the form of the expansion of intra-ASEAN trade by means of ASEAN PTA must continue to be encouraged by deepening the MOP tariffs cut off by existing PTA items and by reducing the number of items on the exclusion lists.72/ Thus reduced, by the end of a 5-year period, they will not amount to more than 10 percent of the number of items traded by them and would include at least 50 percent of intra-ASEAN trade value. Also, the ASEAN content requirement in the rules of origin has been reduced from 50 percent to 35 percent on a case-by-case basis for a period of 5 years.73/ These renewed initatives aim to encourage a greater degree of intra-ASEAN trade. Also an immediate standstill of non-tariff barriers (NTBs) is to be accompanied by negotiations for rollbacks of such NTBs.74/ Industrial cooperation is another form of economic cooperation which needs reshaping. The summit endorsed ASEAN's commitment to raise intra-ASEAN investment to at least 10 percent of total foreign investment by the end of the century, with manufacturing value added growing at a rate of 8 percent a year. The AIJV scheme has been singled out as the most suitable way to fulfill these objectives, with important changes being introduced to render the scheme more flexible, more attractive, and more effective.75/

Past experience has taught ASEAN different ways to look toward the future of its organization. Economic cooperation cannot be successful without active participation from the private sector. The Manila Summit clearly recognized this point as it already been made by the ineffective implementation of big ASEAN industrial projects and the slow pace of intra-ASEAN trade liberalization. There is no doubt that the private sector will play the key role in implementing future ASEAN economic programs. ASEAN governments will continue to play an important part in guiding policy and in creating a conducive environment for the private sector. The coming decade of the 1990s till the year 2000 will witness whether or not the economic dimension of ASEAN, taken as the central part from the Summit, will be put into effect, especially in the areas of industrial and investment cooperation and trade liberalization programs.76/

One may ask whether the new trade liberalization program will be effective in promoting future intra-ASEAN trade. As noted earlier, the PTA has been given a wider coverage with a deeper MOP. The timetable to implement the new ASEAN PTA will be revised after the 5-year implementation progress is seen. However, it can be predicted that the new ASEAN PTA will not advance much to promote intra-ASEAN trade flow if the NTBs between member countries do not follow the same direction. A standstill on NTBs only is not a sufficient enough mechanism to alleviate the existing barriers unless each member country initiates the rollbacks on NTBs;77/ if this is carried out correctly, it will surely be another reliable instrument to encourage Intra-ASEAN trade. But, in overall terms, ASEAN often seems to be preoccupied with other concerns--such as trade with the major trading partners which represent the real sources of their exports--rather than making sacrifices to achieve intra-ASEAN trade, which still constitutes a minor part of their overall trade program.

The tone of those involved seems to rely more on the presence of the AIJV scheme for the future of industrial cooperation.78/ The new proposal takes the realistic side of implementation into consideration. From now on, the AIJV project requires only a minimum of two participating countries; it allows up to 20 percent for non-ASEAN equity; and it is also subject to a minimum of 5 percent equity from each participating ASEAN country. Each ASEAN member country is required to sum up an exhaustive list of AIJV products which it shall support and approve in principle for AIJV status. This preliminary list comprises products with an import value of US$ 5 million in 1985-86 which are not produced locally and which have export potential. It is clear that any AIJV nomination for any product in the consolidated list will be automatically confirmed as an approved AIJV product. There are other aspects of AIJV details which have been improved to represent very practical mechanisms to encourage mutual, cross-country investment in ASEAN. On such a basis, it is believed that the AIJV scheme will remain the main locomotive for industrial cooperation in the ASEAN region.79/ One criticism of the AIJV scheme is that it has reduced industrial cooperation to simple bilateral cooperation, as it takes just two countries to start a project, although others may join later.

2.3.2 The Greater Emphasis of Changing World Economic Conditions on Extra-ASEAN Economic Relations

One can not forget that recent ASEAN economic growth has relied very much in its relations with major industrialized nations. These countries possess enormous market potential for export products from the region. In fact, most of the trade flow of the ASEAN economics is concentrated in the developed countries, namely, the United States, Japan, the European Community, Canada, Australia, and New Zealand. At the same time that ASEAN countries export more manufactured products to these countries, ASEAN still needs technology transfer, capital investment, and necessary machinery from those developed countries. The two-way trade flow between ASEAN countries and the developed world still dominate and occupy most overall ASEAN economic cooperation. Such a trend ASEAN external economic relations is so strong that this sometimes shadows the constructive efforts of intra-ASEAN economic cooperation. Some even maintain strongly that anything ASEAN would like to build upon concerning intra-ASEAN objectives must be looked at closely and not be linked with the external aspects of ASEAN economic relations. Another difficulty is that the structural relationships of each single member makes it impossible to change relationships overnight, because such relationships involve long processes which have been created over the years and reflect the country's foreign economic policy at the national or regional levels.

The changing external conditions which have prevailed since the beginning of the 1980s have affected the basis of ASEAN economic cooperation in many ways. The increasing protectionism and trends toward bilateralism and regionalism in world trade warrant closer cooperation. In the mid-1980s, ASEAN was motivated by the changing external environment, to push ahead with cooperative efforts. The mounting protectionist measures and the overall uncertainty of world-trade conditions (such as the proliferation of non-tariff measures, voluntary export restraints, quotas, etc). threatens to restrict the flow of ASEAN products in the world. As a result, ASEAN reacted differently from the traditional, the way it had over the years in dialogues with trading partners. To be dealt with effectively, these new ASEAN reactions--in response to such practices as forming trade blocs of bilateralism and regionalism--need new approaches a new scope. In general, ASEAN have more actively participates in various international fora. And it is expected that ASEAN will play a more active international role in the coming decades. Because the global environment will be dominated by a new set of bilateral and regional economic agreements--contrary or not to the spirit of GATT principles--and ASEAN cannot ignore this reality.

<u>ASEAN-GATT</u>.

It is certain that as long as the multilateral trading system stays open, all of the ASEAN countries will be able to enjoy the benefits. Previous GATT multilateral negotiation rounds have been successful at significantly reducing tariff levels in developed countries. ASEAN economic growth has gained its strength due very much to an open world trading environment. The current Uruguay MTN round comes amidst the increasing number of NTBs in developed countries which ASEAN is facing with difficulty. This is why the cooperation among ASEAN with other countries in the new GATT Round may result in substantial benefits on numerous issues.

Agriculture is one area in which ASEAN has been particularly affected by the domestic agricultural protection and export subsidization of major industrialized countries. The participation of ASEAN in the Cairns Group since the beginning of this MTN Round seems to give more attention to those developed countries which are major agricultural subsidy violators and practitioners. Although the GATT Mid-term review was disrupted in Montreal in December 1988 by this particular issue. It was recommended to be discussed again in Geneva in April 1989. Even though ASEAN might not expect a major outcome on negotiations of this issue, ASEAN still wishes to see measures applied to ensure the standstill and rollbacks or, if possible, a clear phase-out subsidy program which would show the willingness of developed countries (especially the United States, the European Community and Japan) to correct the situation and, in the long run, bring about trade liberalization.

There are other old issues such as subsidies and countervailing measures, safeguards, nontariff measures, disputes settlement, the functioning of the GATT system, special and differential treatment, all of which ASEAN is dealing with in the Uruguay Round. New issues like trade in services, trade-related intellectual property rights (TRIPs), trade-related investment measures (TRIMs), and tropical products are equally important for ASEAN focus. It is certain that because of the wide range and the complexity of all the issues discussed during this round (which has been set to end in 1991) ASEAN may well be in an easy position to lose the correct direction and turn ASEAN away from the major interests & opportunities that they should exercise. For example, trade in services and TRIPs have already been used as a bargaining chip by certain developed countries, while the Uruguay Round discussion is continuing to pressure and to limit the imports of goods to their own markets. This will make the issue more complex for each ASEAN member country and will surely complicate the difficulties each single country faces. There may will be areas in which a common ASEAN position cannot be reached. And in the case where a common position might be achieved, ASEAN has to work harder to make those concerns heard and accepted, if possible. The scope, objectives and ways of cooperation will be important policy options for ASEAN when dealing with non-ASEAN countries to find a common interest on particular issues detrimental to ASEAN countries. ASEAN has proved its efforts in the formation of the Cairns Group--an example of coalition beyond regional cooperation. But, ASEAN still has not equally pursued unity in other important areas, such as trade in services, TRIPs, TRIMs or in Further exploring the GATT mechanism in dispute settlement; functioning of the GATT; or the use of Article XVIII b, c, in dealing with the balance of payment difficulties.

It is certain that the scope of multilateralism will continue to be the centerpiece for international negotiations. Thailand as other ASEAN countries should not leave without a better understanding of the codes of conduct in these matters. On the contrary, by knowing how to exercise their rights in the GATT system, Thailand, as well as other ASEAN countries, will be able to increase their competence and ability to closely follow the development of these issues and to react promptly and righteously to these issues. At the twenty-second ASEAN ministerial meeting in Brunei on July 3 and 4, 1989, ASEAN ministers were mindful that much hard bargaining still lay ahead. Thus, there was a perceived need to maintain ASEAN unity and common purpose in the coming years. All these processes must be taken fully into consideration--along with the implications of these issues--so that they can positively affect ASEAN's economic growth and development.

ASEAN and the Formation of Trading Blocs.

Another important subject lately is related to the slow progress in reducing internal difficulties and increasing economic strength in developed countries. Many of them have become hesitant to fully apply the principles laid down by the GATT system. Even though the Uruguay Round of GATT negotiations is still going on, these nations are looking for alternative solutions. One possible solution suggested as an alternative is to move toward the bilateral and regional trading blocs. In fact, the issue has become more sensitive in the second half of the 1980s. One now can really witness the emergence of different kinds of trading blocs in different continents. There is even strong speculation that the world trading environment might be divided, with the emphasis on geographical aspects, or into three major trading blocs--Europe, the Americas and Asia.80/

With this formation of trading blocs, one may ask whether these arrangements will be in accordance with the multilateral system. Economists warn that bilateral agreements could carve up the world into rival trading blocs, destroying the current multilateral agreements under the GATT's umbrella. It is especially true that although the principle of creating custom unions or free-trade areas might well follow the GATT principle specified in Article XXIV. Such a formation should not lead to trading blocs disturbing or disregarding those goods imported from outside the areas. In the case where this formation is considered for the longrun, the basic logic will dictate the importance given to specific trade blocs as opposed to areas outside of these blocs; this could bring about a rise of protective barriers on both sides. Different issues related to this subject have to be taken into serious consideration by those countries located outside those arrangements.

In the case of the European Community, the construction of Europe 1992 has been widely viewed as a major threat, if not a fear, in the world trade environment. Although EC officials have worked hard to prove themselves through a continuing worldwide campaign of their program, people located outside the region are still wary of this regional economic integration. The planned expansion of EC 1992 is designed to provide more benefits to member countries, with very little mentioned of other outside countries. Those directives laid down in the 1985 White Paper; the application of the Single European Act in 1986; and the recent approval of the European Economic and Monetary Union program confirm that trade and investment will probably be even more concentrated in the future. For the moment, ASEAN has little to do to such a formation. Only ASEAN officials and their representatives in Europe have begun to analyze the possible impact upon different areas to their respective countries, necessitating them to establish possible guidelines in advance. This would be a meaningful way to provide information to the private sector and enough opportunity to prepare for the new realities of economic life in Europe. Looking ahead toward the future, it is certain that ASEAN officials will require a lot of discussion. ASEAN should not wait to act until all of the program is finalized because EC 1992 is already happening now.

Fear of Europeanism after 1992 has caused others to increasingly arrange bilateral and regional trading arrangements. By the beginning of 1990s, one must assume that the world trading environment will be dominated by bilateral and regional preoccupation. The United States is also pursuing bilateral trading agreements and developing a trading bloc of its own. It has concluded the US-Israel Free Trade Area, the US-Canada Free Trade Area, the Caribbean Basin Initiative and the US-Mexico Framework Agreement. In the case of the United States, it is also interesting that the issues addressed in these agreements go beyond those normally laid down in free trade area arrangements in Article XXIV of the GATT. Those issues are banking, construction and intellectual property rights, which are considered to be significant in these arrangements.81/ ASEAN, meanwhile, has expected to deal with these issues, as in the case of the ASEAN-US initiative. This is a forum in which ASEAN expects to be able to direct the United States toward discussing various related issues between them, apart from their bilateral relationships. Each ASEAN country gives serious consideration to its views and positions in dealing with the United States.

The Asia-Pacific Region cannot be resistant or indifferent to economic alliances on other continents. This is why the perspectives for creating an Asia-Pacific Region are being renewed. As the formation of a Pacific Community appears to be more feasible, world attention is being focused on it.82/ The countries included in the Pacific Region are quite different in nature, but If all Western and Eastern Pacific countries are included, the community will be incredibly vast--covering a large part of the world. Apart from Japan, Asian NIEs, ASEAN, and other countries that might be included in this community are the United States, Canada, Mexico, Australia, New Zealand, China, and some Central and South American countries. The question of how many countries would be involved in such a formation still needs to be answered. The next question to be addressed is how and in what ways would the alliance benefit from participation by these numerous countries. The final question concerns the areas in which these countries might have new forms of cooperation.

Apart from the large number of countries involved, there is the problem of dealing with differing philosophies and view points in creating a common, acceptable background of cooperation before discussing the framework of such cooperation. The small or developing countries have a pattern of waiting to see what solution the developed countries adopt. It should be kept in mind that the Asia-Pacific Community will be an instrument for counteracting arrangements outside the region, or it could be used as a bargaining tool in bilateral or regional negotiations, with emphasis on a multilateral system.

ASEAN cannot avoid involvement in such an alliance. Member countries are expressing differing view points. Some member countries are still skeptical of the idea of participation in this regional grouping. ASEAN's reluctance is largely due to a concern that a regional grouping will dwarf ASEAN's influence in dealing with other countries.83/ ASEAN should not act openly as a prime mover in implementing the organization. However, all proposed members need to clarify the issues before the establishment of this organization as it could affect ASEAN's relationships with certain foreign countries. For example, some countries have protested the inclusion of China. The formation of this organization will probably take some time, and the issues discussed will be initiated by developed countries such as the United States, Japan, and Australia. Australia is eager to have the framework for such a regional body developed and to allow other countries to participate in the forum.

There was also the issue of the conference of Asia-Pacific Cooperation (APC) convened by Australia. It might be in direct competition with the Pacific Economic Cooperation Conference (PECC) meeting, which represents an informal commission in the region. It is very possible that this APC may prove ineffective, as many countries in the region are still preoccupied by the threat of protectionism developing elsewhere. Countries outside the region, such as the European Community, would like to participate in such a meeting, but some countries in the region, such as Australia, have openly criticized such a move. They contend that the plan to form a regional organization should be undertaken only by the countries inside that particular region. It now appears that any conflict outside the region could become a political matter, causing divergent opinions that could impede progress in developing the formation of this organization. ASEAN would like to include the APC issue in the dialogue with its trading partners. In this way, there would be a bilateral exchange of views between ASEAN and the future APC relating to issues that could foster ASEAN negotiations. This is in contrast to ASEAN acting as a group participate in the regional body without being able to discuss the issues pertinent to the ASEAN region.

ASEAN Cooperation With Dialogue Partners.

ASEAN has used the dialogue forum with developed countries before, and it proved to be useful for all ASEAN countries. A number of issues were discussed and implemented in different ways. ASEAN recognizes that its unity has given it the strength that individual countries acting alone on these issues did not have. Countries outside the region could become an important part of ASEAN's external economic relations. Continuing a dialogue with its partners will enable ASEAN to determine common denominators on certain issues. The complexity of today's economic issues requires mutual consultation. ASEAN has succeeded in building a useful forum with dialogue partners. ASEAN can also give each member country direct communication with those countries situated outside the region.84/

ASEAN's economic relationship with Japan appears to have grown stronger because of the Pacific Era anticipated in the twenty-first century. Japan has long been one of ASEAN's largest trading partners, while ASEAN is Japan's third largest trading partner, after the United States and the European Community.85/ ASEAN is aware of

Japan's increasing influence in the region. The strong yen resulting from the 1985 Plaza Agreement has accelerated the process of industrial relocation to ASEAN countries. There has been a tremendous impact on the ASEAN region, as Asian NIEs followed the Japanese action. The nearly double digit economic growth in ASEAN has been possible due to recent massive inflows from Japan. ASEAN countries are also assisting in Japan's technology transfer and skills management, to be combined with ASEAN's abundant resources. Thus, any structural changes taking place in Japan and Asian NIEs will be conveyed directly through their economic interdependence with ASEAN.

ASEAN considers freer access to the Japanese market an important issue that must continue to be addressed in its dialogue with Japan. In fact, the ASEAN economy has become more export-oriented. ASEAN is already facing protectionism that causes difficulties for a number of export products. This is the reason why ASEAN has looked to the Japanese market. Japan has already produced a huge trade surplus, while it also possesses an enormous capital in need of being recycled. The recent Japanese turn toward the importance of leisure activities should be profitable for ASEAN goods. If Japanese consumers continue to look for more products from outside Japan, ASEAN will be able to help fill this part of the market. Presently, ASEAN believes that Japan has not done enough to dismantle its trade barriers. This is why ASEAN has initiated a request that Japan make greater efforts to arrange for "buy-backs" of Japanese manufactures in ASEAN. Additionally, Japan should simplify its import procedures, which are complicated and frustrate ASEAN exporters.

Regarding financial assistance in the region, Japan is ready to replace the United States as the official development assistance (ODA) donor in the Asia-Pacific Region. The principle of the system of Japanese ODAs is to combine private and public sector monies in support of private sector activities. This is in contrast with the American system, which basically relies on grants and has now reduced its aids for the middle-income countries of Asia, including ASEAN.86/ The two-billion-dollar ASEAN-Japan Development Fund (AJDF) is the part of this program that provides ASEAN investors with low interest rates. The fund allocation has now been carried out, at the national level of each ASEAN country including Thailand, mainly by the EXIM Bank and OECF. Part of this fund will be used through the Japan ASEAN Investment Corporation (JAIC), which will promote joint-venture investments, particularly in small regional projects. While ASEAN countries have benefited from low interest rates in yen loans, they have suffered at the same time from the yen's appreciation.87/ This impact is being felt in many ASEAN countries (including Thailand) that have obtained considerable yen loans from Japan.88/ The safeguard plan has been drawn up to cushion the impact of yen appreciation, as in the case of refinancing and rescheduling yen loans.

It is certain that Japan's financial presence in ASEAN and Thailand will be viewed as an important issue in ASEAN's dialogue with Japan. Funds flowing from Japan to ASEAN have always been viewed as direct investment, but they recently have extended to the ASEAN capital markets. Japan's strong interest in the securities markets in the ASEAN region is an obvious indication that Japan has plans about the direction of its neighbors' economics.89/

The bilateral trade imbalance between US-Japan and US-Asian NIEs are of major concern in the US congress.90/ Up to now, the United States appears to be unsuccessful in controlling the country's huge trade deficit. The protectionist rows have been accompanied by a series of important trade bills passed by the US Congress. The 1988 Omnibus Trade and Competitiveness Act, usually referred to as the 1988 Trade Bill, is looming as an indicator of American import and export actions that will continue well into the 1990s.91/

Up to how, the United States has been a major trading and dialogue partner with ASEAN as a group. ASEAN's ability to enjoy high economic growth is mainly due to the US market's capability to absorb ASEAN goods. The increasing US protectionist legislation have caused much concern for the ASEAN region. There is a consensus in ASEAN that new approaches are needed in dealing with the United STates. Each member has now agreed to use more intensive lobbying to enhance ASEAN's influence in the United States. So far, however, ASEAN countries have primarily reacted to the United States on an individual basis, rather than as a group.

Last may the United States named Thailand as one of eight countries placed on a "priority watch list' under section 301 of the United States Trade Act.92/ An accelerated investigation will take six months to determine if any progress on Intellectual Property Rights has been made. According to Carla Hill, the chair of United States Trade Representative, once a country has been put on the priority watch list, "getting off easy" is not probable. The United States Trade Representative has developed an accelerated action plan for those on the list, with an intensification of ongoing negotiations. For the moment, Thailand, as an ASEAN country, has tried to fight on her own. The United States reviewed and extended Thailand on a priority watch list for another six months, starting in November 1989. From now on, if Thailand fails to do what the United States deems necessary, section 301 procedures can be instituted at once.93/ Other ASEAN countries, such as Indonesia, Malaysia and the Philippines, are on the watch list; however, there are currently no special action plans for them. All ASEAN countries are now paying special attention to the 1988 Trade Act. The ASEAN-US dialogue, in effect since 1988 and carried out now under a new US Administration, continues to put emphasis on the bilateral approach in trade and investment relations. The completion of the Joint Study of the Economic Relationship Between ASEAN and the United States under the ASEAN-US Initiative (AUI) has confirmed the different ways to achieve successful economic cooperation in the 1990s. ASEAN's fear is that if the United States fails to improve trade imbalance conditions, mainly with the West Pacific countries, the government will apply (under pressure from different interest groups) different protectionist measures against imports from different countries, including ASEAN. At the same time, these measures will be more complex, wide-ranging and ready to apply at any time. Section 301 of the 1988 Trade Act has called Thailand's attention to the complexities of issues such as GSP, IPRs, trade in goods, and trade in services, which could well continue to be developed in the future. For the moment, the United States is not seeking a trade agreement with ASEAN, but rather an "enhanced dialogue" on trade,94/ and contacts with the Pacific Rim countries will not interfere with the Uruguay Round.

In recent years, ASEAN's trade performance in the European Community market has improved. Since 1980--the year of the conclusion of the EC-ASEAN cooperation agreement--total trade between both regional groupings has increased by 55 percent.95/ Excluding trade between ASEAN member countries, the Community represented ASEAN's third largest export market, accounting for 15.7 percent of ASEAN's total exports in 1988.96/ The Community is ASEAN's third largest imports supplier, after Japan and the United States.97/ The importance of the Community market for ASEAN is now manifested by growing increases in manufactured exports. Since 1986, exports of manufactured goods exceeded the value of primary products and now represent well over 50 percent of total exports. Meanwhile, EC exports to ASEAN will shift more and more from consumer durable to heavy electrical and non-electrical equipment (such as telecommunications and other necessary equipment) that ASEAN needs; this would also include the service area.

Exports from ASEAN to the EEC are subject to different agreements and regulations: textiles and clothing under MFA; a generalized system of preferences (GSP) for a number of products; standard controls under the national laws of each EEC country; and competition with ACP98/ and EFTA countries. The individual ASEAN countries are normally faced with protective barriers from the EEC, such as anti-dumping measures from the restraint agreements. ASEAN is very concerned about the development of intra-EEC policy changes, which could diffuse into situations harmful to ASEAN.

The legal framework for the EC's relations with ASEAN was provided as a consequence of the EC-ASEAN cooperation agreement signed in 1980 and renewed in 1986. The agreement covers a wide range of economic cooperation in the areas of trade, investment, industrial cooperation and technology transfer, science and energy, and human resource development. This is apart from other regional development cooperation; EC still provides ASEAN with different research and development programs for each ASEAN country.99/ The current EC-ASEAN relations--diplomatic representation of ASEAN in the EC Commission in Brussels and the presence of an EC ambassador to ASEAN--indicate the EC will play a major role in establishing ASEAN-EC relationships as a model of a mutually beneficial partnership between two major regional groupings.

ASEAN is not clear about future ASEAN-EC ties when looking at ASEAN-EC economic relationships within the scope of EC 1992. The importance given to the new intra-European interest has logically concerned other nations, including ASEAN. Attention is particularly drawn to both trade in goods and trade in services with the European Community. During the twenty-second ASEAN ministerial meeting in Brunei, held on July 3-4 1989, ASEAN began to express concern over the possible adverse implications to ASEAN as a result of the 1992 Single European Market. The European Community has tried to assure ASEAN that such a single market would lead to the improvement of the EC's competitiveness, further stimulate the liberalization of international trade and services, and contribute to sustaining world economic growth.

Although, they are all situated around the Pacific Rim, ASEAN's three remaining official dialogue partners100/ are less important in terms of size and volume of trade and investment when compared to the aforementioned three dialogue partners. At the same time, ASEAN views these countries as alternative sources of methods to cooperate in different issues.

ASEAN-Australia economic relations significantly progressed due to the increasing role played by ASEAN's Australia's private sectors in the promotion of trade and investment. ASEAN-Australia Economic Cooperation (AAECP) will continue for a five-year period, starting in July 1989.101/ Projects and activities to be conducted under AAECP's Phase II will focus on the areas of trade and investment promotion; science and technology; and agro-based projects, with special reference to human resources development. In the area of multilateral trade negotiations in the Uruguay Round, ASEAN is satisfied with Australia's enhanced cooperation particularly on agriculture and tropical products issues (known as the Cairns Group). ASEAN will continue to stress the importance of positive cooperation between ASEAN and Australia in the commodities area to resolve specific commodities issues such as market access, the International Rubber Agreement (INRA II), the International Tin study Group (ITSG) and the development of resource-based industries in the ASEAN region. Australia is demanding more consultative cooperation within the Pacific Rim countries where ASEAN is also situated. Australia views Europe 1992 as a regional threat requiring a rapid solution that will not be possible without Asia-Pacific cooperation. ASEAN is considering the issue of how to participate in future Pacific Rim cooperative efforts in one way or another.

Regarding the ASEAN-New Zealand dialogue, both sides are continuing efforts to further enhance their cooperation in various fields. the objective is to enhance more trade and investment flows between them, as they are presently still limited. ASEAN-New Zealand also recognizes the importance of the private sector and to reach an agreement on private participation in activities in future dialogue meetings. New Zealand is also very willing to discuss its interest in agriculture, along with ASEAN, during the Uruguay Round.

The ASEAN-Canada dialogue has greatly improved in the areas of trade and investment. This continued progress is an important stepping stone for future cooperation between ASEAN and Canada. The close consultations in the Multilateral Trade Negotiations, the Canada-United States Free Trade Agreement and other important economic issues have been beneficial to ASEAN. The ASEAN-Canada Economic Cooperation Agreement has been renewed for a further period of two years, strategy from June 4, 1989. ASEAN appreciates Canada's continuing development assistance to ASEAN projects and its decision to increase its financial commitment to the ASEAN-Canada Regional Training Program.

Due to the increasing role of Asian NIEs in ASEAN economics, the twenty-second ASEAN ministerial meeting on July 3-4, 1989 has finally approved the ASEAN Standing Committee's recommendation for ASEAN to establish sectorial dialogue relations with the Republic of Korea (ROK). This is consistent with the decision of the Third ASEAN Summit in Manila in 1987. The sectorial dialogue relations should concentrate on the areas of trade, investment and tourism, with the possibility of expanding future relations to include other areas--such as development cooperation, transfer of technology and human resource development. Details relating to the modalities of establishing sectorial dialogue relations and other relevant matters are still being discussed.

The inclusion of ROK as a sectorial dialogue partner is not a surprise, as Thailand now regards ASEAN now as its fourth most important trading partner (after the United States, Japan and the twelve-member European Community.102/ A number of Korean firms are starting to move their plants to the ASEAN region as well.103/ While it is increasingly importing raw materials and intermediate input from the region, the ROK expects to double its trade with ASEAN to 15 billion US dollars by 1991, and the whole relationship will continue to grow in importance. The agreement between ASEAN and the ROK to set up a joint intergovernmental consultative committee should help to step up economic cooperation on a whole range of topics of mutual interest, and they might need more mutual support to facilitate sustained growth.

The ROK case could be an example that indicates a greater interdependence between ASEAN and Asian NIEs in general. ASEAN--which is becoming important after Asian NIEs in terms of export-oriented economies, output and economic growth--may well need to learn from others' experiences. It is expected that more exchanges of ideas on different issues will continue or will be increased between these countries. In fact, together they constitute the Asia-Pacific Region, which has been viewed continuously as the world economy's future.. Specialists would like to apply the Flying Geese model to compare ASEAN with Asian NIEs who have successfully followed Japan in order to establish a resemblance or a difference from those countries. The same model may not exactly apply to the ASEAN region in the sense that ASEAN as a group, has had an increase in intraregional trade and investment. This constitutes an extra advantage to all ASEAN countries when compared to Asian NIEs, who are heavily reliant on developed countries--especially the United States market.

2.4 Interrelation between Bilateralism and Unilateralism in World Economic Management

The ways in which multilateral, regional and subregional management systems are closely related to each other have already been explained. This section will examine two major actors of unilateral systems who create norms that will affect or influence bilateral, multilateral, regional and subregional systems. This occurrence is not far from the existing circumstances of bilateralism between Thailand and other economic powers in which Thailand faces unilateral actions. Therefore, this study will focus on legal and other measures that Japan and the United States take unilaterally--primarily to protect their own markets--and possible implications for Thailand in the coming years. The recent climate of bilateral agreements between the United States and Canada and the United States and Israel will also be assessed.104/

2.4.1 Persistence of Japanese Trade Barriers

Even though Japan's huge trade surplus appears to be increasing year by year, its economy still heavily depends on imports for raw materials and agricultural products. These products--especially in the agricultural sector--are carefully protected by the government for various reasons, such as the food security policy or the special characteristics of this sector in the Japanese economy. Such protectionism is manifested not only by quota restrictions and high tariff rates, but also by encouraging different forms of subsidies in this sector.

According to the "Maegawa Report"--the blueprint of economic structure adjustment policy--the Japanese Government has to change its economic policy to adjust itself to the changing world economy105/ by increasing internal demand (*Naiju Kakudai*), opening more markets, promoting foreign imports and recycling its yen surplus in the form of financial aid to developing countries. Thailand can benefit from this policy by exporting more agricultural products; however, the Japanese market is not open enough to meet our needs. It is important to note that this domestic market-opening policy was set up because of US pressure against the Japanese Government. However, Japanese trade barriers still exist and can be categorized into tariff measures and non-tariff measures.

Tariff Measures As Trade barriers.

Thailand's agricultural and marine products exported to the Japanese market always confront a high tariff rate, which can be checked in *Genko Yenyu Seido Tchiran*106/ a book published by Japan's Ministry of International Trade and Industry (MITI). The question is, who decides this tariff rate and how can it be reduced? It is obvious that the laws (The Customs Tariff Law)107/ give the Minister of Finance and the Customs Tariff Council the power to decide the tariff rates of each product imported into the Japanese market. Nevertheless, it would be a mistake to conclude that Japanese authorities decide tariff rates independent of other factors or influences. It is a very well-known fact in Japan that the *Nokyo* (Japan's agricultural association) is one of the most powerful and influential interest groups in the country. Professor Muramatsu Michio of Kyoto University in his well-known study, *Sengo Nihon no Atsuryoku Dantai* (The Pressure Groups in Japan after World War II),108/ found that in many areas this agricultural pressure group is more influential than other economic interest groups. We can see clearly in *Genko Yunyu Seido Ichran* that any foreign agricultural products deemed to be very competitive in the Japanese market will have to face high tariff barriers. In 1989, Prime Minister Noburo Takeshita's abdication of power was attributed to the "Recruit Incident". However, one of the underlying reasons for his having to step down concerns the Japanese Government's liberalization policy toward foreign agricultural goods, which caused a sentiment of dissatisfaction in these agricultural groups. This example clearly demonstrate the influence that these pressure groups have. An official from MITI once said that agricultural groups are the ones who decide tariff rates, not the authorities from the Ministry of Finance.

The impact of Japan's high-tariff practice is perceived in the international community as a unilateral action, and it does affect the competitiveness of Thailand's agricultural goods in the Japanese market. Thailand's trade representatives routinely bring up Japan's high tariff against agricultural goods whenever there is an opportunity--such as the Japan-Thailand Joint Committee on Trade or the ASEAN-Japan Meeting.109/ However, the appropriate climate to lower any tariff rates against Thailand's agricultural goods appears to be very distant. This is because the influential agricultural groups are always behind the scene, barely to be noticed. It will take a long time before any decision to lower any tariff is reached. One may ask why the Nokyo is so influential. The answer is that the Nokyo--with a membership and network throughout Japan--is one of the Liberal Democratic Party's (LDP) strongest political bases. Almost every Japanese farmer belongs to an Agricultural Cooperative Association (a part of Nokyo), and these associations are vital to the fortunes of individual conservative politicians as well as the Liberal Democrat Party as a whole. The Agricultural Problems Association, operated by leaders of various organizations, collects and disburses campaign funds for the Liberal-Democrats. Moreover, Japan's election law has not been amended since World War II, and it gives Japanese farmers a great deal negotiating power with the government.110/ The LDP's recent loss in the Upper House election was not because of Prime Minister Uno's Geisha scandal. The reason is that the LDP is giving in too much to foreign demands, especially in opening markets to foreign agricultural products.

Non-Tariff Measures as Trade Barriers

Japan has been accused of imposing non-tariff barriers (NTBs) on foreign imports. NTBs formed an important element in defining the closed and protectionist market in Japan, which can be classified into the following four categories:

(1) *Government Regulation and Control*

Most of the goods encountering import quotas are agricultural goods and agriculture-related products. Thai goods that encounter Japan's import quotas are starch, canned pineapple, frozen cuttlefish and other products.

The Food Security Law, which is based on a food security policy, as mentioned before, and the Cabinet Order Relating to the Tariff Quota System are the laws empowering Japanese authorities to determine the level of import quota.111/ In reality, the agricultural interest groups are the hidden influence. For example, Thai starch encounters both import quotas and a high tariff of 25 percent, which makes it not very competitive in the Japanese market. The underlying reason is that Japan wants to protect its domestic starch industries. Japan's starch manufacturers are the economic interest group behind the negotiating stages. Thai canned pineapple also faces the same problem of a high tariff and import quota, because Japanese authorities want to protect the pineapple industry on Okinawa Island.

(2) *Government Participation in Trade*

a. State Trading Practices

Under the Food Security Law, there are some important agricultural products that have to be traded and close controlled by the state, such as, milk, cream, butter, wheat, rice and raw silk. Rice is the Thai agricultural product that falls under the state trading practice. Under the Food Security Law, the Japanese Government can interfere with the production, domestic price and international trade office. Furthermore, the Japanese Government subsidizes the price of rice for the benefit of rice growers, but to the detriment of Japanese consumers. The conflict of interest between Japanese consumers and rice farmers is very clear-cut; Japanese consumers have to buy this staple food at a cost that is seven to ten times more expensive than the world price.

The Japanese Government routinely claims that it must intervene on rice because of its food security policy--meaning, they want to be certain that Japanese consumers will have enough rice when crisis prevails. However, upon analysis, it is obvious that the Japanese Government uses the very sound principle of a self-supplied food policy to cover up the real intention, which is keeping their political base. Even some Japanese argue that there is no food security policy because Japan does not have the capacity to be self-supplied of food in the first place.112/

b. Government Procurement

Japan's big construction projects are always off-limits for foreign companies, leading many foreign companies to criticize Japan as a closed market. The New Kansai Airport construction project in Osaka is a good example. Pressure from other developed countries such as the United States and Great Britain has been so strong that Japan has found it necessary to respond to their demands.

The nature of Thailand's economic relationship with Japan does not have anything to do with the Japanese Government's procurement. The lesson is that in order to demand something from the Japanese Government, one needs to have the negotiatory power.

c. Government Agency Administrative Guidance

Administrative guidance (verbal and informal suggestion) is a unique way of implementing economic policy. During the rapid economic growth of the 1960s, the Japanese Ministry of International Trade and Industry (MITI) effectively used administrative guidance based on the MITI Establishment Law, the law on Foreign Trade, and the Foreign Exchange Control Law, as well as other industrial promotion laws, to promote domestic industries and international trade.

At the present time, Japan is being accused of using administrative guidance to restrain imports. Manufacturers in Singapore claimed that apart from MITI, the Ministry of Health and Welfare and the Ministry of Agriculture, Forestry and Fisheries have also exercised administrative guidance. However, it is very difficult to prove that the above-mentioned Japanese ministries also exercise administrative guidance to restrain Thailand's agricultural goods or agro-industry products from penetration into Japan's market.113/

(3) Product Quality and Testing Requirements

a. The 1972 Food Sanitation Law

This law empowers the Ministry of Health and Welfare to raise the standards of food stuffs and to control on food additives residues. The purpose of this law is to protect the interests of Japanese consumers.114/

Most of Thailand's export products to Japan encounter the Food Sanitation Law. In 1986 alone, Thai products were rejected more than 30 times on the grounds that there were food additives residues above the safety standards set by the Ministry of Health and Welfare.

Concerning food additives, it is very surprising that in Japan there is an association of housewives that is against food additives. Japanese housewives have accused the Ministry of Health and Welfare of allowing Japanese food manufacturers of putting in too many food additives and not properly labeling them.

b. Quality Standards

There are many quality marks in use in Japan--some compulsory and others voluntary. These marks can be easily classified into two categories:

- The Japanese Industrial Standard (JIS) is one of the most widely used marks. It is applicable to such diverse products as textiles and garments, shoes and kitchen tables. Under the provision of Japan's Industrial Standardization Law, the use of the special JIS certification mark is permitted only on products that satisfy the quality requirement of JIS.

- Japanese Agricultural Standard (JAS). The law known as the Japanese Agricultural Standard Law provides basic regulations for affiliation of the JAS mark and for enforcement of these regulations. As the range of processed foods has increased, the scope of coverage of the JAS law and its accompanying regulations has been expanded.

Under the JAS law, the Ministry of Agriculture, Forestry and Fisheries takes the initiative in setting JAS standards and of specifying the products affected by them. It specifies the applicability of the law, the definition of the product regulated, the standards of quality and the methods of measurement.115/

Products with a JIS or JAS mark will be easier to sell in Japan. The problem is that those standards are very high and it is very expensive for Thai exporters to obtain them. For example, if a Thai exporter wishes to have a JAS mark on his product, he has to send application and an invitation to ask Japan's Registered Grading Organization officials to inspect his factory. After the factory inspections, he has to send his product to Japan to have the quality inspected. This is a problem for a Thai exporter. It is also worth nothing that in the 1960s, Japanese officials were accused of using those quality standards to successfully restrict foreign imports.116/

c. Labeling Requirements

Apart from the JAS mark, a 1970 revision of the JAS law provided for the stipulation of products that must bear these labels containing information on content and quality. The products that must bear these labels are determined by government ordinance,117/ and the number of items increases each year.

Recently, Singapore's beer exporters accused Japanese authorities of using labeling regulations to create more difficulties for foreign exporters.

d. Agriculture Chemical Regulation Law

In 1988, Japanese authorities accused Thai chilled foul meat producers twice that their product contained deldrin that was above the safely standards. Japanese authorities also informed producers that the Japanese officials will be doing all the quality testing. Acceptance of foreign test data is one measure of an open-market policy for the convenience of foreign exporters. In this case, Thailand's chilled fowl meat exporters should accept all the blame and try harder to improve the quality of their products.

e. Domestic Animal Infectous Diseases Control Law

The Japanese Ministry of Agriculture, Forestry and Fisheries classifies Thailand as a country with animals carrying infectous diseases, and does not allow Thailand to export pork products to Japan. Thai governmental authorities are now asking their Japanese counterparts for technological cooperation. Singapore's pork exporters also encounter the same barriers. Officials from the Ministry of Agriculture Forestry and fisheries were sent to inspect Singapore's facilities. After the inspection, reports indicated that facilities in Singapore had met Japanese requirements. However, after three years of waiting, no quick-frozen pork has been allowed to be exported from Singapore to Japan. It can be concluded that Japan wants to protect its pig-rearing industry by using potential foot-and-mouth disease as a non-tariff barrier to restrain importing pork from other countries.

f. Plant Protection Law

Under the regulations of the Plant Protection Law, Thailand's fruit and vegetable exporters are not allowed to export many kinds of fruits and vegetables to Japan. Nowadays, some kinds of fruits are allowed to be exported to Japan. Thailand's exporters must keep very aware of the quality of their products. Once there is a mistake, it would be difficult to reinstitute importation. Japanese authorities are very strict on this matter. Singapore's orchid exporter complained that Japan has on occasion destroyed considerable consignments of orchids from Singapore because an insect was found in a large shipment of orchids exported to Japan.

(4) Structural NTBs

The United States is the biggest market for Thai products; Japan is number two. Since 1985 US protectionism has been getting worse and increasing any export product to the US market appears to be very difficult. For this reason, Thai exporters of many kinds of products want to diversify and increase their markets in Japan. Yet, it is extremely difficult to penetrate the Japanese market because of its structural NTBs.

a. Cultural and Business Practices

One of Thailand's silk fabric exporters complained that before any Japanese buyers order any products, they will visit the manufacturing factories many times. Then they might just disappear after the exporter has shown them his factories, given them company information, and given them many samples to inspect--all of which took a very long time. On the other hand, American or European buyers decide to order a very big lot in a single day. The same Thai exporter complained that the Japanese trading house Sogo shsha called him numerous times to ask questions and ask him to send them samples for almost two years, then ordered only a small lot of product on a trial basis. He said he is about to give up doing business with the Japanese. Many other garment exporters complained that Japanese buyers usually buy only a small amount and that they are very strict about quality and design. Overall, it is much easier to do business with Americans or Europeans than with the Japanese.

b. Domestic Supplier Preferences

The Thai manager of a Japanese-Thai joint venture company producing compressors complained that in the construction of the factory, it is natural to buy a lot of high-technology equipment from Japan but that it is very odd to import low-technology equipment with a very high price from Japan, since one can have a Thai company construct it in Thailand. A Japanese expert insisted that even though it is low-technology equipment, Thai companies cannot supply the right quality, and he recommended importing from Japan. On the other hand, a Thai manager with an engineering background insisted that this kind of equipment can be cheaply and easily produced in Thailand. This actual case demonstrates that Japanese usually prefer to use Japanese suppliers.

c. Distribution Problem in Japan

Distribution in Japan is very complex, and it has become a barrier to ASEAN member exports.118/ Developing countries like Thailand, the Philippines. Indonesia, NICs like Singapore, or even a developed country like West Germany also view Japan's distribution system as a barrier to their products. An extensive, detailed study was conducted in order to analyze how Japan's distribution system can be a barrier to trade.119/

It is worth nothing that Japanese subsidiaries in Asean do not have problems exporting their products to Japan. Other companies--whether ASEAN or other foreign subsidiaries--have potential markets in Japan if they do have subsidiaries or reliable distributors or importers in Japan. Otherwise, ASEAN exporters find it very difficult to penetrate the Japanese market.

Conclusion

Japan's economic policy is now changing. Based on the Maegawa Report, the internal demand will be increased. This means that from now on, Japan will try to become the world's importing economic superpower. This economic policy is aimed at decreasing trade conflicts between Japan and other countries. At the same time, it will caise the Japanese people's standard of living as well.

This economic policy began implementation in 1986. It might take time, but at least it is being undertaken. The concrete measures that the Japanese Government is currently undertaking to open its markets are as follows:

1. The tariff rates on 1,849 items out of 1,953 items in the present tariff rate schedule will be reduced 20 percent or will be completely abolished. This measure was started on January 1, 1986.

2. Since January 1, 1986, Japan has abolished quantitative restrictions on leather products and shoes. Thus, there is no more of what are termed residual import restrictions on manufactured goods. On the other hand, Japan claims that it will reduce residual import restrictions on agricultural products from twenty-two to twelve or fourteen in the near future.

3. MITI has already asked 302 Japanese Companies to try their best to import foreign products.120/

The above-mentioned measures are all positive signals for Thai exporters to penetrate Japanese market. Here are some suggestions:

1. Government-to-government channeling is still important. The reason is that high tariff products are mostly agricultural goods, in which Thai exporters have comparative advantages. The present residual restrictions are all restrictions on agricultural goods. These trade barriers cannot be abolished except through government channel negotiation.

2. Consultation between Thai private organization and Japanese private organizations to overcome trade friction is still important. They let the Japanese know what we perceive as trade barriers. Japanese-Thai joint committees on trade are a good example of consultative organizations.

3. An organization in Tokyo set up by ASEAN called the Asean Trade Promotion Center; is important. At the center, Japanese staffs are hired to work for ASEAN to gather information, and introduce

Japanese businessmen to Asean exporters. Learning from this, Thai exporters can share financial responsibility by hiring capable Japanese to work for their benefit.

4. To use JETRO (Japan External Trade Organization) more. The function of JETRO used to be to promote Japanese goods overseas. Since 1986, its function was changed to promote overseas imports to the Japanese market. To some extent, JETRO in Bangkok can help Thai exporters to export to Japan.

5. Thai exporters must improve the quality of their products. Japanese consumers have high buying power. However, they are very quality conscious. The problem concerning quality cannot be overcome by means other than Thai manufacturers' serious intention to improve the quality of their own products.

6. Thai exporters should study the Japanese market more. Few Thai exporters have enough Knowledge about the Japanese market. It is very important to understand the Japanese market, including factors such as their commercial practices and the Japanese language.

2.4.2 US Unilateral Actions Affecting Thailand's External Sector

The United States has been broadly criticized about the 1988 Trade Act, especially its now-famous Section 301. Many countries consider these so-called unfair trade practices to be unilateral measures. This has dramatically changed the view of how the United States conducts its trade policy--from that of liberal, free trade to restricted, managed trade.

This new concept of US trade legislation is manifested in various forms. The US administration perceives the trade deficit as an indicator of a need to formulate retaliatory and unilateral actions. This aggressive stance toward trade negotiations is gradually starting to ignore the GATT. US strategy is to settle all trade friction through bilateral forums and to use them to achieve a consensus among trading partners in mutilateral negotiations. All US private parties are invited to file a claim on behalf of domestic industry injuries with various government agencies, such as the USTR, the Department of Commerce, the White House and the US Congress. All of these avenues enable the United States to diversify the internal decision making process by giving various government agencies wide discretionary power to conduct investigations before any trade negotiations. Hence, the US government is legally authorized to adopt any retaliatory measure if it is determined unilaterally that trade partners did not live up to the "fair trade" practices.

This new policy of giving more importance to unilateral actions cannot be ignored by any country including Thailand. Presently, the United States represents the most important single trading partner for Thai exports. This is why those countries subject to "unfair trader nations" status are likely to offer reform of their trade policies with the United States. In order to gain a clearer perspective, this study proposes to elaborate upon the traditional view toward unfair trade principles under US laws. Then, it will examine the modern fair trade principle--especially in regard to actions against foreign governments--before reaching a conclusion.

A Traditional View of Unfair Trade Principle under US Law

Under the long-established principle of fair trade, the United States identifies unfair trade practice under two broad categories: dumping and subsidies. It is not surprising to note that the "unfair trade practice" under US domestic law differs from GATT jurisprudence in various aspects. To a certain extent those laws and regulations are inconsistent with GATT rules. Yet, they are enforceable, as the United States exercises the Grandfather Clause right to apply any inconsistent provisions it chooses. If the United States decides to apply the provision, it will escape the waiver requirement under GATT.

Antidumping

Dumping is a broad term generally used to describe the "indiscriminate pricing" of products sold in the world market. The concept of dumping is used to shield domestic producers from competition with "dumped" imported goods. There are several US statutes governing dumping and other unfair trade practices--the 1916 Antidumping Act; Title VII of the 1930 Tariff Act; the 1921 Tariff Act; and the 1988 Omnibus Trade and Competitiveness Act.

The 1916 Act has had a profound effect on the American attitude about antidumping, as it assumes that the parties who dump goods do so with malicious intent in order to take over its target's economy. It was designed to give private sector the right to implement US political and economic policy against Japan's and Germany's rising dominance of the world economy. It was also aimed at strengthening the competitive ability of US producers, leaving aside the issue of consumer welfare.121/

The 1930 Tariff Act added a new dimension to antidumping jurisprudence. It established complex procedures by which the US administration is required to determine whether particular merchandise sold in the United States has been dumped. If so, it must then determine whether the imported goods injure or otherwise cause any harm to the domestic industry. If both determinations result in affirmative findings, the administration will levy an antidumping duty to offset the dumping. The amount of antidumping duty is equal to the "dumping margin" determined by the administration's findings.122/

The petition to initiate an antidumping investigation must include the elements necessary for the imposition of the duty.123/ It must also supply all the information reasonably available to the petitioner supporting the allegations.124/ The petitioner must also comply with the Department of Commerce's regulation by providing additional information classified under fifteen subheadings.125/

Subsidy and Countervailing Duty

Governmental aid to domestic producers comes in two forms--export subsidy and production subsidy. Not all the subsidies are subject to CVD. Originally, GATT only required subsidizing nations to notify GATT of the "estimated effect of subsidization and of the circumstances making subsidy necessary."126/ Under the existing Article XVI or subsidy regulations, subsidizing states still have this notification obligation. Subsidies on non-primary products are banned, unless they do not result in the state's product being a lower price than the domestic price.127/

During the Tokyo Round negotiations, GATT members attempted to rewrite and clarify rules governing subsidies by adopting a Code on Subsidy and Countervailing Duties.128/ But the subsidy code applies only to states acceding to the instrument.129/ Other GATT members who decide to maintain the status quo130/ are not bound by the code, as well as the definition and scope of subsidies and dumping. This renders ineffective two sets of subsidy and dumping criteria under the GATT. The Subsidy Code, like article XVI of the GATT, failed to deter the massive use of both types of subsidies. In fact, the interpretative difficulties arising from different sets of criteria create uncertainty and a basis for applying other protectionist trade measures. However, the GATT recognizes certain types of subsidies in article XVI (general subsidy), which require only notification and consultation. Article VI [3] limits the amount of a CVD to the amount of the foreign subsidy, regardless of whether or not the subsidy was legal under Article XVI. Like dumping, CVD under GATT requires material injury.131/

At present, problems are occurring in the context of upstream subsidy, especially where the production process occurs in different countries. Sometimes manufacturers from developing countries "downstream" have to bear the burden of CVD. More complex is the case in which the upstream subsidy in one developing country becomes a dumping in another processing country and is thus subject to antidumping (not CVD) in the target state. The parent company can always transform a subsidy into antidumping and thus manipulate reaping the benefit of transfer pricing other times, the parent company can avoid the burden it should otherwise bear.

Minibeas is a Thai company with nearly 100 percent Japanese-owned capital. Minibeas produces precision ball bearings. It receives investment promotional preferences under the Investment Promotion Act, which includes an income tax exemption, exemptions of duties and tariffs for raw materials and estate and property tax exemptions. All of its production was exported to the United States and to another sister company within the same conglomerate. US industry filed a petition against Minibeas on the grounds that Minibeas received bounties from the Thai government, which caused them material injury. US authorities found that Minibeas' product was countervailable under US law. The negotiation was undertaken by Thai authorities and the United States, without any active participation from the company. The

United States communicated to Thai officials that even if the Thai government levied export taxes tantamount to the value of the subsidy complained, the United States would still impose CVD on the said product. In the end, the Thai government proposed to enter into a "suspension agreement" with the United States but received no favorable response from the US administration. Under US law, price undertaking is rarely accepted to offset the CVD. Unlike Article 7(1) of the GATT Antidumping Code, which allows price undertaking, it provides that: "Proceedings may be suspended or terminated without the imposition of provisional measures or antidumping duties upon receipt of satisfactory voluntary undertakings from any exporter to revise its prices or to cease exports to the area in question so that the authorities are satisfied that the injurious effect of the dumping is eliminated." The suspension agreements are common practice for CVD cases, except in the United States and Canada. US law restricts the use of a suspension agreement; it can only be accepted in "extraordinary circumstances," where the suspension agreement is clearly beneficial to domestic industry. This case reveals the "free rider" situation. It reflected a general conception of the United States toward the free trade system. US authorities did not view subsidy as an issue per se but as a point of reference to the so-called "unfair trade practice," triggering retaliation. Thus, CVD and antidumping duties were not used to restore a comparative advantage; rather they are used as a disciplinary sanction. The Thai government bears the cost of negotiation and receives no real benefit. Minibeas' products are not sold in domestic market, prodution technology is not effectively transferred and no real revenue goes to the government.

The 1979 Trade Agreement Act implements the GATT Subsidy Code into domestic law.132/ The procedural aspects of the 1979 act are similar to the dumping statutes described above. A major difference is that countervailing duty (CVD) statutes focus on the behavior of a foreign government, not on private producers abroad. Note here that US domestic law allows private parties to make claims against foreign governments. The jurisprudence developed along this line may pose a question about the power of one state to judge another's conduct. Most importantly, it bypassed judicial review of the merits of the law, using the upon argument of reserved domain, hierarchy of law and consent based upon argument to justify an adoption of the CVD statute.

The Department of Commerce interprets export subsidies as those that operate and are intended to stimulate exports rather than domestic sales, or are contingent upon an export of goods.133/ The definition of subsidy is somewhat vague and subject to the political will of the US administration--for nearly all states subsidize their economy in one way or another. The Subsidy Code contains an illustrative list of subsidies in Annex A. The list specifies eleven categories of export subsidy, including direct & indirect subsidy, exemption, remission, return of tax on export, tax deduction, export credit134/ and export insurance programs. The Annex also includes a catch-all provision, which covers "any other charge on the public account constituting an export subsidy in the sense of Article XVI of the General Agreement on Tariffs & Trade."135/ The travaux preparatories of the 1979 act provides that the US administration treat Annex A as an illustrated list, not as an exhaustive list. The travaux preparatories indicates that the Department of Commerce added other subsidy practices to the list.136/ From practices and decisions, the ITA develops its guidelines to construct the amount of subsidy from the difference between the export financing available and what would have been available in the absence of governmental intervention.137/ Furthermore, the US CVD statutes treat private subsidies equally with government subsidies,138/ yet a case of private subsidy has never been applied.

In summary, both the antidumping and countervailing duty suit can become an entry barrier for Thai products. The time constraint provided in the statutes posed a real problem for exporters from overseas to present their claims and arguments. The practice of requiring a bond at the amount of the dumping margin before final determination is detrimental to foreign exporters, and there is no remedy available in a case of perishable goods and economic loss. Domestic industry may file a petition to halt exports from a foreign market. Merchandise that is produced solely for export under the investment promotion preference is vulnerable to subsidy investigation. Exportation of agricultural products may be subject to either CVD investigation or antidumping investigation.

A Modern Fair Trade Principle with Action Against Foreign Governments

The United States is taking an increasingly active role in the conduct of foreign commerce. The traditional fair trade principles (CVD & Ad) are inadequate to protect US interests. Foreign governments are increasing their role in the economy. The measures vary, depending on the social, political, and economic environment, and they manifest themselves in various forms. The effect of government participation in the market is that private sectors gradually become a state's instrument to reach another's economy. Some governments raise tariffs or deny entry of goods simply to protect domestic producers. Others may provide an indirect government grant, which does not fall into the subsidy category. Another important fact that forces the United States to take an active role in foreign commerce is the huge government budget deficit and loss of competitive advantage. US laws do not work well under the present changing circumstances, since the traditional fair trade principles apply only to the US domestic market. They do not address the problem of the US business competitiveness in foreign markets.

The modern fair trade principle focuses on US foreign markets and the ability of US producers to compete abroad. Furthermore, the United States is using its trade acts as a retaliatory device against other governments that do not accord the United States what it perceives to be legitimate. The rationale of the new fair trade principle has been extended to the point where the purpose of the trade law--to restore comparative advantage--is not relevant. More importantly, the United States must make a judgment about conduct of other states and enforce its rights. It is of no surprise that the new fair trade principles are becoming a source of conflict among trade partners.139/ The United States is viewed as seeking out its own interests while ignoring the "rules of the game," upheld for decades through GATT.

The 1974 Trade Act, the 1984 Process Patent Act (as amended), and Section 301 of the 1988 Omnibus Trade and Competitiveness Act are good examples. The United States has declared through these legislative enactments that the practices and policies of foreign governments are "unjustifiable," "unreasonable" and "discriminatory," and that they subject to retaliation by the US government. These enactments are unique in international trade law jurisprudence. First, they are laws that provide private citizen and industry with a legal avenue for "relief" from foreign government practices that adversely affect the industry's interest in foreign markets. Though there are several laws dealing with the problem of unfair trade practices (CVD, AD) none of them permit the scope of application to problems in foreign markets. Second, these laws operate as fall-back or catch-all mechanisms when other fair trade principles fail. In other words, they apply to any problems caused by foreign government outside the US market. Third, these enactments, especially Section 301 of the Trade Act 1979 and Section 337 of the 1930 Trade & Tariff Act allow a private party to be formally involved in the negotiation process. The US government offers itself as a good office in trade negotiations. Section 301 allows the US government to bring claims on behalf of private industry at the government-to-government level. This gives private parties meaningful leverage in international trade negotiations at the bilateral and multilateral levels. Finally, these enactments ignore GATT provisions--especially the dispute resolution provision. The US trade laws have become a more powerful tool for domestic producers to use to attack foreign governments. The US government is being allowed to bypass the GATT. The US Senate Finance Committee succinctly states:140/

> If diplomatic efforts and trade negotiations fail to bring about equity and reciprocity for US commerce, the acts and barriers described . . . should be subject to retaliation.
>
> The Committee does not intend that this retaliation authority be a dead letter . . . If (foreign governments) insist on maintaining unfair advantage, swift and certain retaliation against their commerce will occur.

It was also stated that:

> Many GATT articles, such as Article I (MFN principle), Article II (taxes affecting imports) . . . are either inappropriate in today's economic world or are being observed more often in the breach, to the detriment of the US. . . . The decision-making process under the GATT often frustrates the ability of the US . . . to obtain the decisions needed to enable the US to protect its rights and benefits under the GATT.141/

The private sector is indirectly empowered to apply economic sanctions against foreign governments. Note that these enactments also authorize the administration to impose trade sanctions without participation from Congress.142/ The authority of the US president to act in trade areas had been consistently refined since the adoption of Section 252 of the 1962 Trade Expansion Act,143/ which is a forerunner of the existing Section 301. Section 252 provided that the president was authorized to respond to the following trade practices by foreign governments:

1) unjustifiable action and policies,
2) unreasonable action and policies,
3) discriminatory action and policies

which restricted or burdened US commerce. The Presidential Order included an increase in duties, suspension, withdrawal and modification of trade agreements. Presidential authority to provide such relief remains in effect up to the present time. Many modifications have been added to the statute. The most far-reaching amendments came in 1979 (after the Tokyo Round) and in 1988 (Omnibus Trade & Competitiveness Act). Section 301 provides for relief by Presidential Order; there is no provision for damages or compensation for injury suffered in the past. The "relief" is mainly a trade retaliation in exchange for non-enforcement of US rights under a trade agreement with a foreign government. Section 301 allows the US administration to unilaterally interpret bilateral agreements. In most of the cases involving Section 301, the relief addresses a problem concerning US industry's access to markets or its ability to compete in foreign markets, such as Intellectual Property Rights, market barrier. The retaliation is not aimed at any specific product, but at foreign government practices and policies. The mechanism Section 301 used is the threat of cutting or restraining access to US markets. Section 301(a) makes it an obligation of the United State Trade Representative (USTR) to retaliate if it is determined that US rights under the trade agreement144/ have been denied145/ or if a foreign government adopts "unjustifiable" practices or policies restraining US commerce.146/ The action may be exercised with reference to any goods or sector, either on a specific-country-basis or an across-the-board basis.147/ The action need not be taken against the specific products or services that are under investigation.148/ Therefore, other products that are not under scrutiny could be subject to a restraint order by the authority of Section 301(a). The president is authorized to take "all appropriate and feasible" action, which includes any import restrictions, regardless of GATT legality.149/ The complete discretionary authority of the president has been used extensively to retaliate against foreign governments; retaliation against Brazil,and Mexico are good examples.

Section 301(b) provides the president with discretionary power to apply any measures against "unreasonable" or "discriminatory" practices and policies of foreign governments.150/ The USTR is empowered to terminate, suspend or withdraw any privileges or benefits granted under a trade agreement with a foreign country. Section 301(b) also includes "unfair" and "inequitable" practices and policies, with the discretion of USTR to adopt any measures in order to stop these practices and policies. It also covers non-trade issues--such as workers' rights, adequate and effective IP protection, market access, and right of establishment--in this category.

The USTR is responsible for administering the law under the guidance of the president. The USTR makes his recommendation to the president after receiving a report from the Section 301 Committee, which is an interagency panel. When a petition is received, USTR will notify the subject country and will proceed with the negotiations and public hearing, where all parties concerned may submit their briefs and opinion. The USTR will also prepare an annual review of the watch list of countries violating the trade agreements. This annual review operates as a threat and gives leverage to the USTR during the course of negotiations. A Section 301 petition must include seven items:151/

1. Petitioner's interest, which is affected by the failure of the foreign government to honor trade agreements, including policies and practices,

2. Description of the US rights that are being denied and a citation of the related 301 Section,

3. Copies of affected laws or regulations

4. Identifying foreign country

5. Identifying product or services

6. Showing how the act, policy or practice is inconsistent with a trade agreement or is unjustifiable, unreasonable or discriminatory and burdens or restricts US commerce.

7. Stating whether the petitioner has filed for relief under another section of the 1974 Trade Act or any other provision of law.

These provisions in the Trade Act bypass the US obligation under GATT. A decision to implement the trade laws depends mainly on the political will of the US administration. Thailand, together with other countries,152/ has been a target of Section 301 and related provisions. Trade negotiations at the bilateral level would be detrimental to Thailand's long-term position. As long as the United States insists on applying these laws in disregard of GATT rules, Thailand should proceed with the greatest caution and refer the problems to be discussed at the multilateral level.

In summary, both the antidumping and countervailing duty suits have already become disruptive barriers to entry for Thai exports in the United States. During the past few years, the United States has tended to apply more antidumping and CVD laws to its trade partners.

The time constraint provided in the statutes poses a real problem for exporters from overseas to present their claim and arguments. The practice of requiring a bond at the amount of the dumping margin before final determination is detrimental to foreign exporters, and there is no remedy available in the case of perishable goods and economic loss. Domestic industries can file a petition to halt exports from foreign markets. Merchandise that is produced solely for export under the investment promotion preferences is vulnerable to subsidy investigation. Furthermore, the United States may apply a new concept of circumvention and diversionary dumping to goods produced in Thailand under a new rule of origin of goods. Products that have been domestically produced will be subject to investigation if the administration finds that domestic producers are linked with mutinational corporations overseas that have been placed on investigation list. By the same token, the word "US produced goods" is not defined in the text. Origin of goods criteria may become a burden on US trade partners. Thailand should attempt to verify the rules of origin and local content requirement in multilateral trade talks. Exportation of agricultural products may be subject to either CVD investigations or antidumping investigations. The new "Buy American Act" is another trade barrier. If the administration finds that a foreign government poses obstacles to American products to enter the market, the US government is prohibited from purchasing goods and services from that country. It is recommended that Thailand should accede to the GATT Antidumping and Subsidy Code. The problem, however, remains, since US domestic law provides discretionary power to the administration to scrutinize trade policy and practice signatory rights before extending the benefit of the Subsidy and Antidumping Statute.

As for Section 301 action, these provisions in the Trade Act bypass the US obligation under GATT. A decision to implement the trade laws depends mainly on the political will of the US administration. Thailand, together with other countries, has been targeted as a priority watch list country through Section 301 and related provisions. Trade negotiation at the bilateral level would be detrimental to Thailand's long-term position. As long as the United States insists on applying these laws in disregard of GATT rules, Thailand should proceed with the greatest caution and refer the problems to be discussed at the multilateral level. Thai negotiators should not enter into bilateral negotiations with the United States without ample data and knowledge of the far-reaching effects on the Thai economy and the competitiveness it might yield following any agreement. Accurate and prompt data on US trade law action is certainly needed. Computer software protection is a good example of the lack of accurate information. The United States is asking for "copyright" protection of computer software, while it protects computer software as sui generis in the name of "copyright." If Thailand enters into any arrangement with the United States during bilateral negotiations, the country will be confronted with Section 301(a) measures (mandatory action in the case of violation of a trade agreement). The position of Thai negotiators to retain GSP benefit in exchange for a promise to amend Thailand's Intellectual Property Rights Law or others should be taken only with great care.

Other non-trade issues should not be contracted without careful examination. It is suggested that Thai officials fully understand the complex decision-making process of different trade laws. Most of the trade partners are administratively enforced. Thailand should attempt to make a quasi-formal arrangement with the US administration to institute periodical review and discussions about economic issues. The arrangement should provide for a broader perspective on problematic153/ and non-problematic trade areas.154/ The private sector should also take a more active role in securing necessary information to the Thai government and conveying the message to the American public. Lobbyists have become an indispensable tool for Thai exporters and the Thai government during trade negotiations. Thai negotiators should change their approach in conducting any trade negotiation; total professionalism is strongly recommended.

Thailand might consider hiring specialists, who are well versed in the subject matter pertaining to negotiations as consultants who could also be present to negotiate in a debatable fashion. Having studied the topic in great depth, they would be capable of confronting and critiquing those whom Thailand will face in various negotiations and would able to defend Thailand's interests capably, objectively and professionally. Adoption of such a measure should be considered; seriously otherwise, Thai negotiating teams could continue to be on the weaker side and could fail to defend Thailand's interests at the level that the nation deserves. This especially warrants attention because of concern that the US trade deficit will not be reduced in the short run and that its trade policies vis-a-vis different countries will continue to be advocated. It is probable that even more kinds of unilateral actions, which may affect the trade and investment in the goods and services of different countries, will be implemented. This includes Thailand, which is still in a vulnerable position with the United States.155/

2.4.3 The New Setting of Bilateral Agreements between the United States and Canada and the United States and Israel

To adapt to the changing world environment, the United States has recently revived the idea of fostering economic ties with some of its important partners. The United States has entered into bilateral agreements with numerous countries. This study will analyze the importance of the bilateralism of the United States and Canada and the United States and Israel.

The US-Canada Free Trade Agreement (FTA) went into effect on January 1, 1989. Their stated primary objective is to create an open market for trade and investment in goods and services between the two large trading partners. In fact, a free trade agreement (FTA) between the United States and Canada is not new and can be traced back to 1854. At that time, a treaty of reciprocity was signed, allowing the two countries to freely trade numerous products--such as coal, seafood agricultural, and forestry products. However, the treaty was terminated by a unilateral US renunciation. Since then, Canada has preferred to turn its attention toward domestic affairs and has continued to maintain a substantial tariff wall in order to stimulate its domestic industrialization. Shortly after World War II (1947), Canadian Prime Minister Mackenzie King made another attempt to negotiate an FTA between the two countries but quickly abandoned the effort.156/

In 1985 Prime Minister Mulroncy and President Reagan met at the "Shamrock Summit" to discuss FTAs. Both countries finally concluded FTA negotiations in 1988, and it entered into force on January 1, 1989. Broadly speaking, the FTA is designed to be an acceptable method to reduce and eliminate existing trade barriers in goods and services and to set up institutions and procedures for dispute settlement, thereby the improving the investment climate between the two countries. The key features of the FTA are as follows:

Tariffs and Rules of Origin157/

The liberalization of bilateral trade will have the effect of opening up new trade opportunities. Important additional trade is expected to increase in the coming years. In general, the two governments have agreed to remove all tariffs by January 1, 1998. Tariffs will be eliminated on the basis of three formulas:

- Same will be eliminated by the agreement entered into force on January 1, 1989.
- Some will be eliminated in five equal steps, most of them starting on January 1, 1989.
- Some will be eliminated in ten steps, most of them starting on January 1, 1989.

Goods that originate in Canada and the United States will qualify for the new tariff treatment. For goods incorporating offshore raw materials or components, it has been agreed that these goods qualify for treatment as being either of US or Canadian origin if they have been sufficiently changed either in Canada or the United States and can be classified differently than the raw materials or components from which they are made. The governments will use the tariff classification of the Harmonized System, now being implemented by both governments. In certain cases, goods will need to incur a certain percentage of manufacturing costs in the country of origin.

Dispute Settlement in Antidumping and Countervailing Duty Cases158/

As GATT dispute settlement procedures are not very effective due to its vagueness and inertia on remedial actions, the two governments have agreed to a unique dispute settlement mechanism, which guarantees the impartial application of their respective antidumping and countervailing duty laws as well as other aspects of trade remedy law. Either government can seek a review of an antidumping or an antidumping on countervailing duty determination by a bilateral panel that has binding power. Concurrently, the two governments will work toward establishing a new forum to address the problems of dumping and subsidization that will become into effective at the end of the seventh year.

Additionally, the two governments have agreed that changes in antidumping and countervailing duty legislation apply to each of them only following consultation and if specifically provided for in the new legislation. Moreover, either government can ask a bilateral panel to review such changes in light of the purpose and objectives of the agreement, as well as their rights and obligations under the GATT Antidumping and Subsidies Codes. Should a panel recommend modifications, the parties will consult on such modifications. Failure to reach agreement gives the other party the right to take comparative legislative or equivalent executive action or to termirate the agreement.

Trade in Agricultural Goods159/

Presently, trade in agricultural goods accounts for only about 4.5 percent of the total bilateral trade between the United States and Canada. This is because of the extensive existing quotas and other requirements, as well as the complementary nature of the agricultural economics of the two countries. To promote and further liberalize the existing structure of agricultural trade, the two governments have agreed to a package of trade liberalizing measures for trade in agriculture including:

- o Eliminating all tariffs, but allowing Canada to temporarily restore tariffs on fresh fruits and vegetables for a twenty-year period, under depressed price conditions.
- o Exempting each other from restrictions under their respective meat import laws.
- o Prohibition of export subsidies on bilateral trade.
- o An exemption for Canada from any future quantitative import restrictions on products containing 10 percent or less sweetener and on grains and grain products.
- o Conditional elimination of Canadian import licenses for wheat, barley and oats and their products, and eliminating Canadian Western Grain Transportation subsidies and exports to the United States.

They will work with each other bilaterally and in the GATT to further improve and enhance trade in agriculture.

Trade in Services160/

The agreement will provide--for the first time--a set of disciplines covering a large number of service sectors. The agreement will provide that in the future, the two governments in future will extend the principles of national treatment, right of commerc. presence and right of establishment to each other's service providers. Additional sectoral annexes will clarify this general obligation with respect to transportation, enhanced telecommunications and computer services, tourism and architecture.

Investment161/

The two governments have agreed in future to liberalize the treatment given to each other's investors with respect to:

- o The establishment of new firms.
- o The acquisition of existing firms.
- o The conduct, operation and sale of established firms.

Both governments retain the right to maintain existing measures not in conformity with these principles.

Canada retains the right to review the acquisition of firms in Canada by US investors, but it has agreed to phase in higher threshold levels for direct acquisition. The review of indirect acquisition will be phased out.

Since the United States and Canada are GATT members, the question is whether this free trade agreement is consistent with GATT provisions. The answer is yes--even though it appears not to be in accordance with GATTs most favored nations principle, which requires that any country granting trade concessions to another country should make the same concessions available to all GATT signatories. Article XXIV of GATT permits the establishment of a free trade agreement by providing that if tariff and non-tariff barriers are eliminated or substantially reduced, all the trade of all participants within a reasonable length of time may not be increased for nonmembers as well.162/ In addition, many provisions in the agreement are based on GATT articles, such as quantitative restrictions, technical standards,163/ and national treatment.164/, However, the FTA will accrue benefits primarily to the United States and Canada, and later will have an indirect impact on trade in goods and services, which these two countries are now continuing to pursue.

The United States has also concluded a free trade agreement with Israel well before the FTA with Canada. In fact, this agreement has been in effect since September 1, 1985 and has served as the model for bilateral trade management undertaken by the new United States. This kind of US bilateralism with other countries is far different from the past--when free trade agreements were quite limited and often resulted in bilateral agreements such as VER import restrictions, which promote managed trade rather than trade liberalization. Some "new" topics of discussion raised in this free trade agreement include services, investment, the protection of intellectual property right and how they can be implemented into the legal text of this agreement. The formation of US-Israeli Free Trade Area makes a positive impact on both countries' trade and investment. Many US companies have established or expanded their existing manufacturing operation in Israel. Due to the smaller size of the trade relationships between the United States and Israel compared to that of the United States, and Canada, such an FTA is generally viewed as less important to the world economy.

There is an explanation for the reason why the United States has resorted more to bilateralism with different countries, especially in the form of free trade agreements with Canada and Israel. The role that the United States plays in the world trade system has been eroded by the difficulties of its own economic system. This has gradually caused a marked change in its position in world trade. The European Community, Japan and others are now powerful influences, whose ideas regarding international trade rules often differ considerably from those of the United States. Developing countries are increasingly acting as an effective bloc to push their own trade agendas on topics such as tropical products, textile trade liberalization, and "Special and differential treatment." Therefore, the United States is attempting to reestablish its leadership role in the world trading system by creating FTAs that can be viewed as new trade concepts and approaches that can be established as precedents for later implementations in the multilateral arena.

Thailand, as well as many other East Asian nations, is not the United States' next-door neighbor, like Canada, and does not have a special relationship from the past, like Israel. Thailand has no close links with the United States when compared with these two countries. Therefore, it is not expected that Thailand will be able to attain the same type of free trade agreements other countries are now enjoying. Even if it appears that these free trade agreements have no immediate direct impact on Thailand's external sector, the country should try to focus on some of the important areas in these agreements, which could have real impact in the coming years.

2.5 The Changing Pattern of World Trade Finance and Capital Flows in the World Economy

This study covers three areas of international economic activities that are closely related: trade, investment and finance. Trade will continue to shift in importance among major trading nations, which will have a direct impact in the Asia-Pacific Region. The boom in managed trade during the last decade of the twentieth century is a matter of concern for the exporters of many Asian countries. The changing of investment patterns in the world economy will be accompanied by new incentives and policies governing this sector in different countries. And finally, the world is going more through a finance globalization, which will force the government to confront new public policy issues, while the private sector will be subject to increasing new ways of channeling through the financial sector between themselves and with the rest of the economy.

2.5.1 The Future of World Trade

It is readily apparent that there has been a significant change in world trade since the end of the Second World War. In 1938, the value of world trade was only 22 billion US dollars. Between 1967 and 1986 this figure has grew from 216 to 2,475 billion US dollars. Thus, world trade has increased more than one hundred times in less than fifty years and more than ten times in less than twenty years.[165/] In overall terms, trade interdependence between different economies has continued. This evolution varies from country to country and from product to product.

When world export is considered by country for 1986 (from Table 2.1) West Germany now has become the leader in world exports (11.3 percent in 1986) followed by Japan (9.9 percent), the United States (9.7 percent), France (5.6 percent) and Great Britain (5.1 percent).[166/] The United States has lost its position as the leader of world exports and has seen its share shrunk by almost 5 percent during the last 20 years. Since the beginning of the 1980s, this trend has become even clearer. The US dollar appreciated up to 1985 as a result, the United States has lost its competitiveness in foreign markets. Western Europe still has a good position in overall terms, as six of the ten leaders in exports originate from Europe. West Germany continues to perform with strong success in exports and has now gained a reputation as the world leader in market shares. France and Italy, meanwhile, also have increasing shares; however, Great Britain--whose economy has been declining since the oil shocks--still is in the process of structural adjustment. While the United States has lost around 5 percent of its market share in world exports, Japan has gained more than 5 percent. Japan takes the second position of market shares in world exports and is certainly the number one exporter, if intra-European trade is excluded.[167/] Asian NIEs' share in world exports has also substantially increased--by almost four times between 1967 and 1986. As a group, the Asian NIEs can now be listed as the number four exporter of the world. This is probably a source of concern in many developed countries whose position is

Table 2.1 World Exports by Country and by Zone.

	Billion U.S.Dollars in 1986	In Percentage			
		1967	1973	1980	1986
World	2,119.6	100.0	100.0	100.0	100.0
The United States	204.9	14.4	12.2	10.7	9.7
Western Europe	945.9	42.4	45.0	40.7	44.6
West Germany	240.5	10.1	11.7	9.5	11.3
France	119.1	5.3	6.2	5.6	5.6
Great Britain and Ireland	120.1	8.8	5.6	6.0	5.7
Italy	97.8	4.0	3.8	3.9	4.6
Netherlands	80.5	3.4	4.2	3.7	3.8
Belgium and Luxembourg	68.6	3.2	3.9	3.2	3.2
Scandinavian Countries	93.6	4.8	4.7	4.1	4.4
Alpine countries	60.0	2.4	2.6	2.4	2.8
Canada	84.1	4.9	4.4	3.2	4.0
Australia and New Zealand	26.8	2.0	2.1	1.4	1.3
Japan	209.0	4.8	6.4	6.5	9.9
Asian Developing Countries	227.6	5.8	6.5	8.2	10.7
Asian Newly Industrializing Economies	133.1	1.7	2.8	3.9	6.3

Source : Lafay, Gérard,et al, Commerce International : La fin des Advantages Acquis, CEPII, Economica, 1989, p.46.

changing in connection these other countries. ASEAN countries have not yet taken a significant part of world exports, but their share is expected to become more apparent in the last decade of this century.

With regard to world imports by country and by zone (Table 2.2), the United States is by far the most important leader of world imports. Its share had been quite steady until 1980; then it took a giant leap--from 11.8 percent in 1980 to 16.6 percent in 1986. The coverage rate is now less than 60 percent, which is considered to be a dangerous level. For this reason, the process of accumulated trade deficit cannot be left out of proportion indefinitely. These imbalances have already caused a serious situation for international trade, comparable to the oil crisis in the early 1970s. As the United States is still unable to contain such a trade deficit, it is logical to assume that this trend of trade imbalances will continue at least through the first half of the 1990s. Japan has been constantly accused of partial responsiblity for the grim situation of the US trade deficit. This argument is relevant when examining the statistics between 1967 and 1986. Japan's world imports have not changed very much. The total imports grew from 4.6 percent in 1967 to around 5.0 percent in 1986. This figure is considered to be equal to only half of Japan's exports to the world. It is not surprising that the 1986 figure reflected a trade surplus of more than 100 billion US dollars, which Japan now produces annually and for which the accumulated surplus has to be recycled in different ways. Obviously, Japan will continue to be pressured by its trading partners to liberalize imports into its own market. The Japanese government continues to show its support and willingness toward greater market access for goods originating outside Japan.

Asian NIEs imports have grown equally to support the export activities carried on by them. In 1986, Asian NIEs were able to produce a trade surplus accounting for 1.2 percent of world trade--which also shows continual change since the 1960s, when these countries seriously implemented their industrialization programs.

Changing world economic conditions clearly show us the share of world production by country or by zone. The most characteristic phenomenon is the shrinking weight of US economy in the world--from a quarter, to less than one-fifth in world production (Table 2.3) between 1967 and 1986. Western Europe's overall position was also reduced--from more than 26 percent to less than 23 percent between 1967 and 1986. In general, Canada, Australia and New Zealand have maintained their total share of world production. Asia is the only zone that shows a greater share in world production--combining Japan as the leader with other developing nations in the region. The total economic weight of this Asian zone has increased from less than 17 percent of world production in 1967 to 25 percent of world production in 1986. This share is now considered higher than that of the United States and Western Europe, who used to be the leaders in these figures. The Western Pacific Rim countries are producing a great alternation in the world economy through changing the center of the world economy--which before was primarily situated in Western developed countries. One must carefully interpret the reality of these Asian countries, which are heterogeneous in nature and therefore

Table 2.2 World Imports by Country and by Zone.

	Billion US Dollars in 1986	in percentage 1967	1973	1980	1986
World	2119.8	100.0	100.0	100.0	100.0
The United States	351.6	12.3	12.2	11.6	16.6
Western Europe	903.4	44.1	46.6	44.5	42.6
West Germany	174.5	7.3	8.8	8.7	8.2
France	124.4	5.4	6.1	6.5	5.9
Great Britain and Ireland	125.2	7.7	6.8	5.8	5.9
Italy	92.8	4.2	4.6	4.7	4.4
Netherlands	76.5	3.8	4.2	3.9	3.6
Belgium and Luxembourg	66.7	3.3	3.7	3.5	3.1
Scandinavian Countries	87.4	5.4	4.8	4.1	4.1
Alpine Countries	67.4	2.9	3.2	3.1	3.2
Canada	80.9	4.7	4.1	2.9	3.8
Australia and New Zealand	30.2	2.0	1.5	1.3	1.4
Japan	105.9	4.6	5.8	6.3	5.0
Asian developing countries	211.2	7.5	6.7	8.6	10.0
Asian Newly Industrializing Economies	108.9	2.2	3.1	4.2	5.1

Source : Lafay, Gérard,et al, Commerce International: La fin des Advantages Acquis, CEPII, Economica, 1989, p.46.

Table 2.3 World Production by Country and by Zone.

	Billion US Dollars in 1986	in percentage 1967	1973	1980	1986
World	15035.7	100.0	100.0	100.0	100.0
The United States	3215.2	25.8	23.1	21.3	21.4
Western Europe	3436.1	26.3	25.7	24.4	22.9
West Germany	626.4	5.0	4.9	4.6	4.2
France	517.3	3.8	3.8	3.7	3.4
Great Britain and Ireland	530.1	4.8	4.3	3.7	3.5
Italy	525.1	3.9	3.9	3.7	3.5
Netherlands	136.8	1.1	1.1	1.0	0.9
Belgium and Luxembourg	94.6	0.7	0.7	0.7	0.6
Scandinavian Countries	247.9	1.9	1.8	1.7	1.6
Alpine Countries	139.6	1.2	1.1	1.0	0.9
Canada	330.6	2.1	2.1	2.2	2.2
Australia and New Zealand	176.6	1.2	1.3	1.2	1.2
Japan	1160.6	5.8	7.2	7.4	7.7
Asian developing countries	2622.0	10.8	11.8	13.8	17.4
Asian Newly Industrializing Economies	322.7	0.9	1.2	1.6	2.1

Source : Lafay, Gérard,et al, Commerce International: La fin des Advantages Acquis, CEPII, Economica, 1989, p.46.

might not become the economic leaders that some assume will.

With regard to the share of different products in world trade, metallic and electrical products are now the most important categories. They registered a high share of 48.8 percent in 1986, although the same share had been greatly reduced during the oil shocks and was only around 40 percent in 1980. The most important items that show high growth in share are electronic products, vehicles, and electrical materials (Table 2.4). World demand for these items is still registered at a rising level for the coming years. For energy products, the high share of almost one quarter of world trade in 1980 is essentially due to petroleum products. The two oil shocks in 1973 and 1979 had brought this share up to 16.5 percent in 1980; it fell down to 6.4 percent in 1986.

For agro-chemical products, the total share had continuously fallen to a level now under 40 percent of world trade. Agro-industrial products have been subjected to the most significant reduction especially for cereals, edible and non-edible products (Table 2.5). Textiles and garments are generally stable, with a small increase of the total share, which stood at 7.2 percent in 1986. Garments, carpets, home decorations, leather products and shoes are items that have significantly increased from 1967 to 1986. For chemical products, almost all items have generally increased, with only slight differences from item to item.

In overall terms, over the last twenty years,[168] the Japanese economy has become a global challenger, particularly in three product areas: electronics, automobiles and electrical materials. The southern nations have gained a strong foothold in three areas: textiles, metal working and wood-paper products. The two areas that the developed countries still attach importance to are mechanical and chemical products. Natural resources and agricultural products, such as energy, non-ferrous metal and agro-industrial products are still dependent on the producer's solutions or options to trade, and non-producers have to be aware of this point.

Concerning the future pattern of world trade in the Asia-Pacific Region, a number of studies are attempting to portray this evolution. A common illustration that is often used to show the importance of the Asia-Pacific Region is the significant shift in total share of United States international trade in 1984 from transatlantic trade to transpacific trade. Japan, Asian NIEs, and more recently. ASEAN, have been the focus of world attention, due to their economic performance during the 1980s. Many have raised the question of whether East Asia and Southeast Asia are headed for similar relatively high growth in their economies and international trade in the 1990s. The answer is not a simple "yes" or "no". Rather, it all depends upon how the region manages its affairs.[169] It is certain that the East Asia and Southeast Asia export environment has fundamentally changed since the 1970s. However, the changes are not all necessarily for the good. The future holds the prospect of lower growth in export markets, especially for the United States and the European Community; growing protectionism from both developed and developing countries in the form of non-tariff barriers (NTBs); and

Table 2.4 Share of Different Types of Metallic , Electrical, and Energy Products in World Trade.

	Billion US dollars in 1986	In Percentage			
		1967	1973	1980	1986
Total (metallic & electrical)	1035.2	45.0	45.6	40.2	48.8
Steel and ferrous products	79.4	5.8	5.7	4.3	3.7
Non-ferrous products	51.6	5.0	4.1	3.6	2.4
Mechanic	394.8	20.1	18.9	16.3	18.6
- Hardware	53.5	2.5	2.5	2.3	2.5
- Motor, pump, and turbine	59.5	2.6	2.8	2.5	2.8
- Specialized machinery	61.4	3.0	2.8	2.3	2.9
- Aeronautic	36.1	1.6	1.5	1.5	1.7
Vehicles	213.1	6.5	7.9	7.0	10.1
Electrical materials	78.6	2.7	3.0	2.9	3.7
Electronics	217.7	4.9	6.0	6.1	10.3
Total (energy)	262.3	9.3	10.7	23.8	12.4
Charcoal	15.4	0.7	0.6	0.7	0.7
Petroleum	136.7	4.9	6.6	16.5	6.4
Natural gas	34.3	0.2	0.3	1.6	1.6
Refined petroleum	70.2	3.2	2.9	4.7	3.3

Source : Lafay, Gérard,et al, Commerce International: La fin des Advantages Acquis, CEPII, Economica, 1989, p.46.

Table 2.5 Share of Agro-Chemical Products in World Trade.

	Billion US Dollars in 1986	In Percentage 1967	1973	1980	1986
Total	822.3	45.7	43.7	36.0	36.8
Agro-indurstry	264.3	21.6	19.3	13.5	12.5
Cereals	28.4	3.2	2.7	1.9	1.3
Other edible products	64.6	5.5	4.3	3.1	3.0
Non-edible products	44.3	5.1	4.5	2.6	2.1
Fat	22.3	1.6	1.3	1.2	1.1
Meat and fish	33.0	1.6	1.9	1.3	1.6
Sugar	15.0	1.1	1.1	1.0	0.7
Drinks	16.1	0.9	0.9	0.8	0.8
Textiles and garments	152.4	6.7	6.9	5.6	7.2
Textiles	49.0	3.1	3.0	2.0	2.3
Garments	54.7	1.7	1.9	1.8	2.6
Carpets and home decorations	22.5	0.7	0.8	0.7	1.1
Leather products and shoes	36.6	1.2	1.3	1.3	1.7
Wood, paper, and other manufactured products	151.8	6.9	6.8	6.3	7.1
Chemicals	253.8	10.5	10.7	10.6	12.0
Ceramics	11.6	0.5	0.6	0.5	0.5
Glass	8.8	0.4	0.4	0.4	0.4
Basic mineral products	22.9	0.9	0.9	1.1	1.1
Basic organic products	49.8	1.8	1.8	2.0	2.4
Plastic materials and fibers	52.2	2.0	2.4	2.1	2.5
Rubber tires	14.5	0.6	0.6	0.6	0.7
Plastic products	12.1	0.2	0.4	0.4	0.6
Toilet products	20.9	0.8	0.8	0.9	1.0
Pharmaceutical products	21.8	0.9	0.9	0.8	1.0

Source : Lafay, Gérard,et al, Commerce International: La fin des Advantages Acquis, CEPII, Economica, 1989, p.46.

increased competition from other developing countries and lower commodity prices.

It is important for Asian NIEs and ASEAN to change their continuing dependence on a relatively narrow range of products. This is because non-tariff barriers will continue to be used against exports of textiles, garments, footwear and other products that constitute a good part of the total share of exports. Consumer electronics and simple chemical products are more difficult to export in world markets which are abundant in these products. Asian NIEs and ASEAN might need to alter their export profiles to give more importance toward machinery, transport equipment, telecommunications equipment and more sophisticated forms of electronics.[170/] These products are considered to be less vulnerable to protectionism than traditional exports. In addition, these countries must continue to develop their links with the international economy while formulating better domestic macro- and micro-economic policies. The exporters will need to better employ their capabilities in strengthening their competitiveness. At the same time, they must master their diplomatic skills to secure and maintain market access of their products.

Another priority issue in the 1990s will be how this region will manage the trade imbalances and protectionism that have been developed since the 1980s. Japan--on the top of list--has a strong connection with the United States. The link between them has been described as the world's most important bilateral relationship. How Japan and the United States interact is being anxiously watched by the world community--especially in the Asia-Pacific Region, which has large trade and investment ties with both countries. The American-Japanese relationship will be constantly tense because of the slow progress in improving their bilateral trade imbalance.[171/] There are many solutions proposed to improve such a situation: a weaker US dollar to make foreign imports more expensive and American products more competitive abroad--trade barriers against those countries with unfair trade practices with the United States (such as the 1988 Trade Act); greater market access for American products in foreign markets. Japan will have to prove its sincerity in coping with its trade surplus.[172/]

Asian NIEs trade surplus also has received greater attention in the developed countries. The image of Asian NIEs is linked with the strong economic performance generated from manufactured exports and the increasing trade surplus with developed countries, especially with the United States. Asian NIEs already have given in to US pressure to revalue their currencies and to liberalize their imports. This might be the case for some ASEAN countries that probably could attain a trade surplus with these developed countries sometime in the 1990s. In general, ASEAN countries have not shown a trade surplus; however, these countries have usually registered trade surpluses with the United States. In overall terms, the United States will continue to register a trade deficit with Japan, Asian NIEs and other Asian nations such as ASEAN and China. This will probably lead the United States to negotiate with these countries throughout most of the 1990s.[173/] The 1988 World Bank study [174/] estimates that the portion of US imports covered by "hard core" non-tariff barriers, such as quantitative restrictions and VRAs, increased from 9 percent in 1981 to 15 percent in 1986 for goods from industrial countries; and from 14 to 17 percent for imports from developing countries.[175] Much of this increase occurred in the large sectors of steel and automobiles. There was also new or increased protection in such sectors as textiles and apparel, sugar, semi-conductor machine tools and lumber. It is expected that the United States has called for managed trade assigned on the basis of market shares on the grounds that the exchange rate adjustment has not significantly reduced large US trade deficits, as in the case with Japan.

Thus, major concerns of the Asia-Pacific Region are still centered on protectionism, such as the spread of non-tariff barriers in developed countries. Many research studies show a greater magnitude of the speed of NTBs across countries and sectors. The key message is that existing GATT arrangements have not been able to stem a major increase in non-tariff protection, despite the progress that has been made in lowering tariffs. The Asia-Pacific Region might need to further increase the priorities associated with establishment of effective institutional procedures for dealing with non-tariff barriers.[176] An effective way to increase more trade within the region is to further develop the intra-industry specialization between different countries, which would in turn foster the economic links among them. The world trading system in the 1990s looks as though it is falling more and more into the clutches of managed trade.[177] Still, the Asia-Pacific Region should continue to voice the merits of free trade. This is because free trade arguments make sense only so long as everyone else plays the game. Moreover, managed trade brings many more complications to different countries, which have to create a special trade-policy apparatus as part of their trade policy program.

2.5.2 The Flows and Forms of Investment Occurring in the World Economy

The increasing internationalization of economic activity has been encouraged not only by trade flows but also by investment flows. The products in the contemporary world economy have been more subject to market mechanisms, which necessitating firms to produce and market at low costs as much as possible in order to compete with others. Products transformed 100 percent from components in only one country are rarely known. Developed countries have long experienced investment outside their native lands, and developing countries are now doing the same. This trend began in the 1970s and has continued through the 1980s. The movement and the forms of investment have been analyzed in numerous studies, but most have concentrated on direct foreign investment (DFI).[178]

The most important part of DFI is focused among developed countries. The European Community, the United States and Japan have a long tradition of locating their industries among themselves. This trend should continue through the 1990s, with the difference varying from country to country. The European Community will probably concentrate more on DFI among member countries after the launching of its program of 1992. Industrial relocation will be done only in areas where low cost facilities or markets with high-income consumers are present. The United States, experiencing difficulties with its own economy, will concentrate on the DFI in the regions where US investors are accustomed to making investments. The "sunset" industries will probably continue to move outside the country as they are no longer competitive with foreign firms. US firms also must be subject to more competition from DFIs, especially from Europe and the Pacific countries. A structural change in forms of investment in the United States appears likely to be quite strong through the 1990s, as this has already become apparent in the 1980s.

Japan has become an aggressive DFI in different countries. A surplus of capital has allowed Japan to invest extensively around the world. Yen appreciation since the Plaza Agreement has accelerated the process of Japanese industrial relocation into different countries. Japanese DFI has now begun to dominate the US market and is expected to place more massive capital in the United States in the coming years. The 1992 Single Market program is expected to equally attract the Japanese DFI to different European Community members.[179] The reason behind the idea that encouraged the Japanese to rush into Europe before 1992 must be evaluated. In overall terms, it appears that Japanese DFI has started to move consistently to different countries in Europe,[180] and more recently, in massive amounts to East and Southeast Asia.

Apart from the investment flows between developed countries, investment has also been allocated to developing countries for a long time. It is important to distinguish between DFI in primary commodity production and in manufacturing production. DFI in primary commodities enhances or creates trade flows, given the nature of activities mainly focused on raw materials sourcing and very often carried out by the transnational corporations, who have the ability and management skills in such activities. The sphere of manufactured goods and the intervention of DFI are more complex and open to more discussion because manufacturing based on DFI might be either for the host country on for external markets. The production of importables, associated with manufacturing for domestic purposes, reduces trade flows in final goods but creates trade flows in intermediate or capital goods. This is often known as an import substitution policy carried out in policy making in various developing countries. The production of exportables, associated with manufacturing for export markets, creates trade-flows, not only in the form of exports but also in the form of imports for export production. This is actually a popular banner of export promotion policy, and many developing countries are looking for the ways and means to achieve success with such programs. The motives behind activities are numerous, but generally, if it is oriented to the investing firm's home country, the objective might be to benefit from lower wages of equivalent labor skills or to escape environmental regulations. Otherwise, if the investing firm has targeted third country markets, it could be to circumvent trade barriers in targeted export markets--such as quotas, antidumping, countervailing duties.[181]

The 1990s will continue to strongly mark the competition for DFIs because of the entry of new players. Developing countries that traditionally did not believe it necessary to compete for foreign investment because of their large domestic markets or significant reserves of natural resources have begun to seriously compete for export-oriented investment. Among other things, this phenomenon appears to be due to changes in the international economic environment, which have characterized the period of the late 1970s and the 1980s.[182] During this period, raw material prices appeared to be more unstable than usual, and import substitution policies seemed to be running out of stream. This has resulted in an increasing number of developing countries eschewing resource driven and import-oriented growth strategies in favor of export-oriented growth strategies. Over this same period, developed countries became even more active, as they began to court not only firms from other developed countries, but also firms from developing countries who were beginning to spawn their own transnational corporations.[183] Although, the share of developing countries in total world flows of DFI is still small,[184] attention has been directed toward the underlying processes of technical and economic change and growth in the capabilities of developing transnational enterprises, which enable them to operate in foreign countries. It appears that these foreign firms from many developing countries will play an important role as we draw nearer to the year 2000.

The new competitive foreign investment environment has prompted analogies between competition among governments for foreign investment and competition among firms for market share. The phenomenon of governments competing to attract DFI is not new. However, the aggressiveness and intensity of this competition is new. In many cases, the new attitudes have led to large expenditures on promotion by governments to attract foreign firms. On the other hand, the firms have been increasingly preoccupied with the need to secure their demand for production, while being able to keep costs low on production lines by quickly adapting the introduction of new technology and know-how into their production processes. This kind of competition is expected to intensify in the coming years, as these organizations will seek to develop more competitive strategies through their marketing programs and activities.

Regarding the Asia-Pacific Region, it is interesting to assist the proliferation of investments by foreign firms in these countries in the 1970s and 1980s.[185] These investments--largely found in host countries in the region--are shared with the new intraregional economic relationships involving the transfer of capital, technology, management skills and marketing abilities.[186] Involvement by foreign firms is generally taken in the forms of DFI or equity investment involving some degree of control and management in host country enterprises. In addition, the alternative forms of participation--such as technology contracts and other non-equity arrangements--have been increasing in significance.

Within the developing Asian nations, most DFIs will move toward Asian NIEs and ASEAN countries. China has also become a growth pole attracting foreign investment. However, after Beijing's suppression of students in May this year, there is doubt about the future of foreign participation there. In general, the competition to attract foreign investment will be quite strong in the 1990s, as these countries--especially Asian NIEs, ASEAN and China--have recently taken steps toward liberalization of rules, regulations, and incentives affecting DFIs in the region. Developed countries, which are the primary sources of foreign investment, have slowed down their activities, except Japan.[187/] Meanwhile, intraregional DFIs have become stronger, since many countries, such as Asian NIEs and ASEAN, are gaining more to expand in neighboring countries. In recent years, ASEAN countries have received tremendous impact from industrial relocation--not only from Japan, but also from Asian NIEs.[188/] At the same time, these countries also made substantial investments among themselves and expanded to other Asian countries. The investment forms are mainly DFIs in export-oriented industries. The incentives for investment are mainly found in reducing their production costs or in averting trade barriers imposed in developed countries.

Concerning the final issue of trade protectionism in developed countries in the 1990s, the Asian and Pacific countries might try to respond with two major types of actions. The first is to revise their formulated investment incentives that appear to be against general practices or GATT principles. This is a sensitive issue, which developed countries now regard as of primary importance. The Uruguay Round discussion on trade-related investment measures (TRIMs) will be especially significant as it will bring further implications for the region.[189/] Secondly, with the booming of different trading blocs, the region might need to move closer toward these blocs by investing more in those countries. Japan and Asian NIEs are reacting to these changes by relocating their industry from the region. The movement is also causing a reduction in investments that Japan and Asian NIEs use to locate in the area. Somehow, the impact may be less pervasive if intraindustry cross investments are strong in the region. Joint production ventures and production-cum-marketing arrangements, which are increasingly common, result in continuous cross-country intraregional relationships that are otherwise in competition.

2.5.3 The Key Issues of World Finance Globalization

Democratic societies have become more and more incapable of defining economic institutions to deal with economic disturbances or economic fluctuations in today's world.[190] This is readily apparent when changes in the financial sector on a global scale are observed. A number of recent analyses in these areas have show profound contradictions among so-called experts in different related subjects. They include the flexible exchange rate system, interest rate fluctuations, the rise and decline of the US trade deficit, balance of payments deficits of the United Statesg Euro-currency markets, the world debt problem and others. The dilemma is that we are now facing a very serious situation, and we lack an acceptable common solution for most of it, even regarding the near future. The most significant element is that in the absence of a profound *remise en cause* on the functioning of a credit system, the creation of money *ex nihilo* is continued by the financial system, allowing long-term loans to be financed with short-term funds, which is quite destabilizing overall.[191] Few people seem to realize that the globalization of financial markets is one of the most critical--though least understood--developments in the international economy in recent years. While the trade flows are moving toward institutional arrangements, world finance is heading toward globalization. The size of globalization is now enormous if one compares world financial flows to the flow of goods--which now stand at fifty to one.[192] If one compares world financial flows--especially exchange markets--to international trade, one discovers that exchange market volumes rose from 94 billion US dollars per day in 1980, to 193 billion US dollars in 1986, and finally, to 420 billion US dollars in 1989. At the same time, the trade flows per day have grown from 7.6 billion US dollars, to 8.5 billion US dollars, and finally, to 12.4 billion US dollars for the same period. These figures indicate that in recent years financial flows have become extraordinarily high and are increasing much faster than trade flows. As long as most countries are now open to the world economy, these fundamental changes are of real concern to them; When external factors change, the impact is felt in their own economies.

The October 1987 stock crash shows us how closely international financial stability and world economic prosperity are now linked. Still, little attention has been given to the fact that the crash of 1987 was a global phenomenon influenced by the markets' new international characteristics. Although numerous studies realized the significant globalization, almost none noted the practical implications in depth.[193] This is why attention has been increasingly given to the globalization of financial markets.

Since the beginning of the 1980s, the international monetary system had been transformed into the international financial system. Financial integration of world capital markets, coupled with deregulation, has ended controls around the world on foreign investment in financial services and on international capital flows. Financial management has fallen into the hands of the private sector, which enables these financial institutions to use advanced technology to create new products unimagined only a few years ago. Apart form Revolving Underwriting Facilities (RUF), Note Issuance Facilities (NIF) and Floating Rates Notes (FRN), the new products offered are, for example: Certificates of Accrual on Ireasury Securities (CATS) by Solomon Brothers; Treasury Investment Growth Receipts (TIGRs); and Ready Asset Trusts (RATs). This does not include "Junk Bonds" or crossed credit under currency swaps and interest swaps, which are already important in financial markets. Their products have been made possible due to the sophisticated communications technology to link these markets and offer financial products on a twenty-four-hour basis.[194] Also, the increasing uncertainties in world trade caused by the volatility of prices, exchange rates, and interest rates have led to a demand for innovative ways to hedge against or take advantage of new risks. All these financial liberalizations and their impact on national economies will continue in the 1990s.

The European Community, with its 1992 program, has planned to remove barriers among its member states and to lower barriers among different types of financial institutions. Japan has equally initiated big change in the 1980s to deregulate interest rates, to allow foreign firms into the stock exchange and the securities and trust banking business, and to permit greater use of the yen in financial markets. In the United States, institutions have found the cracks in regulations that enable them to broaden their activities. As deregulation progresses, security firms are moving into areas once dominated by banks. Banks, in turn, are taking on characteristics of securities firms and investment banks.[195] This is why one insists more today to the "securitization" of the financial markets: the growing practice of raising and investing assets through securities such as bonds and equities rather than through bank lending and borrowing.[196]

These major changes are taking course in the international economy, forcing governments to confront new public policy issues. The great mobility and volume of international capital flows would reduce the autonomy and effectiveness of national monetary policies. Securitization and new financial instruments make it difficult to define new financial macroaggregates. The fast movement of capital would destabilize the exchange rates. Greater cooperation among key developed countries is needed to find a solution for new development.

Another important issue is the change in attitudes of Third World borrowers in the international banking markets, which used to provide funds to their development projects. Many have already started to sort out the new financial markets. These countries, in turn, have started to modernize their domestic financial flows in those markets. Many of them are able to settle the debt problem by finding new sources and ways of financing their needs.

The rapid change in global finance seems unstoppable. In such a system, both borrowers and lenders are getting the benefits. The United States, in particular, has been able to largely reduce the burden of its twin deficits--trade and budget--due to the enormous financial facilities provided in such a mechanism. Even though the United States has become the world's largest debtor nation, the country is still able to survive well in the financial sector. But the availibity of *ex nihilo* mediums of payments also increase the risk of instability in the world financial arena. This is why most specialists are so concerned[197] about the impact that this can cause to the whole world economic system in the years to come.

Japan has also largely contributed to the fast evolution of global finance. Japan now retains the title of being the world's largest creditor, in contrast to US deregulation in the 1980s, which drove Japanese bankers out of their once protected preserve to seek their fortunes in the more competitive arena of world finance. The internationalization of the world economy is increasing unavoidable Japanese financial liberalization: Japan adheres to the present system by the increase in the procurement and operation of funds on the overseas market.[198] It is expected Japan will play a major role in world finance, as we are close to the end of the century. There are strong sign that the overall Japanese economy is continuing to be strong, and this will probably run parallel with the new frontier of Japanese finance.

In Europe, the financial sector has generally adapted well to the changes of global finance. New techniques and instruments of finance have been accepted among financial institutions. The Single Market Program also plans to bring this process to perhaps an even faster track as it prepares for the free movement of capital transfer and the liberalization of financial services among member countries. For the countries outside Europe, such as the United States and Japan, these countries have planned to meet these changes by adopting new perspectives on a European scale rather than the former scope of reference at only the national level.

For the external debt of the developing countries, it is shown that the Asia-Pacific Region is handling these debts better than its counterparts in the rest of the world.[199] The ratio of debt to gross natural product was 30 percent for the region's developing countries, compared with 50 percent for all developing countries. In other terms, the ratio of debt to exports was 104 percent, compared with 212 percent for all developing countries. Thus, the debt situation for the region's developing countries as a whole was expected to improve in the near future, with exports growing faster than external debts on debt service payments.[200] This is especially true for the four NIEs, which still continue to show strong exports, high growth in GNP, and abundant currency reserves.

3. RELEVANT ISSUES AND RESPONSES FOR THE MANAGEMENT OF THE EXTERNAL SECTOR OF THAILAND

This final section aims at exploring the relevant issues and responses to the management of Thailand's external sector. Since the external sector is gaining increasing importance in the Thai economy, one must closely focus on its changing role in the coming years. Points of interest will be the management systems of multilateral, regional and subregional, bilateral, and unilateral issues for the external sector of Thailand. This study has presented the possible implications of the impact of management systems on some important areas of different sectors: agriculture, industrial, and service. It is especially interesting to show how managed trade is well into the process of development that makes different countries interested in assessing more of its magnitude. Finally, this study has shown why Thailand must strengthen trade negotiations with the new management methodology of the world economy. Trade strategies and policy options in some important areas have also been outlined and analyzed.

3.1 Relevant Issues for the External Sector of Thailand

3.1.1 The Increasing Importance of the External Sector of the Thai Economy

Thailand has obviously become an open economy. The external sector is now closely related to the country's overall economic development. The degree of openness, can be measured by the increase in imports and exports. In 1960, they accounted for only about 35 percent of the GNP. This increased to 43 percent in 1986, 63 percent in 1988 and is expected to rise to more than 80 percent by the mid-1990s. This indicates that Thailand's external sector will continue to have substantial involvement in the world economy.201/ When one looks at the success of Thai exports in recent years, one can already see significant changes in overall exports. In terms of value, Thai exports generated more than 10 billion US dollars in 1987, a level that Korea had attained 10 years earlier. In 1989, the figure for Thailand's exports is expected to be double that of 1987. It is amazing that in just two years Thai exports now represent now over 20 billion US dollars. At this same rate of increase, Thailand will be able to produce over 40 billion US dollars in export over the next 3 to 4 years.

During the course of industrialization, Thailand's export structure has changed tremendously as well from an import substitution to an export promotion policy. Exports were once dominated by primary products--especially rice, rubber, tin and teak. The development of new export primary products in the 1960s particularly cassava, maize, jute, kenaf, tobacco leaf and mung bean--has reduced their importance. Manufactured exports meanwhile have gained substantial ground in the export market since the 1970s and continued to grow in the 1980s. The share of manufactured exports rose sharply, from a very small share of 2.4 percent in 1961 to 10 percent in 1971 and 35.8 percent in 1981. Since 1985 the value of manufactured exports has exceeded that of agricultural products, whose export share has been steadily declining. In 1988, agriculture exports had a 31.7 percent share while manufactured exports had a share of 65.3 percent for the same year. It is expected that the share of manufactured exports will continue to rise in the 1990s. Manufactured exports have expanded more than 20 percent per year. Since 1984 and they accelerated during the last two years: 45.6 percent in 1987 and 40.3 percent in 1988.

The program to diversify export products, especially for the export-oriented industries led by the BOI, has proved to be successful. The composition of Thai exports actually includes a wide range of products, both agricultural and manufactured. Recently, poultry cuts and marine products such as shrimp, cuttlefish and other fish have also been added to the list. And this does not include fresh fruits and vegetables, which have also started to gain different export markets. For the manufactured exports, textile and garments alone are almost double the rice exports. This is now the most important industry among ASEAN countries, and it will probably continue to be a valuable export area for Thailand in the 1990s. This is due to the "fleeing geese" effect from Asian NIEs, which may lose their competitive edge to Thailand and other Asian countries such as ASEAN members, China, India, Sri Lanka, and Pakistan. Other important manufactured exports include precious stones and jewelry, canned seafood, canned pineapple, electrical and electronic products, sugar, footwear, leather products, plastic products, wood products, furniture, toys, and rubber products, artificial flowers, ball bearings and tubes and pipes.

There also exist numerous manufactured, items that have a small export value but have shown high growth potential in recent years, clearly demonstrating their importance in the 1990. Examples of products that have grown stronger in 1988 include electrical and electronic products--such as parts and accessories used with calculating, automatic data processing and other office machines (10,404 million baht or a 176 percent increase); electrical parts of machinery or apparatus not included elsewhere (7,693.2 million baht or a 396.4 percent increase); and automatic data processing machines and the units thereof (2696 million baht or a 1254 percent increase). As of 1988, there are now over 50 manufactured export items produced in Thailand that are able to generate more than one billion baht in revenues. As the country continues its export-oriented investment program, it can be expected that the rapid changes in manufactured export items will continue at least through the first half of the 1990.

The structure of imports for the same period, has also undergone significant change. If imports are classified by economic use, one finds that the share of consumer goods has continuously declined--from 39.5 percent in 1961 to 17.9 percent in 1971 and to only 10.7 percent in 1981. It is only recently (1987-88) that the share of consumer goods imports has increased, mainly as a result of a sharply declining share of oil imports, which made the import share increase for almost all non-oil items, including consumer goods. For raw materials, intermediate goods and capital goods, these import trends were largely influenced by the changing share of fuel and lubricants in total imports, a reflection of changes in oil prices following the oil crises in 1973 and 1979. The share of fuel and lubricants in total imports increased from around 10 percent in earlier years to 30 percent in the early 1980, but it has declined to around 13 percent in recent years due to the sharp turnaround in oil prices. The recent push of the overall imports--especially in 1987 and in 1988 and is continuing--is due to general economic growth and export expansion. Total imports grew by 38.5 percent in 1987 and by 53 percent in 1988. The imports that have increased the most are capital goods and intermediate goods and raw materials, which have grown almost 100 percent and 50 percent, respectively since 1987. This sudden surge of capital and intermediate goods and raw materials is obviously provoked by recent massive foreign investment and the building up of the country's infrastructure.

In combining the figures for exports and imports, it is still not clear whether the exports will be able to offset the imports, thereby reducing the trade deficit in the future. The export sector will be very important in generating foreign exchange earnings while the imports will be composed mainly of necessary items used or transformed into processed export items. This is why trade in goods as opposed to trade in services will continue to receive special consideration in the future. It is said that if the export sector is the one that pushes import figures, it means that export-oriented industries are mainly responsible for the surge in import goods. In fact, this belief has come under question concerning Thailand's trade imbalances and is again causing some concern among economists. In 1988, a record deficit of 110 billion baht was registered. This deficit has caused some people to anticipate possible trade imbalances in the coming years.

Concerning the trade in services, in general, there are a few areas in which Thailand is quite well specialized--tourism and the labor work forces. Other service areas--such as transport, banking and finance, insurance, and telecommunications--are areas in which Thailand is still weak. In recent years, the tourist industry has produced quite substantial exchange earnings due to the increasing net inflow of tourists here. However, due to hotel room rate increases and other related expenses, Thailand, might not remain competitive with neighboring countries destination point for vacationers. Therefore, one needs to monitor closely watch the development of this industry. In the labor work force, Thailand is still able to provide workers to many countries. These workers generate income when they transfer back money to their homeland. However, since Thailand is increasingly experiencing a shortage of semi-skilled and skilled laborers, it is believed that these workers will move towards domestic industries where demand is strong. Eventually, emigration by workers might be reduced, while immigration into Thailand might increase to supply the labor market, which is still in short supply.

The amount of net investment flows is another important part of the external sector. Over the years, this category has often contributed to a reduction in the overall balance of payments. The allocation has occurred during Thailand's industrialization process. A significant proportion of the funds has been channeled into the manufacturing sector, although the same source of funds in trade, finance, construction and services is also significant. Up to the present, much of these inflows have been made in industries covered by the BOI promotion program. Manufacturing activities with important amounts of foreign investment are textiles, chemicals, metal products and machinery and electrical and electronic products. So far, Japan has been the most important foreign investor, followed by Taiwan, the United States, the United Kingdom and Singapore. If the amount of net investment flows that include foreign investment outside the scope of the BOI incentives program is considered, Japan and the United States are by far the most important sources of foreign investment. This is because Japanese investment has been concentrated on the promoted industries while American investment--including a good proportion of American investment in the energy sector202/--has been found more outside the scope of BOI promotion. A recent turning point of important factors--such as currency appreciation in Japan and some Asian NIEs and a stable political condition in Thailand--has again favored investment in BOI-promoted industries. This is evident in the investments from Japan and Taiwan and later, South Korea, which have increased many times in the last few years.

It is only in the last few years that the government has been capable of making net repayments on foreign loans instead of on net borrowings. The private sector has now become a major borrower from abroad, with the amount of loans possibly increasing. Apart from this, foreign investments do not show signs of letting up. and in particular, international investments into the Securities Exchange of Thailand (SET) are viewed to be far from their peak, with a growth potential by leaps and bounds. Almost all key indicators prove that the Thailand's external sector will be more involved with the world economy in the coming decade. This indicates that in order to ensure benefits to the country, Thailand should know how to cope with the external sector in the ever-changing world environment.

3.1.2 Points of Interest of the Multilateral, Regional and Subregional, Bilateral, and Unilateral Systems of Management to Thailand's External Sector

Since Thailand's external sector is important and is directly involved with changes in the world economy, it is important to describe the significance of these changes for Thailand. The second chapter of this study has already laid down a detailed analysis of multilateral, regional and sub-regional, bilateral and unilateral issues that should be the significant points of interest for Thailand in the present world trading system. Overall, these institutional arrangements have provoked profound changes in different areas that are generally characterized by the increasing importance of "man-made" mechanisms against the former presence of "market forces" mechanisms.203/ This is why Thailand has to focus more on these institutional arrangements in almost all forms that are relevant to the external sector.

For multilateral management, the GATT is still considered to be at the center stage in fixing rules and principles governing the multilateral trading system. This opinion of GATT has been kept up to the present. The Uruguay round has focused attention on the scope and measure of non-tariff barriers in order to stand still and roll back the growing tendency for discriminatory trading policies. Thailand entered, as a full signatory member, for the first time, at the GATT negotiations, and has also been very concerned about the outcome of the negotiations. Since the beginning the country has played an active role in different topics areas and the new issues involved in fifteen matters of negotiation.

In general, no one would doubt or deny that the multilateral trading system under GATT, control mechanism is, and will continue to be, important for different countries including Thailand. Such a forum has proved to be useful, as it has served to voice Thailand's concerns and to strengthen its position in trade negotiations with numerous countries. However, this multilateral institution has also been subject to some limitations, since it is unable to solve problems specific to Thailand, such as the VERs for cassava trade with the Economic Community. There are many other cases where GATT is unable to settle disputes brought to the organization. The GATT articles and principles still leave room for different countries to apply grey area measures while the investigative process is still slow or not very meaningful. This is why the Most-Favoured Nations principle has been eroded, and the spread of the non-tariff barriers is often viewed as a threat to the GATT's functioning. In overall terms, the control mechanism of this multilateral organization is still weak. All of these main issues have already been raised in the Uruguay round. But the solutions that resulted from the negotiations will not be effective--at least in the short run. This is why one has to understand that while the GATT is useful as a forum for the principles and rules of multilateral discussions and negotiations the organization is limited in its ability to be as a last resort in solving specific problems occurring in the international economy. Other types of organizations and regulators such as, UNCTAD, MFA, and MIGA have very specific sectoral arrangements that aim at bringing about equitable share for everyone who participates in the system.

Another important development--particularly in the second half of the 1980s--is the move toward unilateralism and bilateralism in world economic management. The United States is the country most well known for reviving this practice in the world economy. A number of countries that have a large trade surplus with the United States have closely followed how the United States would reduce the twin deficits of her own economy. It is precisely these deficits that have caused the United States to exercise more unilateral actions affecting different countries. The famous Section 301 of the 1988 Trade Act is an illustrated example of how the US seriously targets countries that would not follow its demand to open their markets or of respecting the intellectual property rights (IPRs) defined within the multilateral framework. Thailand is well in the process of being hit by these targeted measures which can be translated into trade retaliations if the United States considers Thailand to have failed to fulfill its requirement . This is why Thailand has constantly tried to adjust itself to the situation, as it has been figured on the priority watch list of countries since May 1989. These new unilateral actions promptly impacted Thailand to enter into bilateral negotiations with the United States and to closely consider a new package of demands that Thailand must explore for determining the best scope of multilateral and bilateral arrangements between the two countries.

In the case of Japan, Japanese trade policies have often been cited as being persistent in holding up Japanese trade barriers. Viewed from an outsider's perspectives, the Japanese market is often characterized by a difficulty of penetration. In the meantime, Japanese consumers are now very affluent and are able to spend more and more on various goods. The paradox is that while countries trading with Japan are suffering from huge trade deficits almost without exception, these same countries are able to accomplish little, while they would like to offset their heavy trade imbalance by way of greater export to Japan. The problematic question of how to gain better access to the Japanese market is an unending analysis, as the distribution channels and the ways the Japanese handle and control their market are so different from the Western sense of doing business. The Japanese need to address this concern in a more timely and better fashion. Another possible approach might be not to only continue to put pressure on Japan with the help of other countries subject to the same difficulties, but also to gain a better understanding about doing things the Japanese way--such as learning how to improve the quality of products and keeping them up to the Japanese level of standardization and certification. Also, the various countries concerned might unite in order to study what sometimes appear to be rather complex restrictions aimed at preventing the entry of foreign goods into Japan and, at the same time, study how to overcome them in a detailed, serious way. Japanese trade policies, especially for agricultural products and for standards of goods in general, have persistently resisted change. These policies will continue to translate into a continuation of Japanese unilateral trade policies with different countries. However, Thailand may get a free rider benefit if the United States would be more successful in bringing down the barriers of different agricultural products that are closely related to Thailand's exports.204/ However, all these matters of standards and regulations would depend upon Japanese laws, as there are no clear-cut principles governing these areas of non-tariff barriers which are difficult to legally justify. In addition, the multilateral framework has not yet covered this particular topic very well.

For the bilateral and regional trading blocs, these groupings are now often cited to represent a new impetus in managing the world economy in the coming decade: The Single European Market in 1992, the tentative creation of an Asia-Pacific Community; the new setting of bilateral arrangements between The United States and Canada and The United States and Israel. The Single European Market in 1992 has become a major focus of regionalism in our world today. The twelve

European market economies are expected to lead to a *NOUVEL ENJEU* of competitiveness on a global scale by this supranational organization. By reducing the physical, financial and technical barriers of member countries while enforcing the principles of mutual recognition in a number of areas, these actions would translate into the economics of scale with a reduction in production costs and prices and an increase in overall production. For countries situated outside the region, their export goods to the European Community should be able to circulate freely as long as they respect the standardization, certification and rules of origin fixed by the European Community. If the European Community succeeds in bringing the entire program into full action after 1992, there is a strong possibility that this will bring great opportunity to the countries that are able to adapt to these changes. For the countries or firms that are not interested in adapting themselves to this new climate, this program may translate them into losers. In overall terms, the program is supposed to bring change in almost all areas for the countries within and outside the EC configuration. For the Asia-Pacific Community, the idea of the creation of such an organization has recently been revived. The perception of most people is that such a forum would serve to air the concerns of the international trading blocs in Europe, North America or elsewhere. This form of partnership has been treated with suspicion regarding what form of economic cooperation agreement should be reached and what countries around the Pacific should or should not be involved. From strategic points of view, the region has become important to the world economy, and the role attached to the global economic environment will sustain its importance after the year 2000. It is a focal point as to why different countries--some even situated outside the region--would like to participate in such a regional organization. Different issues of concern to the country might be discussed in the forum. However, as a member of ASEAN countries, Thailand has to clearly define its role, as do other ASEAN countries, so that involvement will not cause a disruption in the continuing efforts of ASEAN economic cooperation. And finally, the new setting of bilateral arrangements between The United States-Canada and The United States-Israel have echoed forms of bilateral economic cooperation that might impact on other countries. It is too early to draw any conclusions about these bilateral agreements. Somehow, Thailand and other countries have to closely follow this development in the coming years. This can be accomplished by identifying areas and issues that are of special interest to the country as well.

3.1.3 Implications of World Trade Management to Thailand's External Sector

With institutional arrangements increasing applied to international trade, as described in 3.1.2, the multilateral trading system under the GATT has been eroded. The commercial transactions that formerly were free trade with respect to multilateral goals are now being replaced more and more by what is called managed trade.205/ In the case of Thailand, the same thing is also happening as exports are already being forced to a certain extent into the ball park of managed trade. This same share is expected to grow in the coming decade of the 1990s as greater importance is being given to unilateralism, bilateralism and regionalism.

The study then develops quantitative information about Thailand's managed trade. In 1988, managed trade affected around one third of Thailand's exports to three major trading partners--namely, the United States, Japan and the European Community. Compared to Thailand's overall exports, managed trade accounts for 18.1 percent. When considered by major trading partners, the share of managed trade to overall exports is highest in the European Community, which accounts for more than half of the total Thai exports to that market (52.7 percent); followed by the United States (24.6 percent) and Japan (13.6 percent). All these figures merit the attention of those people who are interested in seeing the development of Thailand's managed trade.

In general, primary commodities are more affected by managed trade, accounting for slightly over the manufactures. The share of primary commodities represents 23.2 percent of exports (44.4 percent of exports to three major trading partners, while manufactures stand at 17.1 percent of exports (28.7 percent of exports to three major trading partners). The European Community represents the most outstanding figure of Thailand's managed trade which stands at 76.2 percent for primary commodities and 45.0 percent for manufactures. The United States, meanwhile, ranks second, having a share of 26.9 percent for manufactures and 15.7 percent for primary commodities. Japan, with the lowest figure among the three, has concentrated its managed trade with Thailand mainly only on primary commodities (26.2 percent) rather than manufactures (0.6 percent) (see Table 3.1).

The study also finds that the share of trade affected by different measures of the managed trade is mainly due to different forms quotas, anti-dumping (AD) and countervailing duties (CVD). Japan is the only exceptional case in which the non-tariff barriers measured for the managed trade are dominated by sanitary and phytosanitary regulations, which cause problems for Thai exports. The quantitative evidence of Thailand's managed trade is mainly concentrated in the following export items: textiles, clothing, tapioca, ferrous metals, ball bearings, canned fruits, canned seafood, sugar, tin, rice, coffee frozen seafood, frozen chicken, monosodium glutamate and so forth. It is expected that the increased policy toward discriminatory non-tariff barriers in the coming decade will cause a significantly higher share of managed trade than in the past, both in terms of number and coverage.

A major point documented in this study is that non-tariff barriers have been unevenly spread across countries and industrial sectors. Among three major trading partners, the share of Thai exports affected by managed trade is the highest in the European Community, due in part to the extension of the Common Agricultural Policy (CAP). The managed trade of Thai exports to the United States registers high level manufactures with a normal average level of primary commodities. This reflects the changing composition of Thai exports to the Unites States, which will be dominated mainly by manufactured goods. In the case of Japan, the share of Thai exports affected by managed trade is substantial for primary commodities and negligible for manufactures. In general, an important observation is

Table 3.1 Thailand's Exports under Managed Trade with Three Major Trading Partners.

(Percentage)

	(1) In Terms of Exports to One Major Trading Partner.	(2) In Terms of Exports to Three Major Trading Partners. (the United States, Japan, and the European Community)	(3) In Terms of Thailand's Total Exports
1st Degree (quotas, anti-dumping, and countervailing duties)			
The United States	24.54	8.66	4.91
-Primary commodities	14.76	1.57	0.82
-Manufactures	26.92	12.27	7.31
The European Community	49.27	18.03	10.23
-Primary commodities	69.16	26.79	13.97
-Manufactures	42.91	15.59	9.29
Japan	5.87	1.66	0.94
-Primary commodities	11.02	5.57	2.91
-Manufactures	0.58	0.11	0.06
Total	-	28.34	16.08
-Primary commodities	-	33.93	17.70
-Manufactures	-	27.97	16.66
2nd Degree (included subsidies, sanitary, and phytosanitary regulations)			
The United States	24.54	8.66	4.91
-Primary commodities	14.76	1.57	0.82
-Manufactures	26.92	12.27	7.31
The European Community	52.70	19.28	10.94
-Primary commodities	76.05	29.46	15.36
-Manufactures	44.97	16.33	9.73
Japan	13.57	3.81	2.16
-Primary commodities	26.11	13.21	6.89
-Manufactures	0.58	0.11	0.06
Total	-	31.75	18.01
-Primary commodities	-	44.24	23.07
-Manufactures	-	28.71	17.10

Table 3.1 (continued) Thailand's Exports under Managed Trade with Three Major Trading Partners.

(Percentage)

	(1) In Terms of Exports to One Major Trading Partners.	(2) In Terms of Exports to Three Major Trading Partners. (the United States, Japan, and the European Community)	(3) In Terms of Thailand's Total Exports
3rd Degree (included all other measures such as commodity agreements)			
The United States	24.62	8.69	4.93
-Primary commodities	15.71	1.67	0.87
-Manufactures	26.92	12.27	7.31
The European Community	52.74	19.30	10.95
-Primary commodities	76.20	29.52	15.39
-Manufactures	44.97	16.33	9.73
Japan	13.61	3.82	2.17
-Primary commodities	26.19	13.25	6.91
-Manufactures	0.58	0.11	0.06
Total	-	31.81	18.05
-Primary commodities	-	44.44	23.17
-Manufactures	-	28.71	17.10

Source : Estimated and computed by using data from the Department of Business Economics, "Reports on Trade Disruptive Measures in the European Community, the United States and Japan" (in Thai), Department of Foreign Trade.Interviews were then conducted in order to confirm the overall data calculated by the researchers. A list of products is shown in appendix 1.

that these three major trading partners are continuing to adopt new forms of non-tariff barriers for different products. It is expected that in the 1990s, the magnitude of the managed trade among these major trading partners will continue to be reflected clearly in Thai exports. Their increasing recourse to non-tariff barriers like countervailing duties and antidumping duties caused Thai exports to be more affected by managed trade. Apart from other regulations laid down by the Thai government to encourage exporters, the Board of Investment incentives have been one of the major targets for restrictions. This is especially evident as defined in Article 28, which proposes exemption from payment of import duties and business taxes on machinery and equipment. Export packing credits, tax rebates and tax refunds, and electricity discounts have also been factors causing the application of the non-tariff barriers (see Tables 3.2 and 3.3).

Trade figures for the special and differential treatment show that the share of Thailand's exports eligible for GSP have steadily grown in the last few years. The share of total exports eligible for GSP to total exports increased from 14.68 percent in 1985 to 21.28 percent in 1988 (see Table 3.4). The trend of change is even stronger if the importance of manufactured products exported under these preferences are taken into account. When classified in terms of country, it shows that even though the United States is by far the most important single importer, the European Community as a group of countries still represents the most important importer of exports eligible for GSP, accounting for more than half of the total exports qualifying for such treatment each year. In terms of the importance of exports eligible for GSP by country, Japan now ranks second, right after the United States, followed by West Germany, the United Kingdom, France, Italy, the Netherlands, Belgium, Switzerland and for forth (see Table 3.5). When classified in terms of sector, it shows that the United States is also by for the most important importer of manufactured goods from Thailand for the entire period. The European Community imports have a more substantial share of agricultural products than the United States, but manufactured products still account for more than half of the total. And for almost all of the countries, the share of the agricultural sector decreases, while the industrial sector increases (see Table 3.6).

The GSP data presented here needs to be interpreted carefully; otherwise, one can be misled by the facts. In many cases, the exports simply fail to comply with certain regulations in the importing countries, thereby reducing the GSP benefits for the country. Also, the products enjoyed the tariff saving--which is estimated to be around 27 million US dollars--between 1985 and 1987 or 7 to 8 percent of the total exports eligible for GSP to the United States which show an interesting finding on Thai exports benefiting from the GSP benefits in that market (see Table 3.7). This is why one should not overstate the GSP as a beneficent means to develop the country's exports. In fact, rather than gaining certain special and differential treatment for exports by GSP utilization. Compared to the Asian NIEs or other developing countries, Thai exporters would gain another area of advantages in the importing countries. The recent

Table 3.2 Thailand's Export Articles Subjected to the Countervailing Duties from Major Trading Partners.

(Percentage)

Subsidies and Incentives Measures	Ball Bearing(a)		Iron Tubes or Pipes Fitting	Iron Tubes or Pipes	Textiles	Nail	Rice
	US	EC					
1. Corporate income tax exemption according to Investment Promotion Act. article 31.	4.17						
2. Exemption from payment of import duties and business taxes on machinery and equipment according to Investment Promotion Act.article 28.	15.21 (b)	(c)	0.85				
3. Double deduction of foreign marketing expenses according to Announcement of the Board of Investment.no.40/2521. (application for international trading company)					0.01	0.31	
4. Export packing credits.	1.42		0.06		0.69	0.43	0.70 (d)
5. Rediscount of industrial bills.					0.01		
6. Tax certificates for exports.	0.49	(c)	1.37	1.79	0.44	0.26	
7. Electricity discounts.	0.25	(c)	0.66		0.08		
8. Price support and stabilization program							
-Agriculture Marketing Organization.							0.004
-Agriculture Cooperation of Thailand.							0.09
9. Paddy rice mortage program.							0.02
10. Government rice support measures (with special interest rates for rice millers)							0.01
Total	21.54	(c)	2.94	1.79 (e)	1.23 (g)	1.00	0.824 (f)

Notes:
- (a) Ball bearing is subject to countervailing duties charged by the United States and the European Community with other products are charged countervailing duties only by the United States.
- (b) This rate included tax rebates and refunds according to The Investment Promotion Act.article 36(1).
- (c) Being investigated.
- (d) This rate included credit measures on stock credits.
- (e) and (f) Being reviewed for a new rate.
- (g) Since fabrics are under the seperated suspension agreement with the United States , therefore they are not included in this group.

Source: Department of Foreign Trade, Ministry of Commerce.

Table 3.3 Thailand's Export Articles Subjected to the Anti-dumping Duties from Major Trading Partners.

Countries	Products				
	Iron Tubes or Pipes	Iron Tubes or Pipes Fitting	Ball Bearing	Sugar	Gourmet Powder
The United States(%)	15.60(a)	1.70	20.40		
The European Community(%)			(b)		(c)
New Zealand (US$/Ton)				60.00	

Notes: (a) Being reviewed for a new rate.
(b) and (c) Being finalized.

Source: Department of Foreign Trade, Ministry of Commerce.

Table 3.4 Importance of Exports Eligible for GSP in Terms of Total Thailand's Exports.

(Million US Dollars)

Year	Agriculture	%	Industry	%	Total Exports under GSP	Thailand's Total Exports	%
	(1)	(2)=(1)/(5)	(3)	(4)=(3)/(5)	(5)	(6)	(7) = (5)/(6)
1980	209.98	27.83	544.48	72.17	754.46	6513.31	11.58
1981	340.40	38.80	536.95	61.20	877.35	7018.38	12.50
1982	354.51	36.27	622.93	63.73	977.44	6950.75	14.06
1983	289.41	31.34	634.13	68.66	923.54	6373.88	14.49
1984	285.12	29.69	675.17	70.31	960.28	7422.17	12.94
1985	305.79	29.23	740.21	70.77	1046.00	7127.37	14.68
1986	448.48	27.49	1182.95	72.51	1631.43	8876.20	18.38
1987	541.03	21.55	1969.18	78.45	2510.21	11662.90	21.52
1988	676.38	19.90	2721.51	80.09	3397.89	15970.31	21.28

Source: Department of Foreign Trade, Ministry of Commerce.

Table 3.5 Exports Eligible for GSP by Country, Classified in Terms of Country Value by Sector.

(Percentage)

Countries	Agriculture			Industry			Total		
	1986	1987	1988	1986	1987	1988	1986	1987	1988
The United States	13.00	14.08	12.99	28.99	28.71	25.82	24.59	25.55	23.27
Japan	11.34	8.70	8.98	16.64	14.12	18.60	15.18	12.95	16.89
Canada	2.60	3.53	4.30	1.80	1.70	1.62	1.99	2.09	2.15
The European Community	64.14	65.85	64.58	47.79	50.58	48.12	52.29	53.87	51.40
West Germany	24.11	15.90	14.90	14.35	15.43	13.48	17.03	13.54	13.76
United Kingdom	9.41	11.14	10.82	9.29	10.09	9.46	9.32	10.32	9.73
France	10.93	13.16	10.80	6.71	7.48	7.73	7.87	8.70	8.34
Italy	9.07	11.46	12.73	6.17	5.79	5.55	6.97	7.01	6.88
Netherlands	4.70	6.29	5.33	4.09	4.44	4.70	4.26	4.84	4.83
Belgium	2.36	2.98	3.04	4.15	4.06	4.02	3.66	3.83	3.82
Denmark	2.06	2.21	2.18	2.47	2.30	2.14	2.36	2.29	2.15
Spain	0.95	1.93	3.67	0.31	0.58	0.58	0.48	0.87	1.19
EFTA	8.69	7.65	8.36	4.66	4.78	5.78	5.77	5.40	6.30
Switzerland	4.15	2.25	2.70	2.70	2.50	3.02	3.10	2.45	2.96
Sweden	1.80	1.88	1.66	0.58	0.88	1.06	0.91	1.10	1.18
Finland	1.76	2.38	2.80	0.21	0.17	0.26	0.64	0.65	0.77
Austria	0.34	0.54	0.54	0.86	0.65	1.11	0.72	0.87	1.00
Norway	0.65	0.60	0.66	0.31	0.26	0.33	0.40	0.33	0.39
Other	17.61	15.49	17.51	9.44	9.67	11.62	11.72	10.94	12.79
Total(percentage)	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Total(million US dollars)	448.52	541.08	676.38	1183.02	1969.23	2721.51	1631.54	2510.32	3397.89

Source: Department of Foreign Trade, Ministry of Commerce.

Table 3.6 Exports Eligible for GSP by Country, Classified in Terms of Sector by Country.

(Percentage)

Countries	Agriculture			Industry			Total		
	1986	1987	1988	1986	1987	1988	1986	1987	1988
The United States	14.53	11.88	11.11	85.47	88.12	88.88	100.00	100.00	100.00
Japan	20.54	14.48	10.71	79.46	85.52	89.28	100.00	100.00	100.00
Canada	35.85	36.32	39.77	64.15	63.68	60.22	100.00	100.00	100.00
The European Community	33.72	26.37	25.01	66.28	73.63	74.98	100.00	100.00	100.00
West Germany	38.92	22.06	21.55	61.08	77.94	78.44	100.00	100.00	100.00
United Kingdom	27.76	23.27	22.12	72.24	76.73	77.87	100.00	100.00	100.00
France	38.19	32.56	25.77	61.81	67.44	74.22	100.00	100.00	100.00
Italy	35.78	35.22	36.29	64.22	64.78	63.70	100.00	100.00	100.00
Netherlands	30.34	28.00	21.98	69.66	72.00	78.01	100.00	100.00	100.00
Belgium	17.74	16.77	15.81	82.26	83.23	84.18	100.00	100.00	100.00
Denmark	24.06	20.87	20.20	75.94	79.13	79.79	100.00	100.00	100.00
Spain	53.99	47.57	61.32	46.01	52.43	38.67	100.00	100.00	100.00
EFTA	41.42	30.57	26.42	58.58	69.43	73.57	100.00	100.00	100.00
Switzerland	36.22	19.76	18.15	63.18	80.24	81.84	100.00	100.00	100.00
Sweden	54.16	36.90	28.06	45.84	63.10	71.93	100.00	100.00	100.00
Finland	75.87	79.41	72.67	24.13	20.59	27.32	100.00	100.00	100.00
Austria	12.93	13.56	10.71	87.07	86.44	89.28	100.00	100.00	100.00
Norway	44.10	38.83	33.42	55.90	61.17	66.57	100.00	100.00	100.00
Other	41.31	30.52	27.25	58.40	69.34	72.77	100.00	100.00	100.00
Total(percentage)	27.49	21.55	19.90	72.51	78.45	80.09	100.00	100.00	100.00
Total(million US dollars)	448.52	541.08	676.38	1183.02	1969.23	2721.51	1631.54	2510.32	3397.88

Source: Department of Foreign Trade, Ministry of Commerce.

Table 3.7 Tariff Saving of Articles over 100.000 US Dollars Exported under GSP to the United States.

(Thousand US Dollars)

Most-Favoured Nations	1984	1985	1986	1987(Jan-Oct)
Cat. 0.01-5.00 percent	1146.30	1415.40	2755.20	4638.60
	(9.91)	(8.84)	(10.31)	(13.81)
Cat. 5.01-10.00 percent	5296.50	7302.20	14168.60	18527.30
	(45.80)	(43.60)	(53.04)	(55.14)
Cat. 10.01-15.00 percent	1643.50	2719.60	2645.00	2457.40
	(14.21)	(16.98)	(9.90)	(7.31)
Cat. 15.01-20.00 percent	1005.70	994.90	1409.30	1497.60
	(8.70)	(6.21)	(5.28)	(4.46)
Over 20.00 percent	2473.60	3581.90	5733.30	6477.40
	(21.39)	(22.37)	(21.46)	(19.28)
Total tariff saving	1565.50	16014.00	26711.40	33598.30
	(100.00)	(100.00)	(100.00)	(100.00)
Total GSP exports to the United States (millions US dollars)	182.90	227.50	342.70	436.00
Total tariff saving/ Total GSP exports to the United States (percentage)	6.33	7.04	7.79	7.69

Note: Numbers in parenthesis are in percentage.

Source: Chirathivat,S.and S. Tambunlertchai, Effects of the GSP on the Thai Economy, Paper prepared for UNCTAD, 1988 (mimeograph).

United States GSP cut on certain products has certain effects on those products but does not cause a substantial reduction in exports. In fact, the 5 to 10 percent margins of tariff saving is significant for certain exporters, especially new exporters who are newcomers in the field. But for those experienced exporters, the loss of 5 to 10 percent of benefits has to be gained somewhere else--in cost reduction, improvement of product quality, marketing strategy and so forth. In the long run, Thailand may have to graduate one day if the country is upgraded to what we call a NIC status. This is the reason why Thailand defends herself for the benefits it perceives to be getting from GSP utilization in the developed countries. However, Thailand should not be detracted from other more serious and important issues in multilateral trade negotiations with those countries.

In a separate investigation of the implications of the European internal market in 1992 for Thailand, the study has focused on the analysis of the impact on 31 Thai export items to the European Community, which constitute around 60 percent of the total exports. The focus is on the changes in the EC's demand for intra-EC imports, which would have an impact on extra-EC imports, especially for Thailand. The effects of such a program will reduce the price of Thai exports by 1.5 percent, which will occur along with a reduction of 1.6 percent in agriculture, 1.4 percent in manufactures and 7.2 percent in ore (See Table 3.8). Somehow, the structural change in the EC's import demand toward income elastic products will also be substantial enough to offset the reduction of extra-EC imports. In fact, the study 206/ shows that due to 1992, 1 percent additional growth in the EC's GNP per year due to 1992 has been estimated to increase EC real imports of manufactures from developing countries by 5 percent. This means that if the EC 1992 program succeeds as planned, the developing countries as well as Thailand will be able to profit more from their expertise too. Also, the operation of 1992 should not be viewed in an isolated fashion, which may give rise to misleading assessments of conditions of market access of the community after the completion of the internal market. The important events associated with the 1992 program have a direct impact on the results under this study presented as the following:207/ the completion of the Uruguay Round, the GSP reform after 1990, the principles of trade in textiles and clothing after the expiration of MFA IV in 1991, the new Lomé Convention in 1990. Together with the 1992 program, these events are considered important in determining price changes between the domestic supply and the imports of developing countries. This does not include the non-tariff barriers directly or indirectly related to the program, which may be erected in the coming years.

Table 3.8 Result of Changes in Thailand's Exports to the European Community.

(Million Baht)

Products	Thailand's Total Export Value to the European Community (1)	Thailand's Export Value to the European Community (31 items) (2)	% (3)=(2)/(1)	Changes in Thailand's Export Value to the European Community (4)	% (5)=(4)/(2)
Total	66636.3	38633.9	58.0	-571.1	-1.5
Agriculture (63 items)	25288.7	19547.5 (a)	77.3	-295.7 (a)	-1.5
-Agriculture (excluded tapioca pellet)	7154.7	1413.5	19.8	-12.3	-0.9
-Tapioca pellet	18134.0	18134.0	100.0	-283.4	-1.6
Manufacture (170 items)	41347.7	19086.4 (b)	46.2	-231.2 (b)	-1.2
Ore (16 items)	903.1	612.7 (c)	67.8	-44.2 (c)	-7.2

Notes: (a) Agricultural 3 Items
(b) Manufactured 27 Items
(c) Ore 1 Item

Source : Department of Business Economics, Ministry of Commerce and Appendix 2 to 10.

3.2 Responses for the Management of the External Sector of Thailand

3.2.1 The Significance of the World Trade Management System in the Coming Decade

To begin with, the external sector of Thailand is being integrated into the world economic system more and more. The liberalization of the external sector has been clearly shown in its export-oriented trade policy, which has been profitable for the economy as a whole.208/ But as long as Thailand pursues an open economic policy, the country will continue to be strongly affected by external disturbances, causing more concern among involved people from the private and public sectors. Trade protectionism is a top priority on the list for which Thailand is attempting to formulate a wide range of policy options for the coming years. This is because the international trade flows are still concentrated in developed countries--especially the United States, the European Community and Japan, which are Thailand's major trading partners. Moreover, these developed countries have erected trade barriers to protect their own markets from competitive import items. The protection is usually armed with sophisticated trade rules and regulations, defended on the grounds of GATT principles, and carried out at different levels (such as unilateral, bilateral, multilateral, regional or sub-regional and so forth). The methods by which these countries institute these rules and regulations have not always followed GATT principles, but they are not totally unfounded. They have ways of using specialists to interpret and justify their actions until the overall solution satisfies their demand and is up to the GATT standard. This is why developing countries like Thailand are in no way comparable in terms of readability compared to the interpretation or reason these countries give.

Although there are formidable problems in measuring trade barriers, a number of economists do attempt to identify them. They often agree that the course of over seven rounds of GATT negotiations has been successful in reducing the tariffs of different products from the developed countries.209/ The economic difficulties in the 1970s continued in the 1980s and were somehow seriously compromised by the growth of a form of administered protection known as non-tariff barriers (NTBs). It is estimated that in 1981, 13 percent of the imports of industrial countries were subject to "hard core" NTBs, which go beyond voluntary export restrictions and other export restraining arrangements to include import quotas, non-automatic licensing and variable levies. The 1986 estimate of 16 percent is broadly comparable. And if one broadens the definition of NTBs to include state monopolies, import surveillance (including automatic licensing), countervailing duties and anti-dumping provisions, their magnitude is even more compelling.210/

In Thailand's case, the country is facing even more trade barriers from different forms of protectionism in the 1980s, especially from the United States, the European Community and Japan, who are her major trading partners.211/ If Bhagwati and Cline's results (which we just mentioned) are applied, it can be assumed that one-third of Thai exports are already subject to trade restrictions from Thailand's three major trading partners. The magnitude of trade barriers against Thai exports is predicted to be even stronger in the 1990s, as the attitudes of major players are changing. From unilateral action, such as the scope of United States Trade Act of 1988 allowing the United States to apply its section 301; to bilateral economic agreements, such as the United States-Canada Free Trade Agreement and the United States-Israel Free Trade Agreement; and regional cooperation efforts, such as EC single market in 1992, the world trading system now seems to fall into different parts and groups that many specialists call "managed trade"212/ rather than competition.

As the world trading environment keeps changing, yesterday's tenets of "free trade is better than protection" are starting to be revived and are subject to new interpretations. This is because in actual practice, the United States--once the champion of free trade--seems less sure of its actions. The size and persistence of United States trade deficits have caused its politicians to urge that something be done about trade. Section 301 of the 1988 trade Act is nothing else but a unilateral response that threatens trading partners who are "unfair" to the United States. The world's other big trading powers--Western Europe and Japan--are either unable or unwilling to become defenders of free trade, a role that America appears to be ready to give up. The EC 1992 is a continuing regional program dealing with the question of integration, legitimated by Article XXIV of the GATT. This article has created a very large loophole for a wide variety of different kinds of preferential agreements.213/ A recent GATT case might have increased the size of this loophole even more.214/ It appears that EC 1992 is another chapter that could lead to regional unilateral actions, which could affect different countries in the coming decade. Japan, meanwhile, is still continuing with its present status quo policies, which now appear to be far from free trade as a whole. Japan is still going ahead with its unilateral actions against imports from many countries and cannot now be considered a free trading nation.

All of these current developments in the world trading system are far from the free trade system that existed at the end of the Second World War. This is the reason why there is speculation that the world trading system will evolve into the so-called "managed trade" system in the 1990s, with an emphasis on different ways to carry out trade--unilateral, bilateral, regional or sub-regional, multilateral, etc. This point warrants attention, since Thailand, as a developing nation, needs to learn more about dealing with the complexities of trade issues. One might also recall Robert Baldwin's recent studies explaining the many ways in which exporting countries can avoid protection and continue to increase their export earnings.215/ If the above statement is applied to Thailand, the country's executive branch needs to be wise enough to ensure that Thailand keeps all the benefits and gains in some cases.

As the legacy of pure free trade is in reality fading away, a number of economists have also come up with new theories that could lead to new forms and practices of managed trade. They use the justification that protection and lack of free trade for all appears to make good economic sense. Their argument is founded on the premise that free trade makes sense only as long as everyone else "plays the game." But the reality is that the arena is somewhere else--not in the free trade sphere. The importance given to unilateral actions, bilateral trade agreements, regional cooperation or trade blocs suggests that tomorrow's world trading system will rely up on other bases, by trying to bypass multilateral rules of law or by manipulating them.

This is why in recent years there has been considerable development in the theoretical arguments advanced for and against trade intervention. The thinking of most international economists is still dominated by classic arguments for free trade and the gains from it, but it is increasingly being realized that these long-held views are simplistic in view of the different arrangements that have taken place at the unilateral, bilateral, multilateral, regional or sub-regional levels. This reality has caused a broadening of new analyses of trade policy options encompassing the realities of imperfect markets, monopolistic and oligopolistic competition, political considerations, and the possible need to anticipate or respond to the trade policies of foreign governments.216/

Richardson's empirical studies217/ of trade policy under imperfect competition compared with perfect competition find, in many cases, that under imperfect competition, trade gains are larger. If world markets are monopolistic or oligopolistic and if monopoly profits are being made at the expense of either foreign or domestic consumers, then trade intervention could benefit a country; it could seize a larger share of these monopoly profits or encourage profit-seeking motives for protection. The message is this: The effects of free trade under imperfect competition lead to smaller price distortions, the forced exit of inefficient firms and yield gains that usually outweigh the losses. In addition, profits are surrendered to foreigners. The results have provoked the new "strategic trade theory" which generally agrees that putting results to work is dangerous; governments might mismanage the delicate interventions that would be needed, and foreigners could retaliate with interventions of their own.218/ But this has raised doubts about free trade, which bolster the case for protection in the minds of many politicians. So the new theory of strategic trade turns out to offer little comfort at all to protectionists. The empirical work it has prompted so far shows that free trade is not just best, but even better than you always thought.219/

The development of the strategic trade theory is in fact a reflection of the issue of managed trade, which has become increasingly important among international economists in recent years. Such ideas and the way that they are used to justify the actions and policy options of different countries are projected to remain popular trade policy issues throughout the 1990s. In this regard, Thailand should find its own policy somewhere between protection and free trade. It will probably fall somewhere in the imperfect competition category, as the general world trading system suggests that tendency. As the managed trade220/ of developed countries will surely have an impact on export-oriented industries such as Thailand's. Thailand is far more involved than in the past, and it is therefore crucial that the government closely follow such developments--both in idea and in practice--thus allowing the formulation of necessary policy regarding the industries that would be affected by such changes.

3.2.2 Strengthening Thailand's Trade Negotiations in World Economic Management

It is now clear that the world trading system is expected to move toward managed trade, as the export restrictions and other arrangements have broadened more and more in their coverage, value and number. Most economists assume that its present degree will continue, if not climb even further, in the 1990's. In Thailand's case, the share of managed trade to overall exports with three major trading partners--namely, the United States, Japan and the European Community--covers around one-third (or 18.1 percent of the overall exports). The same share is expected to grow due to the overall trading environment and the larger role that Thailand is beginning to play in the world economy. There is no doubt that all major sectors will be increasingly exposed to external disturbances. At the same time, the country needs to strengthen its ability to adjust to the recent new management.

In Thailand, it is generally agreed that the country has moved more to the forefront of various issues in multilateral trade negotiations. This is far different from the past, when Thailand was preoccupied only with bilateral solutions while other countries made unilateral actions depending up on the situation they faced with trading partners. Such a situation was characterized by Thai diplomatic methods in dealing with bilateral relations with trading partners before Thailand become a full signatory GATT member in 1982. Since then, Thailand has been involved in most issues about multilateral trade negotiations. This spirit has been apparent throughout the present round of GATT negotiations. Although, it is not apparent what Thailand can really gain from the negotiations of fifteen old and new issues; however, most people would agree that Thai officials, in particular, and public opinion, in general, have displayed more awareness in multilateral management than ever before. The complexities of world management systems require more open-mindedness on the part of those people involved in these areas rather than their concentrating on specific issues without enlarging their views accordingly. The agricultural issue is one area in which Thailand's participation in the Cairns Group has at least succeeded in provoking the revision of subsidies and countervailing issues, including the principle of better market access to products from the developing countries. This is expected to bring major changes in multilateral management in these areas. Somehow, the results of other issues--achieved from the present MTN round such as safeguard VERs, trade in services, trade-related investment measures and trade-related aspects of intellectual property--are still difficult to assess. The mid-term review was in part jeopardized, and this can cause a delay in overall efforts in filling the gap of unbalanced multilateral management in these areas.

For the moment, as Thailand is well aware of the usefulness of multilateral management, it should continue to strengthen opinions on different issues of concern in development in GATT. At the same time, as GATT is itself limited, as an organization, to deal directly in unilateral and bilateral issues, Thailand needs to learn the best way to use these principles to solve unilateral actions in bilateral relations with trading partners. Similar experiences by Asian NIEs, ASEAN or other countries should be openly welcomed. Susceptibilities and flexibilities are important qualities needed for coping with these matters. For example, while Thailand is facing more unilateral actions from the United States, the country should enter negotiations on a series of issues concerning the bilateral relationship. The careful evaluation of the overall impact, the liberalization of goods and services to follow, and the coordination and decision making of agencies concerned are then very important. In Japan's case, Thailand may need to react differently to Japanese unilateral actions. Thailand can negotiate more easily with multilateral principles in order to bring down Japanese trade barriers--which are considered to be gray area measures and are important NTBs exercised in Japanese trade policies vis-a-vis third countries, including Thailand. Meanwhile, for other regional or sub-regional managements such as the EC in 1992, the United States-Canada and The United States-Israel, Thailand has yet to sufficiently assess these arrangements, which have already taken place and which seem to be increasing their importance in managed trade compared to the usual methods of trade. Thailand also needs to exercise itself more in regional or subregional fora, such as ASEAN or Asia-Pacific Cooperation, in solving the general and specific issues of concern to the region as well as to the individual countries. There should be continuing efforts in promoting the fora within a scope such as ASEAN-United States Initiatives, ASEAN-EC Economic Agreement, etc., which aim at improving the trading management of both parties concerned. The cooperative efforts within ASEAN regarding world economic management are important steps toward better responses to the changing environment to which Thailand should give importance.

Regarding the internal structures for strengthening Thailand's trade negotiations, the existing structure and administration of different departments and agencies--both from the public and private sectors and who are directly or indirectly involved in international trade--must continuously adapt themselves to this change. Apparently, some are more capable of doing this than others. However, in overall terms, all departments and agencies are faced with different sets of difficulties, although they all have realized the importance of changing management systems affecting the work of their units. Good human resources and a capable staff to handle the right job are perennial problems in the middle management of the Thai bureaucracy. The day-to-day management of unilateral, bilateral, regional or subregional, and multilateral issues is done separately by the middle management of different departments and agencies--especially the Ministry of Commerce and the Ministry of Foreign Affairs. They will not be able to do much in-depth analysis of pertinent issues for Thailand. This is because their personnel are overloaded with routine job assignments, causing a lack of direction and available time to assume or to explore complex issues or new ideas and approaches to important issues. The middle management is thus in a situation in which they accept the formed separation of unilateral, bilateral, regional or subregional multilateral issues by their chiefs, whose particular ideas and specifications have to be followed. In practice, almost all issues will be initiated by the Ministry's top-level people. Meanwhile, the top-level people at the Ministry of Commerce--from the Minister himself, to the director-generals of the different departments--are also overloaded by all the issues proposed to them. They often have to consult different public and private organizations or to set up *ad-hoc* groups for particular consultations on different trade matters. The Ministry of Foreign Affairs, though it differs in nature from the Ministry of Commerce, is also faced with a small number of experts and a lack of commitment, mainly due to the rotation of duties between domestic and international assignments. Although the ministries are still able to carry on different trade negotiations, in practice, the formulation of different policy issues still faces a lack of coordination between the ministries themselves. Representation based on hierarchy often implies the involvement of high-ranking people who have too many responsibilities, preventing them from meeting specific objectives and targets.

Thus, the first step is to strengthen Thailand's trade negotiations of from a domestic management point of view. Thailand needs to continue to attack the primary problem of expert deficiency and/or the right working groups or supporting staff in the different ministries or agencies concerned. There should be a way to promote the coordination of these agencies and to establish a firm framework or strategy for different matters of concern. The creation of the equivalent of the Office of Trade Representatives of Thailand is the Chatchai Government's new initiative to give importance to the management of international economic and trade relations. The objectives are mainly to determine policy, plan strategies and strengthen Thailand's position in international economic relations, including more effective trade negotiations on bilateral, regional and subregional, and multilateral bases. The Committee on International Economic Relations has been set up and is comprised of high-ranking officials, with the prime minister as president and vice-premier minister as president on an occasional basis. There exist other subcommittees that are working closely with the Central Committee on GATT, UNCTAD, Thai-United States economic and trade relations, Thailand-Japan economic relations, Thailand-EC economic and trade relations, and ASEAN economic policy coordination. There also exist different working groups and other related government agencies, such as the Export Development Committee and the Board of Investment, to assist different initiatives of the Central Committee.

For the moment, the new initiatives designed to complement the work of the different ministries and agencies concerned are not very effective in practice. The function has served to strengthen Thailand's trade negotiations on certain issues. But in other areas, the committee's work has been influenced by politicians in government, which has caused some conflicts among the different parties concerned. The coalition government of political parties has a great deal to do with the decision making and the direction of different trade negotiation issues brought to them. In general, they act upon them in the interests of the nation, or they are influenced by political parties on their approaches in these issues. In the short term, there seems to be no major change at the top, especially those people who are responsible for strengthening Thailand's trade negotiations. But in the long run, Thailand should design a far-reaching perspective about the best possible way to organize and thus strengthen the country's position in association with the increasing role of managed trade to which the country has been exposed in world trade management systems.

3.2.3 Trade Strategy and Policy Options in Some Important Areas

As Thailand's external sector has become more involved with changing world management systems, Thailand needs to accordingly adjust policy inwardly and outwardly. To accomplish this, Thailand needs to address trade strategies and policy options in different sectors and in important issues.

For agriculture, Thailand's interests are best defended with the principle of MFN. The advocation of Thailand to the Cairns Group was successful in bringing this issue to a wider discussion on GATT. Thailand should continue to rally with this group until the United States and the European Community lower the subsidies level into GATT's definition. At the same time, there should be a greater transparency of NTBs toward the market access of agricultural products. The EC is by example still maintained in the Common Agricultural Policy (CAP), which is in part causing restrictions (VERs) on the trade of Thai cassava. This situation has caused Thailand to defend itself on the basis of multilateral principles in dealing bilaterally with the EC. The European single market in 1992 will not change the substance of the CAP. Japan, on the other hand, often raises the protection of the agricultural sector by means of high standards, compared to the other countries. Japanese unilateral actions for different products are quite obvious in practice but are justified in the context of Japanese laws, which are difficult to argue with, according to the multilateral principle. Thailand and other countries then must apply pressure jointly to make it more susceptible in receiving more products from other sources outside her boundaries. For agreements on commodities such as rubber, coffee, tin and sugar, Thailand needs to continue to participate in these arrangements in order to get the benefits from quotas allocated to the country.

The manufacturing sector is one area where Thailand has recently strongly fulfilled export targets to different countries. At the same time, it appears that the success in lowering tariff rates during the past trade negotiations has had a major impact on growth in NTBs in developed countries. The United States and the European Community are the two major trading partners that have brought a number of cases on AD and CVDs. This is precisely the area in which Thai products are faced with more difficulties when subject to these AD and CVDs, especially in these two markets. Looking toward the future development of Thailand's manufactured exports, the country should be more ready to adjust to these kinds of regulations against our own merchandise. The different kinds of subsidies in the country should be reduced, while allowing more competition to improve the costs of production, quality and product standards. For the special and differential treatment--mainly, the GSP--Thailand should continue to defend its interests on this issue in the multilateral fora. At the same time, the country needs to negotiate bilaterally with trading partners in cases where they might exchange with other benefits involved in other issues. This issue should be of particular interest to Thailand for products such as textiles and clothing, as Thailand's exports of these products are now the highest among ASEAN countries. Whether or not to continue with the MFA is a very sensitive issue; Thailand needs to clearly define strategy and trade policy options at the domestic level as well as to consider regional perspectives. The future courses of action would be to continue with the MFA but also be subject to larger negotiations to get greater quotas; or to conclude bilateral quota agreements with major importing countries, such as the United States and the EC. Also, Thailand should prepare itself to deal with the limitations on imports by quotas in developed countries in a way similar to the trade in textiles and clothing and many other products. On the trade-related investment measures, Thailand needs to identify different types of investment measures for initial examination in the negotiations, including local content and export performance requirements of manufactured exports. This is because Thailand has now largely promoted its export-oriented industries, which are corresponding to the development of this new issue in the negotiations.

For trade in services, this issue has been raised within the present framework of the GATT, by the request of the Group of Ten. Since the issue is new in multilateral talks, the work of the negotiating group is essentially devoted to time and effort in the definitions of services terminology and in validaling the different sources of rather unorganized statistics. With the wide range of proposals and controversial issues, it is anticipated that this group is making little headway. From this point of view, one might even assume that the work of this group will become detached from the spirit of present multilateral negotiations. This has increased the worries of developing countries, including Thailand, concerning pressures from industrial countries that are exercising management systems in very conflicting ways. Thailand understands reasonably well that the service sector includes a wide range of subsectors such as banking, insurance, transport, telecommunications, tourism, labor, and so forth, and that some subsectors are doing well for exports while others have to depend on imports. Many developing countries are in a situation in which they are able to sell services mainly in tourism and labor, while generally, they still need to develop other subsectors further by linkage with developed countries. Furthermore, in Thailand's case one can see that the service sector is also connected in great part with the exchange of goods or with investments that are not regulated by GATT, and thus cannot be easily understood or dealt with separately. This is another important issue for which

Thailand should prepare a strategy and trade policy options against the cross-border reciprocity of trade in services, which may arise from the demand of developed countries. Thailand should alleviate fears by always demanding time to consider this new area of progressive reciprocity. Somehow, given the importance GATT's multilateralism to the management system of the exchange of goods, it can be expected that the negotiations should advance in trade in services related to the exchange of goods.221/ Thailand should take a special concern in this matter and should always seek an in-depth understanding before making any commitment or taking a position in multilateral or bilateral agreements. This would avoid the disadvantages that might cause difficulty relating to international competition in the service sector.

FOOTNOTES

1/

See Part I.D, Subjects for Negotiations of the Ministerial Declaration on the Uruguay Round Sidney Golt, The GATT Negotiations 1986-90: Origins, Issues & Prospects. The British-North American Committee, 1988, pp. 23-53.

2/

See Part I.B, General Principles Governing Negotiations of the Ministerial Declaration on the Uruguay Round.

3/

Negotiation on Agriculture, The Uruguay Round, Department of Business Economics, Ministry of Commerce, 1988, pp. 4-6; Sidney Golt, op.cit., pp. 28-34; HOEK MAN, "Agriculture and the Uruguay Round"; Journal of World Trade, vol. 23, No.1, 1989.

4/

Mid-term Review Agreements on Agriculture; News of Uruguay Round, 24 April 1989, pp. 9-13.

5/

Article XVI (3) stipulated that, "Accordingly, contracting parties should seek to avoid the use of subsidies on the export of primary products. If, however, a contracting party grants directly or indirectly any form of subsidy which operates to increase the export of any primary product from its territory, such subsidy shall not be applied in a manner which results in that contracting party having more than an equitable share of world export trade in such trade in the product during a previous representative period, and any special factors which may have affected or may be affecting such trade in the product.

6/

Mid-term Review Agreement on Agriculture: Sanitary and Phytosanitary Regulations; News of the Uruguay Round, 24 April 1989, p.13.

7/

The Outcome of the Mid-term Review on the Multilateral Trade Negotiation, Montreal Canada, Department of Business Economics, Ministry of Commerce, 1989, p. 3-4.

8/

Brian HINDLEY, "The VER System and GATT Safeguards," Paper 8 of Trade Conference on the Role and Interests of the Developing Countries in the Multilateral Trade Negotiations; The World Bank and Thailand Development Research Institute, 1986, pp. 1-37. Surakiart SATHIRATHAI, Thailand and International Trade Law The Graduate Institute of Business Administration, Chulalongkorn University, 1987; p. 47.

FOOTNOTES (continued)

9/
Article XVI (4) of GATT stimulated that "Further, as from 1 January 1958 or the earliest practicable date thereafter, contracting parties shall cease to grant either directly or indirectly any form of subsidy on the export of any product other than a primary product which subsidy results in the sale of such product for export at a price lower than the comparable price charged for the like product to buyers in the domestic market.

10/
Article 20 (d) of GATT said that "Subject to the requirement that such measures are not applied in a manner which would constitute a means of arbitrary or unjustifiable discrimination between countries where the same conditions prevail, or a disguised restriction on international trade, nothing in this agreement shall be construed to prevent the adoption or enforcement by any contracting party of measure:
(a)..............
(b)..............
(c)..............
(d) necessary to secure compliance with laws and regulations which are not inconsistent with the provisions of this agreement, including those under paragraph 4 of article 11 and article XVII, the protection of patents, trade marks and copyrights, and the prevention of deceptive practices..."

11/
Mid-term Review Agreement on Trade-related Aspects of Intellectual Property Rights, Including Trade in Counterfeit Goods; op. cit; p. 21-22.

12/
The Outcome of the Mid-term Review on the Multilateral Trade Negotiation, Montreal Canada, Department of Business Economics, Ministry of Commerce, 1989; p. 10-11.

13/
Mid-term Review Agreement on Dispute Settlement; op. cit. pp. 24-31.

14/
Sidney Golt; op. cit; pp. 44-48; Surakiart SATHIRATHAI, "Thailand and International Trade Law" op. cit., p. 55.

15/
Deepak NAYYAR, "Some reflections on the Uruguay Round and Trade in Services"; Journal of World Trade; vol. 22, No. 5, 1988; p. 38.

16/
Ibid; p. 39-49.

FOOTNOTES (continued)

17/ Article 1 (b) of the Protocol specifies that Part II of GATT shall be applicable to contracting parties in so far as it is not in contradiction with the existing laws such as the Tariff Act 1930, Agricultural Adjustment Act 1933. This exemption clause is known as "The Grandfather Clause".

18/ George MERLOZ, LA C.N.U.C.E.D., Droit International et Developpement; Bruylant Bruxells 1981; p. 23.

19/ Mohamed BENNOUVA, Droit International du developpment, BERGER-LEVRAULT, 1983, pp. 163-169; Nicole LUSSON-LEROUSSEAU, Les accords de products de base instruments de rigulation des Marches"; Revue Generale de droit international public, 1981; The seven commodities agreement are as follow: International Natural Rubber Agreement, International Tropical Wood Agreement, International Sugar Agreement, International Coffee Agreement, International Agreement for Jute and Jute Products, International Tin Agreement, International Cacao Agreement.

20/ Robin Trevor TAIT, George N. Sfeir, The Common Fund for Commodities", the George Washington Journal of International Law and Economics. Vol.16. No.3. 1982. p.511-517. Poungrat Asawapisit, "The Common Fund" Department of Business Economics, Ministry of Commerce, p.15-16. Reynolds, "International Commodity Agreements and the Common Fund" Praeger Publishers. 1978.

21/ Poungrat Asawapisit, "The Command Fund" op.cit, Annex 4 See Draft Bill for functioning the Common Fund for Commodities.

22/ Cherian, "Investment Contracts and Arbitration, the World Bank Conventing on the Settlement of Investment Dispute", the Catholic University of America, Washington 1975.

23/ Commentary to the draft outline of the convention establishing, The Multilateral Investment Guarantee Agency. October 1, 1984. p.2. See Article 2: Objective and Purpose of the convention establishing the Multilateral Investment Guarantee Agency. See also Jurgen Voss; The Multilateral Investment Guarantee Agency: Status, Mandate, Concept, Features, Implications, Journal of World Trade Law, Vol.21. No.4. 1987. p.5-23.

24/ The expiration of the present agreement has been extended by the Protocol extending The Arrangement Regarding International Trade in Textiles.

FOOTNOTES (continued)

25/

See Article 1 (5) of the Multifibre Arrangement 1973. The definition of market disruption was specified in Annen A as follows : The determination of a situation of "market disruption", as referred to in this Arrangement, shall be base on the existence of serious damage to domestic producers or actual threat thereof. Such damage must demonstrably be caused by the factors set out in paragraph II below and not by factors such as technological changes or changes in consumer preference which are instrumental in switches to like and/or directly competitive products made by the same industry, or similar factors the existence of damage shall be determined on the basis of an examination of the appropriate factors having a bearing on the evolution of the state of the industry in question such as; turnover, market share, profits, export performance, employment, volume of disruptive and other imports, production, utilization of capacity, productivity and investments. No one or several of these factors can necessarily give decisive guidance.

26/

See Article 1(5) of the MFA 1973.

27/

Article 4 (2) : Participating countries may conclude bilateral agreements on mutually acceptable terms in order to eliminate real risk of market disruption in importing countries and disruption to the textile trade of exporting countries.

28/

Article 4 (3) of the MFA 1973.

29/

National Economic Research Institute: "The Japanese Economy in the year 2000-- The Possibility of a Broad Regional Economic Sphere." August, 1988.

30/

Peter Drysdale, "International Economic Pluralism": Economic Policy in East Asia and the Pacific, "Allen & Unwin Sydney, Wellington London Boston in association with the Australia-Japan Research Center, Australian National University, pp.63-65.

31/

Ministry of International Trade and Industry, "Outline of the ASEAN-Pacific Economy." August 1989 pp. 4-5.

32/

Fu-chen Lo (ed), "The Challenge of Asia-Pacific Co-operation," Association of Development Research and Training Institutes of Asia and the Pacific. See article of Nishikawa Jun, "Toward Intersified Functional Co-operation in the Asia-Pacific Region, "pp.23-36."

FOOTNOTES (continued)

33/ See Peter Drydale, ibid., pp.61-83.

34/ Ministry of International Trade and Industry, "Report of the Council for the Promotion of Asia-Pacific Cooperation, "June 1989. Bradley's proposal is to build a trading Bloc in the region.

35/ ibid.,

36/ Hadi Seodastro, "Institutional Aspects of ASEAN-Pacific Economic Co-operation," report on ASEAN-Pacific Economic Co-Operation, Bangkok, June 1982.

37/ Marc-Stanislas KOROWICZ, Organizations international of souverainetc" des Etats members; Paris Pedene 1964; pp. 29-34.

38/ Stephen George, Politics and Policy in the European Community" Clarendon Press Oxford, 1985; pp. 1-6.

39/ Europe without frontiers: Completing the Internal Market, European Documentation, 1988 p. 10.

40/ Ibid, pp. 12-14.

41/ Roland Bicber, "On the Mutual Completion of Overlapping Legal Systems; the Case of the European Communities and the National Legal Orders" European Law Review 1988, vol 13 No.3; pp. 147-158.

42/ Guide to the EEC Internal Market, Association of German Chambers of Industry and Commerce, 1988, p.16.

43/ Guide to the EEc Internal Market, op. cit, pp. 19-23; Europe without frontiers, op.cit, pp 39-51.

44/ Europe without frontier, Ibid, p.44.

45/ Completing the Internal Market: White Paper from the Commission to the European Council; Commission of the European Communities, 1985; pp. 29-30.

FOOTNOTES (continued)

46/ <u>Guide to the EEC Internal Market</u>, op. cit, p. 36.

47/ See Article 148 of Treaty of Rome.

48/ The community legislation can be categorized in four groups as follows regulation, Directive, Decision and recommendation. Regulation is a law which is binding and directly applicable in all member states without any implementing national legislation. Both the council and the commission can adopt regulations. Directive is an EC law binding an the member states as the result to be achieved, but the choice of method is their own. Decision is binding entirely on those to whom it is addressed. No national implementing legislation is required. Recommendation has no binding effect (it is not a law). Recommendation can be adopted by both the council and the commission.

49/ See Article 6, chapter II, Section I of the Single European Act 1986.

50/ Roland Bieber, "Legislative Procedure for the establishment of the Single Market," Common Market Law Review, vol. 25 no4 1988, p.714.

51/ See article 237, 113, 238 of the treaty of Rome.

52/ See Article 30(1) SEA.

53/ See Article 30 (2) (a) and (c).

54/ David Freestone and Scott Davidson, "Community competence and Part III of the Single European Act", Common Market Law Review, vol.23 1986, pp. 798-799.

55/ Onno Brouwer, "Free Movement of foodstuffs and quality requirements: Has the commission got it wrong?"; <u>Common Market Law Review</u>, vol 25, No.2, 1988; p. 249; See also <u>A New Community Standards Policy</u>, <u>the New Approach in Harmonization</u>, commission of the European Communities, December, 1988.

56/ See article 100 A of the Single European Act 1986 and Ehlermann, "the Internal Market following the Single European Act," <u>Common Market Law Review</u>, vol 26 1987; pp.361-403.

FOOTNOTES (continued)

57/
A New Community Standards Policy; op.cit, p.57.

58/
Ibid; for food additives: extraction solvents, Council Directive 88/344/EEc of 13 June, 1988.; Additives: emulsifiers, stabilizers, thickeners and gelling agents, Council Directive 86/585/EEc of 20 December, 1985; Additives: emulsifiers, stabilizers, thickness and gelling agents, Council Directive 86/102/EEc of 24 March, 1986; Contact materials, Council Directive 88/xxx/EEc of 21 December 1988; Contact materials: testing, Council Directive 85/572/EEc of 19 December 1985; Labeling, presentation and advertising; Proposal for a Council Directive amending Directive 79/112/EEc on the approximation of the laws of the Member state; Foodstuffs for particular nutritional uses Proposal tends to amend and codify the existing Directive (77/94/EEc); Foodstuffs for particular nutritional uses: infant and follow-up milks, Proposal for a Council Directive. On the approximation of the law of the member states relating to infant formula and follow-up milk; official inspection of foodstuffs, proposal for a Council Directive on the official inspection of foodstuffs; sampling and analysis of foodstuffs, Council Directive 85/591/EEc of 20 December 1985; Quick frozen food, Council Directive 88/xxx/EEc of 21 December 1988; Fruit juice and similar products, Proposal fora Council Directive amending for the third Five Directive 75/726/EEc; Fruit jams, jellies and marmalades and chestnut puree, Council Directive 88/593/EEc of 18 November 1988; Compulsory nutrition labeling, Proposal for a Council Directive; Nutrition labeling rules for foodstuffs, Proposal for a Council Directive; Tradition of foodstuffs, Proposal for a Council Directive.

59/
Proposals for a Council Directive on the official inspection of foodstuffs. See A new community standard policy-The new approach in harmonization food etc-, commission of the European community, December 1988, p.85.

60/
See Council Directive 85/591/EEc of 20 December relative to sampling and analysis of foodstuffs.

61/
Brouwer; op.cit, pp. 238-245.

62/
Ibid, P. 239.

63/
A New Community Standards Policy (Toys), Council Directive 88/378/EEC of 3 May 1988.

FOOTNOTES (continued)

64/

Bureau of Agricultural Economies, Commonwealth of Australia, "Agricultural Policies in the European Communities: their origins, Native and Effects on Production and Trade" Policy Monograph 2, Australian Government Publishing Service; Utrich Koester, "Policy option for the grain Economy of the European Community : Implication for developing Countries, "Research Report No.35, International Food Policy Research Institute.

65/

Article 10 of the International Convention on the Harmonized 1983 stipulated that

1. Any dispute between Contracting Parties concerning the interpretation an application of the Convention shall, so far as possible, be settled by negotiation between them

2. Any dispute which is not so settled shall be referred by the Parties to the dispute to the Harmonized System Committee which shall thereupon consider the dispute and make recommendation for its settlement

3. If the Harmonized System Committee is unable to settle the dispute, it shall refer the matter to the Council, which shall make recommendations in confirmity with Article III (c) of the Convention establishing the Council

4. The Parties to the dispute may agree in advance to accept the recommendations of the Committee and the Council as binding.

66/

See Article 1. on protocol renewing the cooperation agreement between the European Economic Community and the Kingdom of Thailand an manioc production, marketing and trade, said that a cooperation agreement shall be extended for a four-year period starting on January 1987

It shall thereafter continue to apply for the subsequent four-year period based on the quantities established for the four-year period, January 1987 to 31 December 1990, if it is not denounced by either party at least one year before expiring date of the initial or any subsequent four-year period. A denunciation will take effect at the end of the four-year period in which it has been notified.

67/

For detail relevant to importers and exporters questionnaires, see EEC Dumping Law: An Introductory Guide, CLIFFOR CHANCE, 1988, pp. 20-21.

68/

All these proceedings are founded by Council Regulation No. 2433/88 of 11 July 1988 on protection against dumped or subdidized imported from countries not members of the European Economic Community.

FOOTNOTES (continued)

69/

These areas will be corresponding with the scope of activities of five ASEAN economic committee as follows:

- Committee on Trade and Tourism (COTT)
- Committee on Industry, Minerals and Energy (COIME)
- Committee on Food, Agriculture, and Forestry (COFAF)
- Committee on Transportation and Communication (COTAC)

The matter of ASEAN economic cooperation will be conducted by ASEAN Economic Ministers (AEM).

70/

Ooi, G.T. "Toward a Liberal Trade Regime," in ASEAN Series, Institute of Strategic and International Studies (ISIS), Malaysia, 1986.

71/

See Seiji Naya, Towards an ASEAN Trade Area, Institute of Strategic and International Studies (ISIS), Malaysia, 1987, pp. iii-iv.

72/

Exclusion lists mean a list containing products that are excluded from the extension of tariff preference under ASEAN PTA.

73/

Protocol of Improvements on Extension of Tariff Preferences under the ASEAN Preferential Trading Arrangements (Annex IV), in Summary Record of the Meeting of the ASEAN Economic Ministers, Manila, 14-15 December 1987 (unpublished).

74/

See Memorandum of Understanding on Standstill and Rollback on Non-tariff Barriers among ASEAN Countries, in Summary Record of the Meeting of the ASEAN Economic Ministers, 14-15 December (unpublished).

75/

This is by (a) facilitating the establishments of AIJVs through a pre-approved list of products (b) allowing non-ASEAN equity of up to 60 percent in AIJV projects (until 31 December 1990) subject to 5 percent equity from each participating ASEAN country and (c) expanding incentives and privileges under the scheme. Also the Margin of Preferences (MOP) for AIJV products is increased from a minimum of 75 percent to a minimum of 90 percent. The waiver period of MOP is extended from 4 years to a maximum of 8 years for the non-participating countries that are unable to give reciprocal MOPs. See more details in Mohamed Ariff, "The Changing Role of ASEAN in the Coming Decades: Post Manila-Summit Perspectives, in Miyo-Rei Shinohara and Fu-chen Lo, Global Adjustment and the Future of Asian-Pacific Economy, IDE and APDC, 1989, pp. 159-161.

FOOTNOTES (continued)

76/
In 1988, a total of 1679 items were removed from the exclusion lists and introduced into the PTA program with a minimum MOP of 25 percent. This brought the total number of PTA items to 1452. In addition, a total of 3261 items from the existing PTA List were accorded deeper MOP. When the current 1989 program is completed, another 335 items will be removed from the Exclusion List and Another 2848 existing PTA items will enjoy further deepening of MOP.

77/
Mohamed Ariff, "The Changing Role of ASEAN in the Coming Decades: Post-Manila-Summit Perspectives." in Miyo-Rei Shinohara and Fu-chen Lo, p.163.

78/
See "Revised Basic Agreement on ASEAN Industrial Joint Ventures"

79/
Mohamed Ariff, "The Changing Role of ASEAN in the Coming Decades: Post-Manila-Summit Perspectives, in *Miyo-Rei Shinohara and Fu-chen* Lo, p.163.

80/
Seiji Naya, "The Future of ASEAN Economic Cooperation: Implications of the Changing World Environment," Paper Prepared for the Seminar on "ASEAN after the Third Summit : Issues and Prospects", NIDA, Bangkok, February 6-7, 1989, pp. 14-16.

81/
Ibid., p.15.

82/
"An Asian Common Market", Asiaweek, May 19, 1989, p.38 and the proposal of US Secretary of State Baker which reinstated "Pacific Rim Economic Cooperation is an idea whose time has come.-- Building a consensus to turn these ideas in to reality is a top item on our agenda." Remarks to ASEAN Post Ministerial Conference, July 7, 1989, official text of the US Information Service. (unpublished).

83/
Mohammed Ariff "The Changing Role of ASEAN in the Coming Decades: Post-Manila Summit Perspectives", published in Global Adjustment and the Future of Asian-Pacific Economy, edited by Miyoher Shinohara and Fu-chenho, IDE and APDC, 1989, p.167.

84/
ASEAN should further explore and develop how to best minimize weaknesses and maximize strengths and possibilities in dealing with different countries.

FOOTNOTES (continued)

85/ Although the US is now considered ASEAN's largest export market.

86/ Seije Naya, The Future of ASEAN Economic Cooperation: Implications of the Changing World Environment, Paper Prepared for the Seminar an "ASEAN after the Third Summit: Issues and Prospects", NIDA, Bangkok, February 6-7, 1989, p.15-16 (unpublished).

87/ This is why to compensate with the rising yen, the interest rate on AJDF is reduced to the level of 2.5 percent, which is below the nominal OECF rates.

88/ Supachai Panitchpakdi, "Japan, ASEAN and Thailand: Future Financial Relations," Paper Prepared for Conference on "International Dimensions of Japanese Financial Development: Implications on ASEAN and Thailand", March 18-19, 1989, p.1 (unpublished).

89/ "The Yen Block: A New Balance in Asia?" The Economist, July 15, 1989 (a special survey).

90/ "Tensions Across the Pacific," Asian Business, May 1989, pp.50-51.

91/ Stephen D. Cohen, "The US Trade Act: A Market-opening Initiative, Economic Impact, 2nd Quarter, 1989, pp.20-25.

92/ The eight-nation list includes Brazil, India Mexico, China, South Korea, Saudi Arabia, Taiwan and Thailand, Bangkok Post, May 27, 1989, p.3.

93/ On the basis that the country is no longer engaged in good faith negotiation or no longer making satisfactory progress.

94/ Bangkok Post, August 17, 1989, p.16.

95/ "The European Community and ASEAN," Europe Information, (External Relations), 92/88, p.1.

FOOTNOTES (continued)

96/
Compared to Japan and the United States, which took part of 26.8 percent and 24.7 percent of ASEAN's exports respectively "The European Community and ASEAN", Europe Information (External Relations), 92/88, p.2.

97/
In 1986, the Community accounted for 16.5 percent of ASEAN's total imports while Japan and the US take a part of 26 percent and 19.1 percent respectively.

98/
The Community is linked to 66 African, Caribbean and Pacific (ACP) countries by a unique trade, cooperation and aid pact which is considered to be a model approach to North-South cooperation. Under the Lome Convention, virtually all products originating in the ACP countries receive free access to the Community market. The convention guarantees the ACP countries stable export earnings from their agricultural products (STABEX) and also for certain mining products (SYSMIN), thus shielding them against fluctuations in world market prices.

99/
"The European Community and ASEAN". Europe Information (External Relations), 92/88 op.cit.

100/
Australia, New Zealand and Canada

101/
Joint Communique of the Twenty-Second ASEAN Ministerial Meeting, Bandar Seri Begawan, 3-4 July, 1989 (unpublished).

102/
The two-way trade with ASEAN stood at 6.5 billion US dollars in 1988 with a trade deficit of 400 million US dollars with the region while, the volume of trade between South Korea and ASEAN countries amounted to 3.13 billion US dollars during the first half of 1989. Bangkok Post, August 22, 1989, p.5.

103/
The investment in ASEAN stands at 450 million US dollars in 347 projects, most of them in labor-intensive industries, Bangkok Post, ibid, p.5.

104/
Japan As It Is, GAKKEN Co.,Ltd., 1985, p.200. White paper on International Trade, JETRO, 1986 pp.53-54.

FOOTNOTES (continued)

105/
White paper on International Trade, op. cit, pp.45-50 (Reforming Japan's Economic Structure to Contribute to the International Community).

106/
Genko Yunyu Seido Tchiran (Present Import System Check in a Glance), **TSUSHO SANGYO CHOSA KAI** (Trade and Industry Inspection Association), 1988.

107/
Article 1 of Japan's Customs Tariff Law.
provided that:
"This Law shall provide the rates of customs duties, the basis for assessment of customs duty, the reduction of and exemption from customs duty and other matters relating to the customs system."
Article 22
provided that:
"For the purpose of investigation and deliberation of any amendment to the annexed tariff and any other important matters relating to the rate of customs duty, upon referral from the Minister of Finance, there shall be established the Customs Tariff Council as an auxiliary organ of the Ministry of Finance.

2. The Customs Tariff Council may submit to the Minister of Finance recommendations on the matters relating to the rate of customs duty.

3. The Customs Tariff Council shall consist of not more than forty-five members.

4. The members of the council shall be appointed by the Minister of Finance from among persons for learning and experience in the fields of finance, industry and trade, etc. and the staffs of administrative agencies concerned. The term of membership shall be two years. However, any member may be reappointed.

5. The member who was elected as Chairman of the Customs Tariff Council by mutual vote among the members ahll preside over the affairs of the Council.

6. The member who was elected as Chairman of the Customs Tariff Council by usual vote among the members shall preside over the affairs of the council.

7. Matters necessary for the organization and the management of the Customs Tariff Council, other than those provided for in the proceeding paragraphs, shall be prescribed by a Cabinet Order."

108/
Sengo Nihon no Atsuryoku Dantai (The Pressure Group in Japan after World War II), Muramatsu Micho, Itoh Mitsutoshi and Tsujinaga Yutaga, Toyokeizai Shimbunsha, 1986. For example, the agriculture groups have good connections with more than 61 Japanese Diet Members, and about 81% of those are the liberal Democrat Party (the Japanese government)'s Party Members (p.37).

109/
Thailand's Ministry of Commerce.

110/
Theodore Mc Nelly, Politics and Government in Japan, Houghton Mifflin Company, 1972 p.70. The author states that,"The electoral system for the two houses of the Diet, has not kept up with the movement of the population from the country to the city. Thus rural districts, which vote predominantly for Liberal-Democrats, are over represented in proportion to their population as compared with urban districts. The minor parties has been demanding reapportionment to give greater weight to the urban vote, but they do not control the necessary number of seats in the Diet to enact an electoral reform."

111/
Japan's Cabinet Order Relating to Tariff Quota Systems.
Article 1
(Goods Subject to Tariff quota and Quantity Thereof) provides that "The goods or articles as prescribed by a Cabinet Order under Paragraph 1 of Article 9-3 of the Customs Tariff Law (Herein after referred to as "The Law") or Paragraph 3 of Article 8-5 of the Temporary Tariff Measures Law...
Article 2
Any person who desires to receive a quota allocation under paragraph 1 of Article 9-3 of the Law (including the case where the said paragraph is applied mutates mutandis in paragraph 3 of Article 8-5 of the Temporary Law) shall submit an application for tariff quota allocation to the Minister of Agriculture and Forestry in the case of those goods enumerated in Nos. 04.04, 10.04, 10.05, 23.01, 33.01 and 44.02 of the Annexed Table No.2, and to the Minister of International Trade and Industry in the case of the those goods enumerated in the Annexed Table No. 1 and those goods, other than those specified above, enumerated in the Annexed Table No.2.

The Minister of Agriculture and Forestry or the Minister of International Trade and Industry shall, when an application prescribed in the preceding paragraph was submitted, give a quota allocation prescribed in the said paragraph, taking into account the following matters as to the goods prescribed in the said Paragraph.

(a) Quantities which have been used and imported.
(b) Scheduled use.
(c) That their importation will effective and appropriate for national economy.
(d) That a quota allocation in question will not be unreasonably discriminatory

3. The quota allocation prescribed in the preceding Paragraph shall be made by issuing a certificate of tariff quota allocation stating a quantity to be so allocated (Hereinafter referred to as "certificate")

4. The validity period of a certificate shall be the period as specified in the column "Period" of the Annexed Table No. 1 or 2 against any of the goods specified in any of the said Tables, unless it is found by the Minister of Agriculture and Forestry or the Minister of International Trade and Industry that any other period is especially necessary.

5. Except as provided for in any of the preceding Paragraphs, the forms of an application prescribed in Paragraph 1 and of a certificate and any other necessary matters for quota allocation prescribed in the said Paragraph shall be prescribed by an Ordinance of the Ministry of Agriculture and Forestry of the Ministry of International Trade and Industry.

<u>112</u>/

One of Japan is most famous critics suggests the idea that instead of spending money to subsidize rice growers in Japan it is better to buy land in California and grow rice there and send it back. The same amount of money will worth more. By doing so, the trade balance of the U.S. will be better and thus relieve to some extent the trade friction between Japan-U.S.

<u>113</u>/

Lim Hua Sing, <u>Singapore-Japan Trade Frictions: A study of Japanese non-tariff barriers</u>, ASEAN-Japan Relationship Towards the twenty-first Century, jugas pp. 91-122.

<u>114</u>/

Japan's Food Sanitation Law of 1972,
<u>Article 2</u>
provided that:
"In this Law, the term "food" shall mean all sorts of articles used for food or drink (by human beings).

2. In this Law, the term "additional" shall mean anything used by means of adding, mixing or permeating etc. in the process of manufacturing food, for the purpose of processing or preserving food.

<u>Article 4</u>
(Food or additional prohibited to sell)
The following food or additional shall neither be sold (including all cases other than sale to delivered to unspecific and many

persons; hereinafter the same), nor be collected, manufactured, imported, processed, used, prepared, stored or displayed for the purpose of sale :______________________________ _______________________ (4) That which may injure human health due to causes, such as uncleanliness, mixing or adding of ingredient, and others.

115/
Selling in Japan: The World's Second Largest Market, JETRO, 1985, pp. 169-173.

116/
Jared Jaylor, Shadows of the Rising Sun: A Critical View of the Japanese Miracle, Charles E. Tuttle Co. Inc., Tokyo, 1983, pp.257-305.

117/
Selling in Japan, op.cit. p.173 reads as follows: The majority of canned foods, fruit juice beverages, processed tomato products, and ham, bacon and sausage products in Japan bear the JAS mark.

118/
This one of the headaches that all ASEAN countries encounter. See Nontariff Barriers and Trade in ASEAN, op. cit. pp. 1-131.

119/
Batzer, Erich and Lsumer, Helmut, Nihon no Ryutsu Shisutemu to Yunyu Shoheki (Japan's Distribution System As Import Barrier), Toyokeizai Shimbunsha, 1987.

120/
Kubogawa Isao, JETRO, Bangkok office, in Chulalongkorn's Economic Journal, Sept. 1986.

121/
Daniel Oliver, "Federal Trade Commission Antitrust Policy in International Trade," in US & Common Market Antitrust Policies Hawk, ed., 1987. Jon Paugh, Antitrust Principles and US Trade Laws: A Review of Current Areas of Conflict, 12 Law & Policy International Business. 545 (1980). Barbara Epstein, The Illusory Conflict Between Antidumping and Antitrust, 118 Antitrust Bill. 1 (1973).

122/
See, Badger-Powhatan v. US, 608 F. Supp. 653, 656 (C.I.T.1985).

123/
19 U.S.C. Section 1673a(b)(1), (c)(1).

FOOTNOTES (continued)

124/ Ibid.

125/ 19 C.F.R. Section 353.36(a).

126/ See Jackson, op. cit.

127/ GATT, Article XVI.

128/ Agreement on Interpretation and Applicatin of Articles VI, XVI, XXIII of the GATT, MTN/NTM/W/235, GATT, BISD 56-83 (1980).

129/ At present, Thailand is not a signatory to the Subsidy Code.

130/ By applying existing jurisprudence and domestic laws.

131/ Article VI [6] (a) provides: No contracting party shall levy any anti-dumping or countervailing duty on the importation of any product of the territory of another contracting unless it determines that the effect of the dumping or subsidization, as the case may be, is such as to cause or threaten material injury to an established domestic industry ...

132/ 19 U.S.C.A. Section 1671-71f, 1675, 1677, 1677c-77h. See also Section 303 of the Tariff Act, which remains in force for non signatories to the GATT Subsidy Code.

133/ Hufbauer, Erb, Starr, op.cit. Kelly, Bello and Horlick, Bello and Horlick, Valuing Subsidies: Issues and Arguments, Department of Commerce, (1984).

134/ Packing credit provided by the Ministry of Finance and the Central Bank of Thailand may fall into this category.

135/ Agreement on the Interpretation and Application of Article VI, XVI and XXIII of the GATT, op. cit., April 12, 1979 (Tokyo Round). Implemented into US law, H.R. Doc. No. 153, 96th Cong., 1st Sess.

FOOTNOTES (continued)

136/
H.R. Rep. No. 317, 96th Cong., 1st Sess. 74 (1979). S. Rep. No. 249, 96th Cong., 1st Sess. 85 (1979).

137/
The result is the same as OECD's guidelines for subsidy determination, though the US authority denies any reference to the OECD guidelines.

138/
19 U.S.C. Section 1671(a)(1), 1303(a)(1).

139/
The EC Commission held that Section 337 of the Trade Act of 1930 as amended by the Omnibus Trade and Competitiveness Act of 1988 was GATT illegal. In Re US Litigation 30 O.J.Eur. Comm. 18 (1987)

140/
S. Rep. No. 1298, 93rd Cong., 2nd Sess. at 164 (1974).

141/
Ibid.

142/
The constitutional authority of the president to act in the regulation of internation commerce has been the subject of debate for a long time. See, for example, Fiedl vs. Clark, 14 US 649. Until the Court in Consumer Unions v Kissinger, 506 F.2d 136, held that congressional mandate of economic sanction was constitutional, the president's authority to adopt trade sanctions was firmly established.

143/
Pub. L. 87-974, Section 252, (1962) repealed by Pub. L. 93-618, Section 602(d) (1975).

144/
The term "trade agreement" is not defined in the statute. Thailand's experience shows that trade agreements include other non-trade agreements.

145/
Section 301(a)(1).

146/
Section 301(a)(1)(b)(ii).

FOOTNOTES (continued)

147/ Section 301(a) para. 2.

148/ Ibid.

149/ See Article VI of the GATT.

150/ Section 301 (b).

151/ 15 C.F.R. Section 2006.0(B).

152/ Japan, Brazil, Korea, Mexico, EC, Indonesia, Malaysia.

153/ Trade issues, TRIPS and trade retaliation.

154/ Investment, transfer of technology, access to regional markets.

155/ Thailand is considered to be on the priority watch list of the Section 301 for another six months, until may 1990.

156/ Arlene Wilson, "Canada-US Free Trade Agreement," CRS Tssue Brief; Congressional Research service, The library of Congress, 1989, p.4.

157/ See Chapter 3, "Rules of Origin for Good of the Canada-US Free Trade Agreement," 1988 and Chapter 4, "Border Measures, Tariff Elimination," article 401.

158/ See Chapter 19, "Binational Dispute Settlement in Anti-Dumping and Countervailing Duty Cases," Article 1901-1911.

159/ See Chapter 7, "Agriculture of the Canada-US Free Trade Agreement, 1988." And Mclachlan, Apuzzo, Kerr, "The Canada-US Free Trade Agreement: A Canadian Perspective," Journal of World Trade, vol. 22 No. 4, 1988, pp. 18-21.

160/ See Chapter 14: Services; Mclachlan Apuzzo, DERR, op. cit., p. 20-27.

FOOTNOTES (continued)

161/
See Chapter 16: Investment; Ibid, pp. 27-29.

162/
Jeffrey Schott, "US-Canada Free Trade: Implications for the GATT," Economic Impact, Institute for International Economics, Washington D.C., 1989; pp. 43-49; Arlene Wilson, op. cit., p. 4.

163/
See Chapter 6; Technical Standards, article 601-609, Mclachan, Apuzzo, Kerr, op. cit., p. 12.

164/
See Chapter 5: National Treatment, articles 501-502.

165/
Lafay, Gerard et al., Commerce international:La fin des advantages acquis, CEPII, Economica,1989, p.42.

166/
Without Ireland.

167/
Western Europe intra-trade amounted to 27.1 percent of world trade in 1967. The same share has increased to 30.8 percent in 1986.

168/
Alternatives economiques, April 1989, p.33.

169/
Far Eastern Economic Review, 24 August, 1989, p. 54.

170/
From a recent study made by Amarendra Bhatta-charya and Johannes F. Linn, from the World Bank, cited in Far Eastern Economic Review, 1989, p.54.

171/
"The United States still registered a trade deficit of over 100 billion US dollars per year while Japan continued a trade surplus of almost 100 billion US dollars per year. It is expected that the United States trade deficit in 1989 would fallto 112.2 Billion US dollars, compared to 127.2 billion US dollars in 1988," Bangkok Post, August 30, 1989, p. 20.

FOOTNOTES (continued)

172/
"Japan criticizes the way that the United States mixes up trade imbalance issues with trade policy issues saying that reducing barriers (Japanese) is an independent issue from the question of the current account disequilibria. This is to counter-proposal the recommendations by USTR. Advisory Committee for Trade Policy and Negotiation calls for a more result-oriented approach to lowering the United States trade deficit. This would mean judging most Japanese actions by how much they reduce the deficit. Bangkok Post, September 2, 1989, p. 16.

173/
The United States trade balance will fall no lower than 105 billion U.S. dollars in 1985 and will then hiden again to 125 billion U.S. dollars by 1992. Cline, William The U.S. External Adjustment and the World Economy, Institute for International Economics, 1989.

174/
World Development Report 1988, Washington, 1988.

175/
If entire product sectors are considered subject to restrictions rather than just their portion of imports from the countries actually subject to the restraints, the levels are about twice as high. William R. Cline, "Macroeconomic Influence on Trade Policy", AEA Papers and Proceedings, American Economic Review, vol. 79, no. 2, pp. 123-127.

176/
Sam Laird and Alexander Yeats, "Trends in Non-tariff Barriers of Developed Countries, 1966-1986", Working Paper, International Economics Department, The World Bank, December 1988, pp. 25-28.

177/
See the special report in the Economist, March 25, 1989, pp. 13-14.

178/
FDI is normally referred to the establishment or purchase by residents of one country of a substantial ownership and management share of a business in another country excludes activities such as licensing, subcontracting and portfolio investment where there is either no significant equity or no significant influence by foreign management.

FOOTNOTES (continued)

179/ In 1988, Japan sent to Europe approximately 31 billion US dollars of worth goods, while Europe shipped about 14 billion US dollars worth to Japan. Export to Japan made up less than 2 percent of total EC trade and imports from Japan registered only about 4 percent. Business Tokyo, Summer 1989, p.41.

180/ Five years ago, only 150 Japanese companies were EC-based; today there are over 300. Business Tokyo, Ibid, op.cit, p.41.

181/ "Restructuring the Developing Economies of Asia and the Pacific in the 1990s." ESCAP (XLV)/INF1, March 1989, pp. 164-167.

182/ Some of the more recent and comprehensive studies on the subject include Kumar and Maxwell Mcleod (ed.), Multinational from Developing Countries, Lexington, Mass, Lexington Books, 1981; Louis T. Wells, Third World Multinationals: The Growth of Foreign Investment from Developing Countries, Cambridge, Mass, MIT Press, 1983; John H. Dunning (ed.), Multinational Enterprises, Economic Structure and International Competitiveness, Chichester, John Wiley Son, 1985; Charles Oman (ed.), New Forms of Overseas Investment by Developing Countries; The Case of India, Korea and Brazil, Paris OECD, 1986; Kushi M. Khan (ed.), Multinationals of the South: New Actors in the International Economy, New York, St. Martin's Press, 1986.

183/ An example of this phenomenon is that in 1987 the developed countries of Ireland and the Netherlands had promotional offices in the developing countries of Hong Kong, Korea and Taiwan.

184/ However, it could be somewhat larger, since much foreign investment originalling in developing countries goes unreported. See Transnational Corporations From Developing Asian Economies: Host Country Perspectives, ESCAP/UNCTC Publication Series B. no. 12, 1988, D.1.

185/ Although since the beginning of the 1980's, DFI flows to developing countries worldwide have declined sharply. The decline has not left the region unaffected.

186/ Transnational Corporations From Developing Asian Economics: Host Country Perspectives, ESCAP/UNCTC, ibid, op.cit.

FOOTNOTES (continued)

187/ Although developing countries in Asian and Pacific region have been less affected by the global shift in the pattern of DFI flows, many countries still face the prospect of receiving less DFI for the rest of this decade and possibly beyond. Chee Peng Lim, "Intra Regional-Pattern and Prospects for Cooperation among Asian and Pacific Developing Countries," Development & South-South Cooperation, Vol. no. 8, June, 1989, p. 173.

188/ Data from a recent ESCAP/UNCTC study show that by the end of the 1980's, DFI from the developing Asia and Pacific region accounted for over one sixth of total DFI, mainly from Asian NIE's and some ASEAN countries. Transnational Corporations from Developing Asian Economies; Host Country Perspectives, ESCAP/UNCTC, ibid, op.cit.

189/ Jagdish Bhagwati, "The Rise of Protectionism," Economic Impact, 2nd Quarter, 1989, pp. 6-12.

190/ Aland Gelb and Palrick Honohan "Financial Sector Reforms in Adjustment Programs" Working Papers, Financial Policy and Systems, The World Bank, March 1989 (WPS 169), unpublished.

191/ Maurice Allais, "Du Krack'a l'euphorie", Le monde, 27 juin 1980.

192/ Joan E. Spero, "Global Finance", Economic Impact, 1989/1 pp.55-60.

193/ Such as "the significance of swift flows of information and panic around the globe made possible by new global in formation systems, the availability of large pool of funds that could and did move around the world at a push of a bottom in response to troubling economic information, and the integration of formerly isolated national economics in to one increasingly seamless global market". Joan E. Spero, "Guiding Global Finance", Economic Impact., ibid., op.cit.,p.55. See also, Strange S, Casino Capitalism, Blackwell, 1986.

194/ Joan E.Spero, "Guiding Global Finance", Economic Impact, ibid, op. cit., pp. 55-56.

195/ Joan E.Spero, "Guiding Global Finance", Economic Impact, ibid, p.56.

FOOTNOTES (continued)

196/
Securities firms often propose better conditions, such as rates, flexible and innovative terms than the banks. As the end of 1986, securitized financing accounted for 87 percent of the funds raised on the international financial markets.

197/
Lowell Bryan, Breaking up the Bank, Dow Jones-Irwin-1988; Maurice Allais, "L' indexation obligatoire de toutes les dettes en valeur reelle", Le Monde, 12 janvier 1989, p.1 and p.55; Sylvic Laforge and Yves Simon, "La globalisation des marches a terme et des marohes d options", Problemes economiques, 20 avril 1988, no 2071, pp.21-26; Michel Aglietta, "Structure economiques et innovations financieres", Problemes economiques, 20 avril 1988, no.2071, pp.12-20

198/
At the end of 1987, Japan's net external credit position reached 240 billion US$ up from 180 billion US$ in 1986 and only 9.6 billion US$ in 1976. And if ranked by assets, 8 of the 10 largest commercial banks in the world are Japanese and 5 of the 10 leading. Eurobond underwriters in 1987 were Japanese firms. see Joan E. Spero, "Guiding Global Finance", Economic Impact, ibid., p.57.

199/
Asian Development Bank Report, 1989.

200/
However, the burden was expected to remain heavy in Indonesia, the Philippines, Burma, Laos, Vietnam and Papua New Guinea.

201/
This is not regarding only the trade volume, but also for financial transactions.

202/
Together they accounted for over 60 percent of the total direct foreign investment inflows during 1971-1988. See Somsak Tambunlertchai and Suthiphand Chirathivat, "Management of Thailand's International Economic and Trade Relations," Paper Submitted to the Canadian International Development Agency by The Thai University Research Association, February 2, 1989, p.10 (unpublished)

203/
The terms have been borrowed from Dr. Narongchai Akrasanee.

204/
Such as in the case of boneless chicken exports to Japan.

FOOTNOTES *(continued)*

205/
See more in 3.2.1.

206/
Rolf J. Langhammer, "Europe 1992 and the Developing Countries: Fuelling A New Engine of Growth or Separating Europe from Non-Europe?", Paper Prepared for an Expert Meeting Convened by the Netherlands Economic Institute, Den Haag, 6-7 October 1989 (mimeograph).

207/
Ibid, op.cit.,

208/
In the sense that Bhagwati has pointed out, even if all LDCs are committed to exports, then overall share in the global trade or their "absorptive capacity" in the market sense, is not prima facie a plausible source of worry, that is highly unlikely to have saturation of export markets. See Bhagwati, Jagdish N., "Export Promoting Trade Strategy: Issues and Evidence", Discussion Paper, Development Policy Issues Series, The World Bank, Report NO.VPERS 7, October 1986, P.9.

209/
By the early 1980's, the tariff level had gone down to 4.9 percent in the United States, 6 percent in the EC and 5.4 percent in Japan. See Bhagwati, Jagdish, "The Rise of Protectionism", Economic Impact, 1989, 2nd Quarter, p.6.

210/
According to William Cline study in 1988, the World Bank estimates that the United States imports covered by "hard core" nontariff barriers such as quantitative restrictions and VRAs increased from 9 percent in 1981 to 15 percent in 1986 for goods from industrial countries and from 14 to 17 percent for imports from developing countries. If entire product sectors are considered subject to restrictions rather than just their portion of imports from the countries actually subject to the restraints, the levels are about twice as high. "Macroeconomic Influence on Trade Policy", AEA Papers and Proceedings, American Economic Review, vol., 79, no.2, pp.125-127.

211/
Their market shares are 20 percent, 21 percent and 16 percent respectively in 1988.

212/
Even, a number of officials in developed countries are trying to disregard the term. United States Trade Representative Carla Hills by example do not think that the United States is drifting a policy of "managed trade". In her sense, the United States Administration is opposed to managed trade which she think as a conspiracy to form a cartel. Newsweek, July 17, 1989, p. 38.

212/
Even, a number of officials in developed countries are trying to disregard the term. United States Trade Representative Carla Hills by example do not think that the United States is drifting a policy of "managed trade". In her sense, the United States Administration is opposed to managed trade which she think as a conspiracy to form a cartel. Newsweek, July 17, 1989, p. 38.

213/
See especially Dam, Kenneth W., "Regional Economic Arrangements and the GATT: The Legacy of a Misconception", University of Chicago Law Review 30, 1963, pp. 615-665, Jackson, John H, World Trade and the Law of GATT, Indiapolis, Bobbs-Merrill, 1969, and Jackson, John H., "Multilateral and Bilateral Negotiating Approaches for the Conduct of United States Trade Policies", in Stern, Robert M, United States Trade Policies in a Changing World Economy, MIT Press, Cambridge, Massachusetts, Second Printing 1988, p. 391.

214/
GATT Document L/5776 of February 7, 1985, Report of the Panel: Europe an Community-Tariff Treatment on Imports of Citrus Products from Certain Countries in the Mediterranean Region.

215/
Bhagwati, Jagdish,"The Rise of Protectionism,"Economic Impact,1989.

216/
Deardorff, Alan V. & Stern, Robert M., "Current Issues in Trade Policy: An Overview", in Stern, Robert M. (ed.), U.S. Trade Policies in a Changing World Economy, The MIT Press, Cambridge, Massachusetts, Second Printing 1988, p. 55.

217/
Richardson, David J., Empirical Research on Trade Liberalization with Imperfect Competition: A Survey, OECD Economic Studies No. 12, 1989.

218/
In which case everybody loses.

219/
Krugman, Paul (ed.), Strategic Trade Policy and the New International Economics, Cambridge, MIT Press, 1986.

220/
By means of tax changes, fixing quotas or other kinds of arrangements against the imports from other countries.

221/
The so-called compacks, Phedon NICOLAIDES, "Economic Aspect of Services: Implications for a GATT Agreements", Journal of World Trade, Vol.23, no.1, February 1989.

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Bangkok Post. August 17, 1989, p. 16.

Bangkok Post. August 22, 1989. p. 5.

Bangkok Post. August 30, 1989. p. 20.

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