Thailand Case

The Structure and Trends of Economic Relationship between Thailand and the EU [1]

Trade in goods and services

EU is a major partner and becomes the second largest export market and the third largest import market of Thailand. Since early 1990 until 2007, a constant expansion of trade between Thailand and EU-27 can be observed whereas the increase of export (7.9% per annum in average) exceeds the import (6.0 % per annum in average). Meanwhile, Thailand is quite an insignificant trade partner of countries in EU-27 and only ranks 28th among its trade partners in the world and the second largest among ASEAN members. In 2006, trade volume between Thailand and EU-27 amounts to 0.9%, whereas Singapore accounts for 1.5% of overall volume of trade with EU-27. Since early 1990, in the beginning, Thailand had trade deficit to EU due to the importation of capital goods such as machinery, electronics equipment and office supplies. However, after the financial crash in 1997, a decrease of import has occurred and since then Thailand has enjoyed trade surpluses with EU-27 countries.

Thailand's trade concentrate among certain country members of EU-27, Ranking among the first three largest partners are Germany, United Kingdom and the Netherlands, the trade with which accounts for almost a half of overall volume Thailand has with EU-27. Our major export market includes United Kingdom, the Netherlands and Germany whereas the import market includes Germany, Italy and France.

In the past decade, over 80% of exports from Thailand to EU-27 are industrial products, followed by agricultural commodities (9.3%) and agro-industrial commodities (5.6%).

Agricultural commodities are the most important export from Thailand to EU, and it is the biggest exporter of agricultural produce in ASEAN which enjoys a constant increase of trade volume in the past decade. Our major export produce includes rubber, rice, processed poultry, fruit and vegetable. A marked increase occurs with the export of fresh fish, chilled or frozen (41.1% per annum in average), followed by fresh sliced fish, chilled or frozen (23.2 % per annum in average) and processed poultry (22.2% per annum in average). We are quite competitive in the EU market in terms of processed poultry and seafood. EU's importation of rice and processed poultry from Thailand has far exceeded those imports from other countries in the same category. It could be said that we are champion for the lines of commodity. Meanwhile, we also enjoy significant competitive leverage in processed seafood. During 2001-2005, the EU's imports of processed seafood, particularly, prawn and canned tuna from Thailand rank the seventh largest in the world and the first among ASEAN members. Our major competitors include Indonesia, the Philippines, and Vietnam. But Thailand's import of agricultural products from EU is minimal, mostly it includes products that EU has been having advantage over us including wine and alcohol beverage, animal feed and cold climate fruits, and thus Thailand enjoy surpluses on agricultural commodity against EU.

EU's strong agricultural protectionism affects the export of Thailand's agricultural commodities, particularly, on the goods that we have competitive potential. For example, EU charges high tariff rates on rice

[1] An abridged version of a briefing prepared by Sirintip Praweenanusorn for FTA Watch in February 2008

and sugar and exclude them from the Generalized System of Preferences (GSP).[2] In addition, export of certain agricultural commodities face uncertainty due to the GSP which is subject to renewal every three years and thus affects the competitive performance. Also, the incompatibility between the Rules of Origin (RoO) and our manufacturing structure continues to be an obstacle to export from Thailand. For example, according to the RoO, all canned tuna exported from Thailand must be made of material wholly obtained from domestic sources. But in reality, we can now catch only 20% of our own tuna, and the rest is brought from non-Thai waters and through import. Thus, Thailand is not granted GSP on this category.

Due to similar trade structures in industrial goods, Thailand and ASEAN becomes rivals in the EU market. Prevailing products in the list of trade between Thailand and EU include machinery, office equipment, computer accessory, electrical appliances, and chemical products. Major export during 1997-2006 includes computer equipment, automobile and parts, and air-conditioners. Singapore and Malaysia are main rivals to us in the export of electrical appliances, office equipment and computer accessory. During 2001-2005, EU's import of machinery and computer accessory from Thailand ranks the eighth largest in the world, after Singapore and Malaysia. But most of Thailand's export products are produced by intensive labour, and thus in future, Thailand may lose this competitive advantage to ASEAN countries which boast lower wages.

80% of Thailand's import from EU during 1997-2006 is capital goods and material, the rest 20% is automobile and transportation equipment, fuel and arms. A significant expansion can be seen with the importation of small volumes of products such as automobile and arms. In terms of capital goods, Thailand's major import from EU includes machinery and parts, electrical machinery and parts and metal products, respectively. Thailand's major import includes chemical products, circuit boards, gem and jewelry and metal products respectively whereas a increase of import in airplane and aviation equipment is noticeable (135.9% of expansion per annum in average), metal products (32% per annum) and medical and pharmaceutical products (10%).

As for trade in services between Thailand and EU, in 2003, Thailand enjoyed a surplus against EU in service sector. Major exports from Thailand to EU-27 include tourism (59% of overall imported trade in services), transportation (26%) and other commercial services such as construction, insurance, financial services (12.3%). Imports of services from EU to Thailand include transportation (45.3% of overall imported trade in services) and other commercial services (38.1%) and tourism (13.5%). Major partner in trade in services with Thailand include United Kingdom, Germany, France, Denmark, the Netherlands and Italy, respectively.

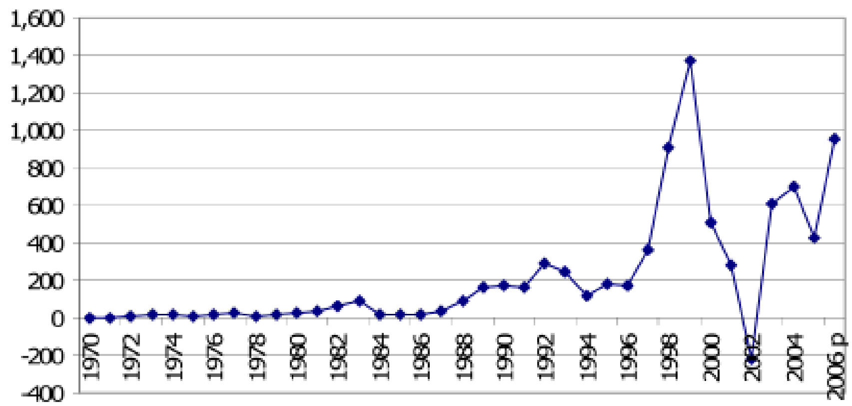
Investment

EU is the third largest investor in Thailand's stock market after Japan and USA. An increase of investment has been observed in the past decade. Major EU investors in Thailand include Belgium, Germany and Denmark, respectively.

[2] The new EU's Generalized System of Preferences (GSP) can be divided into three major categories including 1) general preferences 2) preferences for the least developed nations including tariff exemption of all commodities (excluding arms) and reduction of tariff on sugar, rice and banana, 3) preferences for promoting sustainable development good governance. Among ASEAN countries, their preferences granted by EU can be divided into three categories; 1) those granted no tariff preferences including Singapore and Burma 2) those granted general preferences including Thailand, Malaysia, Indonesia, the Philippines, Brunei, and Vietnam and 3) those granted preferences for the least developed nations including Cambodia and Lao.

Among countries in East Asia and South Asia, Thailand ranks the fifth in terms of foreign direct investment, after China, Hong Kong, Singapore and India (World Investment Report, 2007). During 2000-2005, countries that invested the most in Thailand include Japan, Singapore, EU and USA, respectively. After the financial crisis, an increase of EU-27's FDI in Thailand could be observed, before its decline later which was in line with overall global investment atmosphere (figure 4). In the past year, Thailand enjoyed 15% of EU-27's FDI in ASEAN, which is the fourth largest after Singapore, Malaysia and the Philippines.

Figure 4: Net investment of EU-27 in Thailand (million US$)



Source: BOT(2007)

Major EU-27 investors in Thailand include Germany, UK and the Netherlands, respectively. In terms of the number of investing companies, 48 companies come from Germany, followed by UK (39 companies) and France (33 companies). Most of the EU-27's FDI comes through joint ventures. Judging from the values of investment in BOI approved projects during 2002-2006, it is found that most investments are mega projects, which are worth more than one billion baht each, followed by medium scale projects with the investment of 100-499 million baht. During, 2002-2006, chemical, pulp, service, electric appliance and electronics industries enjoyed the highest FDI. However in 2006, EU concentrated its investment on service and infrastructure sectors, particularly those related to the promotion of trade and investment whereas there is a decline in chemical industry investment. Most of the investments from EU are geared toward producing for domestic market. Most exported production is in the electronics industry, electric appliance and parts, as well as textile and garment.

Potential impacts of the EU-ASEAN Free Trade Area Agreement in Thailand's economy

Trade in goods

Liberalization of agricultural market is one of the most sensitive issues for EU, particularly, for rice, sugar and chicken. Traditionally, EU puts up strong protection for agricultural commodities. About 200 items of EU agricultural commodities are protected by as high as 15% tariff compared to 3.9% for other commodities. About 7.2% of EU agricultural commodities enjoy more than 50% of tariff. Items that are protected by high tariff, but the zero-tariff is made available for the least developed countries, include sugar, food, and living animals including animal products. Concerning EU's position on its FTA deal with ASEAN, those stakeholders in agricultural sector have different opinions, particularly, between farmers and agricultural producers who are opposed to full scale liberalization on one hand and producers of agricultural commodities and retailers who are enthusiastic with full scale liberalization to minimize costs of importation of material and agricultural commodities from ASEAN. Initially, EU gestures that it may include agricultural commodities in a sensitive list which is subject to the longest deferment of tax reduction, or might simply disallow tax reduction at all. It is possible that that EU is reluctant to open its agricultural market whereas it supports the liberalization of investment and protection of intellectual properties implies that it wants to provide more incentives for EU investors to invest more in Thailand's agricultural sector. Thus, measures should be meted out to monitor and prevent transnational companies from holding ownerships over land, plant varieties, local wisdom and the monopolization of resource exploitation.

Thailand's position on the opening of agricultural market essentially differs from that of EU, as Thailand demands high tariff cuts, early harvest schemes and more comprehensive list than those already binding under World Trade Organization's clauses. The reason is we are currently the biggest exporter of agricultural commodities to EU even though volume of trade in agricultural commodities between EU and Thailand goods is proportionately not so high compared to overall trade. But Thailand still has the potential to compete in EU market particularly rice, seafood such as prawn and canned tuna. In terms of the negotiation for the liberalization of agricultural commodities, active and passive lists are used. The active list includes those commodities in which Thailand has high export potential and is eager to seek the highest possible tariff cuts including 50 items such as rice, seafood, chicken, canned fruits and vegetables, pasta, tobacco, juices, sources and seasoning, sweet corn, asparagus, etc. The passive list includes those items which are major imports from EU to Thailand such as wine, animal feed and fruits.

The Thai private sector proposes that tariff cuts should be given to EU on the following items; 1) commodities that are ready to compete in free trade including coffee and rice; 2) commodities with which the private sector needs time for adjustment and the free trade should be deferred including fish meal whose zero-tariff should not be imposed until 2020; 3) commodities that need import quota or special protection; and 4) commodities that should not be subject to any tariff cuts at all. Thailand is eager to push EU to liberalize market for the following products; 1) major exports from Thailand including food and agricultural products, processed seafood, processed fruits and vegetables; 2) commodities that enjoy GSP from EU including the current GSP list such as living animals, agricultural products, beverage, and those whose GSP has been cut since other ASEAN countries still enjoy the GSP and this has led to competition among ASEAN members to enter European market; 3) commodities that face high tariffs in EU market and are excluded from the quota tariff under WTO such as cooked chicken; 4) commodities that enjoy GSP for least developed nations such as rice, sugar, vegetables, fruits, meat, milk and dairy products, canned tuna, etc.

Tariff cuts in agricultural commodities and seafood by EU would enable Thailand to have more leverage to compete with countries that enjoy privileges from EU. However, Thailand is still not able to compete with local producers in Europe on certain agricultural commodities which are heavily subsidized by EU. Conversely, Thai farmers will face more fierce domestic competition since at present; EU has come up with policy to promote exports of certain agricultural commodities to other countries. The tariff cuts may simply put down prices of products and even make available cheaper imported products in domestic market. Therefore, in the course of pushing for liberalization of agricultural market, Thailand must consider well who will gain or lose from the FTA deal. Normally, EU would agree to trade off reducing tariff on highly competitive agricultural commodities from Thailand with liberalization of agricultural commodities over which EU has leverage. If the agricultural commodities that Thailand pushed for tariff cuts are made by just a few producers, those who will actually benefit from the tariff cuts would concentrate among big producers and exporters. Thai farmers will not only benefit little from the scheme, but they will have to cope with the influx of cheap agricultural commodities from EU, as the Orchid Exporter Association of Thailand starts to express concern over the import of cold country flowers from the Netherlands.

Opening of industrial market will bear the least impact on domestic industry in EU since the current tariffs on industrial goods are low. During the negotiation with all developing nations, EU has agreed to liberalizing industrial market for all proposed items and allowed countries that charge high tariffs on industrial goods to have a longer grace period of time to adjust themselves than EU countries. As for Thailand, the state adopts an active negotiation to push for the maximum tariff cuts of industrial goods to export to EU. Among the active lists are 300 items which are major exports from Thailand to EU, and they can be categorized into 23 groups[3] and 225 items in the passive list including fish, automobile, iron, circuit board, and cosmetic products, etc. The Thai private sector demands more than 5% of tariff cut on certain products such as minivan or pickup truck, garment, shoe, etc. And the early harvest list proposed by Thailand includes leather bag of various kinds. One thing that Thailand should consider in the proposition for items to add to the lists is the reduction of non-tariff protection and a grace period of time for Thailand as when EU embraces a new member, the existing lists shall become binding for industrial goods, too.


Source: World Bank Website, Thailand Economic Monitor

The non-tariff measures that may impact Thailand's export at present and in future should the EU propose more cuts include the Rules of Origin (RoOs), the anti-dumping measure and technical measures such as Sanitary and Phytosanitary Standard (SPS), Waste Electrical and Electronic Equipment (WEEE), Restriction of Hazardous Substance (RoHS) which bear the following detail.

RoOs are used to determine the country of origin of a product to avoid circumvention in the non-FTA area. The criteria are quite varied[4] and the strictness varies to item and the negotiation. As two sides of the same coin, on one hand RoOs can prevent circumvention, but on the other hand, they may lead to protectionism against negotiating countries. The level of protectionism will vary to the strictness which is determined by two factors including the difference of tariff rates and bargain power of the two negotiating countries. There are two common type of rules of origin including 1) Non Preferential Rule whereby the EU requires the proportion of raw material in the industrial goods to be higher than 40% and 2) the preferential guided by GSP which requires that agricultural commodities must be derived of raw material entirely produced within the country. The criteria for industrial products are quite varied. As for electric appliance and electronics equipment, the criteria mostly rest on the GSP-based RoOs

[3] Of 23 groups of products in the active list are 1)seafood 2)processed seafood 3) plastic 4) rubber 5) leather 6) textile 7) clothing 8) shoe 9) ceramic 10) glassware 11) gem and jewelry 12) iron and steel 13) copper 14) aluminum 15) kitchen utensil 16) machinery 17) electrical machinery 18) automobile 19) glasses and medical equipment 20) clock 21) furniture and bedding 22) toy and sport gear 23) others such as chemical products, airplane parts, artificial flower, etc.
[4] Four major criteria of Rules of Origin include 1) wholly obtained; 2) local content; 3) substantial transformation; and 4) specific manufacturing process

which require more than 60-75% of proportion of raw material. It is obvious that the criteria for GSP-based RoOs are stricter than the non-preferential ones.

During the initial FTA negotiation between EU and ASEAN, EU was inclined to propose two issues. First, the cumulative rules of origin. According to Department of Foreign Trade, the cumulative rules of origin under the EU's GSP are based on three sources of origin including raw material that was originally from EU and has been accumulated (Bilateral Cumulation), raw material that was originally from Switzerland and Norway (Diagonal Cumulation) and raw material obtained from members in the same caucuses, i.e., Thailand can accumulate raw material obtained from countries in ASEAN, except Burma (Regional Cumulation). The patterns of cumulative rules of origin may vary as per the negotiation. According to studies by Joseph F. Francois, Matthew McQueen, and Ganeshan Wignaraja (based on FTAdigest material), in the FTA negotiation between a large economy such as EU and a much smaller economy and if the bilateral cumulation is applied strictly, both parties will gain less from trade liberalization, and most of the benefits will concentrate in EU. During the previous negotiation rounds, EU often proposes to use the cumulative rules of origin with its negotiating partner. For example, during the negotiation with Chile, EU proposes the cumulative rules of origin from 25 EU countries and Chile, but Chile is also allowed to use raw material obtained from Mercosur countries to which Chile is an associate member (Thai Delegation in EU, 2006c). There is not much detail about the negotiation between ASEAN and EU.

Second, the value added rules. Judging from attempts to reform the RoO under GSP, it is likely that EU may propose the use of value added rules instead of the criteria on the proportion of domestic raw material. As for Thailand, the strict application of EU's RoO and the criteria which are incompatible with manufacturing structure shall become a major impediment to export of agricultural commodities. Initially, private sector in Thailand proposes the use of RoO under GSP as a basis of negotiation since Thai entrepreneurs are familiar with and are well aware of its strengths and weaknesses. However, as for agricultural commodities, a proposal is made for change of the RoO criteria the wholly obtained principle to tariff or minimum proportion of raw material and it should be applied on case by case. As for industrial goods, the Federation of Thai Industries proposes a decrease of domestic raw material, particularly, for electrical appliances and electronics products to less than 40%, and for LCD TV, it should be less than 25%. In addition, a decrease to less than 25% of domestic raw material should be applied to other industrial products such as gem and jewelry, leather goods, cosmetic products, stationery and color. Trade Defense Instruments[5] are an important non-tariff measure used by EU in the past ten years, particularly, the anti-dumping measures. Lately, however, EU has apparently been less adamant in applying the measures. In 2006 EU applied anti-dumping measures and countervailing measures with less than 1% of its total imports. As for countervailing measures[6], Thailand ranks high among those countries which often face these anti-dumping measures. Most of the complaints raised by European entrepreneurs to the EU Commission to initiate dumping investigation are industrial goods including plastic pallet, plastic and iron products, and electrical appliances. Only one agricultural commodity has so far faced the investigation, namely, sweet corn. The investigation is at the beginning level. Meanwhile, EU shall use tariff based measures as a temporary anti-dumping measure which has become effective since

[5] Three major measures under EU's Trade Defense Instruments include 1) safeguard measures; 2) countervailing measures; and 3) anti-dumping measures

[6] According to EU's definition, dumping means exporters to EU market lower prices of the products to less than normal prices and this may affect domestic industries in EU. Thus, an increase of import tariffs shall be applies as an anti-dumping measure to keep the prices of products close to their normal prices.

June 2007. A compromise has been made for Thai private sector to raise prices of sweet corn instead of having to pay the tariffs. Therefore, the revision of anti-dumping measures by EU poses a threat to major exports from Thailand including electronics products and electrical appliances and chemical products, which are produced by the investment from EU in Thailand and then exported to EU. The Thai delegation shows no clear stand on the issue.

Technical measure is a non-tariff trade barrier which has been used quite often now. It covers three areas including health, the environment and labor. It can be divided into two types including measures concerning the products and measures concerning the manufacturing process. EU places an importance on health and environmental issues which affect the export of agricultural commodities and industrial goods from Thailand. The health technical measure which affects the export of Thai agricultural commodities include SPS which is concerned with safety of agricultural commodities and food. EU sets very high levels of the measure, and makes it most strict in the world. EU has shown no compromise as to these technical measures during the negotiation with various countries since it realizes that SPS is a measure to protect consumers, plants and animals in Europe. But it has a policy to collaborate with the trade partners to make measures of the two parties most compatible to each other. It even provides academic assistance to help exporters to develop and attain the SPS standard of Europe. During the EU-ASEAN FTA negotiation, EU gestures to use SPS standard binding under the WTO as a framework for the negotiation and collaboration on SPS. The basis of the negotiation will revolve around furthering collaboration between EU and ASEAN on Sanitary and Phytosanitary Standard (SPS). Major issues, process and steps to further the collaboration shall be discussed to further the collaboration and the measures at the multilateral level shall be applied.

The environmental standard affects export of major industrial goods including electronics products and electrical appliances. EU hinges on two notifications namely Waste Electrical and Electronic Equipment (WEEE) and Restriction of Hazardous Substance (RoHS) in order to deal with a rapid increase of hazardous waste from electronics products and electrical appliances which affect the environment. Essentially, WEEE requires that producers or distributors of brand names or exporters of products to EU have to take back waste from consumers and to be responsible for the cost of the waste disposal. In addition, the production process must be designed to provide for recycling. RoHS ban the use of six harmful substances [7] in electronics products and electrical appliances.

Trade in services

Liberalization of trade in services is the real focus pushed by EU during the FTA negotiation with ASEAN. According to the EU-Mexico FTA and the EU-Chile FTA Agreements which have become effective, EU manages to pry open market for all trades in services, except audio-visual service, domestic and international aviation service, and domestic freight. EU demands that ASEAN (except Vietnam, Lao and Burma) open trade in services under the binding clause of WTO in 12 fields[8] including telecommunication, wholesale, retail and franchise services, and banking and finance services that EU wholeheartedly hope Thailand would agree to fully open the market.

[7] The hazardous substances include 1) lead; 2) mercury; 3) cadmium, 4) Hexavalent Chromium, 5) Polybrominated biphenyls (PBB); and 6) Polybrominated diphenyls ethers(PBDE)

[8] 12 fields of trade in service including professional services, business, post and delivery service, telecommunication, construction and engineering, the environment, distribution system, finance, tourism, newswire and energy.

According to a study by TDRI (2007), Thailand's service sectors which shall benefit from the EU-ASEAN FTA negotiation should be those also in the list and was submitted to the WTO during the Doha Round including eight categories.[9] It is hoped that liberalization of trade in services will help Thailand to have more penetration into EU market. But in reality, there are many regulations that will stand as obstacles to the investment and service provision in EU, particularly, Thai massage, or Thai chefs who are required to have qualification papers, experiences or certificates issued by institutions approved by EU.

As for the potential impact, according to TDRI study, the impacts shall befall on three service groups including 1) service sector in which there are a few providers, or falls under state monopoly such as telecommunication, or in sector where there are regulations against competition such as in banking sector which limits the number of branches of foreign banks and thus enjoys high premiums. The liberalization shall pressure the existing entrepreneurs to compete even harder. However, services in infrastructure such as energy or telecommunication are closely related to the stability of the economy and national security, thus, TDRI proposes that Thailand should instead come up with measures to enable fair competition, but at the same time prevent monopolization by foreign capitals. 2) Trade in services where there are many small entrepreneurs such as tourism, finance, internet, customs broker, etc., shall not suffer much from price competition. 3) Trade in services where EU investors are operating through joint-venture schemes with Thai investors such as EMS, newswire, etc., the liberalization will affect existing investors. But if the shareholders are nominees, the liberalization shall not affect the business. In addition, Chatchai (2007) evaluates the opportunity of service sector after the liberalization of trade in services and divides them into three categories including 1) those with high commercial potential such as tourism, education, business and professional consultancy, and recreation; 2) those which will have both potential and obstacle such as health services; and 3) those with the least potential including finance and banking sector.

Investment

During the EU-ASEAN FTA negotiation, EU makes it clear to push forth liberalization of trade in services, and the demand for intellectual property protection, competition policy and transparency in government procurement. The three issues are sensitive issues for ASEAN, since the rule of law in each ASEAN country is at different levels. Thus, there is no common agreement on the issues. If the negotiation continues on a bilateral basis, it will bring down leverage of ASEAN. The Thai government's stand on the liberalization of investment pushed by EU is related to three issues;

SourcSource: BBC News Website

According to survey of protection of EU intellectual property in other countries, it is found that Thailand and ASEAN do not sustain high level of the violation of intellectual property rights, when compared to China (Thai Delegation in EU, 2006c). EU is inclined to propose the incorporation of IP clauses into the Agreement. Initially, both EU and ASEAN propose that bind clauses under WTO's TRIPs should be used as a guideline

[9] Including professional services, business services, construction and engineering, education, health and socially related services, tourism, recreation, and other services such as Thai massage and spa.

for the negotiation and to apply existing laws strictly. According to EU, the inclusion of IP clauses shall boost confidence among EU investors and encourage them to invest more in Thailand, particularly investment in high technology. But in reality, given the strict and high level of protection, Thailand may not benefit much from investment in high technology and there could be obstacle to the access to technology. Just the IP clauses shall not function enough as a motive to draw attention from investors in EU. If Thailand can continue to develop workers' skills and prepare for good infrastructure, the investment in high technology by EU might increase. Judging from the FTA negotiation between EU and South Korea, EU shows very strict stand on IP issues. It is likely that during the ASEAN-EU negotiation, EU may propose every higher condition than the WTO's binding clauses.

EU holds that a lack of transparency and discrimination in the government procurement in Asia has led to rampant corruption and become an obstacle to investment from Europe. And the liberalization which provides for competition from foreign entrepreneurs in bidding and other procurement shall help to address the problem. Insofar, EU has launched negotiation on liberalization of government procurement with some countries in Asia such as India and South Korea. As for ASEAN, initially, EU demands that ASEAN sign the WTO's Government Procurement Agreement (GPA). At present, except Singapore, all ASEAN members have not signed the Agreement. And the issue has been subject to different opinions among ASEAN members.

The Competition Policy proposed by EU during the WTO's Doha round covers three areas including anti-trust, merger control and state aid. The proposal was more comprehensive than the previous demand made by EU to the WTO. The definition and scope of the action construed as limiting trade competition are subject to various agreements. Countries that have laws concerning trade competition can use them as the guidance, i.e., clauses regarding trade competition of Chile, South Africa and Mexico. Countries that have no domestic laws to deal with trade competition, but are close to EU shall refer to the regulations set by EU such as Jordan, Palestine, and Tunisia. It should be noted that EU approaches to state aid are different from agreement to agreement. For example, during the negotiation with South Africa, EU gave special attention to the issue, whereas in the FTA deal with Chile, there is virtually no clause concerning state aid. As for the ASEAN-EU FTA negotiation, EU explicitly proposes competition policy as the guiding issue for all countries in ASEAN and more detailed meetings have been worked out at country basis since each ASEAN member stands at different levels in terms of competition policy. Thus, the binding clauses for each ASEAN member shall differs from each other. The Thai laws concerning competition policy or the Trade Competition Act B.E. 2542 has been effective for a long time, and certain clauses are incompatible with the current trade atmosphere. In addition, the Act is applicable to just private entities, but state enterprise and cooperative. As for state aid, the negotiation that suits the domestic economic structure shall enable Thailand to retain certain amount of state aid on manufacturing and service sectors, particularly, the industries that have not yet gained competitive advantage over foreign business.

Conclusion

As for Thailand, the classification of commodities into active and passive lists by relying exclusively on the value of export is only appropriate for overall analysis. The analysis that has been expanded to cover the overall industrial structure and structure of producers shall enable us to identify clearly who will stand to gain or lose. At present, a number of investors from EU have invested in Thailand and mostly they produce for export back to EU. It means the most of the benefits are not left here. Tariff cuts may not help to boost trade between Thailand and EU that much since EU relies on complex and varied forms of tariff. The measures that EU will pursue strictly are mostly measures that have legitimacy including those binding with the WTO such as technical environmental measures, i.e., SPS, WEEE and RoHs.

EU has proposed to assist ASEAN countries to promote competition potential, particularly, on technology since EU has currently achieved advanced development in terms of environmental and energy saving technology whereas ASEAN countries and Thailand have not much advancement in the technologies. By agreeing to incorporate IP clauses and environmental measures as proposed by EU in the Technological Assistance Agreement may pave the way for EU to monopolize advanced technology in future, particularly, the environmentally friendly and energy saving technology. Eventually, Thailand will be forced to import the technology to enable the manufacturing of products compatible with the binding agreement. In addition, it is expected that EU may propose even stricter IP clauses than those binding under WTO and this will become a stumbling block on the transfer of high technology.