

THAILAND'S MOVE TO JOIN THE FTA RACE: A GOOD THING?

LEADING THE WAY

PWC THAILAND

Thailand has recently stepped up its efforts on opening its market by joining various Free Trade Agreement (FTA) negotiations. Two of the most recent and perhaps most significant ones are Thailand's decision to join the Trans-Pacific Partnership (TPP) and the Regional Comprehensive Economic Partnership (RCEP).

Despite the wide media attention it received, there seems to be still some confusion and misconception about what these FTAs would mean for Thailand: which countries are involved, when these FTA will enter into force, which FTA would be better for Thailand, and so on?

It would be too ambitious (if not impossible) trying to take away all of misconceptions in this article. However in order to better understand these FTAs as well as their potential impact on Thailand, let's take a few steps back and have a look at these FTAs in more detail to put things into perspective, starting with the TPP.

Firstly, what is the TPP and what does it actually cover? The TPP originally started as the "Trans-Pacific Strategic Economic Partnership Agreement" (TPSEP or P4) which was signed in 2005 by Brunei, Singapore, Chile and New Zealand. Since it entered into force in 2006, the US and various other countries have expressed their interest to join the P4 and to expand it into the TPP. The first formal round of negotiations for the TPP started in 2010 with the most recent one (15th round) completed in December 2012.

The current scope of the TPP negotiations is broad and covers not only the traditional FTA areas such as trade in goods, services and investment but also covers areas such as Intellectual Property Rights (IPR), environmental protection, labour, financial services, technical barriers and other regulatory issues.

Secondly, which countries are involved in the TPP? To date, there are 11 countries involved in the TPP negotiations which are the US, Australia, Brunei, Chile, Malaysia, New Zealand, Peru, Singapore, Vietnam, Canada and Mexico. Other future potential members include Philippines,

Taiwan, Japan, Korea and Thailand.

Thailand only expressed its interest in joining the TPP negotiations in November 2012 (during US President Barack Obama's visit to Thailand) but is not yet the 12th member to the TPP negotiations. The US still has to propose Thailand's interest to the other TPP parties for a consensus agreement. Even when this is positive, there is still a long way to go for Thailand before it can join the TPP negotiations given Thailand's Constitutional requirements and domestic legal procedures.

Also, it is expected that certain issues, which were contentious during the Thailand-US FTA negotiations (stalled since 2006), will be back on the negotiation table again causing further delay to concluding the TPP negotiations. These contentious issues include IPR protection, environment, Thai Customs' reward schemes, automotive sector etc.

Thirdly, what's in it for Thailand? The obvious benefit for Thailand to be part of an FTA is that Thai exporters would have greater market access to new markets. Will this be the case for the TPP? Obviously, Thai exporters could enjoy fewer or no tariffs for products imported into the 11 TPP countries once entered into force and the TPP would eliminate Thailand's reliance on the US' Generalised System of Preferences (GSP) that currently provide market access in the US for (limited) Thai products.

However, if we compare the current 11 TPP countries with the countries with which Thailand currently has an existing FTA, additional market access opportunities would be limited to the US, Chile, Canada and Mexico. Moreover, Thailand is already considering entering into a separate FTA negotiation with Chile and negotiations in this regards may be easier and concluded faster than under the TPP.

Therefore, the benefits in terms of greater market access opportunities may be limited and Thailand needs to carefully consider whether the TPP benefits actually outweigh the changes that Thailand has to make in order to be part of the TPP.

So how about the RCEP? It will be an FTA between the 10 Asean members and the Asean FTA partners (i.e. Australia, China, India, South Korea, Japan and New Zealand). Although it will include more countries, the scope of RCEP will not be as broad as the TPP, initially focusing on traditional FTA areas such as liberalising trade in goods, services and investment between its member countries.

Formal RCEP negotiations have not yet started and are only expected to commence in early 2013 with an aim to conclude the negotiations by 2015.

Currently, there are six Asean FTAs (including the Asean Trade in Goods Agreement), each with their own web of rules and provisions, tariff reduction schedules, non-tariff barriers, product exclusion lists, etc. At this stage, it is not clear whether the RCEP will be a consolidation and harmonisation of the existing Asean FTAs into one regional FTA whereby the existing Asean FTAs will cease to exist, or whether the RCEP will be a standalone FTA (in addition to the existing Asean FTAs) with its own rules, tariff schedules, etc.

Although the RCEP will not create additional export markets for Thai exporters, the RCEP is aiming to simplify matters and to further liberalise the trade in goods, services and investments compared to the existing Asean FTAs.

Whether the TPP or RCEP will be better for Thailand? This still remains to be seen. Compared to the TPP, it is however expected that concluding the RCEP might be easier and more straightforward given the already existing framework between the Asean countries and its Asean FTA partners. Also, the RCEP does not (yet) include some of the more contentious issues such as the environment, regulatory issues or IPR protections and other issues.

Irrespective of the question which FTA will be better, all in all, Thailand's decision to join the negotiations for both FTAs (as well as its recent decision to negotiate an FTA with the EU) is a positive signal. Not joining an FTA is a big decision given the importance of regional trading, especially with the current WTO Doha round being stalled and competition between countries to attract foreign investors (even among Asean members themselves) is getting more intense.

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