

# Impact of FTAs on Business Activity\*

## Thailand Case Study

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\* The views expressed here are those of the author and do not necessarily reflect the views of the Asian Development Bank (ADB) or ADB's Board of Governors or the countries they represent.



## Messages

- FTAs are proliferating in East Asia & becoming a major vehicle for trade policy in Thailand.
- Net effect of FTAs is positive for Thai businesses (market access and lower tariffs).
- Moderate FTA preference utilization will rise and FTAs are influencing business plans of many firms
- *Noodle Bowl* effect is emerging in Thailand, felt particularly by SMEs.
- Businesses need more support from government and business associations to deal with FTAs.
- Consolidating bilateral FTAs into an East Asia FTA offers significant welfare gains for Thailand.

## Status of Thailand's FTAs

### Concluded (7)

- Laos-Thai
- ASEAN
- Thai-Australia
- Thai-New Zealand
- ASEAN-PRC
- Japan-Thai
- ASEAN-Korea

### Under Negotiation (10)

- ASEAN-India
- Thailand-India
- Thailand-Bahrain
- Thailand-Peru
- ASEAN-Japan
- Thailand-US
- BIMSTEC
- ASEAN-Australia/NZ
- Thailand-EFTA
- ASEAN-EU

## Sample Profile

	All Firms	Textiles/ Garments	Electronic Goods/Components	Auto/ Auto Parts
No. of firms	221	64	73	84
SMEs	107	32	33	42
Large	85	24	33	28
Giant	29	8	7	14
Foreign	99	7	41	51
Domestic	122	57	32	33

- SMEs <100 employees; large firms 101 to 1,000 employees; giant firms >1,000 employees. Foreign firms have at least 10% foreign equity.
- Firm survey conducted in 2007-2008

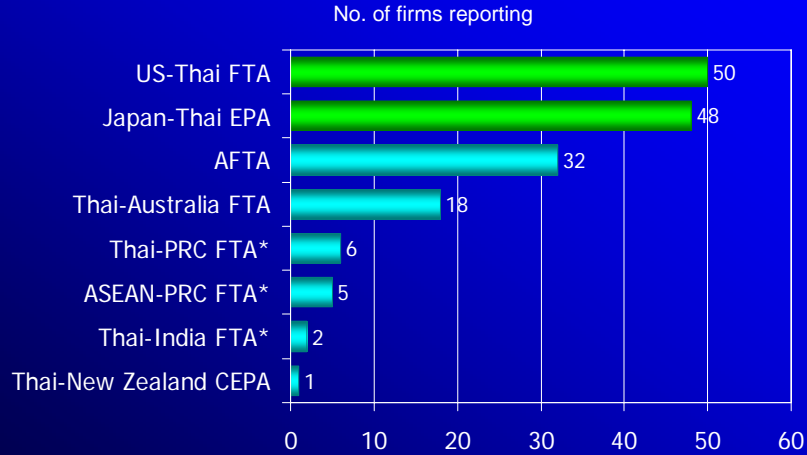
## **Main Headings**

- Awareness of FTAs
- Ranking of FTAs and net benefits
- Utilization of FTA preferences and business strategy responses
- Costs imposed by multiple ROOs
- Institutional support for business adjustment

## **Awareness of FTA Provisions**

- 43.5% of sample firms claim to have thorough and detailed knowledge of provisions of Thai FTAs
- Another 26% claim to have knowledge of some aspects of FTA provisions
- There is tendency for large and giant firms to be relatively more aware than SMEs

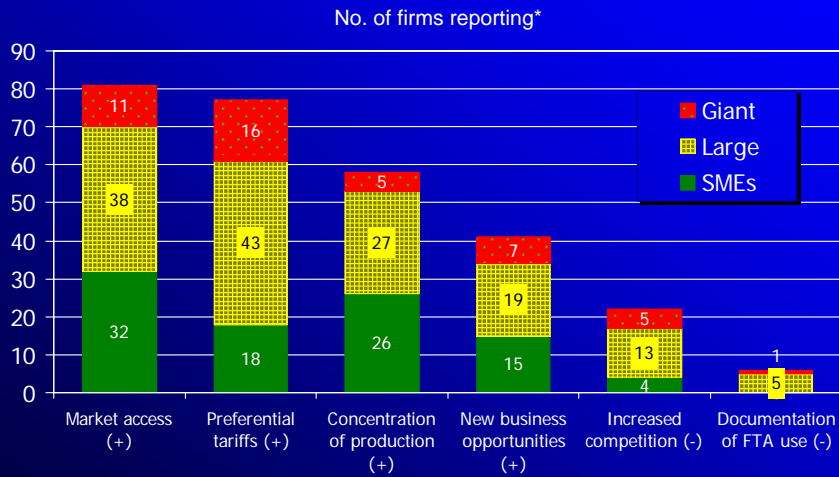
# Ranking of FTAs



Only FTAs with responses are shown.  
59 firms have no response.  
\* Early Harvest signed.

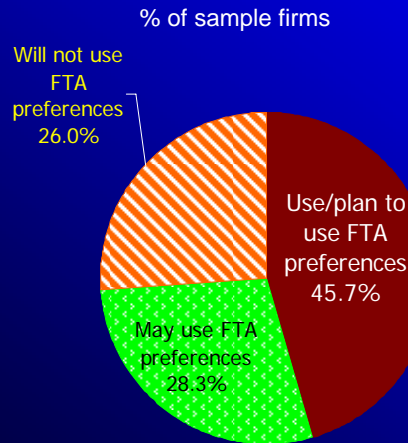
**n = 221 firms**

# Firms report more positive than negative impacts of FTAs



\* Multiple answers allowed

## Utilization of existing preferences moderate but set to rise



Ranking of FTAs for firms that use/plan to use FTA preferences

Selected FTAs	% Dist.
Japan-Thai EPA	36.4
US-Thai FTA	31.2
AFTA	14.3
Thai-Australia FTA	10.4
ASEAN-PRC	2.6
Thai-PRC FTA	2.6
Thai-NZ FTA	1.3
Thai-India FTA	1.3

## Business Strategy Responses

- 45.2% say "FTAs have influenced business plans"
- Large and giant firms most responsive

Responses	% Dist.
Have influenced	45.2
May influence	13.1
Did not influence	31.2
Don't know	9.0
All Firms	100.0*

\* Includes 1.4% no response.

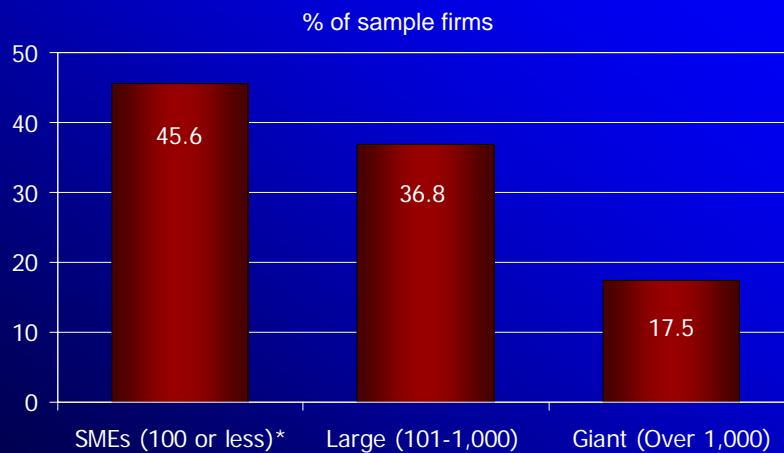
## Some firms see multiple ROOs as obstacle to using FTA preferences

With regard to using FTA preferences, ROOs are...

Responses	% of sample
An obstacle	14.9
May be an obstacle	21.7
Not an obstacle	46.2
Don't know	17.2
All Firms	100.0

- 25.8% of sample firms report that dealing with ROOs will significantly add to business costs
- Firms estimate costs to be <1% of total exports sales

## Burden imposed by ROOs and firm size



\* Refers to no. of permanent employees.

## Harmonization of ROOs

- Majority report that harmonized ROOs have benefits
- 14% prefer VA, CTC, or combination of both

Responses	% of sample
Have benefits	39.8
May have benefits	32.1
No benefits	10.9
Don't know	15.8
All Firms	100.0*

\* Includes 1.4% no response.

## Institutional Support for Enterprise Adjustment

- Use is being made of public/business institutions to deal with FTA adjustment
- Significant demand for more institutional support
- High participation rate in consultations on FTAs with govt. and business associations

## Services Demanded by Firms\*

- More information on the implication of FTAs on business
- Upgrading of technical standards and quality
- More awareness training on FTAs under implementation
- Financial support for upgrading technology and skills
- Enhanced consultations during FTA negotiations
- Improved extension services for SMEs
- Adoption of EDI to speed up and simplify procedures for ROO certification
- More effective surveillance of NTMs in FTA partner country market

\* Ranked according no. of firms reported.

## Some Recommendations

- More information on FTAs and business implications
- More business association involvement in FTA process and provision of services to members
- Improve customs procedures and administration, including a new e-customs systems
- Negotiate tariff rates close to MFN for targeted products
- Restructure tariffs that are high and distorted
- Continue to improve MTSQ, technology support for SMEs, and industrial clusters driven by MNCs
- Support consolidation of bilateral FTAs into an East Asia-wide FTA with ASEAN as the hub
- Advocate for harmonized ROOs in ASEAN and reduction of MFN tariffs at WTO