Falling into a Spaghetti Bowl:
A Review of the Impact of FTAs on Thailand

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In the spaghetti bowl[2] of Free Trade Agreements (FTAs), a growing number of strands have Thailand at one end of them. In Southeast Asia, Thailand is second only to Singapore in pursuing bilateral FTAs. Thailand's FTA network grew intensively after the country hosted the 2003 Asian Pacific Economic Cooperation (APEC) Summit, less than a month after the implementation of the first of these agreements, the Early Harvest Scheme (EHS)[3] with China. During the APEC Summit, former Prime Minister Thaksin Shinawatra rushed to sign an FTA with India and sounded out the possibility of starting FTA negotiations with other countries, including the United States[4]. The Ministry of Finance declared at the time, "this is a very good chance to transform Thailand into a strong nation…No time is better than now.[5]"

The recent increase in FTA negotiations is generally thought to arise from the failure to reach a multilateral agreement at the World Trade Organisation (WTO). However, the impetus for FTA negotiations in Thailand comes also from domestic factors. Thailand's FTA policy is a realization of the vision driven by the offensive business strategy of PM Thaksin Shinawatra, who was famous for imagining himself as the CEO of Thailand Inc.: "All my life, I have hated to take a defensive position when an offensive stance can dominate the game"[6]. In his mind, an FTA is an express train which Thailand has no choice but to take, and the earlier, the better. No matter social and environmental cost they may have, FTAs are anticipated to do more good than harm. In 2004, the country had ten ongoing negotiations to deal with.

At present, Thailand has concluded seven FTAs and four have gone into effect. The latest FTA to be signed is the one with Japan, expected to go into effect in September 2007. Three FTAs await further negotiations (see Table 1). The concluded FTAs with developing countries at the time of conclusion are partial agreements, which cover only trade in goods. The FTAs with developed countries are comprehensive, covering trade, investment, services, government procurement, intellectual property rights, etc. Although some FTAs have been in effect for some time, a more comprehensive assessment of FTAs' impact other than a simple calculations of export and import volumes is limited. This paper is an attempt to bring together and review the few pieces of information on the effect of FTAs in Thailand. Due to the limited information available, the paper will focus only on the impacts of trade liberalisation. While the paper touches on the macro economy, industries and other sectors, it will put a particular emphasis on the agricultural sector.

Table 1: FTAs with Thailand

FTAs Concluded		
Country	**Concluded**	**Took effect**
Bahrain (EHS)	2002	Delayed
China (EHS)*	2003	October 2003
India (EHS)**	2003	September 2004
Australia	2004	January 2005
New Zealand	2004	July 2005
Peru (EHS)	2005	2007 (anticipated)
Japan	2006	September 2007 (anticipated)

FTAs Under Negotiation	
Country	**Negotiations started**
US	2004
BIMSTEC (Bangladesh, India, Myanmar, Sri Lanka, Thailand, Nepal and Bhutan)	2004
EFTA (Switzerland, Norway, Iceland and Liechtenstein)	2005

Source: Department of Trade Negotiations, FTA Section. from http://www.thaifta.com/ThaiFTA/ accessed on 21 May 2007. [in Thai]

*The EHS with China is a part of an ASEAN-China FTA, which scheduled tariff cuts in 2004. However, the Thai government agreed to particularly liberalize trade in fruits and vegetables earlier than other ASEAN countries to show its strong commitment. Other products outside the EHS and falling under the normal track started their tariffs cut in 2005 while sensitive products will start their FTA schedule in 2012 and 2015. Therefore, this review will also cover an analysis of tariff reduction in 2005.

** The negotiations on the Thailand-India FTA are expected to be concluded in 2007.

Spaghetti Recipe: Pre-FTA Impact Assessments

Thailand has no law governing procedures for international trade negotiation. In the FTA negotiations, the process was basically left to the assigned authority to design and implement. However, the government often commissioned a research institution or consultant firm to conduct feasibility studies or impact assessments. In general, these government-funded research reports focused on economic projections such as import/export volumes and economic growth, and show a bias towards the anticipated positive impacts of the trade agreements. They tend to ignore other economic factors such as impacts on poverty, inequality, competitiveness of small and medium domestic producers and employment, let alone social, political and cultural factors. Although some studies do mention negative impacts, the conclusions tend to be optimistic and suggest that negatively affected sectors should be prepared to adjust.

There is no impact assessment specifically of the EHS with China but one on the ASEAN-China FTA[7]. This focused on certain sectors with high export and import values: rice, tapioca, rubber, fruits, processed food, jewelry, garments and textiles, electronic goods and leather in addition to a few service sectors. The paper forecast rising domestic competition against Thai electronic goods, garments and textiles, and leather. Nevertheless, it implied overall benefits of free trade with China in general. The paper suggested that negatively affected sectors should adjust by, for example, switching to higher value-added products with government assistance. Two studies on the India-Thailand FTA came to similar conclusions. They foresaw benefits in the form of economic activity and trade integration despite anticipated competition in agricultural and industrial imports. Major export and import potentials were anticipated in the industrial sector[8]. An increase in investment is also cited as part of the gains[9].

Thailand's study on its FTA with Australia was more quantitative. It found that tariff elimination would increase gross domestic income by only 0.03%. Beneficiaries would be concentrated in industrial sectors such as textiles and garments, automobiles and parts, and electronics. However, Thailand was anticipated to benefit the most in the first few years and with fewer gains in later years as the timetable of tariff reductions accelerated. Exports to

Australia were expected to increase by 25% but imports were expected to increase by 36%[10]. The study anticipated losses in Thai agriculture, including dairy and meat production, and recommended adjustments to production to improve competitiveness, together with government support measures[11].

Lastly, a joint study by New Zealand and Thailand also concluded that an FTA was worth pursuing. One of the benefits would be to advance other trade agreements at regional and global levels. The Thai sectors expected to gain included automobiles and parts, plastics, furniture and canned food either from exports or imports of raw materials. However, in general, the evidence of economic benefits was not as strong as in the other studies. In addition, it did not foresee any significant negative impacts except in a few agricultural sectors like dairy[12].

Swallowing Spaghetti: Some Emerging Post-FTA Impacts

I Macro Economy

- **Mixed Reality of Trade Balances**

Official figures on international trade with 4 countries where FTAs have taken effect show mixed results. In 2006, Thailand's trade balance with China is minus while those with other countries are positive. But a year earlier, trade figures also showed Thailand's deficits with Australia while continued to have deficit with China (see Table 2). Although it may be too soon to evaluate how FTAs affect the country's trade balance because the earliest implementation of FTAs is only three years old, it is still able to draw a conclusion from a look at trade figures in cases of China, whose trade with Thailand is much larger and more important than Thailand's trade with the other three countries.

The statistics in Table 3 shows Thailand 's continuous deficit to China, despite the start of the Thai-Chinese FTA in 2003. Particular trade figures under the FTA are also coherent with the overall trade balance. The deficits are accompanied by a rise in Thailand's both import and export. Supporters of FTAs argue that trade expansion as a result of rising import and export is something expected from trade liberalization. In this sense, the FTA has done its job in enlarging trade between FTA partners. Nevertheless, it has no role in improving the situation of trade deficits of the country.

Table 2: Trade Balance between Thailand and FTA Partners (million US$)

	2003	2004	2005	2006
Thailand-China FTA	-454.0*	-911.0	-1,599.1	-1,074.0
Thailand-India EHS	-7.8	77.6*	251.6	263.1
Thailand-Australia FTA	582.5	258.0	-77.1*	943.7
Thailand-New Zealand FTA	54.5	93.4	267.3*	210.6

Source: Cited from Department of Trade Negotiation, "Thailand's International Trade with FTA Partners" from http://www.dtn.moc.go.th/web/data/BALFTA_49.xls. [in Thai] accessed on 21 May 07.

*Trade balance in the year when the FTA went into effect.

Table 3: Trade Balance between Thailand and China (million US$)

	2001	2002	2003	2004	2005	2006
Exports	2,873	3,555	5,688.9	7,115.1	9,167.6	11,708.9
Imports	3,696	4,898	6,002.3	8,144.3	11,159.8	13,445.7
Overall Trade Balance	-823	-1,342	-313.4	-1,029.2	-1,992.3	-1,736.8
Exports under FTA	NA	NA	4,942.4	6,306.3	8,174.7	10,611.4
Imports under FTA	NA	NA	5,396.4	7,217.3	9,773.8	11,685.4
Trade Balance under FTA	**NA**	**NA**	**-454.0**	**-911.0**	**-1,599.1**	**-1,074.0**

Source: Cited from Department of Trade Negotiation, "Thailand's International Trade with FTA Partners" from http://www.dtn.moc.go.th/web/data/BALFTA_49.xls. [in Thai] accessed on 21 May 07.

II Agricultural Sector

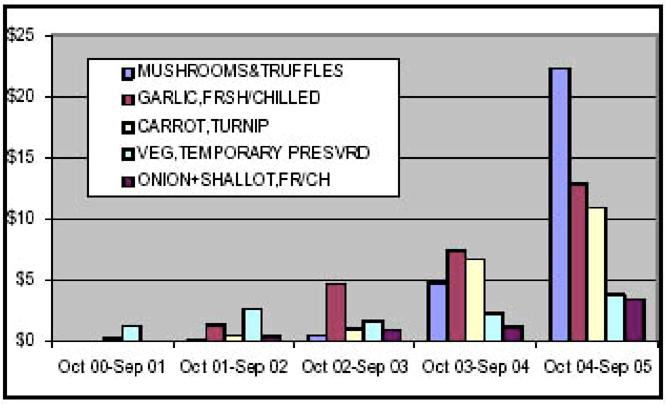
- **Larger Trade Volumes but Increasing Food Imports**

Agricultural products are entitled to tariff elimination in all FTAs. Thailand abolished tariffs on fruits and vegetables with China in 2003, and tariffs on other food items such as meat, fish and dairy products were decreased to 0% in 2006. Similarly, the tariffs on agricultural trade with India will vanish in 2007. In 2005, Thailand started to reduce its import tariffs on products from Australia and New Zealand. Although Thailand is competitive in many agricultural products, its FTA partners are among the top agriculture exporting countries. Without an FTA, for example, Thailand had been in deficit in agricultural trade with New Zealand, from which dairy products such as skim milk and whole milk powder are the biggest import items[13].

The Ministry of Agriculture has given a very positive picture of agricultural trade under the FTAs. The Ministry's figures show that the FTAs have expanded agricultural trade by value although there were adverse impacts on dairy products and garlic, and that after the FTAs too effect, Thailand has had a trade surplus in agriculture with China, India and Australia, and a deficit with New Zealand[14].

Nevertheless, Thai imports of food and agricultural products are growing at a faster rate than exports. For example, between 2003 and 2006, fruit and vegetable exports to China increased by 58% annually. But imports of fruits and vegetables from China grew by 72% per year, although total imports are still much lower than total exports[15]. These figures reflect the first year of the Thai-Chinese EHS, when imports rocketed by 160% compared to an increase of 60% in exports[16]. In fact, under the FTA with China, which also includes industrial goods, fruits and vegetables constitute the major imports, followed by processed food[17]. Many of these imports compete against local production of garlic, onions, carrots, mushrooms, tomatoes, apples, pears, grapes, strawberries and oranges. Table 3 below shows the increase in vegetable imports before and after the Thai-Chinese EHS.

Graph 1: Imports of Vegetable from China (million US$)



Source: China Customs Data, Global Trade Atlas. Cited in Sabhasri, Chayodom et. al. "ASEAN and China Free Trade Area: Implication for Thailand", from www.pes.org.ph/faea/downloads/papers/1_parallel_1a_3.pdf accessed on 22 November 06.

Agricultural trade with Australia and New Zealand reflects a similar picture. Statistics presented by the Office of Agricultural Economics show that after the Thailand-Australia FTA, Thailand's imports grew faster than exports. Between January and September 2005, food imports from Australia increased by 27% while exports from Thailand increased by 16%[18]. Imports of milk and dairy products rose from 2,000 million baht (US$ 57 million) in 2004 to 3,200 million baht (US $ 91 million) in 2005 or about a 60% increase[19]. Imports of skim milk powder, a substitute for local raw milk, increased by almost 140% in value in one year after the FTA[20]. Similarly, there was about a 50% rise in the value of skim milk powder imports from New Zealand[21]. Moreover, there were already complaints from local traders against flooding of cheap internal organs from these two countries, which negatively affected the market price[22].

Narrow Gains in Agricultural Exports

In the first year of the FTA between Thailand and China, fruit exports increased dramatically. For example, durian exports to China rose by almost 20,000%, fresh longan by 140% and mangosteen by 2,300%[23]. However, such figures may be misleading. For instance, the increase in durian exports was from a low base and a substantial part was re-exported to Hong Kong[24]. In contrast, dried longans, normally accounting for about half of fruit exports to China, performed worse under the FTA and prices dropped[25].

Moreover, several obstacles to Thai agricultural exports continue especially non-tariff barriers. In the case of the Thailand-China FTA, although there are no more tariffs on the Chinese side for Thai products, there are still taxes, import regulations, and complicated logistics, which delay products getting to market and add to the cost[26]. These non-tariff barriers are not dealt with in the agreement. Exports of agricultural products to Australia face a similar problem. In 2005, the export of longans to Australia faced tough measures including random checks of 600 out of every 1,000 fruit. In 2007, rice exporters face stringent and expensive inspections, which have hindered the expected expansion of exports to Australia despite the elimination of tariffs on rice. In effect, rice exports to Australia in 2007 are less than the previous year[27]. Similarly, shrimp exports to Australia have been made more difficult by the introduction of tougher food-safety standards. National Food Institute of Thailand predicts a loss of 2 billions baht (US$ 57 million) in Thai shrimp exports,[28] even though the Thai-Australia FTA lists shrimp as a priority products for Thai market access[29]. These examples indicate that FTAs may not help much with non-tariff barriers.

Another limitation is the concentration of exports in very few commodities. In the case of Thailand's EHS with China, about 70% of the trade surplus comes from vegetables[30]. Interestingly, about 99% of the vegetable trade with China is concentrated in one single item, tapioca, while trade in other vegetables is almost insignificant. In fact, tapioca's predominance in vegetable exports is a continuation of export trend to China before the FTA thanks to China's high demand for tapioca to feed its alcohol and ethanol plants[31]. Without tapioca, Thailand's trade in fruits and vegetables with China would be in deficit, as would Thailand's overall trade balance with China[32]. The large trade surplus with China is therefore mainly a result of a pre-existing high demand for tapioca from China, rather than a consequence of the FTA.

- **Negative Effects and Mitigation Measures**

One immediate impact from the FTA between Thailand and China was an influx into Thailand of cheaper agricultural products such as green tea and temperate fruits and vegetables from China. Prices of garlic, red onions and onions declined by 47%, 41% and 80% respectively[33]. In 2004, over 100,000 households were involved in producing these three crops[34]. To resolve the price problem, the government announced cuts in the area of land used for garlic and onion by almost half, aiming to reduce overall supply, and encouraged farmers to find substitutes for garlic, onions and other crops no longer seen as competitive, such as longan and oranges. Financial compensation to induce farmers to switch crops was too little. For example, garlic farmers switching to sweet corn, potatoes and other vegetables would receive a one-time compensation of 1,500-2,000 baht (US$ 42-57) per rai[35]. Since the investment for one rai of garlic is between 20,000-30,000 baht (US$ 571-857), the compensation was obviously not enough[36]. This does not consider the new skills that farmers need to learn to grow the new crops. The remedial measures were decided without consulting farmers. In fact, many farmers only became aware of the FTA several months after it was implemented[37].

The government was not prepared to deal with the negative impacts when it signed the FTA with China. It did not also foresee the strong opposition against the FTA that would arise. In July 2004, the government decided to put 1,000 million baht (US$28 million) a year for ten years into a structural adjustment fund. The fund's main objectives are to improve the productivity, quality and value of agricultural products by providing credits or grants for production change, inputs and technology, research, training or development of basic infrastructure[38]. Farmers need to submit proposals through government officials. However, this fund is designed not only for farmers affected by FTAs but also general structural adjustments in agriculture, for which any private company working in agriculture can apply[39]. By January 2006, only 300 million baht (US$ 9 million) had been disbursed from the fund while there were 11 projects applying for about 440 million baht (US$ 13 million). It is not clear how many FTA-affected farmers had applied for their production adjustment support. In fact, many garlic farmers felt that the proposed solution is inappropriate since the root cause of their lack of competitiveness is not the low quality of their garlic but rather the dumping of cheaper, lower-quality garlic[40]. In 2006, it was disclosed that most money disbursed for garlic production adjustment for 2006 to 2012 was mainly to cancel farmers' interest payments to the Bank of Agricultural and Agricultural Cooperatives (BAAC), which provides credit for farmers to do contract farming[41]. Therefore, most of the costs of readjustment are left for farmers to tackle their own.

The approximately 20,000 dairy farming households in Thailand are also negatively affected even though the FTAs with Australia and New Zealand have not yet had direct consequences[42]. The sector, previously promoted as an alternative to less productive forms of agriculture, has been protected by import quotas[43] and supported by the government's school milk projects. In these FTAs, Thailand will cut tariffs to 0% and expand the import quotas by giving specific quotas on skim milk power from these two countries over the next 15-20 years until 2025 when there is no longer the quotas for Australia and New Zealand. But because processing factories had always preferred cheaper skim milk powder imports over raw milk produced domestically, the FTAs benefited the processors while worsening the dairy farmers' situation. In 2005, about 10,000 farmers protested against the processing factories, which refused to accept 240 tonnes of raw milk a day despite their quota commitments[44]. However, to date, there is no significant measure to support these farmers in an increasingly liberalized environment.

- **Traditional Crops Continue But Increasing Contract Farming**

Almost all pre-FTA research concludes that affected sectors need to adjust to survive the impact of trade liberalisation. The government even suggested that farmers abandon affected crops in favour of more competitive crops. However, research by the Foundation of Reclaiming Rural Agriculture and Food Sovereignty Action (RRAFA) on garlic farmers in one northern village showed that they continued growing garlic as their main crop even after the Thailand-China FTA had negatively affected their prices and sales. But the pattern of production changed with land used more intensively to grow non-traditional crops such as sweet corn and potatoes under contract farming arrangements in order to compensate their loss of income from garlic. They also have to put in more labour and use more fertilisers and chemicals to increase productivity[45].

It is not only in this village that farmers have turned to contract farming when they encounter price and market problems as a result of the FTA. Contract farming, for either the domestic or foreign market, has become an option for farmers, largely due to government promotion[46]. In 2006, as a part of efforts to mitigate the impacts of the FTA, the Ministry of Agriculture offered loans to garlic farmers at 7% per year interest for 5 years to start contract farming in coordination with the private sector. Non-traditional crops were introduced such as sweet pepper, sweet corns, potato and rubber[47] It was calculated that these cash crops when operated under contract would yield a better return for farmers. For example, rubber contract farming was estimated to earn almost 10,000 baht (US$ 285) per rai, twice the normal profit from garlic [48]. The government believes that rubber has a better future since about 60-70% of it goes to the automobile tyre industry[49]

Nevertheless, the government's programme arouses concerns. Firstly, not all farmers can access government credit because several conditions may not easily be met by farmers. For instance, farmers wanting to replace garlic with rubber are required to own between 14-30 rai of arable land with a low level of underground water, good drainage, sufficient rainfall and an appropriate elevation[50]. Secondly, new relationships between companies and farmers under contract farming can lead to new problems. Since farmers are likely to be more dependent on companies than vice versa, they are easily put into disadvantageous positions[51]. Contract farming is also found to pose negative impacts on health and environment[52]. But more importantly, many farmers have lost faith in government interventions because past policies and measures created more problems than cures[53].

- **Companies' Response: Change Crops, Change Markets or Get Bigger**

A number of agricultural companies are facing difficult times due to the influx of foreign products that increasingly crowd out their domestic production. Their responses vary. Some switch their crops, while others shift markets. For instance, the Highland Green flower company increased coffee production to offset falling flowers sales due to Chinese competition. It also plans to give up flowers completely if they prove incapable of competing[54]. The Siam Future organic vegetable producer in the North has chosen to increase its exports after the implementation of the FTA with China created tough competition in domestic markets[55]. A leading dairy company, Chokchai, has done both, largely replacing its milk business by cattle exports to nearby countries including China, Lao, Vietnam and Malaysia. Although it does not directly blame the FTAs with Australia and New Zealand, which will eliminate tariffs and import quota over the next 20 years, the company believes its new line of business is a viable strategy to survive the impact of both FTAs[56].

Companies set to gain from FTAs also moved to maximize benefits from trade liberalization, such as Charoen Phokphan (CP), the most powerful agribusiness in Thailand. CP-Meiji, a joint venture with Japan-based Meiji Milk Products has announced an increase in its yogurt and fermented milk production in an attempt to make Thailand an export hub in Asia[57]. CP also recently started marketing fresh fruit overseas particularly in countries where Thailand has FTAs[58]. In 2006, the value of the company's fruit exports was anticipated to be 200 million baht (US$ 6 million), about a 33% increase from 2005. Most fruit exports of mangos, mangosteens, and pomelo, went to Japan, Australia, New Zealand, and China, among other markets[59]. Thai Dairy Industry, a long-time dairy producer of "Mali" and "Orchid", has joined forces with Dutch dairy giant Campina International to acquire technology. Campina itself wants to penetrate market shares in Asian countries, overthrowing other multinationals like Nestle and Foremost. Liberalization in the milk sector with Australia was cited as a contributing factor for the move of both companies[60]. While adverse impacts from liberalization on dairy farmers are clear, it is expected that Campina will be one of the beneficiaries from the increase in milk powder imports.

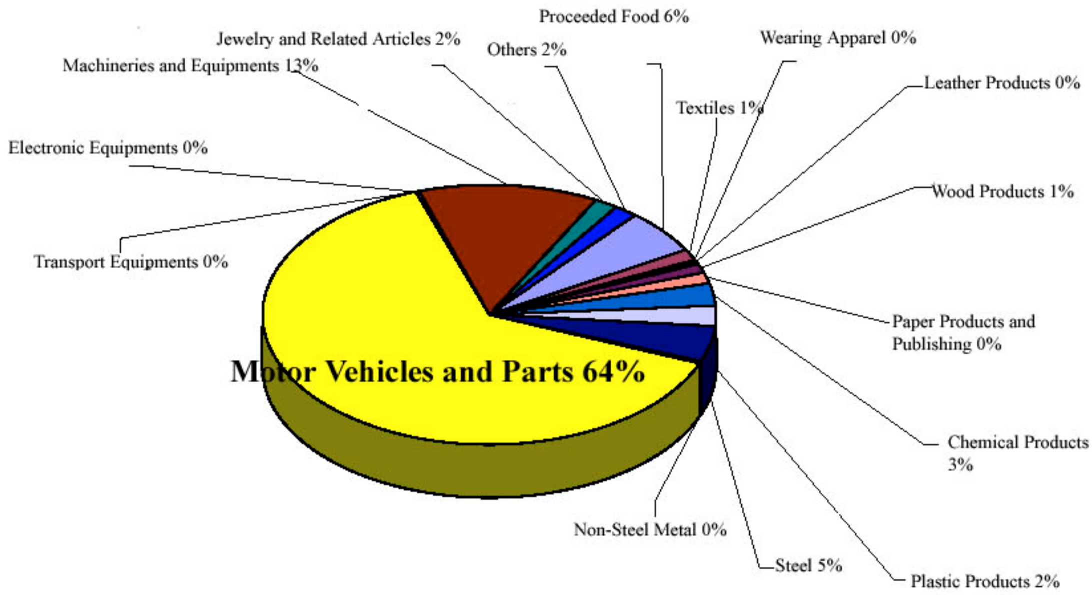
III Industrial and Other Sectors

Some Gain, Some Lose but Benefits Concentrated in Automobiles

Research by the Thailand Development Research Institute (TDRI) on the effect of FTAs on various industrial sectors found that a number have enjoyed gains from Thailand's FTAs with Australia, China and India although at varying levels of benefit. Tariff reductions on exports of automobiles and parts, garments and textiles, machinery, jewelry, wood products, chemical products, processed food, metal, electronic goods and plastic products clearly benefit those sectors[61]. At the same time, many of these sectors have lower import tariffs, including automobiles and parts, processed food, electronic goods, garments and textiles, chemical products and wood products[62]. The research also shows that 88% of eligible Thai exports to Australia have used the privileges of the Thailand-Australia FTA and 80% of Thai exports to India have benefited from the Thailand-India FTA[63]. However, a number of sectors face difficulty due to competition from foreign imports especially from China and India. These sectors include shoes, leatherwear[64], automobile parts and electronic parts (such as switches and ballasts)[65].

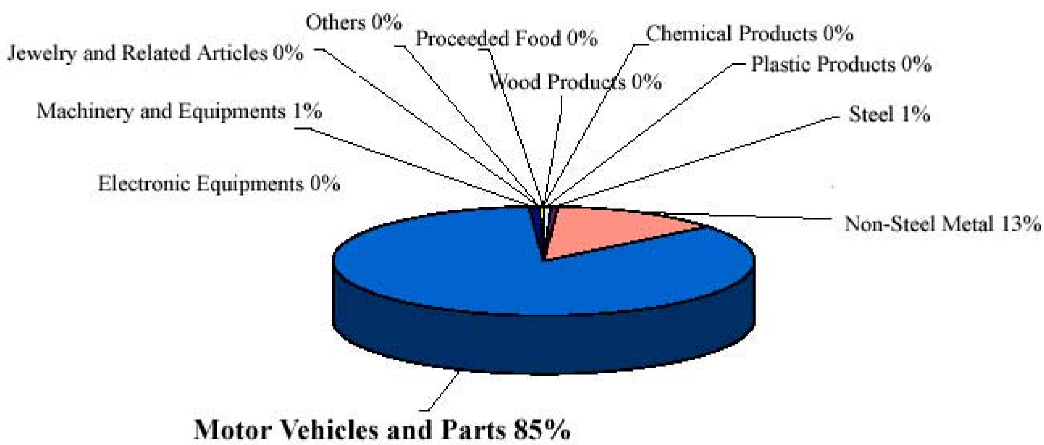
The same study reveals that in fact much of the high level of use of the FTAs with Australia and India in the industrial sector is concentrated in automobiles and parts. In 2005, exports of these products alone accounted 64% of the total exports applying for the privileges under the agreement (see Graph 2). Particular applications for Certificates of Origin (C/O) for automobiles and parts even exceeded the sector's actual total exports to Australia, implying that this industry saw the FTA as highly relevant[66]. Similarly imports of automobiles and parts from India under the Thailand-India FTA accounted for 85% of the total imports under the agreement in 2005 (see Graph 3), and was almost 100% of the total imports of automobiles and parts from India[67].

Graph 2: Utilization of the Thailand-Australia FTA by Sector of Export in 2005 (million US$)



Source: Thailand Development Research Institute. 2006. *Utilization of Free Trade Agreements*, p 124.

Graph 3: Utilization of the Thailand-India FTA by Sector of Import in 2005 (million US$)



Source: Cited from Thailand Development Research Institute. 2006. *Utilization of Free Trade Agreements*, p 179.

The above figures reflect the enormous gains to the automobiles and parts industry from the FTAs. Nevertheless, the gains to Thai business are still in doubt since 80-90% of market shares of production, sales and exports in Thailand is in the hands from Japanese companies and their affiliates[68]. Moreover, few Thai automobile parts suppliers can reach first-tier standards. On the contrary, the benefits for Japanese companies from both imports and exports are obvious. For example, Toyota Motors Thailand, with 70% of its shares controlled by Toyota Japan, can now supply cheaper Common Rail engines from Thailand to car assembly plants in India while importing cheaper gearboxes from India for its production in Thailand[69]. In 2005, gearbox has the highest record of import value in the industrial sector under the Thai-Indian FTA[70]. While Toyota may import gearboxes from other companies in India, it was reported to possibly set up its own gearbox manufacturing plant in India to supply the Asian market[71]. This implies that an additional benefit Toyota enjoys is likely to come from its ability to increase trade internally at lower cost between their affiliates in India and Thailand. Moreover, in the same year, Toyota's export to Australia showed an increase every month and the first exports of pick-up trucks to New Zealand were planned as a consequence of Thailand's FTA with that country[72].

This new-found prosperity is not limited to Toyota. Other car manufacturers, including Honda, also enjoy more exports to Australia thanks to Thailand's FTA with Australia[73]. The growth of automobile industry can be seen from the overall increase in exports of automobiles of over 40% in the first four months of 2005[74]. In 2006, the industry continued growth of over 50% in the first quarter, mainly due to benefits from the Thailand-Australia FTA. The gains for the industry have in effect induced a number of foreign carmakers, such as Isuzu, General Motors, Mitsubishi, Ford and some Australian-based companies, to choose Thailand for their main production sites[75].

- **The Local is Isolated from Gains**

Research conducted by a group of teachers and students in Chiang Saen District revealed several interesting impacts of FTA on local economy. Chiang Saen is a border town in the North of Thailand, and since 1992, has become a trading centre for Chinese goods. The research concluded that local people benefited little from the FTA with China, partly because leading exports to China are not locally produced but transported from other regions. But more importantly, after the FTA, the enlargement of trade requires the more extensive logistical services of shipping companies. Export of fruits and vegetables also requires the names of traders at the receiving end in China, which small traders cannot manage. Chinese traders had also started to deal directly with larger Thai traders at central markets in big cities, overlooking small traders in Chiang Saen[76]. These changes of trading nature have forced a number of traders out of business. Between 2003 and 2006, for instance, the number of shops selling pears and apples decreased from 46 to 26[77]. Daily income of traders declined from 7,000-8,000 baht (US$ 200-228) to 1,000-2,000 baht (US$ 29-57) and almost all traders were trapped into debt[78]. However, in 2006, it was reported that one of the largest Chinese state-owned shipping companies, COSCO, was exploring the possibility of investing in container vessels to run between Thailand and China[79].

Impacts of the FTA are also felt in increasing in-migration and the emergence of new jobs concentrated in construction, housing, tourism, and some morally sensitive services such as restaurants, karaoke bars and massage parlours. Many of these services, owned by people outside the area, are provided for Chinese migrants and Burmese seafarers. But local people do not benefit from them since ownership, employment and consumption relate little to the local economy[80]. Migration is also likely to suppress overall wage levels[81].

What Lessons Can We Learn from Thailand's FTAs?

This paper is limited in content and scope to focus on the effect of trade liberalisation under Thailand's concluded FTAs by using secondary sources of data. However, it reflects major trends and points Thailand can learn as it negotiates further FTAs.

Firstly, FTAs are designed to liberalize trade, which can be expected to lead to increased trade. They do not guarantee that the increased trade will, on the whole, benefit the national economy. In Thailand's case, increased trade as a result of FTAs has created, or worsened, trade imbalances with some countries.

Secondly, liberalized trade tends to stimulate faster increases in food imports. Although food under this review is limited to a few sectors such as fruits, vegetables and milk, the data points to a tendency of substituting local production by imports. Increasing competition from foreign food suppliers will discourage local producers from supplying food for the domestic market. In addition, increasing international trade in food implies a rise in food miles, which potentially has an adverse implication on the environment[82]. As far as the impact assessments are concerned, the impacts of FTAs on food security and food sovereignty should be further investigated.

Thirdly, the expansion of international trade affects different sectors of the Thai economy in different ways. FTAs have created winners and losers in both agricultural and industrial sectors but some groups tend to win or lose more than others. In agriculture, evidence of victory is less than in industry, partly due to unresolved non-tariff barriers and limited gains from a few commodities as shown in the case of Thailand-China FTA. More casualties of the FTAs are emerging largely because Thailand's FTA partners are highly competitive in agriculture. However, small-scale farmers find it harder to survive than agricultural companies since the later have the technology and capital to adjust their line of business and switch to foreign markets. This conclusion is supported by a recent study on the impact of FTAs on agriculture showing that farmers' responses vary according to their level of capital[83]. One implication is that poorest farmers will be hardest hit. In the industrial sector, although several commodities enjoy privileges offered by FTAs, the outcomes greatly favour automobiles and parts. In particular, Japanese multinationals can enjoy freer flows of cheap components across borders in addition to tariff reductions on their exports to the other markets Thailand has FTAs with. However, several industries face difficulties in competing with cheaper products especially from China.

Fourthly, once the effects of the FTA start to be felt, different actors have different capacity for adjustment. Small-scale farmers are driven towards vertical integration through contract farming with agricultural companies, a change which is heavily promoted by the government as a viable option. Competition from foreign products also induces farmers into a more intensive mode of cultivation, exploiting their land and labor to ever higher levels to compensate loss from uncompetitive crops. Some affected agricultural companies have decided to increase their focus on external markets to avoid rising competition in domestic markets while others have expanded by inviting more capital to strengthen their market positions. Such adjustments create an environment where more and more economic activities are detached from local control and becoming less relevant to the local economy while larger amounts of capital are required in order to survive. As a result, multinational companies emerge among the beneficiaries under the changing environment. A similar conclusion can also be drawn from the case of Chiang Saen, where trade liberalization has created a spillover effect on the service sector. As the volume of trade is enlarged, small local traders are increasingly replaced by large shipping companies in providing logistical and trading services, and deals are made by players outside the local community. This finding is important but missing in past FTA debates. The government-funded impact assessments are also limited in discussing the issue. In future FTA debates, costs, benefits and adjustment options for different actors should be evaluated.

Last but not least, since the cost of adjustment has been ignored, mitigation measures to help negatively affected small-scale farmers have been superficial, and unequal to the reality of difficulties faced by farmers. FTAs mitigation measures have failed in either shifting farmers from less competitive crops or developing traditional production towards sustainable livelihoods. Moreover, the ineffectiveness of past mitigation measures is a political problem as much as an economic problem. Having been excluded from the FTA negotiations to the point where many were unaware of the FTAs' existence until after they were signed, farmers are also excluded from giving any input to the design of the mitigation measures. As a result, the risk increases that the measures will be ineffective. The cost to the Thai government of implementing such measures must also be counted as an unforeseen cost of the FTAs.

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2 The analogy likening the ever-increasing network of FTAs to a bowl of spaghetti was first used by Jagdish Bhagwati in "U.S. Trade Policy: The Infatuation with Free Trade Agreements" in Jagdish Bhagwati and Anne O. Krueger, The Dangerous Drift to Preferential Trade Agreements, AEI Press, 1995, and has been repeated by Bhagwati and many others.

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