The Political Economy of Thailand's International Trade Negotiations:

Some Multilateral and Bilateral Issues

by

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To my parents

Veerapant and Paiboon Saraithong

and

in loving memory of my grandmothers

Abstract

This thesis examines Thailand's international trade negotiations, using a political economy framework. It concentrates on the country's multilateral negotiations in the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) and bilateral negotiations with the United States on intellectual property protection. The objectives of this thesis are to analyse the role of the Thai private sector and the autonomy of the Thai government in the process of these negotiations.

This study argues that, apart from the public sector, the Thai private sector also plays an important role in the country's trade negotiations. However, the level of its participation varies from one negotiating framework to another. Bilateral negotiations tend to draw more attention from the private sector, because they have more direct impact on individual businesses. This is a result of the high concentration of interest caused by the small number of negotiating issues and people involved in these negotiations. In the country's bilateral negotiations with the United States, Thailand's private sector actively engaged in the negotiating process through various kinds of lobbying activities. The Thai government had to respond to these activities and compromise interests among different groups. In contrast, the role of Thai private enterprises in the Uruguay Round negotiations was rather limited. This provided the Thai government with autonomy in formulating the country's negotiating positions and in implementing Uruguay Round commitments. This resulted in a higher degree of autonomy for the government in the Uruguay Round negotiations, compared with bilateral negotiations with the United States.

Thailand's Uruguay Round negotiations and its bilateral negotiations with the United States carry some implications, both for government policy and agencies as well as for their relationship with private businesses. There have already been a number of changes not only in the Thai bureaucratic system but also in the general public's opinion regarding trade negotiations. Nevertheless, to improve the capability of Thai government officials in the negotiating process and to promote national interests, some further changes are still necessary.

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List of Abbreviations

AFL-CIO - American Federation of Labour and Congress of Industrial Organisations

AFTA - ASEAN Free Trade Area

ASEAN - Association of Southeast Asian Nations

BOI - Board of Investment

BOT - Bank of Thailand

BTN - Brussels Tariff Nomenclature

c.i.f. - Cost, Insurance, and Freight

EC - European Community

ECOSOC - Economic and Social Council

EPZ - Export Processing Zone

ERP - Effective Rate of Protection

EU - European Union

EXIM Bank - Export-Import Bank Of Thailand

FDA - Food and Drug Administration

FDI - Foreign Direct Investment

f.o.b. - Free on Board

FPO - Fiscal Policy Office

FTI - Federation of Thai Industries

GATS - General Agreement on Trade in Services

GATT - General Agreement on Tariffs and Trade

GDP - Gross Domestic Product

GNP - Gross National Product

GSP - Generalised System of Preferences

HS - Harmonised System

IBF - International Bangkok Facility

IBRD - International Bank for Reconstruction and Development

IEAT - Industrial Estate Authority of Thailand

IERPC - International Economic Relations Policy Committee

IFCT - Industrial Finance Corporation of Thailand

IIPA - International Intellectual Property Alliance

IMF - International Monetary Fund

ITO - International Trade Organization

JPPCC - Joint Public and Private Consultative Committee

LDC - Less-developed Country

LTA - Long Term Arrangement Regarding International Trade in Cotton Textiles

MC - Ministry of Commerce

MFA - Multi-Fibre Arrangement

MFN - Most Favoured Nation

MNC - Multinational Corporation

MoFA - Ministry of Foreign Affairs

MTN - Multilateral Trade Negotiation

NESDB - National Economic and Social Development Board

NESDP - National Economic and Social Development Plan

NGO - Non-Governmental Organisation

NIE - Newly Industrialised Economy

NLA - National Legislative Assembly

NRP - Nominal Rate of Protection

NTB - Non-Tariff Barrier

NTE - National Trade Estimate

OLS - Ordinary-Least Square

PFC - Priority Foreign Country

PMA - Pharmaceutical Manufacturing Association

PPA - Pharmaceutical Producers Association

PWL - Priority Watch List

RIA - Regional Integration Arrangement

SAL - Stand-by Arrangement Loan

SIFO - Small Industries Finance Office

SITC - Standard International Trade Classification

TBA - Thai Bankers Association

TCC - Thai Chamber of Commerce

TPMA - Thai Pharmaceutical Manufacturers Association

TRIM - Trade-Related Investment Measure

TRIP - Trade-Related Intellectual Property Right

TTR - Thailand Trade Representative

UNCTAD - United Nations Conference on Trade and Development

US - United States

USTR - United States Trade Representative

VAT - Value Added Tax

VER - Voluntary Export Restraint

WIPO - World Intellectual Property Organization

WL - Watch List

WTO - World Trade Organization

List of Interviewees

1. H.E. Dr. Supachai Panichpakdi, Deputy Prime Minister and Minister of Commerce of Thailand
2. H.E. Abhisit Vejjajiva, Minister to the Prime Minister's Office of Thailand
3. Dr. Narongchai Akrasanee, Former Commerce Minister of Thailand
4. H.E. Kirk-krai Jirapaet, Thai Ambassador to the WTO
5. Thawatchai Sophastienphong, Deputy Director-General of the Department of Business Economics
6. Somkiat Triratanapan, Department of Business Economics
7. Yanyong Puangraj, Legal Expert of the Ministry of Commerce
8. Professor Vanida Chitman, Pharmaceutical Producers Association
9. Dr. Nilsuwan Leelarasamee, Thai Pharmaceutical Manufacturers Association
10. Dr. Supawutti Saichuea
11. Peter Mytri Ungphakorn, Information and Media Relations Division, WTO
12. Dr. Medhi Krongkaew
13. A number of officials from several government agencies
14. A number of officials from private sector bodies

Chapter 1

Introduction

This chapter will be divided into three sections. Section one will discuss the objectives of this study. Section two will discuss the scope and structure of the study. Data sources and fieldwork will be explained in the last section.

1.1 The Objectives

Thailand has been actively involved in international trade since the eighteenth century. It has swiftly become an important part of the Thai economy. Since the 1960s, the importance of international trade to the country's economy has been increasingly apparent. After the Second World War, the world trading system rapidly expanded. This resulted in the rise in trade disputes between nations. A number of trade negotiations were carried out to settle these disputes. They have become an important international economic issue. Not only did trade negotiations affect some small and specific groups of people but they also carried far-reaching consequences.

Although trade negotiations are mainly economic matters, they also have political implications. In Thailand, like many other countries, political factors are as important to trade negotiations as economic factors. Therefore, to understand Thailand's international trade negotiations, it is essential to study their political aspects as well as their economic aspects. In this study, international trade negotiations of Thailand will be analysed by using the political economy framework.

The main objective of this research is to study the role of the private sector in Thailand's international trade negotiations. The study aims at finding out whether or not the private sector is an important determinant of the country's negotiating positions. If the private sector plays any role in the process of trade negotiations, this role will be analysed further. That is, this study will try to find out whether or not there are differences between the role of the Thai private sector in the country's multilateral negotiations and that in the country's bilateral negotiations. In addition, the study will examine how the Thai government responds to the role of the private sector in the process of trade negotiations. This study will try to establish the extent to which the private sector could influence the process of Thai trade negotiations. The extent of the private sector's influence on negotiating processes will reflect the level of autonomy of responsible government officials. The differences between the level of autonomy of Thai government officials in the process of multilateral negotiations and bilateral negotiations will also be studied.

1.2 The Scope and Structure of the Study

This thesis will analyse the political economy of Thailand's international trade negotiations. It will be carried out by concentrating on Thailand's multilateral negotiations in the Uruguay Round of the GATT during 1986 to 1994 and bilateral negotiations between Thailand and the United States on intellectual property protection during 1985 to 1993.

This study consists of nine chapters. Chapter one is the introduction of the study. This chapter discusses the objectives, the structure and scope of this research, and data sources and fieldwork. Chapter two provides an overview of the Thai economy. The purpose of this chapter is to understand how the Thai economy has developed, particularly in the period from 1960 to 1995. Understanding the development and the structure of the Thai economy is essential to the study of the country's international trade. This chapter analyses the structure of the Thai economy which will be divided into two periods. Firstly, the structure of the Thai economy in the period before the 1960s is reviewed. Secondly, a number of important aspects of the Thai economy in the period after the 1960s until 1995 are discussed in detail; for example, structural changes, international trade, and government revenue.

Chapter three reviews the literature on trade policy. The purpose of this chapter is to examine the development of literature relating to trade policy and to provide a theoretical framework for the political economy of trade policy. This is very important for this study since the study on the determinants of trade policy will be adapted to analyse international trade negotiations. Firstly, traditional trade theory is discussed briefly. Then, two well-known trade policies, import substitution and export promotion policy, are analysed. Moreover, a more recent concept of trade policy, strategic trade policy, is studied. Lastly, some prominent works on the political economy of trade policy are discussed. This chapter studies the political economy of trade policy at two levels, the international and national levels. Nonetheless, it concentrates on the national level which explains the rationale of trade policy in terms of domestic reasons. The national level employs a public choice framework. Within this framework, two main approaches, the economic self-interest approach and the social concern approach, are discussed. Moreover, details of two models of the economic self-interest approach and three models of the social concern approach are analysed.

Chapter four studies economic policy planning and the determinants of economic policy in Thailand. The purpose of this chapter is to understand Thailand's economic policy, especially trade policy, and how this policy is formulated. This is important because the country's trade negotiations are a part of its trade policy. Therefore, in this study, the nature and characteristics of trade policy are analysed in order to understand Thailand's trade negotiations. This chapter examines the process of economic policy planning in Thailand which can be classified into four stages: the brainstorming, the drafting, the approval, and the implementation stages. Then, the determinants of the country's economic policy are discussed. These determinants can be categorised into three groups: the public sector, the private sector, and the external factors.

Chapter five studies trade policy measures and trade-related issues. The purpose of this chapter is to understand the nature of negotiating agenda. These trade policy measures and trade-related issues are analysed in detail because they are normally negotiating issues in almost all international negotiation frameworks. This chapter discusses Thailand's most significant trade policy measure, tariffs. Moreover, the country's tax drawback schemes are analysed. A number of trade restrictions are also studied. These restrictions include, for example, import surcharges, and export taxes. Other trade policy measures, credit assistance and safeguard measures, i.e. anti-dumping, and countervailing actions are discussed. Then, Trade-Related Investment Measures (TRIMs) are analysed. Nonetheless, the focus is on Thailand's investment promotion measures. Lastly, Trade-Related Intellectual Property Rights (TRIPs) are studied.

Chapter six studies Thailand's multilateral trade negotiations. The study is carried out by concentrating on Thailand's negotiations in the Uruguay Round of the GATT and the WTO. The purpose of this chapter is to understand Thailand's multilateral trade negotiations, especially the role of the private sector in the negotiations and the interaction between the public and the private sector. The influence of the private sector on the negotiations is analysed. This chapter provides a brief historical and general background of the GATT and the WTO. It examines the relationship between Thailand and the GATT and the WTO from a political economy perspective. Thailand's negotiating positions and its roles in the Uruguay Round are studied. The implementation of Thailand's Uruguay Round commitments is also analysed.

Chapter seven studies Thailand's bilateral trade negotiations. It concentrates on Thai-US negotiations on TRIPs. The purpose of this chapter is to understand the role of interest groups in Thailand's bilateral trade negotiations. The extent to which these pressure groups could influence the negotiations and how responsible government officials responded to these influences are discussed. This chapter examines Thai-US trade relations. It also discusses Section 301 of US Trade Law which has recently affected Thai-US trade. This chapter analyses Thai-US negotiations on TRIPs from 1985 to 1993.

In chapter eight, a public choice analysis of international trade negotiations of Thailand is discussed. A public choice framework, as discussed in chapter three, is employed to analyse Thailand's negotiations in the Uruguay Round of the GATT and Thai-US negotiations on TRIPs. The role of the private sector in both frameworks of negotiations is comparatively analysed. Then, in the latter part, policy implications of this study are discussed and some policy recommendations are made. Chapter nine concludes by summarising the findings of this study. That is, the Thai private sector played a more active role in the country's bilateral negotiations with the United States on TRIPs than in the Uruguay Round negotiations. This resulted in the higher level of autonomy of Thai government officials in the latter than in the former.

1.3 Data Sources and Fieldwork

This study will be carried out mainly by using secondary data. An analysis of this study will be undertaken based on documents from various sources. The study will consult documents from the private sector as well as government's documents. In addition, official documents of international organisations, especially the General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO), will be consulted. Printed materials from various sources, for example, newspaper and magazines, will also be used. Apart from secondary sources, primary data will be used. This primary information was acquired during fieldwork in Thailand and Geneva, Switzerland. A number of interviews have also been carried out during the fieldwork. These interviews were undertaken with both senior and junior officials from several government agencies, for instance, the Ministry of Commerce, and the Ministry of Foreign Affairs. Some of these officials are currently a part of the Thai negotiating team and some are former negotiators. This is to make sure that information obtained is varied and genuine, and not restricted by government policy lines. Interviews were also carried out with a number of people from the private sector. These interviewees included representatives from concerned business associations, major business associations, and individual businesses.

Chapter 2

The Thai Economy: The Structure and Overview

2.1 Introduction

This chapter provides an overview of the structure of the Thai economy. Section two will do so for the period before the economic development programme was launched in the early 1960s. Section three focuses on the period after the launching of economic planning in the 1960s.

2.2 The Structure of the Thai Economy before the 1960s

Thailand has become involved with the international economy since the fourteenth century. This relationship began with China and other neighbouring countries. The first connection with European powers was established through trade with the Portuguese in the sixteenth century. After that, trade was increasingly and continuously conducted with China, Japan, India as well as the European countries such as Portugal, Holland, Britain and France. International trade reached its peak in the reign of King Narai (1657-1688). However, his successors turned against Western countries. There were concerns that foreigners might intervene in Thailand's internal affairs. Thus, Thai authorities tried to limit the relationship with foreigners particularly from the European countries. Moreover, in the first half of the eighteenth century, Thailand became involved in many wars with its neighbours, i.e. Burma, Cambodia, Laos, and Vietnam. Foreign trade, therefore, decreased considerably during this period.

This situation continued until the 1850s which can be considered as the beginning of modern economic history in Thailand (Muscat, 1966: 10). In the reign of King Rama III (1824-1851), the third King of the present dynasty, i.e. the Chakri Dynasty, there was a change in policy concerning the relationship with Western countries. The Burney Treaty was signed to promote trade between Thailand and Britain. This treaty, nonetheless, imposed many restrictions on trade. For example, the export of rice was prohibited, and the British were not allowed to build or hire houses or shops. Almost the entire Thai working population was engaged in agriculture. Rice had become the principal crop of Thailand. Rice was largely grown in flooded land in the central area of the country. Fertile soil allowed the production of rice to continue without any attempt to utilise artificial irrigation systems.

Most internal trade was carried out through a barter system within each village whereas trade between villages was very rare. The Chinese gained almost complete control of the small amount of inter-regional trade because they were allowed to move freely around the country. Meanwhile, Western traders could not pursue any activity outside Bangkok (Ingram, 1971: 19). At the same time, international trade with European countries was also relatively small. Most of Thailand's foreign trade was carried out with its neighbouring countries. Its main exports were unprocessed natural products such as rice, tin, rubber, and teak. As for imports, these mainly consisted of manufactured articles and consumer goods.

In 1855, Sir John Bowring, representing the British government, demanded that the Thai government eliminate all trade restrictions. This resulted in the conclusion of the Bowring Treaty in 1856. This treaty liberalised Thailand's international trade. On the one hand, import duties were fixed at three per cent for all commodities. On the other hand, exports were to be taxed only once, whether in the form of an inland tax, a transit duty, or an export duty. Furthermore, Thailand was forced to grant extra-territoriality for British subjects. The Bowring Treaty was followed by a number of similar treaties with other Western countries, for example, France, Germany, Spain, Russia, and Sweden (Narongchai and Juanjai, 1986: 78). Although these treaties permanently restricted the fiscal autonomy of Thailand, they opened the country up to foreign trade. This resulted in a dramatic change in the country's economic structure. Thailand was no longer a closed economy. The export sector became an important source of the country's tax revenue. The liberalisation of international trade, which was enforced by the Bowring Treaty and its followers, played a major role in promoting the expansion of agricultural exports. Agricultural output and exports had risen sharply and were the main source of foreign exchange and government revenue. However, the growth of the agricultural sector was not driven by improved productivity but by expansion of the cultivated land area (Warr, 1993: 10). The series of treaties were effective for about 70 years. Only after the end of the First World War did Thailand start to negotiate with Western nations to amend these treaties. In 1927, Thailand was again free to impose import duties on commodities. From 1850-1927, import duties were mainly for earning revenue for the government, and had little protective effect. Quantitative restrictions, concessions on import duties on materials, and tax holidays were usually used as the main protective tools. An important point is the continuation of Chinese domination of Thailand's industry and trade. The main sectors that brought revenue to the country, e.g. rice milling, wood sawing, tin mining, and rubber plantations, were in the hands of the Chinese.

During 1927-1941, after the amendment of treaties, the Thai economy experienced a significant change in its tax structure. A new code of tariffs was announced in 1927 and resulted in the increase of import duties from 7 million baht to 16 million baht within a single year (Narongchai and Juanjai, 1986: 79). However, by that time, the world economy was in depression and the political situation in Thailand was unstable. Therefore, the revolution in the tax system did not help much to improve the Thai economy. During this time, tariffs increased considerably and frequently. The average tariff rate increased from about 8 per cent in 1927 to about 20 per cent in 1941 (Narongchai and Juanjai, 1986: 80). It resulted in the decline in imports of some items and the expansion of local production. Consequently, the revenue accruing to the government from import duties fell significantly. The Thai government had to rely on excise taxation as its main revenue source. At this time the Thai government learnt how to use taxation to influence the structure of industry and to balance the budget. By the 1930s, the tariff system was set to give priority to the domestic production of sugar, soap, cigarettes, and matches. Without tariff protection, these industries may not have been established.

After the Second World War, the government led by Field Marshall Pibulsongkram, who believed that the Chinese domination in the Thai economy was too pervasive and too dangerous for the indigenous Thai, imposed more nationalistic policies. A number of new state enterprises were set up and the role of the existing ones expanded dramatically. Government enterprises were relatively large in scale. The products of these state enterprises consisted of cement, paper, sugar, tobacco, glass, textiles, and a variety of consumer goods (Narongchai and Somsak, 1990: 105). On the other hand, private manufacturing businesses were mostly small-scale and confined themselves to simple industries such as rice milling and household handicrafts. Muscat (1966: 235) suggested that the real driving force behind the government's industrial programme was the desire to prevent the Chinese community in Thailand from dominating industries. The objective of tariffs was still the same as in the previous period, to collect revenue rather than to protect certain industries. Although the purpose of tariffs was to balance the budget, they inevitably triggered off protective effects on the industrial structure. The Thai government was concerned that this may have offered a chance for the Chinese to control the important industries of the country. Thus, the level of import tariffs remained stable throughout the 1950s. To compensate for the loss of revenue from import duties, the Thai government imposed taxes on export items such as rice, tin, and teak.

The annual growth rate of GDP per capita for the period 1870-1950 was only 0.2 per cent (Warr, 1993: 51). The agricultural sector grew about five times in this 80 year period while the manufacturing and service sectors expanded more than four times (Table 2.1). This may be because the Bowring Treaty and its followers induced an accelerating effect on Thailand's international trade, including some technological advance. For the first time in Thai history, manufacturing emerged as an important sector of the economy. Although most production in the manufacturing sector was in the hands of the state enterprises and of foreigners, particularly the Chinese, there was a chance for private indigenous entrepreneurs to develop capability.

2.3 The Structure of the Thai Economy since the 1960s

Around 1960, there was considerable change in economic policy in Thailand. After the collapse of the nationalist government of Field Marshall Pibulsongkram, Field Marshall Sarit Thanaraj took power. He pursued a new set of industrial and trade policies aimed at encouraging private enterprises. The government began to reduce its direct involvement in manufacturing. Its industrial enterprises fell into disfavour from the late 1950s due to their inefficient operation. Instead of generating revenue for the government, these state enterprises became a drain upon the treasury (Narongchai and Juanjai, 1986: 82). They were sharply criticised by a number of academics and international organisations, especially the World Bank. They found these state enterprises, with a very few exceptions, to be poorly planned, badly managed, and unprofitable. The World Bank Mission, therefore, strongly recommended in its 1957 report that the government should encourage private enterprise industrial development. The government began to confine its role merely to providing public infrastructure, with particular emphasis on electric power, transportation, and communications. Moreover, the government actively encouraged the role of the private sector. It was believed that this sector had a dynamism which could be utilised for the welfare of the population as a whole.

To promote an industrialisation strategy with emphasis on the leading role of the private sector, the government established two main organisations: the Board of Investment (BOI) and the National Economic and Social Development Board (NESDB). The BOI was founded to administer the investment promotion law, which is enacted to provide tax and other incentives to private investors.[1] The NESDB's main function was to draw up the first National Economic and Social Development Plan (NESDP).[2] This plan was meant to be a framework for both the public and private sector in achieving the goal of rapid industrialisation.

2.3.1 General Economic Conditions

At the beginning of the 1960s, Thailand was basically an agricultural country. The average annual growth rate of GDP in the 1950s was only 5 per cent compared with about 8 per cent in the 1960s (Narongchai and Somsak, 1990: 106). The expansion of the economy, particularly the manufacturing sector, has been rapid since the launching of the industrialisation programme in the early 1960s. The industrialisation programme has been implemented within the framework of the series of the NESDP. The general philosophy of the NESDP was to foster the market economy with minimum direct government intervention (Warr, 1993: 29). The first plan covered the period from 1961 to 1966. The main objective of this plan was to encourage the leading role of the private sector in developing the economy. Meanwhile, the government's participation in economic activities was restricted to a guiding and assisting role. Since 1970, the annual growth rate of GDP has been higher than 6 per cent almost every year and reached double-digit figures in 1988 (Table 2.2). Although Thailand was hard hit by the first oil crisis in 1973-75, which caused its growth rate to drop sharply, it managed to maintain the growth level at around 5 per cent. This is because this oil crisis occurred almost simultaneously with the world commodity boom, resulting in rising prices for Thailand's major exports, including rice, rubber, maize, and tin. This helped to prevent terms of trade deterioration and offset the impact of the oil price increase on the country's balance of payments (Narongchai and Somsak, 1990: 108). The average current account deficit in the first half of the 1970s was around 2.8 per cent of GDP. However, since Thailand is a substantial petroleum importer, the rise in oil prices slowed down the rate of growth of the Thai economy in 1975. The decline in economic activities was a cause of great concern to the government. It began to launch more aggressive measures to promote economic recovery. These measures consisted of controlling the prices of essential products, relaxing credit controls, and increasing public expenditure and social services. As a result of the government's aggressive measures and the recovery of the world economy, the Thai economy quickly recovered from the stagnation due to the oil crisis. GDP growth increased to about 9 per cent per annum in 1978.

However, this prosperous period did not last long. Thailand was hit harder by the second oil crisis and the subsequent worldwide recession. The rise in oil prices was followed by a decline in raw material prices. These two factors combined to cause the terms of trade to decline on average by 17 per cent from 1978 to 1983 (Table 2.2). Compared to the first oil crisis, adjustment was slow. The average current account deficit in the period between 1980 and 1983 was around 6.5 per cent of GDP, a much higher level than over the first oil crisis. Moreover, the world and domestic interest rates in the early 1980s were rather high. Thus, the ratio of debt service to exports rose to over 25 per cent in 1985. This resulted in lower GDP growth. On average, GDP grew only 5 per cent annually in the first half of the 1980s. This situation continued until 1988 when recovery returned. The current account deficit was less than 3 per cent of GDP for the first time in many years. The terms of trade improved. Exports increased by 34 per cent whereas imports increased by 46 per cent.

Since 1987, Thailand's economic performance has greatly improved. The average GDP growth rate was about 12.5 per cent per year from 1988 to 1990. The value of exports grew on average at about 24 per cent annually during the same period. The debt service to exports ratio continuously decreased to less than 10 per cent in 1990. This recovery was made possible by several measures implemented by the government in 1986. These included several rounds of reduction in interest rates and oil prices, and active promotion of investment and tourism. Warr (1993: 51-2) pointed out that the boom of the Thai economy in the late 1980s was driven by two main forces. The first factor was the depreciation of the US dollar relative to other currencies. With the Thai baht implicitly pegged to the dollar, this made Thai exports more competitive internationally. The second factor was foreign investment, which was motivated by the desire to avoid rising labour costs in Northeast Asian countries.

Into the 1990s, the Thai economy has continuously maintained its good performance. However, its growth has been less dramatic than in the latter half of the 1980s. The average rate of growth of GDP decreased to about 8.5 per cent in 1992-94. This may have resulted from government policy which paid more attention to economic stability and distribution of income. Moreover, a wave of political unrest took place, for example, a military coup in February 1991, and pro-democracy demonstrations in May 1992, which led to a massacre of demonstrators by soldiers. These events resulted in a relative decline in the growth of international trade. The growth rate of exports and imports in 1992 was 13.2 per cent and 5.5 per cent, respectively. Nonetheless, export performance improved in 1994. The export growth rate increased to 21.3 per cent in that year. Imports also expanded with a growth rate of 18 per cent. The improving situation was in part due to a number of attempts by the government led by a well-known former diplomat-turned-businessman, Anand Panyarachun, to liberalise the Thai economy. Several reductions in tariff rates were implemented. The details of these reductions will be discussed in chapter five. The average current account deficit was relatively stable at about 6 per cent of GDP throughout the first half of the 1990s.

The Thai economy has historically relied on conservative macroeconomic policies that have emphasised low inflation and a fixed dollar/baht exchange rate with a convertible currency. Therefore, one of the most important characteristics of Thai economic policy is a strong aversion to inflation. From Table 2.2, it can be seen that, with the exception of the period during the two oil crises, Thailand's inflation has been kept below 6 per cent almost every year since 1970. Another policy that had been used to promote rapid growth was exchange rate policy. The Thai baht had been maintained at a fixed parity with the US dollar since 1955. In the late 1970s, the overvalued dollar and the effects of the second oil crisis forced the government to reconsider its exchange rate policy. In 1984, the Bank of Thailand announced that the baht would no longer be fixed with the dollar. Instead, it would be tied to a basket of currencies in which the dollar is still a major component. This resulted in a devaluation of the baht by 15 per cent against the dollar, which helped improve the competitiveness of Thai exports in the world market.

Although Thailand managed to recover quickly from both oil shocks, adjustment to the crises was financed by foreign borrowing. This led to an increase in the debt burden. As can be seen from Table 2.2, debt service exceeded 9 per cent of export earnings in most years,[3] but the ratio has been falling and is low by international standards.

Thailand's general economic conditions continued to maintain an impressive picture until the country was hit by the financial crisis in 1997. This crisis is considered to have been caused by excessive borrowing by the private sector. Low interest loans were given to local investors without proper project feasibility and risk assessments (Mingsarn, 1998: 8). The high volume of foreign borrowing led to a rise in the real exchange rate. This situation slowly caused problems to export industries. As the real estate sector collapsed, a number of finance companies which provided loans to this sector were deep in trouble. At this point, the crisis started to spread to the rest of the economy. Since Thailand's financial crisis is beyond the concentration of this study, its detail will not be discussed here.

2.3.2 Structural Change

In this section, changes in the structure of the Thai economy will be analysed in detail. In the first decade of planned economic development, industrialisation was based on import substitution policy. The government provided a number of incentives, both tariff protection and promotional privileges, to new industries that produced commodities previously imported. Large-scale production using capital-intensive techniques was given higher priority in promotion programmes of the government.[4] These promotion programmes attracted investment from both local and foreign sources and helped stimulate the growth of the Thai economy. As shown in the previous section, the growth rate of GDP in the 1960s was around 8 per cent. This impressive growth was largely attributed to the significant expansion of the industrial sector. When the first NESDP was launched in 1961, Thailand was an agricultural economy and agriculture accounted for about 40 per cent of GDP. On the other hand, the share of manufacturing in GDP was only about 13 per cent (Table 2.3). Thailand's major primary products included rice, rubber, maize, teak, and tin. The average annual growth rate of agriculture was about 5 per cent while that of manufacture was over 15 per cent (Table 2.5). As a result, over the decade, the share of agriculture fell to 27 per cent of GDP while the share of manufactured output rose to 16 per cent (Table 2.3). The situation continued with a more persistent trend in the 1970s. The continuing growth of the manufacturing sector was stimulated by the third NESDP. This plan moved the direction of the industrialisation programme away from import substitution towards export promotion (Brummit and Flatters, 1992: 3). The new strategy provided new and wider markets for manufacturing. Therefore, this sector sustained its rate of growth at about 10 per cent per year whereas the agricultural sector's average growth rate fell to about 4 per cent per annum (Table 2.5). Thus, at the beginning of the 1980s, the share of manufactured output in GDP exceeded the share of agricultural output for the first time in Thai history, i.e. about 22 per cent for manufactures and 21 per cent for agriculture (Table 2.3). The proportion of manufacturing in GDP has continued to expand at the expense of agriculture. In the mid-1990s, manufactured output accounted for about 29 per cent of GDP whereas agriculture accounted for only 10.6 per cent of GDP. The value added of the manufacturing sector at 1972 prices rose from just 9 billion baht in 1961 to about 65 billion baht in 1980 (Table 2.4). It reached 102 billion baht in 1987 with an average growth rate about 14 per cent a year (Table 2.5). In 1991, manufacturing's value added was more than 600 billion baht. And it continued to increase and was valued nearly 950 billion baht in 1995.

However, Narongchai (1973: 20) argued that to evaluate the performance of an individual sector, it is not sufficient merely to consider the rate of growth of value added. This is because, for sectors with a small base, a slight increase in value added would lead to deceptively high rates of growth. The extent to which the growth of a sector contributes to the overall growth of value added of the economy is considered to be a more suitable measure to evaluate the performance of each sector.[5] From Table 2.5, it can be seen that from the latter half of the 1960s to the first half of the 1980s, the growth of the agricultural sector on average contributed about 15 per cent to total growth. But this contribution fell to only about 5 per cent per year since the latter half of the 1980s. On the other hand, the contribution of the growth of the manufacturing sector to the growth of GDP increased and was higher than that of the agricultural sector in almost every period. The sharp increase of manufacturing value added and the drastic decrease of agricultural value added in the contribution to the growth of GDP since the late 1980s highlighted the increasing importance of the manufacturing sector and the decrease in importance of the agricultural sector to the Thai economy.

Nonetheless, the increase in importance of the manufacturing sector has not been so significant in terms of employment. Agriculture was overtaken by manufacturing only as the biggest share of GDP but not of the total workforce. Although agriculture's share in the total labour force also declined, this decrease lagged much behind its declining share in national income. In 1960 when the share of the agricultural and manufacturing sectors in GDP was about 40 per cent and 13 per cent, respectively, the share of both sectors in the total labour force was about 82 per cent and 3 per cent, respectively (Table 2.6). After a decade of industrialisation, in 1970, whereas the share of manufacture in GDP increased to 16 per cent, manufacture's share in the total workforce rose to just 4 per cent. Even in the early 1990s, when the share of manufacture in GDP nearly reached 30 per cent, the contribution of the manufacturing sector to the labour force was still somewhat low at about 11 per cent. This is partly the result of the persisting effect of import substitution policy which gave high priority to capital-intensive industries.

Even though the increase in the share of manufacture in GDP and in the labour force was not in balance, what happened in the service sector was different. At the starting point of industrialisation, in the early 1960s, the service sector had already captured the largest share in GDP, i.e. 46.5 per cent (Table 2.3) with a 13 per cent share in employment. The service sector has grown continuously and, in 1991, it accounted for about 56 per cent of Thailand's GDP and 22 per cent of Thailand's employment.

2.3.3 Exports

At the beginning of the industrialisation programme in Thailand, the value of exports was only 8.6 billion baht (Table 2.7) with the share of agriculture about 83 per cent whereas the share of manufacturing in total exports was less than 3 per cent (Table 2.8). In the early 1960s, manufactured exports were insignificant, both in the number of products and quantity exported. Manufactured exports were confined to only a few products such as tapioca products, sugar, textiles, and jewellery. As for agriculture, 70 per cent of exports were accounted for by four major crops, i.e. rice, rubber, tin, and teak. Rice alone accounted for 30 per cent of total exports (Ingram, 1971: 287). In 1970, the proportion of exports to GDP was about 11 per cent (Table 2.7).

Since the beginning of the 1970s, the structure of Thai exports has gone through considerable change. The value of total exports increased to about 15 billion baht with an average growth rate of 30 per cent per year (Table 2.2). Due to the industrialisation programme, the industrial sector has grown very rapidly. And this growth was reflected in the country's exports. The proportion of manufacturing in total exports rose to 10 per cent while that of agriculture fell to about 60 per cent of total exports in 1971 (Table 2.8). By 1970, the four major crops decreased in importance as they accounted for 50 per cent of the value of merchandise agricultural exports (Ingram, 1971: 313). This indicated more diversification in the structure of agricultural exports. New export crops, e.g. maize, kenaf, cassava, and sugar cane were introduced. This diversification improved the stability of export revenue from the agricultural sector.

As for manufactured exports, although the government launched an export promotion policy from the early 1970s, industrial activity in Thailand was still dominated by large-scale firms. Until the late 1970s, these firms produced consumer goods mainly for the domestic market. The composition of manufactured exports was still the same as in the 1960s, i.e. sugar, textiles, and clothing. However, there was a high growth of exports of electrical machinery due to the rapid increase in investment from foreign firms. These foreign firms wanted to utilise cheap labour in the country to assemble electrical components, exclusively for export (Somsak, 1993: 128). Although, in the 1970s, the manufacturing sector was dominated by import-substituting industries, this period also saw the emergence of export industries. The initial manufactured exports over this period were raw material-based, together with some labour-intensive products. In the mid-1970s, the value of exports was 45 billion baht and the ratio of exports to GDP rose to about 15 per cent (Table 2.7).

Into the 1980s, manufacturing gained in importance as a foreign exchange earner. In 1981, the ratio of agriculture to total merchandise exports fell to about 48 per cent while that of manufacturing rose to about 36 per cent (Table 2.8). However, in the first half of the 1980s, the growth rate of total exports dropped to only 8 per cent per annum compared with 24 per cent in the 1970s. This was because of the second oil crisis and the decline in the world prices of primary products. Although general conditions were rather unimpressive, manufactured exports managed to grow at an average rate of 17 per cent per year. By the mid-1980s, the proportion of manufactured exports in total merchandise exports exceeded that of agriculture for the first time. The ratio of manufactured exports to total exports was about 55 per cent whereas the ratio of agricultural exports to total exports was about 34 per cent (Table 2.8).

In contrast to the difficult period in the first half of the 1980s, the second half of the decade experienced a considerable increase in export growth, led by manufacture. The average growth rate of exports was about 25 per cent per year. Moreover, manufactured exports grew at a higher rate of 40 per cent per annum. By the early 1990s, the ratio of agricultural exports to total exports fell to about 15 per cent. In 1995, this ratio dropped to only 11.4 per cent. The ratio of manufactured exports to total exports rose to more than 80 per cent by the mid-1990s (Table 2.8). In 1995, the value of total exports increased to about 1,400 billion baht, and the ratio of exports to GDP rose to more than 30 per cent (Table 2.7).

If export performance of Thailand is considered compared with that of Indonesia and South Korea (Table 2.9), it can be seen that Thailand's exports per capita have been growing rapidly and continuously since 1970. In the 1960s, Thailand's exports per capita were higher than those of both Indonesia and South Korea. In the 1970s and the first half of the 1980s, the value of exports per capita and its trend in Thailand and Indonesia were very similar. In 1986, the situation in both countries began to differ. The performance of the export sector of Indonesia has not been very impressive. Its exports per capita dropped from US$ 113 in 1985 to US$ 95.6 in 1986. At the same time, Thailand's exports per capita have increased over time from US$ 137.7 in 1985 to US$ 169.5 in 1986 and continued rising to about US$ 630 in 1993. Nevertheless, the success of the export sector of Thailand is still far from the startling experience of South Korea. In 1965, exports per capita of South Korea were about US$ 7 compared with

US$ 19.3 of Thailand. Since then South Korea's exports per capita have risen to more than US$ 1,800 in 1993.

2.3.4 Imports

In the past three decades, the structure of imports of Thailand has also changed dramatically. With the exception of the recession period during the first half of the 1980s, import growth showed a steady increase. The value of imports increased from 9.6 billion baht in 1960 to about 67 billion baht, 251 billion baht, and 1,764 billion baht in 1975, 1985, and 1995, respectively. The ratio of imports to GDP also rose from about 18 per cent in 1960 to about 23 per cent, 25 per cent, and 42 per cent in 1975, 1985, and 1995, respectively. The average annual growth rate of imports rose from 10 per cent in the 1960s to 19 per cent in the 1970s and to 22 per cent in the latter half of the 1980s (Table 2.10). Import substitution policy of the 1960s affected the country's import pattern. At the beginning of the 1960s, consumer goods had the largest share in merchandise imports of about 38 per cent (Table 2.11). Within consumer goods imports, the share of non-durable goods appeared to decline more rapidly from the beginning stage of import substitution. On the other hand, the share of durable consumer goods stayed relatively constant during the 1960s. However, generally, the share of consumer goods in merchandise imports fell over time. In 1970, consumer goods' share fell to about 18 per cent of total imports and its proportion in total imports changed from the largest group to the smallest group. Its decline continued and, by the beginning of the 1990s, it accounted for only about 9 per cent of total imports. As for imports of intermediate products and raw materials, and capital goods, they have moved in the same direction. From 1960 to 1970, they showed an increasing trend but, in the 1970s, their shares in total imports declined. Since the mid-1980s, the share of intermediate products has been constant at about 28-30 per cent of total imports. However, capital goods' share in total imports continuously increased from 30 per cent in 1985 to 45.5 per cent in 1995. In the mid-1990s, the share of both commodity groups accounted for almost 75 per cent of total imports. After three decades of industrialisation, both through import substitution and export promotion, the structure of Thai imports has changed considerably. In the 1960s, total imports were dominated by consumer goods, whereas in the 1990s intermediate inputs and capital goods dominate.

However, if imports are classified by commodity groups, it can be seen that Thailand's merchandise imports were largely dominated by manufactured products. Table 2.12 shows the development of the structure of merchandise imports. In 1960, manufactured goods captured about 35 per cent of total imports. At the same time, machinery together with mineral fuels as well as chemicals accounted for nearly 50 per cent of merchandise imports. Nevertheless, the share of machinery has increased over time while that of manufactures has decreased over time. In 1990, the share of the former was more than 40 per cent whereas the share of the latter was about 22 per cent. In 1995, machinery alone accounted for nearly 50 per cent of total Thai imports. The share of mineral fuels and lubricants was constant throughout the 1960s and the 1980s at about 8-10 per cent with the exception of the period between 1975-85 in which the share rose to about 20-30 per cent. This was due to the effect of both oil crises. Since 1990, the share of mineral fuels and lubricants has continuously decreased. In 1995, it accounted for about 6.5 per cent of total imports.

2.3.5 Foreign Direct Investment (FDI)

Foreign capital is another important contributor to the industrialisation process of Thailand. As a result of the low level of domestic savings, Thailand has had a very low capability to finance its own development. Thailand tried to attract capital inflows especially FDI to the country. FDI receives special attention because it involves establishing industrial activities in Thailand. FDI has substantially increased since the early 1960s (Table 2.13). Before that, FDI averaged less than 6 million baht a year. However, it jumped to nearly 1 billion baht in the mid-1960s and continued this trend throughout the decade. Since then FDI has become an important proportion of the net foreign exchange inflows into the country's capital account. FDI reached its peak in 1990 with a value of about 65 billion baht. Nonetheless, it decreased to about 50 billion baht in 1995. The main destination of FDI is the manufacturing sector which accounted for about a third of total FDI inflows (Table 2.14). Textiles, electronics, chemicals, machinery were among the major industries with substantial FDI (Somsak, 1993: 134). In addition, another important recipient of FDI was the construction sector with 24.4 billion baht during 1991-95. As for the sources of FDI, Japan and the United States were the two most important, accounting for over 50 per cent of total FDI in the 1970s and 1980s (Table 2.15). However, in the early 1990s, both Japan and the United States lost their role as main sources of FDI. At the same time, the Northeast Asian NIEs with nearly a 50 per cent share in total FDI had become the most important sources. In 1992, Hong Kong replaced Japan as the largest source of FDI for Thailand with a value of 14.6 billion baht.

During the 1960s, FDI went mostly into import-substituting industries. Since the early 1970s, there has been some FDI in export industries. The motive of foreign investors in coming to establish their businesses in Thailand in the 1960s was largely to protect their market share in the country (Narongchai et al., 1991: 9-11). However, FDI has contributed to the diversification of Thailand's industrial structure. In many cases, investment by foreign companies was instrumental in promoting the production of commodities that would not otherwise have been produced (Somsak, 1993: 138). The contribution of FDI in terms of income and employment generation has been insignificant. This is because most foreign firms were found to rely heavily on capital-intensive techniques, imported parts and components, and other intermediate products. This was reflected in the high level of import dependence of many industries. This also implies that there have been a few linkages to other industries in the country. Although FDI has shown some disadvantages, increasing investment from Japan, the United States, and NIEs is likely to play an important role in the development of the manufacturing sector in the future.

2.3.6 Government's Revenue

The majority of government's revenue comes from indirect taxes. Business, excise and import taxes accounted for almost 75 per cent of total tax revenue throughout the 1970s and 1980s (Table 2.16). However, there have been many changes in the structure of tax revenue. As for direct taxes, personal income and corporate income taxes accounted for only 10 per cent of total tax revenue in the 1960s. Their shares increased to about 20 per cent in the mid-1970s. Despite the low level of both taxes, they have shown an upward trend as their shares in total tax revenue rose to more than 30 per cent in 1995, i.e. 11.4 per cent share of personal income tax and 20.2 per cent share of corporate income tax. It can be seen that corporate income tax grew at a faster rate than personal income tax. As for indirect taxes, the picture is different. Although the share of the whole group of indirect taxes was constant over the past three decades, the trend for each individual tax was different. Excise tax's share in total tax revenue increased from 1.6 per cent in 1960 to 22.3 per cent in 1995. Import duties showed a downward trend since their proportion in total tax revenue, with a few exceptions, decreased continuously from nearly 35 per cent in the early 1960s and the 1970s to 16.4 per cent in 1995. This may indicate the intention of the government to stop or reduce the use of import duties to raise revenue. Instead, import duties have been used as an instrument of trade policy. Moreover, the government has also put greater emphasis on improving the competitiveness of Thai products in the world market. This was carried out by reducing export duties and trying to reduce protection on domestic industries by lowering import duties. Export duties decreased substantially in importance. Their share in total tax revenue fell from about 20 per cent in 1960 to 0.1 per cent in 1989. This is because of the policy of the government to promote export industries. Regarding business tax, its share in total tax revenue increased from 10 per cent in 1960 to about 25 per cent during the 1970s and 1980s. However, in 1992, the government introduced Value-Added Tax (VAT) to replace business tax, which still applies only to very small businesses. Therefore, in 1992, the share of business tax in total tax revenue dropped sharply to 2.6 per cent whereas the newly introduced VAT accounted for 17.8 per cent of government's tax revenue. In 1995, the share of VAT in total tax revenue further increased to about 18 per cent.

2.4 Conclusions

This chapter studies the structure and development of the Thai economy. Before the 1850s, the Thai economy was largely closed. Nevertheless, since the mid-1850s when the Bowring Treaty was signed with Britain, the country's international trade has begun to liberalise. The liberalisation of international trade promoted the expansion of agricultural exports. And the export sector became an important source of the country's tax revenue.

However, real changes in the structure of the Thai economy took place when a systematic development plan was launched in the early 1960s. Under this plan, the government introduced a new set of industrial and trade policies aimed at encouraging private enterprises. Because of the implementation of this policy, in the past three decades, the Thai economy experienced considerable changes. The agricultural sector which dominated the country's economy for a long time lost its domination as the share of manufactured output in GDP exceeded the share of agricultural output for the first time in the early 1980s.

Since Thailand opened its economy to the world trading system, it has become vulnerable to external conditions. The country suffered from the worldwide economic recessions due to the two oil crises during 1973-75 and the early 1980s. Over these periods, the growth rate of GDP of Thailand fell significantly to about 3-5 per cent. However, a sharp increase in export growth, led by manufactured exports, in the second half of the 1980s resulted in an improvement in Thailand's economic performance. The average GDP growth rate was at its peak, i.e. about 12 per cent, during 1988 to 1990. In general, Thailand experienced the rapid economic expansion though stable macroeconomic conditions. A significant increase in export growth and capital inflows, especially foreign direct investment, led to high economic growth, while inflation and the exchange rate were sustained at manageable levels. The structure of government revenue has changed over time. Although the majority still comes from indirect taxes, the share of import and export duties in total tax revenue has decreased sharply. These conditions were the main features of the Thai economy until it was struck by the financial crisis in 1997.

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[1]The role of the BOI in administering investment promotion will be discussed in chapter five.
[2]Details of the NESDB and NESDP will be discussed in chapter four.
[3]This 9 per cent ratio was set by the National Debt Policy Committee which is chaired by the Finance Minister. The ratio was set to limit the amount of the country's external debt.

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[4]The government's promotion programmes will be discussed in chapter five.
[5]The contribution of the growth of each sector to the growth of GDP is calculated by

$$(V_t - V_o / Y_t - Y_o) * 100$$

where V_o is value added of each sector at the beginning of the period
V_t is value added of each sector at the end of the period
Y_o is GDP at the beginning of the period
Y_t is GDP at the end of the period.

Table 2.1 GDP, Population, and GDP Per Capita (at 1950 prices)
1870 - 1950

	Agriculture (billion baht)	Manufacturing (billion baht)	Services (billion baht)	GDP (billion baht)	Population	GDP Per Capita (baht)
1870	2.4	0.7	2.5	5.6	5,775,000	973
1890	2.9	0.8	3.0	6.8	6,670,000	1,023
1900	3.2	0.9	3.3	7.4	7,320,000	1,008
1913	4.5	1.2	4.3	9.9	8,689,000	1,149
1929	5.7	1.6	5.7	13.1	12,058,000	1,085
1938	7.5	2.1	7.3	16.9	14,980,000	1,129
1950	10.2	2.8	9.6	22.5	19,817,000	1,138

Source: Warr (1993: 52)

Table 2.2 Macroeconomic Variables (selected years)
1970 - 1994

	1970	1973	1975	1978	1980	1983	1985	1988	1990	1992	1994
GDP (% growth rate)	7.4	9.1	5.0	9.3	6.2	7.1	3.0	13.3	11.6	7.9	8.7
Exports (% growth rate)	0.3	33.2	-7.8	21.7	27.0	-4.6	10.5	33.9	14.4	13.2	21.3
Imports (% growth rate)	4.0	36.1	3.8	15.9	23.2	20.1	4.6	46.1	29.0	5.5	17.8
Terms of trade	100	155	116	102	100	85	80	86	81	99	101
Inflation (%)	0.8	15.6	5.3	8.4	19.7	3.8	2.4	3.8	6.0	4.1	5.0
Current account balance/ GDP (%)	-3.8	-0.5	-4.1	-1.5	-6.2	-7.3	-4.1	-2.7	-4.9	-5.7	-6.2
Total debt service/ Exports (%)	17.1	15.3	15.1	17.4	14.5	19.1	25.3	13.7	9.8	10.9	11.7

Source: Updated from Warr (1993: 54-5), Bank of Thailand Quarterly Bulletin, various issues

Table 2.3 Percentage Distribution of GDP (%) 1961 - 1995

	1961	1965	1970	1975	1980	1985	1990	1991	1992	1993	1994	1995
Agriculture	39.8	34.9	27.0	24.8	20.6	19.9	13.6	13.2	12.3	10.2	10.5	10.6
Mining	1.1	2.1	2.9	2.1	2.6	2.5	1.6	1.7	1.5	1.5	1.4	1.3
Manufacturing	12.6	14.2	16.0	19.9	21.7	20.7	27.7	28.9	27.6	28.2	28.5	29.0
Services	46.5	48.8	54.1	53.2	55.0	56.9	57.1	56.2	58.6	60.1	59.6	59.1
-Construction	4.6	5.6	5.3	3.7	4.5	4.2	5.9	6.4	6.7	7.0	7.0	7.0
-Electricity and water supply	0.4	0.8	1.0	1.6	2.0	2.5	2.5	2.4	2.3	2.4	2.4	2.3
-Transport	7.5	7.1	6.5	6.1	6.7	7.1	7.5	7.4	7.2	7.5	7.5	7.4
-Trade	15.2	16.5	17.4	17.1	16.9	16.3	17.5	17.1	16.7	16.7	16.4	16.2
-Banking, insurance and real estate	1.9	2.6	2.4	2.6	2.8	3.0	5.6	5.4	6.5	7.3	7.7	7.8
-Ownership of dwellings	2.8	2.5	5.6	5.4	4.8	4.4	3.1	3.0	2.7	2.6	2.5	2.4
-Public administration	4.6	4.3	4.4	4.7	5.1	5.4	3.1	3.1	3.7	3.7	3.6	3.8
-Other services	9.6	9.5	11.5	11.9	12.3	13.9	11.9	11.6	12.7	12.9	12.6	12.3
Total	100	100	100	100	100	100	100	100	100	100	100	100

Source: 1961 - 1985: Pasuk and Samart (1993: 155)
1990 - 1995: Bank of Thailand Quarterly Bulletin, various issues.

Table 2.4 GDP by Economic Sectors (billion baht) 1961 - 1995

	1961	1965	1970	1975	1980	1985	1990	1991	1992	1993	1994	1995
Agriculture	29.5	36.1	42.1	50.7	61.8	78.5	266.4	278.1	298.0	292.3	304.9	314.4
Mining	1.0	1.7	4.5	4.3	7.9	9.9	31.5	35.5	38.0	40.6	43.4	43.9
Manufacturing	9.1	14.0	24.9	40.7	65.0	81.5	542.2	606.8	672.7	747.5	837.9	941.9
Construction	3.5	5.7	8.2	7.6	13.5	16.6	114.4	135.2	138.7	151.9	163.3	178.9
Electricity and water supply	0.3	0.5	1.6	3.3	5.9	9.9	48.2	50.2	57.1	62.2	67.6	74.9
Transport	4.7	6.3	10.1	12.4	20.0	28.2	147.1	155.3	174.0	190.3	210.9	231.9
Trade	12.0	16.2	27.1	34.9	50.7	64.2	341.1	361.2	374.8	406.8	438.6	472.8
Banking, insurance and real estate	1.5	2.6	3.8	5.3	8.3	11.8	109.5	114.0	148.9	182.7	208.3	230.2
Ownership of dwellings	2.2	2.4	8.7	11.2	14.3	17.4	60.8	63.2	66.0	69.5	73.7	77.1
Public administration	3.4	4.3	6.9	9.7	15.4	21.4	61.4	65.0	66.2	68.1	69.3	71.0
Others	7.1	9.6	17.9	24.3	36.7	54.8	231.8	243.8	247.7	258.9	271.6	286.0
Total	73.3	98.9	155.8	204.4	299.5	394.1	1,954.2	2,108.3	2,282.1	2,470.8	2,689.5	2,923.0

Source: As for Table 2.3
Note: 1961, 1965 - at 1962 constant prices
1970-1985 - at 1972 constant prices
1990-1995 - at 1988 constant prices

Table 2.5 Growth Rates and Contribution to Growth in GDP (%) 1961 - 1995

	Average Growth of Agriculture	Average Growth of Manufacturing	Contribution of Agriculture	Contribution of Manufacturing
1961-65	4.6	15.5	25.8	19.1
1966-70	6.1	10.0	10.5	19.2
1971-75	5.3	11.8	17.7	32.5
1976-80	3.0	10.7	11.7	25.6
1981-85	4.9	4.7	17.7	17.4
1986-90	3.0	14.0	5.1	31.4
1991-95	3.3	11.7	4.5	41.1

Source: Calculated from Bank of Thailand Quarterly Bulletin, various issues.

Table 2.6 Distribution of Employment by Economic Sectors (%)
1960 - 1987

	1960	1970	1975	1979	1987
Agriculture	82.3	79.3	72.7	70.5	64.4
Mining	0.2	0.5	0.4	0.4	0.2
Manufacturing	3.4	4.1	7.4	8.1	8.8
Tertiary	14.1	16.1	19.5	21.0	26.6
Total	100	100	100	100	100

Source: Pasuk and Samart (1993: 158)

Table 2.7 Exports and Exports/GDP
1960 - 1995

	Value of Exports (billion baht)	Exports/GDP (%)
1960	8.6	15.9
1965	12.9	15.4
1970	14.7	10.9
1975	45.0	15.2
1980	133.2	20.2
1981	152.8	20.1
1982	159.7	19.5
1983	146.5	16.1
1984	175.2	18.0
1985	193.4	19.1
1986	233.4	21.3
1987	299.8	23.3
1988	403.6	26.8
1989	516.3	28.8
1990	589.8	28.6
1991	725.6	28.8
1992	824.6	29.2
1993	940.9	29.8
1994	1,137.6	31.6
1995	1,406.3	33.5

Note: Exports/GDP ratio is calculated from GDP at current prices.
Source: Bank of Thailand Quarterly Bulletin, various issues.

Table 2.8 Exports by Economic Sectors (%) 1961-1995

	1961	1966	1971	1976	1981	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Agriculture	82.7	76.9	62.2	51.8	47.7	34.3	27.9	26.4	23.0	17.0	15.1	15.0	11.8	11.4	11.4
Fishing	0.4	1.8	2.0	4.4	4.3	6.4	6.1	5.2	5.5	5.5	6.0	5.9	5.9	6.0	5.1
Forestry	3.3	2.2	1.5	1.7	0.1	0.3	0.3	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Mining	6.6	11.6	13.7	6.7	7.7	2.7	2.0	1.9	1.6	1.3	1.0	0.8	0.6	0.6	0.6
Manufacturing	2.4	3.8	10.0	26.0	35.8	54.9	63.1	65.4	68.6	74.7	76.2	76.9	80.4	81.1	81.9
Others	4.7	3.9	3.3	9.3	4.3	1.3	0.6	0.9	1.2	1.4	1.6	1.3	1.2	0.8	0.9
Total	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100

Source: Bank of Thailand Quarterly Bulletin, various issues.

Table 2.9 Exports Per Capita of Thailand, Indonesia and South Korea (US$) 1960 - 1995

	Thailand	Indonesia	South Korea
1965	19.3	6.8	7.1
1970	19.3	9.2	24.8
1975	52.5	52.3	144.6
1980	139.1	148.5	459.1
1981	146.6	147.4	550.1
1982	141.7	144.2	556.8
1983	128.8	134.1	611.4
1984	146.1	136.2	722.6
1985	137.7	113.0	742.5
1986	169.5	95.6	842.6
1987	219.0	99.4	1,137.8
1988	294.5	111.1	1,446.3
1989	364.1	123.9	1,472.4
1990	411.9	143.3	1,516.2
1991	498.9	157.2	1,661.7
1992	562.7	153.3	1,754.5
1993	628.2	156.6	1,824.8

Sources: International Financial Statistics, various issues.

Table 2.10 Imports and Imports/GDP
1960 - 1995

	Value of Imports (billion baht)	Imports/GDP (%)
1960	9.6	17.8
1965	15.4	18.3
1970	27.0	19.9
1975	66.8	22.6
1980	188.7	28.7
1981	216.8	28.5
1982	196.6	24.0
1983	236.6	26.0
1984	245.2	25.2
1985	251.2	24.8
1986	241.4	22.0
1987	334.2	26.7
1988	513.1	34.1
1989	662.7	36.7
1990	844.5	40.6
1991	958.8	38.4
1992	1,033.2	36.2
1993	1,170.8	37.0
1994	1,364.2	38.1
1995	1,763.6	42.0

Note: Imports/GDP ratio is calculated from GDP at current prices.
Source: Bank of Thailand Quarterly Bulletin, various issues.

Table 2.11 Imports by Economic Classification (%)
1960 - 1995

	1960	1965	1970	1975	1980	1985	1990	1991	1992	1993	1994	1995
I. Consumer Goods												
Non-Durable	29.2	22.1	10.8	7.8	6.5	5.1	3.8	3.8	4.4	4.2	4.1	3.8
Durable	8.3	7.8	7.1	5.0	3.8	4.5	4.7	4.9	5.7	5.0	6.5	6.6
Sub-Total	37.5	29.9	17.9	12.7	10.2	9.6	8.5	8.7	10.1	9.8	10.6	10.3
II. Intermediate Products and Raw Materials												
Chiefly for Consumer Goods	8.3	11.0	18.8	15.4	14.9	20.3	22.7	24.2	21.6	19.8	19.4	18.8
Chiefly for Capital goods	7.3	7.1	10.4	8.7	9.1	9.8	11.0	10.2	10.5	10.2	9.4	10.1
Sub-Total	15.6	18.2	29.2	24.1	24.0	30.1	33.7	34.4	32.1	30.0	28.8	28.9
III. Capital Goods												
Machinery	10.4	13.6	21.7	22.0	16.8	20.1	23.7	25.2	23.2	25.3	25.6	25.9
Others	14.6	17.5	10.7	11.2	7.7	9.9	15.1	15.1	18.1	17.6	19.2	19.6
Sub-Total	25.0	31.2	32.4	33.2	24.4	30.0	38.7	40.3	41.3	42.9	44.8	45.5
IV. Other Imports												
Vehicles and Parts	8.3	9.7	8.2	6.7	3.7	3.7	6.6	4.9	5.7	7.1	6.9	6.9
Fuel and Lubricants	10.4	9.1	10.2	21.3	31.1	22.6	9.3	9.1	8.1	7.4	6.7	6.5
Others	4.2	2.6	2.1	1.9	6.6	4.0	3.1	2.7	2.9	2.8	2.2	1.9
Sub-Total	22.9	21.4	20.5	29.9	41.3	30.3	18.9	16.7	16.7	17.3	15.8	15.3
Total	100	100	100	100	100	100	100	100	100	100	100	100

Source: Bank of Thailand Quarterly Bulletin, various issues.

Table 2.12 Imports by Trade Classification (%) 1960 - 1995

	1960	1965	1970	1975	1980	1985	1990	1991	1992	1993	1994	1995
0 Food	8.2	5.8	4.1	2.9	3.0	3.7	4.0	4.4	4.3	3.6	3.3	2.9
1 Beverages and Tobacco	1.1	1.3	1.1	1.1	0.8	0.9	0.7	0.6	0.5	0.5	0.4	0.4
2 Crude Materials	1.5	3.3	5.2	5.9	5.7	6.6	6.4	6.2	6.4	6.0	5.7	5.4
3 Mineral Fuels and Lubricants	10.7	9.1	8.7	21.3	31.1	22.6	9.3	9.2	8.1	7.4	6.7	6.5
4 Animal and Vegetable Oils	0.2	0.2	0.1	0.2	0.8	0.2	0.1	0.1	0.1	0.1	0.1	0.1
5 Chemicals	10.2	11.0	13.0	13.6	11.8	14.0	10.1	9.2	10.1	9.8	9.8	10.1
6 Manufactured Goods	34.4	31.2	24.0	15.8	14.9	16.8	22.1	24.2	21.7	20.5	20.1	20.6
7 Machinery	25.0	30.5	35.4	34.6	22.8	28.1	41.2	40.5	42.7	45.9	48.2	49.0
8 Miscellaneous Manufactured Goods	5.5	5.2	5.0	3.2	5.8	5.6	2.9	3.0	3.0	3.2	2.8	2.6
9 Miscellaneous	3.2	2.6	3.3	1.3	3.1	1.5	2.5	2.3	2.6	3.0	2.9	2.4
Total	100	100	100	100	100	100	100	100	100	100	100	100

Source: Bank of Thailand Quarterly Bulletin, various issues.

Table 2.13 Foreign Direct Investment (billion baht)
1962 - 1995

	Foreign Direct Investment
1962	0.2
1963	0.4
1964	0.4
1965	0.9
1966	0.6
1967	0.9
1968	1.2
1969	1.1
1970	0.9
1971	0.8
1972	1.4
1973	1.6
1974	3.8
1975	1.7
1976	1.6
1977	2.2
1978	1.0
1979	1.1
1980	3.8
1981	6.4
1982	4.3
1983	8.2
1984	9.6
1985	4.4
1986	6.9
1987	4.7
1988	27.4
1989	45.7
1990	64.7
1991	51.4
1992	53.8
1993	43.8
1994	33.2
1995	49.9

Source: Bank of Thailand Quarterly Bulletin, various issues.

Table 2.14 Foreign Direct Investment by Sectors (billion baht)
1971 - 1995

	1971-75	1976-80	1981-85	1986-90	1991-95
Financial Institutions	2.0	-0.1	0.01	5.2	15.8
Trade	1.9	2.2	5.8	23.3	39.5
Construction	0.9	1.6	5.4	13.1	24.4
Mining and Quarraying	1.5	1.0	7.2	2.9	11.1
Agriculture	0.01	0.2	0.2	2.8	0.9
Industry	2.6	3.3	10.8	87.7	72.1
Services	0.4	1.5	3.5	7.5	7.9
Others	0	0	0	6.9	60.4
Total	9.3	9.7	32.9	149.4	232.1

Source: Bank of Thailand Quarterly Bulletin, various issues.

Table 2.15 Foreign Direct Investment by Countries (billion baht)
1971 - 1995

	1971-75	1976-80	1981-85	1986-90	1991-95
Japan	2.5	3.1	8.9	68.4	48.9
United States	3.8	2.4	10.6	20.5	29.4
United Kingdom	0.5	0.6	1.7	2.2	10.1
Germany	0.1	0.6	0.8	3.3	9.9
France	0.3	0.1	0.3	1.8	6.9
Netherlands	0.3	0.1	2.1	2.8	4.4
Australia	0.1	0.1	0.4	0.5	2.8
Malaysia	0.1	0.2	0.2	0.2	0.3
Hong Kong	0.9	1.3	2.8	19.9	46.0
Singapore	0.5	0.7	1.2	11.5	22.7
Taiwan	0.1	0.1	0.3	17.9	10.7
Others	0.1	0.4	3.6	0.4	40.0
Total	9.3	9.7	32.9	149.4	232.1

Source: Bank of Thailand Quarterly Bulletin, various issues.

Table 2.16 Distribution of Government's Tax Revenue (%)
1960 - 1995

	1960	1965	1970	1975	1980	1985	1990	1991	1992	1993	1994	1995
Personal Income Tax	6.5	5.8	7.7	8.5	9.0	14.5	10.8	11.5	11.0	9.8	10.0	11.4
Corporate Income Tax	3.2	4.8	5.3	11.3	11.9	11.3	15.2	17.5	18.7	17.9	19.8	20.2
Business Tax	9.7	19.2	21.8	24.9	22.8	21.6	23.4	23.8	2.6	0.3	0.1	0.1
VAT	-	-	-	-	-	-	-	-	17.8	16.8	17.7	18.4
Excise Tax	1.6	14.4	18.2	23.0	26.4	27.5	18.7	20.9	23.2	24.1	22.6	22.3
Import Tax	33.9	26.9	31.8	26.5	24.1	22.5	24.2	19.4	19.7	18.1	17.5	16.4
Export Tax	19.4	15.4	5.3	4.5	4.2	0.8	0.1	n.g.	n.g.	n.g.	n.g.	n.g.
Others	25.7	13.5	9.9	1.4	1.5	4.0	7.7	6.9	7.0	13.3	12.3	11.2
Total	100	100	100	100	100	100	100	100	100	100	100	100

Note: n.g. - negligible
Source: Bank of Thailand Quarterly Bulletin, various issues.

Chapter 3

Review of Literature on Trade Policy

3.1 Introduction

The neo-classical theory of international trade is concerned with the effects of trade on resource allocation and income distribution between countries. According to this theory, trade is determined by comparative advantage, i.e. international differences in relative opportunity costs. The Ricardian model describes comparative advantage as a result of technological differences between countries, whereas the Heckscher-Ohlin model explains it by intercountry differences in factor endowments. These models implicitly indicate that the condition that will best promote the exploitation of comparative advantage is free trade. This is because free trade will allow countries to manufacture products that use a relatively high proportion of resources of which they have abundant supply. Competition between producers will promote the most efficient use of resources while government intervention can only reduce allocative efficiency.

However, some assumptions of free trade theory seem incompatible with real world situations. This can be seen from an increase in the degree of government intervention in trade system in a number of countries. These conditions have given rise to new thinking about strategic trade policy. Strategic activities are often referred to as situations where each party recognises that its benefit depends upon what its rivals do. Strategic trade policy suggests a modest departure in the direction of realism from the standard theory and provides a rationale for interventionist policy.

In order to understand the nature of international trade policy, this chapter will review several theoretical frameworks. Section two provides a brief review of traditional trade theory. Since this study focuses on the specific issue of international trade negotiations, it will take for granted and will not discuss the larger issues of traditional trade theory. Section three examines an earlier approach to trade policy, import substitution policy. Section four reviews an alternative approach to trade policy, export promotion policy. Section five examines the theoretical background for strategic trade policy. The political economy of trade policy is discussed in section six. The last section provides conclusions.

3.2 Traditional Trade Theory

Neo-classical trade theory explains trade as a result of differences in comparative advantage between countries. The comparative advantage approach to international trade was first introduced by Ricardo. His focus is on the differences in technology between two countries. In this model, each country is assumed to be capable of producing several goods using one factor at a time. He concentrated on different productivities of labour in different lines of production in different countries. Any circumstance that can influence the shape of supply or demand curves can cause different prices in different countries and, as a consequence, exchanges of goods between countries.

However, in the twentieth century the most influential trade theory has been the Heckscher-Ohlin model. Heckscher and Ohlin formulated their explanation of international exchanges in terms of differences in factor endowments. The Heckscher-Ohlin model is important for at least two reasons. Firstly, it provides an explanation for differences in comparative advantage which is not based on differences in technology. The theory explicitly incorporates factor markets and so allows an investigation of the connection between international trade and the distribution of income. Secondly, it represents the first attempt to show a minimal condition for the existence of international trade (Woodland, 1982: 191).

The basic Heckscher-Ohlin model rests on the following assumptions: there are two countries; there are two factors of production: capital (K) and labour (L); there are two commodities; both product and factor markets are perfectly competitive and undistorted; and thus constant returns to scale exist; production functions for each commodity are universally identical; consumption patterns are universally identical; all production functions are linear homogeneous; technologies are universally available; there are no transportation costs and trade impediments; there are no factor-intensity reversals; and there are no production externalities.

Given these assumptions, factor endowments are the crucial and sole factor to determine comparative advantage. Some countries have a relative abundance of K to that of L whereas others are endowed with more L relative to K. The Heckscher-Ohlin model suggests that the former group should export K-intensive products. On the other hand, the latter group should export L-intensive products. This can be explained as follows. A factor that is relatively abundant will be relatively cheaper, and then goods that use this factor comparatively more intensively in their production will be relatively cheap too. Consequently, countries' competitiveness for these products in the world market will improve and then their balance of payments should be more stable.

As mentioned earlier, the rethinking of the analytical framework of trade policy is a response not only to an increasing interventionist policy but also to intellectual progress within the field of economics. Regarding the latter point, there has been an advance in trade models as well as a relaxation of standard assumptions. For example, allowance is made for imperfectly competitive markets, dissimilar factor endowments, taste differences, and transport costs. Since this study concentrates on trade policy, rather than trade theory, the relaxation of these assumptions will not be discussed here. Strategic trade policy will be discussed in section 3.5.

3.3 Import Substitution

An import substitution strategy is often referred to as a protectionist policy. To substitute domestic output for previously imported commodities, the government usually has to protect the domestic market from competition from foreign producers. This protection can be pursued by applying trade intervention, both direct and indirect. Direct trade intervention is carried out through the control of foreign trade, whereas the support of domestic industries in competition with imports is known as indirect intervention. Concerning direct interventionist policies, there are two different kinds of trade controls: those that influence prices, e.g. taxes, and those that influence quantities, e.g. quotas. In general, taxes can be imposed in the following three ways.

1. The ad valorem basis. This tax is legally fixed in the form of a percentage on the value of import or export commodities, inclusive or exclusive of transport costs.

2. The specific basis. This tax is legally fixed in the form of an absolute amount of domestic currency per unit imported or exported, regardless its price.

3. The combined basis. This is a combination of an ad valorem tax and a specific tax.

Quotas, as opposed to taxes, control the absolute quantities of imports or exports. The government may wish to limit the imports of a particular commodity to a certain maximum quantity per unit of time. It may issue import licences, which are either sold to importers at a competitive price or just allocated to them. Alternatively, the government may set the desirable amount of imports by giving importers a limited amount of foreign currency for the purchase of a specific commodity. In addition to taxes and quotas, import substitution implies an exchange rate higher than equilibrium. Consequently, exporters' competitiveness in the world market declines, thereby they cannot compete with other countries' producers. Hence, import substitution, which is supported by overvalued exchange rates, is viewed as detrimental to the expansion of exports.

The rationale of the import substitution strategy has been examined in considerable detail by a number of economists. The primary reasons for import substitution are to promote industrialisation and to correct balance of payments difficulties. The initial adoption of this policy was generally a response to a number of external events, e.g. a widespread shortage of manufactured products after the Second World War, and a severe decline in the world prices of primary products from Less-Developed Countries (LDCs) which led to difficulties in the balance of payments of these countries. It was believed that diversifying the structure of domestic production and reducing the dependence on foreign sources of manufacturing supply would correct these economic problems. The proliferation of economic development and planning activities in many LDCs also encouraged import substitution as a strategy of industrialisation. The proponents of the strategy argued that the accumulation of capital, skills and technology initially occurred in import-competing industries would in due course spill over into other industries. Import substitution was viewed as a catalytic agent, rather than merely as a source of industrial goods (Ahmad, 1978: 22).

Apart from the traditional reasons for import substitution, Krueger (1990: 165-8) suggested four factors which probably induced initial favouring of import-competing industries. Firstly, the revenue motive of the government is an explanation both for government's initial preferences for protecting imports over promoting exports and for the perpetuation of protection. This argument also provides a reason why governments prefer tariff protection to production subsidies. Secondly, the main instruments of import protection, both tariffs and quotas, are less transparent than export subsidies. Thirdly, the imposition of tariffs has welfare costs which can be offset by producer gains, whereas the gain from export subsidies is obtained by foreigners. And lastly, protection is a response to historical events.

The policy instruments of the import substitution regime, e.g. tariffs, quotas, overvalued exchange rates, and hidden import duties such as port duties, and advance deposit requirements, are designed to discourage imports of consumer goods and encourage those of capital and intermediate goods. The reason is, as Bruton (1970: 129) pointed out, that consumer goods are usually deemed inessential to development. An increase in their costs and their prices is assumed to be less harmful to the economy than an increase in those of capital goods. Protection given to consumer goods industries together with their requirements of simple technology, and low efficiency in production make this stage of import substitution an "easy" stage with rapid industrialisation. However, import-substituting industries determine their production scales by the size of the domestic market. Since the domestic market is limited, industries' plant size tends to be small too. Therefore, it is not likely that firms in these industries can exploit the advantage of economies of scale. This may cause a widening gap between domestic production costs and import prices. When this easy stage of import substitution is over, the maintenance of high economic growth rates requires the import substitution of other commodities if this strategy is to succeed. The problem with the second stage of import substitution, which produces intermediate and producer durable goods, is that relatively high rates of protection are required. Higher protection for import-substituting industries may act as a tax on exports by keeping costs and exchange rates high (Thirlwall, 1989: 369).

Import substitution of consumer goods is pursued at the expense of exports and agricultural products. The higher the import tariffs, the greater the costs of imported inputs of export industries. Moreover, as mentioned earlier, overvalued exchange rates, resulting from protection, discriminate against exports by worsening their competitiveness in the world market. As for the agricultural sector, Ahmad (1978: 55) suggested that import-substituting industries substantially depress the growth of agricultural output or primary exports only in extreme case of dependence, when the rate of growth of world demand for a country's primary exports determines its internal growth. If the growth rate of world demand for a country's primary exports is smaller than that of its labour force, the growth rate of domestic output will be lower than that of labour and then per capita output would fall. This means that, in the long run, LDCs cannot rely only on exporting primary commodities in their natural forms. However, these countries cannot export manufactures without building the capacity to produce them. Import substitution is the quickest way to do so.

The development of import substitution in consumer goods industries is supported by another reason. It will save a certain amount of foreign exchange, at least by the value of net production in these industries. However, the domestic production of consumer goods requires imports of raw materials and capital goods. An increase in output means increases in imported inputs. Thus, it is unlikely that the demand for foreign exchange will decrease.

Protection, which is given under an import substitution scheme, is also a major tool to attract foreign direct investment (FDI). This FDI takes the form of either joint ventures or direct private investment by multinational corporations (MNCs). The investment of these corporations with headquarters in developed countries involves not only a transfer of funds but also a whole package of physical capital, techniques of production, managerial and marketing expertise, advertising and business practices for the maximisation of global profits. FDI may be beneficial for two reasons. First, a country where investment occurs receives the first slice of profit taxation. FDI in LDCs enables these countries to tax the capitalists of advanced countries at the expense of the latter's own treasury. Secondly, affiliation with parent companies gives local producers access to R&D programmes carried out by the parent and other affiliates. This provides the local producers an opportunity to improve their technological knowledge at a relatively low cost (Johnson, 1964: 27). However, FDI tends to be concentrated in high-protected, and capital-intensive sectors. Therefore, it does not produce backward and forward linkages to the rest of the economy. Consequently, foreign direct investment often cannot generate new jobs for surplus labour from the agricultural sector.

Despite potentially having easy access to R&D programmes of parent companies, the high level of protection does not stimulate foreign-owned firms to invest in R&D programmes themselves. Most of them employ obsolete techniques of production or just import technology from parent companies although it may be unsuitable for a country's factor endowments. This brings about distortions in the allocation of domestic resources because these resources are not used in the most productive sector. All of this explains why productivity growth in import-substituting sectors has been generally low. In general, most import-competing industries cannot be operated competitively compared with similar activities in other parts of the world. To maintain the industries' competitiveness both in the domestic market and world market, more protection is needed and this may lead to a "vicious cycle of protection".

3.3.1 Infant Industry Argument for Protection

The infant industry argument is well known for supporting an import substitution strategy. According to this view, industries may temporarily be given support to compensate for their cost disadvantages compared with well-established foreign producers. During the temporary period when domestic costs of industries are above the product's import prices, tariffs are a socially desirable method of encouraging investment in these industries. The cost disadvantage is a result of their later start. The early starter is a more efficient producer than later starters as it has learned from its own experience. The temporary support given to these newly-established industries may take the form of tariff protection or subsidies. However, the most popular policy instrument used to protect new industries is tariff protection because it will not cause any burden to the government budget. Although this argument has been scrutinised by some economists as a rationale for import substitution, it has been emphasised that protection given to industries, like other protective measures, causes a welfare loss to consumers by raising the domestic price of imported goods above their world level (Johnson, 1965: 274-7).

It is commonly believed that there are factors affecting new industries which may require market intervention by the authorities if the efficient allocation of resources is to be achieved. The key factor which may cause problems to new industries relates to technological externalities that are frequently associated with the learning process. To acquire technological knowledge, which is needed to compete effectively with foreign competitors, firms have to incur some costs to discover this knowledge. If this knowledge is freely available to all domestic producers, competition will either increase factor prices or reduce the price of products. This may not enable initial firms to recover their knowledge-acquiring costs. In this case, the social rates of return on investment in knowledge exceed the private rates of return. To stimulate the private sector to invest in knowledge acquisition, the government imposes import tariffs to protect the domestic market. Nevertheless, Baldwin (1969: 297-300) argued that there are many types of knowledge acquisition which have no externality problem since firms can keep their knowledge about production or markets from their potential competitors. Moreover, the existence of economies of scale in relation to the size of the market will help in securing the profit from the knowledge acquisition for the initial firms. And there is no guarantee that with protection from the government, individual firms will undertake greater investment in acquiring technological knowledge.

Another aspect of technological spillover concerns the investment of firms in human resources. If firms believe that workers will remain with them after they have been trained, they will be happy to incur costs of training because they can regain these costs in the long run. However, in the free market economy, workers can move to other firms, which offer them higher benefits. This is a rationale used to support government protection policy. Kemp (1960: 67) argued that if a learning process is specific to a firm in the sense that the skill and experience acquired are not useful to other firms, then there are no economic-efficiency grounds for government intervention. Furthermore, all that protection can do is to raise the price of products high enough so that production is profitable without training workers.

Corden (1974: 264) added that the strongest basis for the infant industry argument for protection in countries inexperienced in manufacturing production is the "atmosphere-creating" effect. This argument is based on the assumption that consumers have an irrational preference for foreign products. Therefore, protectionist policy may help to stimulate the demand for home produced goods.

To sum up, import substitution may have many disadvantages compared with alternative policies, but it has its own merit in permitting a quick start for industrialisation. The main reasons for pursuing import substitution policy are to encourage domestic production and employment, to reduce the dependence on foreign sources of supply, to relieve balance of payment difficulties, and to generate economic growth. The major arguments against an import substitution regime are the distortions created in the allocation of investment and domestic resources, the decreasing possibility of exploiting economies of scale, the deterioration of export opportunities, and the discouragement to innovate new technology. All of these issues are used to support the alternative policy of export promotion which will be discussed in the following section.

3.4 Export Promotion

Export promotion is usually referred to as an alternative policy to import substitution. This is because the effect of import substitution policy is likely to create problems for the export sector. As mentioned earlier, protective measures, especially tariffs, generally work as disincentives to the export of manufactured goods. After a period of import substitution, it becomes clear that this strategy can provide for high economic growth only in the short run. In the long run, this growth is limited by the size of the domestic market. Exhaustion of the domestic market brings about the need for adjustments in trade policy. The reason is that import-substituting industries are generally not easily adaptable to the export market. This results from the fact that the world market is too competitive for the high-cost industries fostered by protection.

The shortage of foreign exchange is persistent because overvalued exchange rates, which are used to support import-competing industries, lower the competitiveness of export industries. Therefore, instead of alleviating balance of payment difficulties, import substitution tends to aggravate them. After pursuing this policy for a number of years, countries become increasingly depended on the export earnings of traditional primary products to finance their industrialisation efforts. As industrialisation progresses and the proportion of capital goods imports increases, a reduction in imports of consumer goods is not enough to offset a fall in export income. This means a reduction in countries' purchasing power and eventually a decline in imports of capital goods and a disruption of industrialisation.

Furthermore, the anticipated spillover of technological advance from import-competing industries to export industries has not occurred in the majority of industries. This is because the industrial structure resulting from the policy of protecting domestic industries is not conducive to a successful export drive. Import substitution tends to allocate resources over a range of industries, not necessarily stressing those in which countries have comparative advantage. Thus, countries' resources may not be used in the most productive sector. Countries cannot then take advantage of economies of scale and improve their competitiveness in international markets.

Apart from the way import substitution affects the industrial structure, it also discourages manufactured exports by increasing their costs. When local industries are protected, exporters using products from these industries or imported goods, which bear high tariffs, as inputs are at a disadvantage. They cannot compete with foreign competitors, who can access inputs at a lower price.

It is clear that, in the long run, the inherent limitations of an inward-looking strategy would harm the progress of industrialisation. To eliminate or reduce the disadvantages of import substitution and to continue the industrialisation process, export promotion policy has been adopted by many LDCs. A central argument in favour of export expansion policy is the creation of foreign exchange earnings and employment opportunities. Under an import substitution regime, the export earnings of traditional primary products are the major inflow of countries' current account. This will finance the imports of goods and services that are vital for the continuation and acceleration of economic growth. However, value added of exported primary products is often much less than that of imported capital goods. As a consequence, countries cannot rely merely on export income to finance their industrial growth. Borrowing, both from internal and external sources, is always used to solve this problem. Unfortunately, this borrowing just delays the problem and causes more difficulties in the balance of payments. Terms of trade problems together with chronic balance of payments difficulties as well as the accumulation of foreign debt problems all provoke a need to broaden the export sector.

Import substitution usually supports large-scale and capital-intensive production. Therefore, the contribution of the manufacturing sector to employment creation is limited due to the inappropriateness of trade and industrial policies. Revising these policies to bring the structure of production and the actual choice of techniques more in line with factor availabilities should increase the employment-generating capacity of the manufacturing sector in labour-surplus economies (Linnemann et al, 1987: 2). An export promotion strategy seems to be the most appropriate policy to restructure the production system. To compete in the world market, it is necessary for a country to export products which intensively use resources that are relatively abundant in that country. In the case of most LDCs, the most abundant resource is labour. Therefore, export promotion, which supports labour-intensive production, would improve employment conditions in these countries.

Besides these well known arguments, Keesing (1967: 306) suggested three other reasons for favouring an outward-looking policy. The first reason is the learning effect and improvement in the quality of human resources. The promotion measures are used to attract foreign firms who could train local workers. Without strong protective measures, foreign firms have to adapt their technology to suit host countries' factor endowments and train local workers to work with their modern techniques of production. With availability of excessive protection, entrepreneurs pay attention to their political connections. They are likely to spend much of their energy trying to influence officials to maintain or increase protection. This is because protection can generate more profit for them than either cutting costs of production or raising the quality of products. Under an export promotion regime, producers are forced to concentrate mainly on cutting costs and improving the quality of their products. Assistance and protection from the government become comparatively minor concerns. The second reason relates to technology, communications and the dependence on advanced countries. Protection tends to constrict and impede not only the inflow of goods and services but also ideas. This may increase the risks and costs to foreigners who might bring them. On the other hand, outward orientation requires a constant eye on the changes and challenges that appear abroad. It also keeps communications open through competition. The third reason is increasing returns, economies of scale and market size. Under the strategy of inward orientation, the small domestic market is the main disadvantage. Although this severe handicap of smallness cannot be overcome, it can be minimised under outward orientation. Small countries can take advantage of economies of scale by exporting.

The increasing export orientation of the manufacturing sector is not only the inherent outcome of a normal process of growth and transformation. It also results from the shift in countries' trade regimes. There are differences between countries in trade regimes adopted. These differences are related to differences in the structural characteristics of the economy. Protectionist countries may want to transform the trade regime to reduce the anti-trade bias in production and to stimulate the exports of the manufacturing sector. The need for this transformation is partly because countries themselves want to correct their internal economic problems and partly because export expansion policy is a part of the IMF and World Bank 's conditions for balance of payments assistance (Linnemann et al, 1987: 2). Although both internal and external factors force them to pursue export promotion policy, it seems that most LDCs with a long history of protection are reluctant to adopt the policy reforms necessary to reduce the anti-trade bias.

To achieve the transformation from an import substitution regime to an export promotion regime, increased responsibility on the part of the government is essential. The government must create an environment which will encourage the private sector to allocate scarce resources with a bias in favour of industries with export potential. The policy instruments of export promotion strategies are different in each country but the main devices are similar. The government can give preferential loans with below normal interest rates to export industries. To administer this scheme, a development bank is often established. The bank will channel funds to projects that are considered in the national interests but which would not attract private capital. With respect to the provision of infrastructure, inadequate infrastructure has proved a major handicap for development plans in LDCs. Preferences, therefore, are given to public construction programmes, for example, ports, roads, and railways, which assist export industries.

The government can also use fiscal incentives. The effect of fiscal measures often acts as an indirect export incentive. For example, the tariff exemption for imported inputs of export production will save industries' costs. Low-costs products will provide exporters a chance to compete effectively in the world market. The form of incentive schemes varies from one country to another. However, their main patterns are as follows:[1]

1. Direct and indirect export subsidies;
2. Income tax concessions on export profits or earnings;
3. Accelerated depreciation allowances to encourage exporters to invest in the latest plant and equipment;
4. Duty-free entry of machinery and equipment for use in export-oriented industries;

5. Drawback systems;
6. Exemptions and refunds of internal taxes paid by exporters;
7. Adjustment of export tariffs.

Another export incentive is export credit. This incentive is utilised by almost all developed countries. The government, through a central bank or public credit institution, offers credit at interest rates below the market level to foreign buyers. The importance of export credits is increased by the efforts of developed countries to expand exports of capital goods. In contrast, the use of export credits is not widespread in LDCs.

Apart from the above instruments, the promotion programme of the government is also undertaken by setting up an information centre. The centre aims at providing exporters with assistance and information about marketing and other necessary data and knowledge, e.g. tariff and non-tariff restrictions, shipping services, and labeling regulations.

In addition to the traditional instruments of export promotion policy, a number of governments have created export-oriented enclaves or Export Processing Zones (EPZs). Most of them started operating from the 1970s. An EPZ is a place where export-oriented manufacturing activities take place. It differs from a free-trading zone, where only trade-related activities occur but no manufacturing production. Within the area of the zone, the duty-free importation of capital and intermediate goods is allowed. All related regulations and legislation are adapted to promote production for export. The rationale for establishing EPZs is the adoption of export promotion policy without an economy-wide transformation from import substitution. The initiation of EPZs makes the use of a dual system of trade policy possible. Protectionist countries can continue protecting their domestic markets while gradually restructuring economies towards export orientation. EPZs allow these protectionist countries to earn foreign exchange and to generate employment opportunities.

Activities in EPZs are usually labour-intensive light manufacturing processes, for instance, electronics assembly, and clothing and textiles. Goods produced in EPZs are normally only for export. They are not allowed to be sold in the host countries except with special permission. Warr (1989: 66) suggested an outstanding characteristic of the firm in EPZs which is its international mobility. Firms leaving EPZs in one country often move to EPZs in another, where better privileges are offered. Warr also described four characteristics of EPZs. First, raw materials required for export production in EPZs can be imported without any tariffs and regardless of quantitative restrictions in the host countries. In addition, the government may compensate for the effect of the protection of the domestic economy by creating a "drawback system". If firms in EPZs buy raw materials from domestic sources, the government may subsidise the purchase of these raw materials and capital goods in equivalent to the amount of duty on imported inputs which would have been paid. This is carried out to create linkages between EPZs and the rest of the economy. Secondly, firms in EPZs can usually be exempted from income tax for three to ten years. Moreover, the exemption may be extended by negotiating with the host countries' government. Thirdly, EPZ firms are often not controlled by normal national regulations and administrative requirements. Lastly, EPZs are likely to offer superior infrastructure compared to other parts of the country.

Linnemann et al. (1987: 105) argued that there are two reasons limiting the contribution of EPZs to overall economic growth. First, most capital and intermediate goods used in production in EPZs are imported. Therefore, EPZs are not likely to create many linkages with the rest of the economy. Secondly, value added created by EPZs is not so significant to overall development. The reasons are that firms are allowed to remit profit and the collection of taxes is very limited. The major contribution of EPZs to national income and foreign exchange is attributed to the wage component of value added.

Considering the most appropriate activity in LDCs to be promoted as export-oriented industries, there are four broad avenues for the development of manufactured exports. The first route is local raw material processing. This kind of activity is appropriate in many LDCs because they are labour-surplus, agriculture-based economies. Thus, the value added of their major export products is rather low. The promotion of raw material processing industries helps improve the value added of these products and a country's terms of trade. Moreover, this promotion will provide countries with an opportunity to benefit from their comparative advantage because these industries are labour-intensive. They also create backward linkages to the agricultural sector. However, Morrison (1976: 43) argued that this channel for increasing manufactured exports has not been extensively used in LDCs because most processing industries require large capital investment and skilled labour that are scarce in these LDCs. Helleiner (1973: 25) also argued that heavy effective protection offered by the cascaded tariff structure to processing industries in developed markets is a significant obstacle to the development of processed manufactured exports of this type.

The second path for the development of manufactured exports is the conversion of import-substituting industries to export industries. Most of manufactured exports from LDCs that fall into this type are usually the outcome of spillover from domestic production.

The third avenue is new labour-intensive final product exports. The prospects for these manufactured exports from LDCs depend on whether they can develop unskilled-labour-intensive final products in which they can be expected to possess comparative advantage. At present, some of these products are typically inefficiently produced under high protection in many advanced countries. Products that are categorised into this group are, for instance, textiles, shoes, and toys. International firms can play an important role in the development of this group. These international firms may hire local firms to produce these products or some parts of them. This relationship is bound by contractual arrangements. This commercial contract may be the best prospect because it involves indigenous enterprises in LDCs rather than merely subsidiaries of foreign firms (Helleiner, 1973: 28).

A final way to promote the export sector is through labour-intensive processes and component specialisation within vertically integrated international industries.

These industries are relatively new, and this is an increasingly important way in which poor countries can accelerate their manufactured export growth. Electronics is so far the most important industry in this category. It is quite clear that this path of development will be dominated by MNCs. Although their techniques of production are generally capital-intensive, MNCs may introduce more labour-intensive techniques in LDCs to exploit low labour costs in the host countries. However, the result of empirical studies is different. Reuber (1973: 186) studied the structure and distribution of foreign direct investment in developing countries. He reported that there were no major adaptations in the choice of techniques used by MNCs. The changes in techniques that were made in MNCs were mainly to scale down plants and equipment to lower production volumes. There were relatively few instances of adaptation to take advantage of low labour costs. Stewart (1974: 17-46) suggested that very little adaptation was made to basic production technology. Some MNCs such as Philips, Ford, and General Motors might try to develop appropriate production techniques for LDCs. However, these firms still operate their modern, capital-intensive plants to produce the latest array of products in LDCs.

The pattern of activities of MNCs in developing countries is likely to be determined by parent companies. Firms in LDCs do not have any full authority. They just operate according to the policy and regulations of their parent companies.

The adopted policy instruments of export promotion strategy and the target industries of export growth in each country are similar. However, the impact of these export promotion programmes on each economy can be very different. The characteristics of countries play a major role in determining the growth of manufactured exports. These characteristics consist of market size, the level of economic development, the abundance of natural resources and labour skills. A large domestic market is not a pre-condition for a successful performance in manufactured exports. Instead, manufactured exports are important for small countries as a means to expand the size of their markets. The higher the level of economic development of countries, the greater should be their capacity to export manufactured products. This is because efficient infrastructure and advanced technology will provide developed countries with comparative advantage. These countries will be able to compete in the world market. Differences in labour skills also play a significant role in determining comparative advantage. Countries with abundant skilled labour should have a comparative advantage in skill-intensive goods whereas countries with a scarcity of skilled labour tend to produce unskilled-intensive goods.

Export promotion policy can assist in correcting many economic problems caused by import substitution policy. Export promotion offers an opportunity to improve the balance of payments. However, it is still debatable whether import substitution or export promotion is a more effective strategy for earning foreign exchange. Import substitution may save some foreign exchange but it uses foreign exchange on imported inputs. Export promotion not only offers a wider market to countries' products. It also forces industries to improve the quality and design of their products. Moreover, export expansion encourages countries to develop their management and technical skills, and the educational attainment of the labour force.

However, all privileges which the government provides are at the expense of other sectors, e.g. agriculture. Paying more attention to the manufacturing sector may mean rejecting the modernisation and development of the agricultural and service sectors. Moreover, pursuing export orientation makes countries increasingly depend upon international markets, foreign firms and other external conditions. Export promotion policy reduces the possibility of growth based on the development of the internal market. As for the choice of techniques, export promotion policy tends to mean concentrating on labour-intensive industries. A contrary view is that low labour costs are largely offset by low skills in LDCs. These countries would be better advised to concentrate on capital-intensive industries to promote possibilities of upgrading and shifting their comparative advantage towards more skilled and complex sectors (UNIDO, 1969: 10).

Another effect of export promotion policy comes from exchange rate policy. To promote the export sector, devaluation of the currency is often undertaken. The objective of devaluation is to improve the competitiveness of countries' products.

Generally, this decision would have broad economic and political repercussions and may worsen other sectors or other economic goals of the country. The reason is that devaluation raises the price of imported goods and the cost of production. This will lead to increasing inflation. It will also increase the nominal wage level as workers are likely to demand compensation for the loss of purchasing power. All this means price increases and output declines. The initial favourable effects on the export sector of devaluation may disappear over time.

Grossman (1986: 56) suggested that export subsidies can bring about two adverse consequences on national welfare. First, subsidies can easily induce excessive entry from the point of view of achieving economies of scale. This means that without subsidy, the cost of production would be higher in the long run. Secondly, subsidy may attract a large number of domestic firms to enter an export industry. They may eventually involve in competition among themselves. This competition may push down the price of manufactured exports and cause a decline in a country's terms of trade.

To summarise, export promotion policy can be adopted to correct the disadvantageous outcome of import-substitution policy. This is to create foreign-exchange earnings and employment opportunities. Export promotion can successfully improve the general conditions of the economy. However, it is widely believed that this policy serves not only an economic but also a political rationale. Therefore, using the political economy framework to explore this area may shed further light on trade policy choices.

3.5 Strategic Trade Policy

A more recent concept regarding trade policy has emerged since the 1980s known as "strategic trade policy". This idea seems to be incompatible with the neoclassical idea, which argues that free trade is the best trade policy. The basic model of neoclassical trade theory, on which free trade is based, assumes perfect competition and constant returns to scale. However, the existence of technological advances together with a process of "learning by doing" as well as R&D programmes inevitably generates economies of scale. These economies of scale lead to specialisation on products that are produced under monopolistic conditions. Increasing returns also create excess profit for monopolistic and oligopolistic firms. Thus, government is in a position to shift profit from foreign to domestic producers by deviating from free trade (Haberler, 1990: 26). This may be carried out by imposing import tariffs. Moreover, if domestic producers have monopolistic power, the expansion of their export markets will also generate extra profit for them. The government can also support domestic producers by subsidising their industries.

Apart from profit-shifting, another economic rationale for trade policy relates to cost savings. Brander (1986: 29) argued that a subsidy on costs of producing extra output makes it in a firm's interests to expand output. Rival firms can best respond by contracting output. Hence, it is likely that the subsidy will enable the domestic firm to capture a larger market share of a profitable international market than it could without this subsidy. This is because the contraction by rivals increases the price that the expanding firm can obtain and causes profit to rise. This behaviour of rival firms can be called a "strategic" action, in which the decision of a firm is determined by the action of other firms. The subsidy will cover some part of costs, and then firms' profit will rise. Brander pointed out that the increasing profit of the domestic firm is paid for by the domestic treasury. This means that the subsidy does not create national assets. Instead it just transfers money from taxpayers to shareholders. However, if the profit of the domestic firm rises by more than the amount of subsidy, a country's welfare will improve.

The discussion of strategic trade policy suggests two ways in which a country can benefit. The first is through government policy to secure for a nation a larger share of "economic rent". The second is through the ability of strategic policy to secure more "external economies" for the country (Krugman, 1986: 12). The economic rent generated by trade policy can accrue either as revenue to the government or as extra profit to anybody who acquires the entitlement to trade at world prices. The external economies are the benefit from one activity that accrues to other individuals or firms than those who engaging in that activity. An example is the diffusion of knowledge generated in one area to other firms or other sectors.

Trade policy is generally more concerned with the protection of domestic import-competing industries than with the promotion of export industries. The import substitution regime is generally characterised by high levels of protection for manufactured products, direct controls on imports and investment, and overvalued exchange rates. However, an alternative policy, export promotion, is not incompatible with the discriminatory use of tariffs, quotas, investment licensing, and subsidies. Many countries pursue export promotion policy by offering many incentives and privileges to targeted export producers without abolishing import protection measures.

As mentioned earlier, strategic trade policy implies that the decision of one party depends on the action of others. Evidence of this kind of strategic behaviour can be seen in US trade policy. The United States government imposes a countervailing duty on a commodity which receives credit assistance from the exporting government. This duty will not apply to the exporters who do not ask for credit assistance from their government. The discriminatory action of the United States government indicates that its policy is determined by the action of its trading partners.

A further example of the extensive use of strategic trade policy is found in Northeast Asian countries, e.g. South Korea and Taiwan. The development of trade policy in South Korea since the end of the Korean War in 1953 has corresponded with the evolution of an industrial incentive system. During the 1950s, South Korea adopted an import substitution approach to industrialisation. The import substitution strategy was carried out behind protective barriers in the forms of both tariffs and quantitative restrictions. During this period, South Korea developed some simple manufacturing through the import substitution for non-durable consumer goods and other light industries. However, a small domestic market forced South Korea to reconsider its trade policy.

In the early 1960s, the government launched an export-oriented industrialisation strategy with a number of attempts to liberalise the economy and to promote exports. Linnemann et al. (1987: 320) pointed out that the devaluation of the won in 1964 marked an important turning point for the Korean economy. Moreover, the government implemented a series of policy reforms to create an incentive system which favoured manufactured exports. The main incentives consisted of tariff exemptions on imports of intermediate inputs used in export production, indirect domestic tax exemptions on both imported and domestically purchased inputs, income tax reductions on earnings from exports, accelerated depreciation allowances for the fixed assets of export industries, and preferential interest rates on credits. Another incentive that should be mentioned is the wastage allowance subsidy. Exporters were entitled to duty-free imports of intermediate inputs, including a generous allowance to cover defective inputs and wastage in the production process. The allowance granted significantly exceeded actual wastages. The fraction of imported inputs not used in the production of exports could be legally and profitably sold in the domestic market (Linnemann et al, 1987: 320). As a result of these policy reforms in the 1960s, South Korea's per capita GDP grew at 6.4 per cent a year compared with 2 per cent during the 1950s. And this growth accelerated to 7.5 per cent in the 1970s.

Apart from South Korea, other Northeast Asian countries that experienced success in pursuing strategic trade policy are Taiwan and Hong Kong. The incentive schemes that both countries adopted are similar to those of South Korea, although there are some differences. South Korea emphasised the development of heavy industries while Taiwan concentrated on agriculture-related industries. Hong Kong as a small city state mainly paid attention to the development of light industries especially clothing and textiles. The success of these Northeast Asian countries in implementing strategic trade policy indicated that this policy might be generalised and applied in other developing countries.

3.6 The Political Economy of Trade Policy

This section will review those trade policy studies in which the political economy framework is employed. The political economy approach has become important since the 1970s. It is generally accepted that not only economic factors but political factors also determine the process of policy formation. It is argued that the political system prevailing in many developing countries makes it easier for entrepreneurs to intervene in the process of trade policy formation than in a strong democratic system. The political economy of trade policy was introduced in the late 1950s in a pioneering work of Downs (1957). A decade later, Olson (1965), in his well-known book "The Logic of Collective Action", discussed the behaviour of groups and public goods. The word "group" is used to mean a number of individuals with common interests. Public goods are goods and services that are jointly supplied and characterised by an inability to exclude beneficiaries on a selective basis. Provision of such goods cannot be confined only to those who are willing and able to pay for them. Groups or organisations of groups exist to further the interests of their members. These interests must be held in common. There is no purpose in having an organisation when individuals can pursue their own interests. But when a number of individuals have common or collective interests, groups can perform a function on their behalf.

The traditional theory of groups suggests that ones have an instinct for staying together and fighting with other groups. Though all members of groups have common interests in obtaining these collective benefits, they have no common interests in paying the costs of providing these collective goods. Each would prefer that the others pay the entire costs and get some benefits whether he bears a part of costs or not. This situation brings about a *free-rider problem.* Beneficiaries from public goods cannot be excluded from their benefits, even though they do not contribute to the costs of obtaining these public goods. Therefore, the decision to contribute to funds for providing public goods creates a "prisoners' dilemma" for individuals. That is, if one person believes that its contribution is too small to affect the provision of public goods, that individual may conclude that it is best not to contribute regardless of whether the others do or do not contribute. Thus, the dominant strategy for each individual is not to contribute. Then, the outcome may end up making all worse off. That is no public goods. Trade policy has the characteristic of public goods. A beneficiary from a particular trade policy such as free trade cannot be excluded from benefits, although that person may not contribute to the costs of providing the policy.

The theoretical framework of the political economy of trade policy can be divided into two broad levels: an international level and a national level. The former is mainly dominated by the theory of hegemonic stability (Kindleberger, 1973, 1986). According to this theory, a hegemonic power will exercise its international dominance to maximise global economic welfare. A hegemonic state possesses the power and wealth to supply international public goods, even if it is unable to exclude other states from gaining some of benefits. The hegemonic power may be a "coercive hegemon" or a "benevolent hegemon".[2] To create and maintain a liberal order, the hegemonic leadership is seen as a necessary condition for its existence. Kindleberger explained the international monetary disorder of the 1930s as a consequence of the lack of hegemonic states at that time. The United Kingdom was willing but unable whereas the United States was able but unwilling to take on the economic leadership and become the new hegemon.

Krasner (1976) and Keohane (1984) suggested that worldwide shifts in trade policy are related to the extent to which a single nation dominates world trade. The reason is that an open international trading system has elements of public goods. If one country reduces its trade barriers under the most-favoured-nation (MFN) principle, other countries will benefit from the improved export opportunities, even if they do not make reciprocal cuts themselves. This is because the dominant nation is so large in trading terms that the costs of this non-reciprocity tend to be too small compared with the gains. Therefore, the hegemonic country is pleased to bear the costs of reducing trade barriers and then secures a stable world trading system. However, if this hegemonic power declines due to the increased competitiveness from other countries, the dominant nation is no longer able to offer MFN status to other countries. An example is the change in the US trade policy since the 1960s, from liberal to protectionist. This happened because of the increased international competitiveness of the European Community and Japan.

The second theoretical framework for the political economy of trade policy looks at the national level. It explains the rationale of trade policy in terms of domestic reasons. The national framework provides an analysis for the interplay of economic and political factors. It employs the standard tools of economics and a public choice framework, known as the "economic theory of politics". Public choice theory considers the determination of national policies, particularly trade policy, in terms of supply and demand. The demand for policy comes from individuals who express their voices through collective action. Generally, the demand for policy is related to the economic self-interest of the concerned party. For example, import-competing producers tend to support protection policy whereas export producers and consumers are likely to support free trade. If interest groups are large both in size and in number, members will find it difficult to organise to seek the policy they need. On the supply side of public choice, the main actors are the government and bureaucracies. In a liberal democracy, politicians are motivated by the need to win sufficient electoral support. Therefore, they will try to deliver the policy which reflects the demand of most voters. In meeting such a demand, politicians are likely to shift resources and other advantages away from one group towards others.

Because most public policies are decided by elected representatives, the costs of voting have to be considered. To be elected, politicians need funds for their election campaigns. It is likely that these funds come from some specific interest group in exchange for a commitment that when politicians are elected, they will support policy that benefits these industries. At the same time, voters may not be familiar with policy stances which will affect their interests. Consequently, the imperfect knowledge of voters will influence the pattern of policy. Moreover, policy also results from the process of political bargaining and logrolling. Therefore, the existence of voting costs and imperfect knowledge as well as the fact that elected representatives make decisions on many issues increases the likelihood that the most economically efficient trade policy may not be chosen.

Within the public choice framework, two broad approaches have been developed to analyse the process that generates protectionist regulations. The first approach is the economic self-interest approach. The second approach stresses the importance of the social concern of public officials.[3]

3.6.1 The Economic Self-Interest Approach

This approach argues that the differences in protection across industries, whether import-competing or export, result from their ability to seek import protection or to resist cuts in protection. Baldwin (1985: 11) categorised this approach into two models: the common interest or pressure group model and the adding machine model.

3.6.1.1 The Common Interest or Pressure Group Model

The general argument of this model is that trade policy is influenced by pressures from interest persons or groups who act in the hope of some advantage. This model suggests that an individual favours or opposes a specific trade policy depending on whether the policy increases or decreases real income. It also assumes that entrepreneurs in import-substituting industries prefer import protection for their industries. This is because this protection will push up domestic prices creating income gains for them, at least in the short run. Most import-competing industries generally want the government to impose high tariffs on imports. But the level of actual protection provided for them differs depending on their ability to overcome the free-rider problem.

As mentioned earlier, trade policy has the characteristic of public goods, in which beneficiaries from the policy cannot be excluded from their benefits although they are unwilling or unable to pay for the costs of obtaining this policy. Thus, each firm, especially small firms, tends to think that other firms will take the entire costs while creating benefits for the whole industry. If this situation continues, it may finally end in the failure of industries to obtain protection from the government. However, Olson (1965: 33-6) suggested that an industry is more likely to overcome the free-rider problem and to raise sufficient funds for effective lobbying and obtain high protection if the number of firms is small. This is because fewer members mean a more restrictive organisation that will automatically force each member to contribute. Moreover, the possibility of overcoming the free-rider problem will increase if benefits from protection are unevenly distributed among firms. Some firms may get such a large part of total benefits that they can pay for the whole costs of lobbying no matter what other firms do.

A further study was made by Pincus (1975). He studied the effectiveness of pressure group interests in determining the structure of tariffs of the United States in 1824. He found that, apart from the number of firms and the concentration of benefits, the intensity of pressure group activities also depends on the geographical dispersion of individuals. This is because the costs of obtaining information about the action of others and of coordinating and monitoring can be expected to rise with distance. He suggested that the level of protection will be high if both the seller and the geographical concentration is high. However, Pincus' work was based on data in 1824 when communications were very rare and costly. This made the geographical dispersion factor very important in determining tariffs. But, at present, due to technological advances, communications and transportation are cheaper and more convenient. Therefore, geographical concentration may no longer play an important role in deciding tariff levels.

3.6.1.2 The Adding Machine Model

The adding machine model was formulated by Caves (1976) and is based on the idea, which was first introduced by Downs (1957), that the government would act to maximise the probability of its re-election. Caves emphasised the importance of imperfect knowledge among voters. The most obvious link between this model and the tariff structure lies in the effect of tariffs on income distribution in which tariffs may help to equalise the distribution of income. He also suggested that voting decisions are made on the basis of a candidate's views on a multitude of public policy issues. Caves supposed that "labour has the votes", and therefore labour-intensive production processes would win the highest rates of tariff protection. This is because the government cannot satisfy everyone on all issues. Thus, it will deliver the policy which is supported by most voters. Caves also argued that tariff protection is more likely in an industry composed of a large number of small firms than in the one that is highly concentrated. He hypothesised a negative relationship between the level of tariffs and the degree of industrial concentration both in geographical and market share terms. This is because geographically dispersed industries can obtain support from a larger number of elected representatives than regionally centralised ones.

It is clear that the hypothesis of the adding machine model is the reverse of that of the common interest group model. The latter model suggests a negative relationship between the number of firms and the level of protection and a positive relationship between the concentration of industries and tariff levels. Anderson and Baldwin (1987: 29-34) pointed out that although most cross-national studies support the importance of the employment size of an industry as a determinant of the level of protection, they also generally bear out the common interest group model. Baldwin (1985) tested the relationship between the level of duty cuts due to the Tokyo Round and many variables, based on both the common interest group and the adding machine models, e.g. seller and geographic concentration ratios, number of firms, number of workers, and import penetration ratio. He found that variables such as the degree of firm concentration and the number of firms in an industry, which are proposed by the common interest group model, are insignificant. In contrast, the variables proposed by the adding machine model perform somewhat better.

3.6.2 The Social Concern Approach

The basic idea of this approach is that trade policy is explained mainly by the government's concern for the welfare of certain social and economic groups and its desire to promote various national and international goals. This approach can be divided into three models: the status quo model, the social change model, and the foreign policy model.

3.6.2.1 The Status Quo Model

The pioneering work on this model had been undertaken since the 1970s. It was formalised by Lavergne (1983). He studied the determinants of tariff levels of the United States in various periods since the 1930s. In this study, the explanatory variables can be classified into six groups: pressure group influences, the minimisation of displacement costs, the comparative disadvantage of an industry, international bargaining, the maintenance of historical continuity, and the miscellaneous aspects of public interest. He found that the maintenance of historical continuity and the comparative disadvantage of an industry play a significant role in determining tariff levels. The importance of these variables in explaining tariff levels indicates the application of a strong sense of conservatism. Apart from the positive relationship between the current level of tariffs and the historical levels, he also found that in some slow-growth industries the government uses tariffs as a tool to avoid large adjustment costs. This result supports the earlier work of Cheh (1974) which suggested that trade policy of the United States aims at reducing short-run labour adjustment costs. That is, the industry with a high proportion of unskilled workers, and of workers over forty-five years of age, would receive high protection from the government. This is based on the grounds that these workers have to take longer time than other workers to find new jobs. Corden (1974: 104-9) introduced the "conservative social welfare" function to explain actual trade policy of many countries. This function implies that "any significant absolute reduction in real income of any significant section of the community should be avoided." Therefore, income maintenance is the motivation of many tariffs.

3.6.2.2 The Social Change Model

This model argues that trade policy is a tool of the government not just to maintain the status quo but also to improve the standard of living of the lowest income groups. On social justice grounds, the government should use tariffs to reduce the degree of income inequality in the economy. This model hypothesises that tariffs would be high in industries intensively hiring low-income, unskilled labour. This hypothesis is supported by Constantopoulos' study (1974: 326) which suggests that distributional considerations appear to be important determinants of tariff walls. Her study concentrated on labour protection in Western Europe. The conclusion from this study is that tariffs in the EC protect the wages of unskilled labour rather than labour-income in general. Baldwin (1989) pointed out that income distribution concerns may also be a reason why the government generally prefers to assist an import-competing industry by protective measures, rather than by providing production subsidies. By restricting imports and thereby raising the price of the industry's product, the government puts the burden of helping the injured industry on those consumers who benefit from an initial decrease in this product's price. On the contrary, production subsidies financed by general taxes leave those taxpayers who may not consume the imported goods worse off than initially.

3.6.2.3 The Foreign Policy Model

In this model, trade policy is viewed as an instrument of foreign policy to serve various international objectives of the government. Helleiner (1977: 318) explained the structure of tariffs as the result of tariff cutting bargains struck in the rounds of GATT negotiations. He hypothesised that the level of duties in industrial countries tends to be higher on imported goods from LDCs than on items supplied by developed countries. This is because LDCs are generally unwilling to match the cuts offered by the industrial countries whereas developed countries are normally practising reciprocity. Gilpin (1987) used the theory of hegemonic stability to argue that the United States after Second World War and the United Kingdom during the latter part of the nineteenth century adopted free trade policies as a means to confirm their world leadership status. In the case of the United States, the main objective of liberal trade policies was to limit the dissemination of Communism.

3.6.3 Empirical Studies

Most empirical studies were carried out to study a number of determinants of tariffs and the relationship between the level of tariffs and many industrial characteristics. This was to test different hypotheses of various models within the public choice framework. Most of the important studies were undertaken in the 1970s and 1980s. Baldwin investigated United States trade policy in a series of works (1976, 1982, 1984, 1985, 1989). As discussed in the previous section, Pincus (1975), Caves (1976), Helleiner (1977), Lavergne (1983), and so on, also made considerable contributions to empirical investigation of trade policy.

Apart from these works, Ray (1981) analysed the determinants of tariff and non-tariff trade restrictions in the United States. In addition to analysing the relationship between average tariff levels and many explanatory variables such as the concentration ratio, and import penetration ratio, he also studied the relationship between tariffs and NTBs. He found that tariffs do positively and significantly affect non-tariff trade restrictions, while non-tariff trade restrictions have no significant impact on the determination of tariffs.

Conybeare (1983) investigated tariff protection both in developed countries and in LDCs in 1902 and 1971. He developed four different models. The first is the international system model in which the level of tariffs is related to national power and size. The second is the rational domestic economic policy model in which the tariff level is related to the level of economic development and the rate of growth. The third is the intragovernmental politics model in which the level of tariff is related to government expenditure relative to GDP and the extent of reliance on indirect taxation for revenue. The last is the interest group model in which the tariff level is related to the ability of interest groups in export or import-competing industries to take collective action. He found that the tariff levels in 1902 were best predicted by the international system variables whereas the 1971 tariffs were best explained by the rational economic actor variables. In 1971 case, tariff rates were positively related to indirect taxes as a percentage of government revenue, the size of the central government and the instability of exports. Tariffs were negatively correlated to the diversification of exports, GNP, GNP per capita, and manufacturing value added.

Pugel and Walter (1985) took a more micro-level approach and examined the behaviour of US corporations with respect to international trade policy initiated during the 1970s. They concluded that a company's trade policy position is significantly more protectionist if the company faces greater pressure from import competition, benefits less from access to foreign markets and is less diversified in the products it produces and sells. Apart from these factors, Krueger (1974) also argued that individuals prefer protectionist policy because these trade restrictions give rise to a variety of rents and people often compete to get them. Sometimes, such competitive rent-seeking behaviour is perfectly legal but it often includes bribery, corruption, smuggling, and black markets. Her study focused on the effects of competition for import licences under quantitative restrictions of imports. Empirical evidence suggested that the value of rents associated with import licences can be relatively large.

Marks and McArthur (1993) surveyed some new results about the determinants of protection. They summarised industrial characteristic variables associated with protection into five groups. The first group is comparative advantage which is reflected in value added per worker, the quantity of physical or human capital per worker, and average wages in the industry. Their argument is that industries with strong comparative advantage will demand less for protection. Therefore, the industry with high value added per worker and a high wage level should represent strong comparative advantage industries. The second variable is import penetration which is shown by a higher share of imports in total consumption of the products of an industry. The third industrial characteristic is export dependence which is indicated by the share of industry output exported. The fourth variable is labour adjustment costs which are indicated by the proportions of unskilled or older workers. And the last industrial characteristic is political potency which is implied by a high degree of concentration of industries.

Anderson and Garnaut (1986) investigated the determinants of effective rate of protection in Australia. They tried to explain the wide dispersion in assistance rates within the manufacturing sector. They suggested that explaining inter-industry variations in protection requires examining differences in factors affecting the demand and supply for individual industries. They found that the labour-intensive, low-wage industries with low value added shares of output were most highly protected in Australia in 1968-69. Moreover, industries with fewer firms and having larger number of employees tend to be assisted more than others.

Another type of empirical study is the work that tests the relationship between the level of protection or the pressure for protection and the domestic business cycle of the economy. An interesting work in this kind was undertaken by Takacs (1981). She used the total number of escape clause petitions filed with the United States International Trade Commission per year as an indicator of the level of pressure for protection. She suggested that a low level of economic activity, high unemployment, unused capacity, trade deficits, rapid increases in imports, and increases in import penetration all operate to increase the temptation to protect domestic industries from import competition. Coughlin, Terza and Khalifah (1989) extended Takacs' model and employed a Poisson regression model. They found that both domestic and international factors affect the demand for protection in the same direction as in Takacs' study. Moreover, they also suggested that the legal environment is another potential determinant of protection in the United States. The Trade Expansion Act of 1962 which required high standards for obtaining protection decreased the level of protection. On the other hand, the Trade Act of 1974 with the relaxation of standards resulted in increasing protection.

Most outstanding works on the political economy of trade policy have examined developed countries, particularly the United States. The differences in the structure of the economy and in the process of policy determination between developed countries and LDCs may make the models analysed here irrelevant to the case of Thailand. However, there have been a number of studies on the structure of protection in developing countries. In the case of Thailand, several attempts were made to measure its protective system.[4] These studies shared common results that there is generally a bias against the export industry. Narongchai (1973) calculated Thailand's effective rates of protection and found that, in the 1960s, the rates for the export industries were all negative. Most import-competing industries received higher protection. Pairote (1975) studied Thailand's protection system in 1974. He found that the system was in favour of consumer goods and it also favoured the production of goods for local sales. However, Mingsarn (1998) argued that the effective rates of protection of Thailand have fallen over time. But the rates for import substitution industries are still very high and those for export industries are still negative.

A series of works were undertaken to analyse the determinants of protection in ASEAN countries. Pangestu and Boediono (1986) studied the structure and causes of protection in Indonesia. They argued that while national interests can explain the structure and average level of protection, it may be useful to consider the motive and action of interest groups for an explanation of inter-industry differences in protection. However, they pointed out that lobbying activities in developing countries may not work as effectively as those in developed countries. The reason is that in most LDCs, there are few organised trade unions to conduct efficient lobbying activities. They also suggested that lobbying processes in LDCs usually take the form of special relationship or informal connection between an authority and individual industries. Tan (1986) studied the structure of manufacturing protection in the Philippines. She found that industries with low-wage levels tend to receive high protection. Meanwhile, a study on the Malaysian case was carried out by Hock (1986). He suggested that industrial concentration and the number of employees seem to be the best explanation for differences in protection.

Although all these studies employed different models and had their own characteristics, the variables they used are quite similar. They included, for example, the number of firms in industries, the number of employees, wage shares in value of output, wage rates, and industrial concentration. These variables are developed from the five models of the public choice framework which will be extended to study international trade negotiations of Thailand in the following chapters.

3.7 Conclusions

This chapter reviews some literature relating to trade policy. It has long been developed at a distance from traditional theory of international trade which is based on the assumptions that there are only constant returns to scale, and product and factor markets are perfectly competitive. Early literature on trade policy focused on two trade policy strategies: import substitution and export promotion strategies. Since the 1980s, a new concept of trade policy has emerged as "strategic trade policy".

A number of countries pursued an import substitution policy to promote industrialisation and employment, to correct balance of payments difficulties, and to raise revenue for the government. Nonetheless, the best-known argument for an import substitution strategy is the infant industry. This strategy is often referred to as a protectionist policy. This protectionist policy can create distortions to the economy. Disadvantages of import substitution strategy lead to the introduction of an alternative policy, an export promotion strategy. It is preferred to import substitution policy because the latter can generate economic growth only in the short run. In the long run, rapid economic growth needs wider export markets.

Although export promotion strategy could correct some disadvantages of import substitution policy and create foreign-exchange earnings, in a world with increasing pressures towards protectionism, this strategy might not produce as favourable outcome as otherwise. To respond to protectionist pressure, a strategic trade policy was introduced. It implies a situation in which one's decision depends upon others' actions.

The group of literature which is most relevant to this study is the political economy of trade policy. It is based on the idea that not only economic factors but political factors also determine the process of policy formulation. The early works on the political economy of trade policy analysed the behaviour of groups, public goods, and a free-rider problem. This problem is a result of the fact that although members of groups have collective benefits, they have no common interests to pay the costs of providing for these benefits. If the benefits are public goods, it will be impossible to exclude beneficiaries from them. Trade policy can be considered such a public good.

The political economy of trade policy can be classified into two levels: international and national. The international level is dominated by the theory of hegemonic stability which suggests that a hegemonic power will act to maximise global economic welfare. The national level of the political economy of trade policy explains the rationale for trade policy in terms of domestic reasons. The national level employs a public choice framework to study trade policy. This framework considers the determination of national policy in terms of demand and supply. The public choice framework can be divided into two approaches: the economic self-interest approach and the social concern approach.

The economic self-interest approach argues that the differences in protection among industries result from differences in their ability to seek import protection or to resist cuts in protection. This approach is classified into two models: the common interest or pressure group model and the adding machine model. The former argues that interest groups with the small number of members, uneven distribution of benefits among members, and the high geographic concentration ratios, would receive high levels of protection. The adding machine model proposes a negative relationship between the level of protection and the degree of industrial concentration both in geographical and market share terms. That is, the adding machine model's hypothesis is the reverse of that of the common interest model.

The social concern approach's basic idea is that trade policy is explained mainly by the government's concerns for the welfare of certain social and economic groups and its desire to promote various national and international goals. This approach is classified into three models: the status quo model, the social change model, and the foreign policy model. The status quo model argues a positive relationship between the current levels of protection and the historical levels. This model has a close link with the conservative social welfare function which implies that income maintenance is the motivation of many tariffs. The social change model argues that trade policy is a tool of the government not just to maintain the status quo but also to improve the standard of living of the lowest income groups. It proposes that protection would be high in industries intensively hiring low-income, unskilled labour. The foreign policy model views trade policy as an instrument of foreign policy to serve various international objectives of the government.

These five models of the public choice framework have been employed in a number of empirical works to study the determinants of tariffs and the relationship between the levels of protection and various industrial characteristics. Most of empirical studies were undertaken during the 1970s and the 1980s. The results of these studies were quite varied. Nevertheless, most studies on the political economy of trade policy have paid attention to the case of developed countries, especially the United States. Thus, the political economy of trade policy for developing countries still has room for further study.

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[1]The list of incentive schemes is based on UNIDO (1969).

[2]For more details about two types of hegemons, see Gill and Law (1988: 44-8).

[3]The categorisation of pulic choice framework is based on Baldwin (1985: chapter 1).

[4]There are two ways to measure the effect of protection: nominal rate of protection (NRP) and effective rate of protection (ERP). The NRP is defined as the percentage excess of the domestic price over the world market price, resulting from the application of protective measures, while the ERP is defined as the percentage excess of domestic value added, obtained by protective measures on the product and its inputs, over world market value added. For more details on the NRP and ERP, see, for example, Balassa et al. (1971) and Little et al. (1970).

Chapter 4

Economic Policy Planning and The Determinants of Economic Policy in Thailand

4.1 Introduction

To study trade issues, particularly trade negotiations, it is necessary to understand trade policy and how it is formulated. Since, in Thailand, trade and other economic policies are determined in the national development plan, this chapter will analyse the formulation of economic policy through the planning process. Section two discusses the process of economic policy planning. Section three analyses the determinants of economic policy in the public sector. It pays attention to a number of government agencies. Section four addresses the determinants of economic policy in the private sector by examining involvement of various groups of business associations. The influence of some external factors, e.g. the World Bank, the General Agreement on Tariffs and Trade (GATT), and the World Trade Organization (WTO), etc., on economic policy is studied in section five. The last section contains conclusions.

4.2 The Process of Economic Policy Planning and Thailand's National Development Plan

The planning of economic policy was systematically introduced in Thailand in 1961 by means of the first National Economic Development Plan, which later became the National Economic and Social Development Plan (NESDP). Previously, Thailand's economic policy was formed without any underlying strategic plan. The king had full power in formulating policy until 1932 when the revolution brought an end to a monarchy in its absolute form. Since then, Thailand has been governed by the constitutional monarchy with a parliamentary form of government. Therefore, the government has been formally charged with all aspects of policy making.

Conceptually, development planning may be differentiated from policy making. In practice, the boundary between policy making and planning is ill-defined. In the Thai case, it is usually argued that development planning includes the formulation, implementation, and monitoring of policies, programmes, and projects (Abonyi and Bunyaraks, 1989: 6-7). Development planning is an explicit attempt to guide national development towards desired futures. Planning affects development through a direct impact on resource allocation.

The National Economic and Social Development Plan (NESDP) of Thailand is the framework for the country's development. Thirlwall (1992: 181) pointed out the advantage in having a national development plan is that, whatever a country's political ideology, it is an ideal way for a government to set out its development objectives and to demonstrate initiative in tackling the country's problems. In fact, the NESDP contains only broad guidelines and policy objectives. Without active policy instruments, the plan itself cannot produce any significant outcome. Therefore, the required policy concerning every single aspect would be formed by the government to achieve the goals of the NESDP.

The development plan is particularly important for the country like Thailand where the political situation is very changeable. Since 1932, the country's governments have alternated between the democratically-elected and differing degrees of military rule. In the past six decades, there have been 21 prime ministers with 53 governments. Each government was on average in power for less than one year and a half. The large number of governments indicated their instability and the lack of continuity of their policies. Different governments tended to pursue different policies because their coalition parties' interests lie in different sectors. With the NESDP as the guide, the government cannot pursue any policy without referring to the plan. Every government has to present its policy statement to the parliament before taking office. This is to show the commitment of the government. If the government fails to pursue the policy it presented, it may face a censure debate from the parliament.

The planning of national economic policy in Thailand thus starts with defining national goals, establishing development objectives and targets, setting sectoral priorities, and then formulating the economic development plan. A number of government agencies are involved in this planning process. However, the process is dominated by the Office of the National Economic and Social Development Board (NESDB),whose details will be discussed later. The Board gathers information and inputs from all other agencies and then makes a draft of the plan. The cabinet makes a decision on the final draft before the plan is implemented by relevant agencies. In short, the process of economic policy planning in Thailand can be classified into four stages as follows:

1. the brainstorming stage,
2. the drafting stage,
3. the approval stage,
4. the implementation stage.

4.2.1 The Brainstorming Stage

This is the first stage of most planning processes. The NESDB acts as a focal agency in this step, collecting information and comments from every section of society. Since 1967, the scope of the plan has been expanded to include social issues, and the brainstorming process has become more complicated. Although this step is relatively open to the public, there are still some questions about its transparency. Likhit (1988:110) argued that the NESDB may be open-minded to comments from all agencies, but it is unclear to what extent it takes these comments into account. He explained that if the views from the public comply with the Board's initiative, those views will be treated as supportive of the plan. On the other hand, if the views are different from those of the NESDB's officials, the Board may ignore the public's contribution. However, under the current situation when the press has considerable freedom to deliver information on issues to the public, and Non-Governmental

Organisations (NGOs) are keen on promoting the public interest, it may be very difficult for the NESDB to overlook their views. Besides, other government agencies now have more understanding about planning activities, and they play their parts more actively than in the past. This results in the diminishing ability of the NESDB to dominate the plan. At present, the NESDB's role tends to move towards one of coordination.

Although the public and other agencies pay more attention to planning activities, all major changes, both in the process of planning and in the context of the plan, are initiated by the Board itself. This may be because most Thais still consider planning as an academic activity. The success or failure of the plan does not show an immediate impact on people's everyday lives. People tend to express their concerns on some specific issues rather than on the planning process itself. The interest in planning activities is confined only to certain groups of people such as related scholars, and media. It can be said that national economic policy planning in Thailand is a centralised process although the degree of the centralisation of each plan has been different.

4.2.2 The Drafting Stage

This stage is quite technical. The NESDB is solely responsible for it. Actually, the NESDB was founded to implement this job. The role of other government agencies is confined to supplying information and data needed for drafting the plan. The private sector is hardly involved in the process.

4.2.3 The Approval Stage

When the NESDB completes the drafting work, the plan is sent to the cabinet for final approval. At this stage, if the cabinet has doubts about any point of the plan, it may ask for clarification on the issues. Moreover, the content of the plan can be reconsidered and adjusted before the cabinet makes a final decision.

4.2.4 The Implementation Stage

After the plan is approved by the cabinet, it is implemented by associated organisations within a set time frame. This stage involves a number of agencies. The NESDB will coordinate with implementing agencies to ensure that the plan is clearly understood. Furthermore, the implementation of the plan will be monitored and evaluated by the Economic Cabinet whose roles will be discussed later.

4.2.5 Thailand's National Development Plan

Since the launch of the first plan in 1961, there have been changes in the process of economic development planning. In the process of formulating the second plan (1967-71), committees representing the relevant public sector agencies were established for the first time, and were responsible for developing sectoral strategies (Abonyi and Bunyaraks, 1989: 25). However, participation in the planning process was still very restricted. Although the philosophical background of the plan was that the private sector should be the engine of growth, there were still no representatives from that sector involving in the planning process. The third plan (1972-76) was drawn up when the world economy was on the verge of crisis. The planning turned from managing long-term development to responding to fluctuations and instability in the world commodity market. There were no major changes in the degree of the private sector's participation in the planning process.

The planning process of the fourth plan (1977-81) saw a shift from a centralised approach to one that was more participatory and interactive. Representatives from key sectors and professions were involved in the formulation process of this plan. Another significant change was that implementing agencies started to play an active and direct role in the process of planning. These agencies began to initiate and propose projects into the plan. The atmosphere of instability and uncertainty still continued towards the period of the fifth plan (1982-86). The planning process was mainly the same as in the fourth plan but the role of the private sector was made more solid. The Joint Public and

Private Consultative Committee (JPPCC) was set up to facilitate the coordination between both sectors.

The process of planning the sixth plan (1987-91) experienced another major change. The comprehensive coverage of selected development issues through extensive participation of relevant interests was introduced. This was to enlarge the information base for planning and to build public support for policies. Moreover, there was an attempt to improve the flexibility of the plan and to decentralise the planning process. This was undertaken through the introduction of annual operational plans. These plans were to be mainly designed by implementing agencies and could be adjusted to respond to changing external conditions (Abonyi and Bunyaraks, 1989: 43).

The decentralisation of planning activities has begun since the fourth plan. The degree of the private sector's participation in the process of policy formulation has been increased gradually. But although a number of changes have been introduced by the central policy agency to make the planning process more public, there is still an accusation that these changes are only to relieve the pressure from the private sector. Rangsun (1993:70) argued that the changes lack sincerity. This is because the NESDB has already set the framework of the plan. Therefore, comments of all participants are restricted by that framework and cannot make any significant impact on the context of the plan.

Apart from the national policy framework, there are other levels of policy making. Over the years, the Thai bureaucratic system has expanded. This resulted in the increase in the complexity of the system. The policy of one agency can be incompatible with that of other related agencies. The disharmony of policies can happen because of conflicts either between the central policy agency, i.e. the NESDB, and ministries or between ministries. Even within the same ministry, the policy of each department can be very inconsistent with one another. To alleviate this problem, policy agencies have been set up in some ministries. This is to coordinate with the central policy agency and to improve the ability of these ministries in creating their own policy agendas. Moreover, these departmental policy agencies are assigned to take care of the academic work of these ministries. These agencies include the Fiscal Policy Office of the Ministry of Finance, the Office of Agricultural Economics of the Ministry of Agriculture and Cooperatives, the Department of Business Economics of the Ministry of Commerce, and the Office of Industrial Economics of the Ministry of Industry.

4.3 The Public Sector

This section will discuss the role of a number of government agencies in the process of economic policy planning. These central policy agencies are the cabinet and the Economic Cabinet, the parliament, the NESDB, the Bank of Thailand, and the Fiscal Policy Office of the Ministry of Finance.

4.3.1 The Cabinet and the Economic Cabinet

Within the structure of policy formulation in Thailand, most policies would receive final approval at the ministerial level. Ministers will make a decision on issues and will be collectively responsible for that decision as a cabinet. The Thai cabinet consists of the Prime Minister, Deputy Prime Ministers, Ministers and their deputies. According to the 1991 Constitution, the cabinet can have up to 49 members.

Since the revolution in 1932, the structure of the Thai cabinet has been dominated by government officials, both civil servants and military officers. They accounted for about 70 per cent of the cabinet members from 1932 to 1990. Although this number fluctuated from time to time, there were hardly periods when the proportion of government officials in the cabinet was less than 50 per cent. However, there was an exception in two periods, during 1975 to 1976 and 1979 to 1990, when the number of businessmen in the cabinet was higher than that of government officials (Rangsun, 1989: 61-2). The large proportion of government officials in the cabinet indicated an important characteristic of the Thai political system. Riggs (1966) called this characteristic "Bureaucratic Polity". He argued that the Thai political system is dominated by the traditional power of bureaucrats. The relationship between the government and the business community is one of clientelism with the government as the patron and business as the client (Anek, 1994: 195).

The existing of Bureaucratic Polity implies a top-down public policy-making approach. This is because there were very small number of politicians who are elected-members of the House of Representatives in the cabinet. Thus, they cannot resist the power of bureaucrats. Therefore, the role of politicians in initiating public policies was relatively inactive. Moreover, most of the time, politicians were likely to compromise with government officials and seek for their self-interests.

Bureaucrats maintained their pervasive dominating power in the Thai political system until at least 1973 when there were student uprisings which led to the collapse of the country's longest lasting military regime. From then, the situation began to change. The influence of bureaucrats declined while that of professional politicians increased. Businessmen-turned-politicians have taken a very active role in the political system. The proportion of businessmen in cabinet members reached 60 per cent in 1991. This shows that over the past two decades the relationship between businesses and the government has moved largely towards one of equal partnership (Anek, 1994: 196). It can be said that business people started to play an important role in public policy making.

A number of cabinet committees have been set up consisting of relevant ministers. These include the Economic Cabinet and the Social Cabinet. These committees are to coordinate major policies concerned. The new establishments enable the government to ensure that no policies incompatible with other related ones are made. Moreover, the Prime Minister may assign the committee to examine the merits of projects or policies so that the cabinet will not have to spend too much time on an inefficient project or policy. As this chapter studies economic policy, only the Economic Cabinet will be discussed in detail.

The Economic Cabinet was created in 1980 to be a core agency to administer national economic policy. At first, the Economic Cabinet was a small informal committee coordinating economic policy formulation and monitoring policy implementation. In addition, the Economic Cabinet considered economic issues and offered advice to the main cabinet. The Economic Cabinet was also authorised to evaluate the performance of implementing agencies. It had 16 members with the Deputy Prime Minister as the chair. In 1983, the structure of the Economic Cabinet was changed. The new body consists of the Prime Minister as a chairman; the Deputy Prime Minister; the Ministers of Finance, Foreign Affairs, Agriculture and Cooperatives, Communications, Commerce, Interior, and Industry; the Ministers from the Office of the Prime Minister; the Deputy Ministers of Finance, and Industry; the Governor of the Bank of Thailand; the Advisor to the Prime Minister; and the Secretary-General of the NESDB as a secretary of the committee.

The role of the new Economic Cabinet seems to overlap with that of other central policy agencies, the NESDB and the Bank of Thailand. This may be because, as Chai-Anan (1992: 24) pointed out, the role of the new body is less concrete and less powerful. The Economic Cabinet functioned through compromise among participating agencies. Thus, its new role was somewhat similar to that of those central policy agencies. However, Chai-Anan's analysis (1992: 27) found that the new Economic Cabinet is successful as a final decision-making body. This may result from the fact that the decisions made by the Economic Cabinet are as effective as those made by the main cabinet. The decision-making process in the Economic Cabinet is made by consensus. All decisions need to be submitted to the main cabinet only for acknowledgement. The success of the Economic Cabinet shows that the economic development plan can be very effective if it is accompanied by good policy management. This is because the Economic Cabinet accelerates the implementation of the development plan and improves the coordination between planning and implementing agencies.

However, the role of the Economic Cabinet as a centre to administer and coordinate economic policy depends very much on each Prime Minister. Some Prime Ministers may pursue all economic policies through the Economic Cabinet. The Economic Cabinet reached its peak in the period of the semi-democratic government led by General Prem Tinasulanond, a retired army chief who was in power from 1980 to 1988. During the next administration of General Chatichai Choonhavan, the Economic Cabinet decreased in its importance. The Prime Minister consulted his advisors about economic policy and all major economic issues were studied and advised by these advisors.

From 1992 to 1995, the government led by Chuan Leekpai set up the International Economic Relations Policy Committee (IERPC) to take care of all international economic issues. This committee was chaired by the Deputy Prime Minister, Supachai Panichapakdi, who is a former banker and well-known economist. The committee played a very active role in economic policy formation. Although this committee was responsible only for international economic issues, it became a centre of economic policy management.

Under the administration of the next Prime Minister, Banharn Silpa-acha (1995-96), the Economic Cabinet was used to avoid conflicts between Ministers from different parties. Issues which could not be resolved by the main cabinet would be discussed in the Economic Cabinet. This is because the Economic Cabinet has fewer members and excludes ministers from non-economic ministries; thus it is easier to reach a decision. Using the Economic Cabinet can be very dangerous because it could lead to an intense contest among politicians for economic Minister portfolios. This may result in economic mismanagement and ignorance of other issues.

4.3.2 The Parliament

The Thai parliament system began in 1932 when constitutional democracy was introduced after the bloodless revolution. At present, the Thai parliament consists of 2 houses: the Senate House and the House of Representatives. Senators are appointed by the Prime Minister whereas members of the House of Representatives are elected. There were some periods when the country was governed by military-ruled governments; there was only one type of member of the parliament, the appointed members.

Currently, the parliament does not play any significant role in economic policy planning and formulation. On the one hand, the parliament has not been authorised to be involved in the process of economic policy making. The structure of the Thai parliament system enables the government to have more power on this matter than the House of Representatives. Given that elected representatives existed, there were hardly periods when the number of appointed senators was less than 50 per cent of the number of representatives. In some periods, this figure went up to about 75 per cent. Moreover, government officials always accounted for about 80 per cent of the number of senators (Rangsun, 1989: 77-8). Therefore, the power of representatives is easily balanced by that of senators, who normally are under government control. This situation gives the government almost full power to make economic policy decisions.

On the other hand, the representatives themselves are likely to consider policy planning as "academic" work. They prefer to leave this matter to permanent officials. It can be seen that the dissolution of the House of Representatives or a military coup hardly affected the economic development plan. Most representatives tend to pay attention to specified issues which involve voters' interest. The goal of representatives is at least to maintain the present status of people in their constituencies. If it is possible, they also prefer to create some extra-benefits for their voters. They believe that this may increase their chances of being re-elected. This behaviour of representatives is consistent with two models of the public choice framework, i.e. the status quo model and the social change model of the social concern approach.

There is only one economic issue that seems to draw attention from most representatives, i.e. the budget allocation. Representatives can reallocate or even cut the annual budget for projects proposed by certain agencies. It can be said that this is the only way that the House of Representatives can check the economic plan of the government. Sometimes, some representatives abused this power to support projects in their provinces or constituencies. However, the attitude of representatives towards the budget allocation has tended to change. Rangsun (1989: 79) argued that, since the early 1980s, the process of budget allocation has been improved. The relationship between the annual budget and constituent projects is carefully considered by representatives. This makes the reallocation of annual budget much more reasonable for the public. Although the situation has changed for the better, most representatives still behave in the same way. This may be because the structure of the parliament allows its members to conduct abusive activities. The pattern of the relationship between the government and the parliament needs to be transformed. The House of Representatives should be given more authority in the process of economic policy planning. Representatives will have an opportunity to express the needs of people in their areas. The disharmony between the development plan and the annual budget will be improved.

Apart from the structure of the parliament, there are other factors which hinder representatives from becoming involved in economic policy making. Under various constitutions, members of the House of Representatives were not allowed to propose any bill related to financial issues, without approval of the Prime Minister. The financial bills include tax bills, tariff bills, budget bills, national reserve bills, national debt bills, and money bills. This restriction is the main mechanism which keeps the House of Representatives out of the process of economic policy formulation (Rangsun, 1989: 78).

Although the parliament is authorised to make laws, most acts, which are related to economic issues, are administrative laws. These laws contain only the principle background and do not provide any real power to manage economic policy instruments. All important details of the law will be separately formulated as decrees, regulations, ministries' notifications, by the government. This implies that the bureaucrats still have real power in determining the direction of economic policy. Moreover, the sub-laws provide broad discretionary power to the government. For example, the 1979 Export and Import Act has only 25 clauses but there are more than 100 notifications issued in addition to ban export or import of specific goods, to impose export or import licensing, and to impose import quotas. This kind of law allows politicians and officials to take advantage of rent-seeking activities (Rangsun, 1989: 101).

The government has almost full power in formulating not only the policy relating to domestic agencies but also those involving international organisations. With two exceptions, the government can make commitments to international organisations or sign treaties with any country without ratification of the parliament. The two exceptions are agreements changing the country's boundaries and those requiring the formulation of a new act to conform to the commitment. This means that agreements, such as the Multi-Fibre Arrangement (MFA) and Voluntary Export Restraints (VERs), can be made without ratification. In short, because of the structure of the Thai parliament and the attitude of individual representatives, the parliament plays a much restricted role in economic policy formation.

Because of the weak parliamentary system in Thailand, interest groups have hardly pushed forward their interests through members of the House of Representatives. It is different from the US experience in which senators and representatives are very powerful. Interest groups usually lobby and express their needs through congressmen. However, there are some cases in Thailand in which business groups lobby through representatives. This is so when these representatives are very prominent and can influence or push pressure on the concerned ministers. Generally, lobbying activities are likely to take place through an executive body either at the policy-making or the policy-implementing levels.

4.3.3 The National Economic and Social Development Board

The National Economic and Social Development Board (NESDB) is a government agency which plays a major role in the planning of national economic policy. This Board was established in 1959 by the Field Marshall Sarit Thanarat administration following the recommendation of the World Bank advisory mission. The Board was formed to produce regular multi-year masterplans to guide the country's development.[1] The NESDB was intended to replace the National Economic Council which was founded in 1950. The Council worked as a technical advisory body on economic questions for the government. The early National Development Board consisted of the key ministers concerned with economic policy. Later, the structure of the Board was changed. It was given a large controlling board consisting of the Prime Minister, the Deputy Prime Minister, the Secretary-General, and 45 members. There was also an executive committee of nine experts.

In its first decade, the NESDB was very much influenced by Western organisations and personnel. The first National Economic Development Plan was drafted based on the report of the World Bank mission, which was known as the Ellsworth Report, and the American advisors' report, namely the Bowen Report (Rangsun, 1989: 31). Moreover, the second and the third National Economic and Social Development Plan (NESDP) was largely influenced by some American economists. The fourth NESDP was the first plan mainly responsible by Thai officials.

In the meantime, the role of the NESDB was expanded. As the Thai bureaucracy grew, there were a number of disputes among government agencies about the objectives and the means of the country's development. The NESDB emerged as a screening body and played an important role in the process of selecting the most appropriate development strategy. The role of the NESDB was not limited only to planning and screening but also included coordinating. The activities of the NESDB as a coordinator was not confined to government organisations, but extended to the private sector. Since the formation of the Joint Public and Private Consultative Committee (JPPCC) in 1981, the NESDB has been actively involved in this committee. The NESDB has set up the Joint Public and Private Cooperation Division to deal with the activity of the JPPCC. The role and activity of the JPPCC will be discussed later.

The NESDB may have succeeded in planning and coordinating tasks but there are some questions raised about its screening activities. Since the Prem administration (1980-88), the NESDB has been assigned to carry out screening some big projects proposed by ministries. The NESDB played quite an active role as a screening body during the Prem government. However, when the fully-elected government led by Chatichai Choonhavan came to power in 1988, the NESDB's role was very restricted. The Prime Minister made decisions on important issues based very much on recommendations from his personal advisors namely "Ban Pitsanuloke" Team. The NESDB's role was revived again by the appointed Anand administration (1991-92).

Later in the Chuan government (1992-95), although the NESDB was not treated as important as in the period of the Prem and Anand governments, its role can be considered as active. Since the NESDB rejected a number of projects of various ministries and politicians, it has been heavily accused by politicians of unfair treatment. The accusations were on the ground that the NESDB approved the projects of some political parties whereas rejected those of the others. Some politicians accused the NESDB of giving preferences to the Democrat Party's projects (Rangsun, 1993: 63). The allegation caused a dispute between the NESDB and a number of politicians. Rangsun went on and suggested that, to avoid these kinds of problems in the future, the NESDB should disclose the criteria used for its project appraisal activities. Moreover, the Board should produce a project appraisal manual so that other agencies, politicians, and the public can correctly understand the NESDB's decision criteria.

In December 1996, the government announced that all investment planned by state agencies and enterprises must be checked by the NESDB before it can be approved. The Board hopes that by screening all proposals, the approval process will be more open. Moreover, the NESDB will establish a research institute to provide technical services for itself and the government. The institute will make its findings public and is also seen as a barrier to political interference.

Since its establishment, the NESDB has been dominated by Western-trained officials. The philosophical background of the NESDB was economic liberalism. It is unsurprising to see that the development strategy of the first two NESDP was unbalanced growth. During the third plan, officials began to recognise the problem of income inequality. However, officials who believe in the free-market mechanism have succeeded in placing economic growth as the first priority among national development goals. Although greater income equality has been accepted as another development goal, it seems that the follow-up programmes have not been implemented seriously. This may be because implementing agencies have not paid enough attention to this matter or the NESDB itself has not emphasised the importance of this issue to the public.

In short, the NESDB has been successful as a central policy agency. Its role as a planner and a coordinator has been widely accepted but its screening activities are still contentious.

4.3.4 The Bank of Thailand

The Bank of Thailand (BOT) was established in 1942 to act as the country's central bank. It is an independent government agency under the supervision of the Minister of Finance. The Bank's function is to issue notes, act as a banker to the government and other banks, act as a fiscal agent of the government in its dealing with international monetary organisations, manage public debt, maintain exchange controls, and supervise commercial banks.

As a banker to the government, the BOT holds the main accounts of the government as well as those of government enterprises. It extends loans to the government through the purchase of treasury bills and government bonds.

Under the 1962 Commercial Banking Act and its revision of 1979, the BOT is entitled to prescribe the cash reserve ratio, the maximum rates for loans and deposits, and the ratio of capital funds to risks assets. It also acts as a lender of last resort for commercial banks. To promote exports, the BOT provided short-term loans for exporters by rediscounting the promissory notes of commercial banks on loans. This scheme can be said to be one of the most effective export incentives. The scheme was operated by the BOT until 1994 when it was transferred to be under the management of the newly established Export-Import Bank of Thailand (EXIM Bank). The details of this scheme and the EXIM Bank will be discussed in chapter five.

Apart from the above functions, the BOT also has a role in formulating economic policy. It is considered as a central policy agency, along side the NESDB.

The Bank takes part in the national development planning by providing all necessary information for the NESDB and by determining development goals regarding financial issues. This is to ensure that financial policy will be planned in a harmonious manner with other policies. Unlike the NESDB, the BOT not only makes the plan but it also has power to pursue that plan. The Bank is authorised to formulate monetary policy and to manage instruments of that policy. Therefore, monetary policy seems to be more integrated than other policies. Moreover, the BOT provides advice for the Ministry of Finance over the formulation of fiscal policy. The BOT has long been recognised for its competence in managing macroeconomic policy. It has exercised conservative financial management inherited from the British advisors during the time of the absolute monarchy. For decades, this conservative approach has kept Thailand's inflation at low levels compared with other developing countries.

The role of the BOT has changed over time. This is partly to respond to the government's policy of transforming Thailand into a regional financial centre. In addition, Thailand has needed to liberalise its financial system to conform to the General Agreement on Trade in Services (GATS) of GATT. One of the most important attempts to liberalise the Thai financial system was to allow foreign commercial banks to operate International Banking Facilities (IBFs). The IBFs provide loans in foreign currency to foreign and local borrowers. In November 1996, seven IBF offices were upgraded to full branches. It was the first time in 20 years that full branch licences for foreign banks have been granted. When these seven branches started to operate in 1997, it brought the total number of foreign banks in Thailand to 20. Furthermore, the Finance Ministry was expected to approve at least seven new IBF offices in 1997. This potentially brought the number of IBF offices to 45 (The Bangkok Post Weekly Review, 15 November 1996: 11).

Since its establishment, the BOT has been widely praised for its independence and its officials' efficiency. Anek (1994: 210) argued that clientelism and corruption, which have been widespread in the Thai bureaucratic system, have had little impact on the macroeconomic management of the country. The competence and integrity of the

BOT are said to be the underpinning of Thailand's impressive macroeconomic performances in the past three decades.

However, in the mid-1990s, the reputation of the BOT began to deteriorate as a result of a series of disgraces, which is the scandalous discharge of its senior officials, following the near-collapse of the Bangkok Bank of Commerce. Even worse, the BOT is held responsible for the country's current financial crisis.[2] The economic turmoil was believed to be not only the result of policy failures but also the result of a breakdown in the institution that governs macroeconomic management. Although the root cause of the crisis lies in excessive borrowing by the private sector, BOT's mismanagement has sharply worsened the situation (Ammar, 1997: 3). The BOT's strikingly poor performance can partly be attributed to the decline in the capability of technocrats (Mingsarn, 1998: 9). Furthermore, the out-of-date management structure of the BOT also has to be blamed. The BOT's structure, designed since its founding in the early 1960s, provides its Governor with concentrated managing authority. The Governor is accountable only to the Minister of Finance. Therefore, when political powers started to assert influence on the BOT and the Governor was not strong enough to resist that pressure, the BOT lost its usual capability. The BOT's urgent tasks now are not only to solve the country's economic problems but also to restore its own reputation.

4.3.5 The Fiscal Policy Office

The Fiscal Policy Office (FPO) was established in 1961. The main function of the FPO is to be a research agency for the Ministry of Finance. According to the 1995 revision of the Royal Decree establishing the FPO, its responsibility is to study and suggest economic policy to the Minister of Finance. It is assigned to formulate fiscal and tax policy to comply with the goals of the NESDP. Moreover, the FPO has to cooperate with the BOT to formulate monetary policy (Finance and Fiscal Journal, 1996: 67-9). In addition, the FPO is the responsible agency for the ASEAN Free Trade Area (AFTA) issues. It has to set target rates for tariff reductions for each commodity within the AFTA framework.

Apart from academic research, the FPO was also responsible for one of the country's drawback schemes. This scheme provides rebates on import duties, business taxes or VAT and municipal taxes, excise taxes, building and land taxes, and other fees paid on imported inputs used in export production. It also gives rebates for all taxes paid on imported materials used in previous stages of export production as well as on domestic materials used in production for exports. The tax rebate scheme was designed to compensate exporters who are not entitled to the import tax refund programme of the Customs Department. This Department provides tariff exemptions on imported materials used in export production. However, at present, both tax rebate and import tax refund programmes are administered by the Customs Department. But the FPO is still responsible for calculating ad valorem coefficients for the tax element in different export commodities. The details of both schemes will be analysed in chapter five.

4.4 The Private Sector

This section will concentrate on private agencies which have influence on economic policy formulation and implementation. Since labour unions have hardly been involved in the formulation of economic policy, especially trade policy, only the Joint Public and Private Consultative Committee (JPPCC), business associations, trade associations, provincial chambers of commerce, and foreign chambers of commerce will be studied.

4.4.1 The Joint Public and Private Consultative Committee (JPPCC)

The Joint Public and Private Consultative Committee (JPPCC) was formed in 1981. Its objectives are to solve business and economic problems and to promote the role of the private institutions in developing national economy. The JPPCC is chaired by the Prime Minister. The members include the Deputy Prime Minister; the Ministers of Finance, Commerce, Industry, Foreign Affairs, Interior, Communications, Science Technology and Environment; the Deputy Ministers of Finance and Foreign Affairs; the Governor of the Bank of Thailand, the Secretary-General and the Assistant Secretary-General of the NESDB and representatives from the Thai Chamber of Commerce (TCC), the Federation of Thai Industries (FTI), and the Thai Bankers Association

(TBA). The NESDB's officials are secretary for the JPPCC. Each of the TCC, the FTI, and the TBA has three representatives in the JPPCC. The JPPCC has succeeded in promoting the interests of private businesses. It helped improve the process of exportation, and tax exemptions.

The JPPCC tends to pay more attention to economic growth than income distribution. About 70 per cent of the issues discussed in the JPPCC between 1981-87 involved the promotion of production and international economic policy. The issues about rural development and income distribution accounted for only three per cent (Rangsun, 1989: 125). Moreover, between 1981-91, 32 issues out of 222 issues discussed in the JPPCC were about changes in tariffs or privileges for specific industries (Thamavit, 1994: 85).

There are some criticisms of the JPPCC. Paiboon (1988: 285) argued that the JPPCC may only serve as an organisation to relieve the pressure from the private sector. This is because all issues discussed in the JPPCC are matters that the government can initiate without demand from the private sector. He also expressed concerns that the JPPCC may become the tool of some interest groups to gain benefits for their own groups.

In addition to the central JPPCC, in 1983 the government began to organise provincial JPPCCs. The Ministry of Interior is responsible for these regional committees. Its policy is that it will not force all provinces to set up their JPPCCs but it will support the provinces which are ready to launch their own JPPCCs gradually (ChaiAnan, 1988: 93). The principle of provincial JPPCCs is to emphasise the issues that provincial authorities have decision power and can operate without a decision from a central agency. However, in the early stage of regional JPPCCs, there were some problems due to the lack of understanding about the role of the public sector. Provincial officials tend to concentrate on determining regulation rather than providing assistance needed by provincial businesses.

In general, the JPPCCs, both central and provincial, have been successful as a consultative body. For example, Thamavit (1994: 84) pointed out that, following the consultation through the JPPCCs, the government agreed to the FTI proposal and decreased tariff rates on raw materials for the pharmaceutical industry while increased the rates on finished pharmaceuticals. The JPPCCs have played an important role in the process of economic policy formulation and implementation both at the national level and in the regions.

4.4.2 Primary Business Associations

The primary business associations include the Board of Trade, the Thai Chamber of Commerce (TCC), the Federation of Thai Industries (FTI), and the Thai Bankers Association (TBA).

The Board of Trade was founded in 1955. Its main activities are: (1) representing business and trade sectors in meeting and coordinating with the government sector; (2) performing activities to support and promote business; (3) promoting relations and cooperation with foreign business organisations and government agencies; (4) supporting the roles of chambers of commerce and trade associations in promoting business development; and (5) cooperating with other private organisations, which are the TCC, the FTI, and the TBA, in solving economic, trade and investment problems. Moreover, the Board has some important functions relating to international trade. These are to cooperate with the Ministry of Commerce to maintain the export quality and to set quotas and minimum prices for exports. Furthermore, the Board of Trade deals with some special export cases due to requests from the government or foreign importers. Since its establishment, the Board has been dominated by agricultural export businesses (Chai-Anan, 1988: 91).

The Thai Chamber of Commerce (TCC) is the central chamber of commerce. All provincial chambers of commerce have to be its members. Before the establishment of the JPPCC in 1981, the TCC did not play any active role, only issuing certificates of origin (Thamavit, 1994: 89). Since 1981, the TCC has had representatives in the

JPPCC and has played an important part in cooperating with the government in solving problems of the private sector. It can be said that, in the past decade, the TCC replaced the Board of Trade and took a leading role in representing business. However, the relationship between the TCC and the provincial chambers of commerce has not been good. The provincial chambers of commerce have claimed that the TCC acts as the Bangkok chamber of commerce rather than the national chamber of commerce. Therefore, they have set up the Provincial Chambers of Commerce Coordinating Office to improve their strength.

The Federation of Thai Industries (FTI) was initially founded in 1967 as the Association of Thai Industries. It represents the industrial sector in the JPPCC. The FTI's role is quite extensive since, by the end of 1990, it had representatives in 256 government committees and sub-committees.

The Thai Bankers Association (TBA) was founded in 1958. All Thai-owned banks are its members. The TBA also has representatives in the JPPCC. The TBA can be considered as one of the most successful business associations. This may be because the number of its members is small. Thus, the cooperation among them is efficient and the free-rider problem can easily be overcome. This is in line with an argument of the pressure group model of the public choice framework. This model proposes a negative relationship between the number of members of groups and possibilities of achieving their goals. In addition, the TBA has a good relationship with the Bank of Thailand. The TBA's views, therefore, always have some influences on the policy making of the bank.

Before 1981, the Board of Trade, the TCC, the FTI, and the TBA expressed their concerns and problems directly to related government agencies. But from 1981 onwards, they have also been involved in the process of economic policy formulation through the JPPCC.

4.4.3 Trade Associations

Trade associations can be classified into five groups: Agriculture Export Associations, Industry Associations, Tourist-Industry Associations, Financial Associations, and Domestic Trade and Service Associations (Thamavit, 1994: 91).

Rangsun (1989: 120) argued that trade associations are founded because businesses hope to cut the cost of separate lobbying. But in some cases, it may be because businesses are afraid of losing benefits to rival associations. They will have to create countervailing power. Trade associations tend to achieve their goals in demanding a specified policy more than the TCC or the FTI do. This may be because their members' interests are more concentrated than those of the TCC or the FTI. Since trade associations consist of businesses from the same industry, these businesses face the same problems and thus objectives of their lobbying activities would be indifferent and concentrated. This is in line with the pressure group model which argues a positive relationship between the concentration of benefits and chances of achieving the goals. In contrast, the TCC and the FTI consist of a number of businesses from various industries. Therefore, their members have different kinds of problems and demand different government policies. As a result, the efficiency in lobbying of trade associations is higher than that of the TCC and the FTI.

The Agriculture Export Associations seem to be very successful. As Thamavit (1994: 91) pointed out that the Ministry of Commerce has often sought information and opinions from relevant associations before formulating or implementing export regulations. Sometimes, the Ministry worked with those associations to allocate export quotas. However, this role of trade associations is soon to finish. In October 1996, the Ministry of Commerce announced that it is to scrap quotas on exports of tapioca pellets to the EU (The Bangkok Post Weekly Review, 25 October 1996: 11).

Although the role of Agriculture Export Associations may change, that of Industry Associations is still very significant. The export industry associations lobby for trade liberalisation whereas the import-substituting industry associations demand protection. Though Thailand's trade policy has moved towards liberalisation, import-substitution industry associations were still successfully in requesting trade barriers. In August 1996, the Board of Investment decided to impose surcharges on imports of steel. This decision was supported by the FTI's Iron and Steel Industry Club.

4.4.4 Provincial Chambers of Commerce

The establishment of the provincial chambers of commerce is an attempt of the government to prepare the economic structure of provinces for the changing external conditions. The provincial chambers have been involved in trade policy making, especially border trade. The chambers of commerce from Northeastern provinces have pushed for liberalisation of border trade. Since 1988, the government has started to respond to their demands (Thamavit, 1994: 93).

Anek (1993: 141) pointed out that businessmen can solve their problems without offering a bribe to political parties or officials. The provincial chambers of commerce provide a channel to relieve their problems resulting from the government's policy or regulation. Furthermore, they can play very important roles in regional economic development. Whereas other interest groups only pay attention to their members' benefits, the provincial chambers of commerce will concentrate on the interests of all businesses in the province.

4.4.5 Foreign Chambers of Commerce

There are 20 foreign chambers of commerce in Thailand (as of 1996). All foreign chambers of commerce have to be members of the Board of Trade. Therefore, their contact with the government has usually been through the Board of Trade. Only in some cases, will they act together. For example, in 1996, the foreign chambers of commerce presented their position paper to the General Chavalit administration through the Board of Trade.

The private sector or business groups can act as interest groups and influence policies through many channels. For the economic development plan, an intervention in a decision-making level, that is the cabinet, may be easier than in the planning level because central policy agencies are famous for their independence. However, the development plan is only a broad framework, there is no action plan. Thus, interest groups are rarely interested in influencing the plan itself. Apart from the making of economic plans, the formation of fiscal and monetary policy also enjoys a high degree of autonomy. This resulted from the fact that the Ministry of Finance and the Bank of Thailand have always employed a conservative approach to macroeconomic policy management. It has been difficult for external influence to intervene in the process of fiscal and monetary policy making.

For other policies, especially trade policy, the main legislation is proposed by officials in the concerned ministries. This legislation must be considered and approved by the parliament before being announced in the Royal Gazette and becoming effective. However, as mentioned earlier, this kind of legislation is mainly an administrative law which contains no active policy instruments. The law which administered the use of policy measures would also be issued by the cabinet or ministries. Therefore, it would be easy for any interest group to influence the formulation process of this sub-law.

If the formulation of trade policy is considered more closely, differences in the pattern of influences of interest groups on the process of tariff policy making and non-tariff policy making can be found. Since tariff policy is carried out by the Fiscal Policy Office which has a respectable reputation for independence, to exert influences on the process of tariff policy making, business groups are likely to exercise lobbying activities at a very high level of decision-making, either at cabinet or ministerial level. These lobbying activities aim at tariffs being determined in favour of their businesses. For example, in 1970, the FTI and several chambers of commerce lobbied the Ministry of Finance to decrease tariffs on imported raw materials for the manufacturing of electrical appliances. The government responded by setting up a committee consisting of representatives from both the public and private sector to study this issue.

For non-tariff policy making, interest groups concentrate their lobbying activities at a ministerial or departmental level. This is because ministers and director-generals are empowered to implement a number of non-tariff measures. For instance, in 1985, the Ministry of Commerce by the Foreign Trade Department changed the regulation of export quota allocation of textiles and clothing in favour of some exporters (Thamavit, 1994: 127).

4.5 The External Factors

The external factors which have influence on the formation of economic policy are international organisations and the governments of foreign countries. This section will discuss the World Bank, the International Monetary Fund (IMF), the GATT and the WTO, and the US government. It will analyse the role of the above organisations in the policy making process of Thailand.

4.5.1 The World Bank

Thailand has been a member of the World Bank since 1949. At that time, Thailand was governed by the nationalist government of Field Marshall Pibulsongkram. The World Bank demanded the Thai government abandon its nationalist policies and move towards the free market system. They recommended that the government privatise state enterprises, abolish state monopolies on exports and imports, and promote private investment. The government responded by issuing the 1954 Industrial Promotion Act. This was the first major change in Thai economic policy. After Field Marshall Sarit Thanarat took power in 1957, he began to privatise state enterprises. The World Bank mission convinced Sarit to set up the National Development Board in 1959. The first development plan was launched in 1961. The detail of the plan was heavily influenced by the World Bank. Since the 1960s, the role of the World Bank in economic policy formulation has been less explicit. It has taken the form of a close relationship between Thai technocrats and the World Bank officials. To a certain extent, this relationship helped the World Bank dominate the Thai economy.

In the 1970s, Thailand experienced another significant change in its economic policy. Thailand's trade orientation changed from an import-substitution regime to an export promotion regime. Although there was no document which provides details of this deliberate attempt to shift from a restrictive regime to a more open one, Narongchai and Juanjai (1985: 87) pointed out that this change was pushed by the World Bank. They argued that the World Bank convinced the Thai government that it was feasible and politically attractive to move in that direction.

4.5.2 The International Monetary Fund (IMF)

The first influence of the IMF on the Thai economic policy occurred in 1955. The IMF pressured the Thai government to abandon the Multiple Exchange Rate System and implement the Single Exchange Rate System. Since then, the role of the IMF on the Thai economy has been confined to offering an advice on the management of fiscal and monetary policy.

During 1981-83, Thailand faced severe problems of balance of payments deficits and a shortage of international reserves. The Thai government, therefore, arranged Stand-by Arrangement Loans (SALs) from the IMF. The IMF imposed several conditions on the Thai government. In 1985 the Thai government had to borrow via the SAL again. The IMF demanded that the government reduce the balance of payments and budget deficits (Thamavit, 1994: 97). It can be seen that the IMF was mainly involved in the formulation of Thai economic policy through the conditions imposed via its SALs.

4.5.3 The GATT and the World Trade Organization (WTO)

During 1978-82, Thailand was an observer and a temporary member of the GATT. It has become a permanent member since 1982. As a member, Thailand has to comply with the GATT's principles, e.g. Most-Favoured Nation treatment, National Treatment, etc. Thailand was involved in the Uruguay Round of GATT from 1987. Thai representatives negotiated, both as a single country and as a group of countries for national interests. In 1994, Thai delegates signed the Final Act to complete the Uruguay Round. This committed Thailand to all agreements of the Uruguay Round. The Thai government had to amend all relevant laws to conform to the GATT's agreements. For example, there were reductions in tariff rates, in agricultural subsidies, and in export subsidies. There was also a liberalisation of the service sector. Moreover, the government had to formulate some new laws, for instance, the Trade Secrets Protection Act, the Plant Protection Act, and the Circuit Designing Protection Act.

The Uruguay Round Agreements have heavily affected not only Thailand's trade policy but also trade-related issues, which are intellectual property rights, and investment measures. It can be said that the completion of the Uruguay Round and the launching of the WTO caused a major change in the structure of Thai trade policy. Moreover, in December 1996, Thailand signed the WTO's Information Technology Agreement. By signing this agreement, Thailand has to eliminate tariffs on information technology products by 2000. Thailand has agreed to form a position on the Information Technology Agreement and submit a list of products and tariff proposals for negotiations on 1 March 1997 (The Bangkok Post Weekly Review, 17 January 1997: 15).

4.5.5 The US Government

Since the end of the Second World War, the US government has influenced Thailand's policy formulation. The US government pushed the rural development plan to fight against Communist insurgency. Through assistance programmes, the US government has greatly influenced the Thai Army, public administration, the education system, and economic research (Thamavit, 1994: 98).

Because of its huge trade deficit, the US government has shifted its trade regime away from free trade.[3] The US government pressured Thailand to open the domestic market for some US goods, such as cigarettes. Moreover, it has demanded that the Thai government provide adequate and effective protection for intellectual property rights, especially for computer software and pharmaceutical patents. The US government threatened to cut the Generalised System of Preferences (GSP) on Thai exports, if the Thai government could not meet its demands. This resulted in the amendment of the Thai Patent Act in 1992 and the formulation of the new Copyright Act in 1994. However, the US government has continued to accuse Thailand of not seriously enforcing these laws.

Another recent dispute between Thailand and the United States was over the import ban of Thai shrimps. The United States claimed that Thai vessels did not install turtle excluder devices. Later, the Thai government proved that it has laws and regulations requiring vessels to install such devices. Therefore, the US government reviewed the ban on Thai shrimps in May 1997. However, Thailand insisted on taking this issue to the WTO's dispute settlement system, complaining that the United States applied its domestic law extra-territorially. The Thai position is to ensure that the United States would not be able to apply its domestic laws in such cases in the future (The Bangkok Post Weekly Review, 29 November 1996: 12).

4.6 Conclusions

This chapter studies economic policy planning and the determinants of economic policy in Thailand. Thailand's national economic development plan, called the National Economic and Social Development Plan (NESDP), is the framework for the country's development but it contains only policy guidelines and objectives. To achieve national development goals, specific policy measures need to be formulated and implemented.

The planning process can be classified into four stages: the brainstorming stage, the drafting stage, the approval stage, and the implementation stage. Although the process of economic policy planning generally followed these four stages, the formulation of each plan had its own unique features. The differences in the planning process could have an impact on the nature and directions of Thailand's economic policy.

Apart from its planning process, Thailand's economic policy can also be affected by a number of determinants. These determinants are classified into three groups: the public sector, the private sector, and external factors. For the public sector, government agencies which are involved in national economic policy planning and formulation include the cabinet and the Economic Cabinet, the parliament, the NESDB, the Bank of Thailand, and the Fiscal Policy Office. Due to the lack of continuity in the Thai political system, government officials became the driving force in the process of economic policy formulation. Nevertheless, since the mid-1970s, the influence of bureaucrats on the economic policy formulation has decreased. At the same time, politicians and business people started to play an important role in policy determination.

Since the early 1980s, the private sector has influenced the country's economic policy through the Joint Public and Private Consultative Committee (JPPCC). This committee has succeeded as a consultative coordinating body. There are also primary business associations which include the Board of Trade, the Thai Chamber of Commerce, the Federation of Thai Industries, and the Thai Bankers Association. These organisations are the main private businesses' body. More specific interest groups in the Thai private sector are trade associations. It can be argued that trade associations tend to succeed in demanding a specific policy more than primary business associations do. The provincial and foreign chambers of commerce can also influence economic policy of Thailand.

Among external factors, the World Bank, the IMF, the GATT and the WTO, and the US government, are the most important determinants of Thailand's economic policy. International organisations could influence economic policy by demanding directly to the Thai government as a part of their assistance packages. In addition, they can affect Thailand's economic policy in the form of multilateral commitments to which Thailand has obligations to conform. The US government threatened to retaliate by abolishing trading privileges if Thailand could not yield to US demands.

Generally, it can be argued that, for the planning of economic policy and the formulation of fiscal and monetary policy, the influence of the private sector is limited.

For the formulation of trade policy, nonetheless, the role of the private sector is more apparent. There are differences in the pattern of influences of the private sector on the formation of tariff and non-tariff policy. For tariffs, lobbying activities are likely to occur at the decision-making level. Meanwhile, for non-tariff measures, interest groups seem to influence the management of these instruments at the middle to high level officials. As a consequence, the intervention from business groups is naturally likely to take place more often in non-tariff policy making and management than in the process of tariff determination. However, for tariff policy making, individual businesses can obtain some benefits at a policy-implementing level. They may offer some fortunes to officials in exchange for some conveniences in customs procedures.

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[1]The first plan was a six-year plan. Since the second plan, it has been changed to five-year plans.
[2]The current financial crisis in Thailand was briefly reviewed in chapter two.
[3]Details on this will be discussed in chapter seven.

Chapter 5

Trade Policy Measures and Trade-Related Issues

5.1 Introduction

This chapter will analyse the implementation of trade policy in Thailand. This implementation is undertaken by employing a number of trade policy measures. These measures are usually the issues discussed in international trade negotiations. In a protectionism regime, trade policy instruments are used as trade barriers. On the other hand, in a free trade regime, these instruments are intended to promote international trade. At present, the international trade performance of a country is affected not only by the traditional instruments of trade policy, either tariffs or Non-Tariff Barriers (NTBs), but also by trade-related issues. Since the 1980s, these issues have become another important topic included in most international trade arrangements. This chapter, therefore, will analyse some trade-related issues. Section two studies traditional trade policy measures. Section three discusses trade-related investment measures. Section four analyses trade-related intellectual property rights issues. The last section concludes the major points of this chapter.

5.2 Trade Policy Measures

The management of trade policy measures depends on a country's trade orientation. As discussed in the previous chapter, Thailand's trade policy is formulated in the national development plan. The direction of trade policy is roughly indicated in that plan. The first development plan (1961-66) aimed at promoting investment and activities of the private sector. The government provided an adequate basic infrastructure network, including transportation and communication facilities, irrigation systems, and public utilities. The provision of infrastructure was an attempt by the government to improve the investment climate necessary for capital accumulation, with a focus on import-substitution industries. A special emphasis was also placed on industries mainly using domestic inputs. With these policy guidelines, trade policy measures were determined to protect large-scale, capital-intensive, import-competing industries. Import-substitution policy continued throughout the years of the second plan (1967-71).

The first major shift in trade policy was seen in the third plan (1972-76). The government began export promotion policy in this plan. It paid attention to the promotion of exports of agro-industries, food processing industries, and light manufacturing industries. The sectoral priority was moved from capital-intensive activities to more labour-intensive ones. The government's provision of infrastructure increasingly expanded to rural areas, in order to decentralise the industrial sector. Trade policy measures were targeted at promoting trade liberalisation. An export development committee was set up to formulate plans and find ways and means to promote exports. This resulted in a number of programmes of various government agencies such as the Ministries of Commerce, and Finance. These programmes were designed to help improve the ability of the country's exporters to compete in the world market. In the late 1980s, the scope of export promotion was expanded to joint venture industries which produce high-technology goods.

This section will discuss how trade policy instruments were implemented to pursue import-substitution policy in the 1960s and export promotion policy in the 1970s and afterwards. Trade policy measures discussed here consist of tariffs, tax drawback schemes, trade restrictions, credit assistance, and safeguard measures.

5.2.1 Tariffs

For the past four decades, tariffs have been a major instrument of trade policy. It was only recently that tariffs have decreased in importance. This is because, under the GATT, member countries are bound to reduce tariffs on imported goods. Therefore, it would be difficult to use tariffs as barriers to international trade. Moreover, various regional integration arrangements require their member countries to abolish or cut tariffs on goods traded among them. These current trends have tended to bring about an increase in the use of Non-Tariff Barriers (NTBs) as another main trade policy measure. However, tariffs are still considered as the most effective instrument of government's protection policy. This may be because tariffs have a direct impact on target industries, and thus their outcome is quite clear and easy to quantify. In addition, tariffs generate a large sum of revenue for the government.

In Thailand, the production and domestic trade of manufactured goods are subject to business tax or value-added tax (VAT) and municipal tax. Import and export of manufactured products are subject not only to business tax or VAT and municipal tax but also to import tariffs and export duties. Additionally, for some certain goods such as beverages, tobacco, and matches, excise taxes are imposed on their production and importation. In the pre-1960 era, custom duties were used to generate revenue to the government rather than to protect any specific industry. In the 1950s, the nationalist government raised import and export duties on a number of commodities. Although the purpose of raising custom duties was to balance the government's budget, these custom duties began to demonstrate their indirect protective effects. Industries which were protected by high import duties included consumer goods manufacturing such as sugar, matches, liquor, and soap (Narongchai and Juanjai, 1986: 81-4).

The use of custom duties as a protectionist measure of trade policy became clear in the 1960s when the government pursued import-substitution policy. The Customs Tariff Decree was enacted in 1960 to replace the first systematic tariff schedule of 1935. The classification of the tariff schedule was changed from three digit SITC to four digit BTN. The 1960 Customs Tariff Decree was in use until 1987 when the new Customs Decree was enacted. The new tariff schedule was classified into about 6,500 tariff lines based on the Customs Co-operation Council's Harmonised System. The tariff rates which are specified in the Customs Tariff Decree are the statutory rates. These rates can be changed only by the legislative body, i.e. the parliament. However, the statutory rates are not the rates actually imposed on imported goods. The actual applied rates, which are normally lower than the statutory rates, can be determined and changed by the Minister of Finance upon the approval of the cabinet. With some amendments, the 1987 Customs Tariff Decree is still in use. The Thai tariff rates are specified either as ad valorem rates or in specific rates. Nonetheless, the Ministry of Finance is trying to convert all specific into ad valorem rates.

Table 5.1 shows the average tariff rate which is government tariff revenue from each industry group divided by the value of imports in that industry group. It can be seen that the average tariff rate for all imports decreased over time from 21.4 per cent in 1960 to 8.7 per cent in 1992. Although the Thai government has pursued an export promotion policy since the early 1970s, a major change in the tariff rates in July 1970 still induced an upward trend (Pairote, 1975: 6). The average tariff rate for total imports increased from 18.3 per cent in 1965 to 20 per cent in 1970. This was because the government needed to reduce unnecessary imports of luxury consumer goods to check the balance of payments deficit. Therefore, the promotion of export industries was mostly in the form of investment promotion privileges. Though the tariff rate for all imports in 1970 was still high, the rate for intermediate goods, e.g. mineral fuel and lubricants, began to fall and was lower than that for manufactured goods. Consequently, the costs of export industries decreased. Moreover, since the latter half of the 1970s, the tariff rate for mineral fuel and lubricants dropped very rapidly from 22 per cent in 1970 to 1.5 per cent in 1990. However, the average tariff rate for chemicals was hardly reduced until the 1990s, i.e. 18.4 per cent in 1960 and 14.6 per cent in 1992 (Table 5.1).

The average tariff rate for machinery was high until the early 1990s. This picture does not really conform with the attempt of the government to promote exports by providing many tax concessions on imported machinery. Nevertheless, it can be seen that, in the 1960s and 1970s, the average tariff rate for machinery was lower than the applied rates for both electrical machinery and non-electrical machinery. For example, in 1964/65, the average tariff rate for machinery was 16.6 per cent (Table 5.1) whereas the applied tariff rates for electrical machinery and non-electrical machinery were 21.6 per cent and 18 per cent, respectively (Table 5.2). This is because the average tariff rate represented the real amount of duties that the government collected which already excluded the amount of tax refunds. With the exception of the period around 1970, changes in the average tariff rate for manufactured goods are consistent with the trade policy pattern of the country. In the 1960s, when an import-substitution policy was pursued, the tariff rate for manufactured goods was high, about 20 per cent (Table 5.1), to protect domestic production. Since the latter half of the 1970s, when the government launched an export promotion policy, the rate has been reduced continuously to encourage trade liberalisation. The tariff rate for manufactured goods has been less than 10 per cent since 1990 (Table 5.1).

Considering the statutory and applied tariff rates, tobacco and beverages always have the highest rates. The rates were particularly high in 1964 and 1974, 54.7 per cent and 68.1 per cent, respectively, for tobacco; and 241.2 per cent and 177.7 per cent, respectively, for beverages (Table 5.2). In 1964, with the exception of tobacco and beverages, processed foods were the most protected industry. The applied tariff rates for processed foods ranged from 7 per cent for dairy products to 95.7 per cent for products of vegetable origin. The tariff rates for consumer goods were generally lower than the rates for processed foods. They scattered around 28 per cent. At the same time, the tariff rates for intermediate products varied between 18.9 per cent for ores and metals and 43.4 per cent for petroleum products (Table 5.2).

In 1974, the applied tariff rates for necessary processed foods were reduced very significantly. The tariff rates for dairy products and oil seed products were 3.4 per cent and 7.4 per cent, respectively. For machinery, both electrical and non-electrical, the tariff rates slightly decreased to 19.7 per cent and 15 per cent, respectively. On the contrary, the tariff rate for transport equipment increased from 40 per cent in 1964 to 53.6 per cent in 1974 (Table 5.2). For intermediate products, the picture is unclear. The tariff rates for some products increased, e.g. rubber, whereas the rates for the others decreased, e.g. pulp and paper.

In 1989, the tariff structure was made more consistent with the government policy of trade liberalisation. Tariffs became a policy measure to promote exports. The applied tariff rates for most products were lower than their rates in 1974. A big reduction was in intermediate products. For instance, the applied tariff rate for wood and cork decreased from 23.3 per cent in 1974 to 2.3 per cent in 1989. Moreover, the tariff rates for leather and petroleum products were reduced from 40 per cent and 48 per cent respectively to less than 2 per cent. The tariff rates for processed foods were generally higher than the rates for intermediate products but lower than the rates for tobacco and beverages, and transport equipment. For consumer goods, the tariff rates were lower but still rather high compared with the rates for intermediate products. The tariff rates for machinery, both electrical and non-electrical, were 8.2 per cent and 11.3 per cent, respectively, which are lower than the rates in 1974 (Table 5.2). However, these rates were still considered very high and imposed a cost burden on exporters.

The Thai government realised that to improve the competitiveness of its exports in the world market, the country's tariff level, especially on intermediate goods, must be lowered. Therefore, the government through the Ministry of Finance launched a programme to restructure the tariff system in 1990. Although overall changes in the Thai tariff system did not occur until 1994, there have been a number of revisions since then.

In September 1990, the government decreased the statutory tariff rate for machinery from 30 per cent to 5 per cent. This decrease alleviated the tax burden of exporters, especially those not entitled to any tax drawback scheme. The details of the drawback scheme will be discussed later. The second revision of tariffs was implemented in the transport equipment sector. In July 1991, the Anand administration decreased tariffs for completely built cars. The statutory rate for these with engines over 2,300 CC was reduced from 300 per cent to 100 per cent while the rate for the cars with engines smaller than 2,300 CC decreased from 180 per cent to 60 per cent. At the same time, the government revised the tariff structure on computers and computer components. The tariff rate on computers decreased from 20 per cent to 5 per cent whereas the rate on computer components decreased from 10 per cent to 1 per cent. In addition, there were other tariff revisions. For example, the government decreased the tariff rates for chemicals, metal and metal products, non-ferrous metal, and research and medical equipment.

Following the launching of the tariff revision programme in 1990, on 27 December 1994, the cabinet approved an overall restructuring of the tariff system. This meant that tariffs on all imported non-agricultural goods, which had not been revised earlier, were to be restructured on 1 January 1995. This restructuring programme would be completed in 1997. Under the revision programme, the standard structure of tariffs would be classified into six rates, i.e. 0, 1, 5, 10, 20, and 30 per cent. This was a very considerable change in the Thai tariff system. On the one hand, the highest tariff rate would change from 100 per cent to 30 per cent in 1997. On the other hand, the number of the ad valorem tariff rates would be reduced from 39 rates in 1994 to 6 rates in 1997.

This new standard structure of tariffs was designed on "value-added escalation". The tariff rates would be specified as follows. The zero tariff rate would be applied to medical equipment and man-made organs. The 1 per cent tariff rate would be applied to raw materials and electronic parts. The rates for capital goods, machinery, research equipment, and computers would be 5 per cent. The rates for finished products and intermediate products which cannot be produced in Thailand would be 10 per cent. The 20 per cent tariff rate would be imposed on finished products which can be produced domestically. The 30 per cent tariff rate would be applied to products which are deemed to need special protection.[1] However, there is an exception in the case of motor vehicles and parts which are excluded from the new structure. For raw materials and products which cannot be produced domestically, the tariff rates would be adjusted to the target rates immediately in 1995. For products which can be produced domestically but still need short-term protection, the tariff rates would be gradually adjusted in 1995 and would be reduced to the target rates in 1997. Once the standard structure is fully utilised, Thailand's average statutory tariff rate would reduce to 17 per cent. However, the import tariff rates for almost all products would still be higher than the rates imposed on imports from ASEAN member countries under the ASEAN Free Trade Area (AFTA) programme.

In the past, there were widespread criticisms that the tariff structure in Thailand is highly favourable to import-competing and against export activities (see, for example, Somsak and Yamazawa, 1983: 46). This resulted from the fact that although the government decreased tariffs for capital and intermediate goods to reduce the cost facing export producers, the tariff rates for consumer goods were still high enough to protect the domestic market. Thus, it was more profitable for manufacturers to sell their products in the domestic market than to export. It seems that the government provided positive incentives for export industries without abolishing corresponding negative incentives. Details on positive incentives will be discussed in the next section.

Apart from tariffs, other policy measures also created protective effects on manufactured products. These measures, which will be examined later, consist of, for instance, import quotas and import surcharges. Therefore, various studies were undertaken aimed at measuring protection for each industry group. These studies on effective protection revealed common results that the Effective Rates of Protection (ERPs) in Thailand are quite high and there is a bias against export industries. Thailand's high ERP reflects the widespread implementation of protectionist policy measures. These measures were designed mainly to protect import competing industries. This results in the higher ERP for these industries than for the others.

The first study on ERP of Thailand was made by Trairong in 1970. This study found that, in general, the structure of protection was in favour of the production of consumption goods and intermediate goods but discouraged the production of capital goods (Narongchai and Juanjai, 1986: 93).

Narongchai (1973) calculated the ERP by using the input-output coefficients from the 1969 industrial survey, covered 58 industries. The results showed that, in 1969, the ERP for export industries were negative whereas most import competing industries received higher protection. When industries are classified according to the stages of fabrication, the ERPs were strongly in favour of consumer, both durable and non-durable, goods. The rates were particularly high for processed food, beverages, tobacco, and transport equipment, but biased against machinery. The structure of protection provided incentives to the sale in the domestic market, either non-import competing goods or import competing goods.

Pairote (1975) calculated the ERP for 1964, 1971, and 1974. He also found that the ERPs for export industries were shown to have large negative values. The ERPs in the 1970s were generally higher than those in the 1960s, especially for consumer goods. In 1971, the structure of protection provided highest incentives for transport equipment, lowest incentives for processed food and construction materials. In 1974, the ERPs were lower, and for a number of industries, the rates became negative. The structure of protection was still biased in favour of consumer goods. In terms of trade orientation, there was a strong incentive for domestic sales.

Narongchai made more calculations of ERPs for 1980, covered 93 sectors (quoted in Narongchai and Juanjai, 1986: 94-7). He found that, on average, the ERPs were close to zero or negative for export industries but a positive rate for overall the manufacturing sector. This means the high rates for import competing and other industries. Consumer goods still received the highest protection. Bakery products, furniture, and motor vehicles were among the sectors with the highest ERPs. On the contrary, the ERPs for textile bleaching, rubber sheet, and canned fruit were all negative. These trends continued as shown in Supote's study of ERP in 1984 (Thamavit, 1994: 211-7).

Mingsarn (1998: 9) calculated the ERPs for 1997 for Thailand's Industrial Master Plan. She found that the average ERP for the manufacturing sector was about 30 per cent, compared to 65 per cent from Narongchai's study (1980). The ERP for import competing industries was about 53 per cent, decreased from about 71 per cent in the 1980 study of Narongchai, while the rate for labour-intensive export industries was negative. The ERPs for the relatively high technology industries remained quite large. The automobile industry received the ERP of nearly 500 per cent.

The negative ERP for Thai export industries suggests that the government not only provided no incentives for exporting but also protected intermediate goods industries. This places burdens on export industries which use these intermediate goods as their inputs.

It should be noted that all the studies of Thailand's ERP discussed here did not include the effects of some policy measures, e.g. tax drawback and credit assistance, on export industries. If these effects are taken into account, it is possible that the ERP for export industries could be different, either higher or lower. This depends on the extent of the effects of these policy measures. If these effects are quite strong, the ERP for export industries are likely to be higher. Nonetheless, further study on this issue is needed.

It can be argued that, on the whole, the ERPs and Thailand's import tariffs moved in the same direction throughout the past three decades. In the 1960s, both the ERPs and tariffs were very high, especially for tobacco, beverages, and transport equipment. Into the 1970s, in general, both moved in an upward direction. The structure of tariffs and protection still provided incentives for the production of consumer goods. In the 1980s, the ERPs and tariffs started to show a downward trend. The protection for intermediate goods decreased very significantly. In the 1990s, tariffs decreased continuously due to the tariff restructuring programme of the government and the implementation of Uruguay Round commitments. This could be an explanation for the decrease in the ERPs over time.

To compensate for the protective effects of tariffs, various tax drawback schemes were offered to exporters. It is expected that the schemes would correct negative incentives for exporting.

5.2.2 Tax Drawback Schemes

The tax drawback schemes have been one of the most effective non-tariff measures of Thai trade policy. The schemes were designed to reduce the cost of production generated by taxes. The tax burden is accumulated at every level of production and transaction. This tax burden raises the cost to manufacturers and then increases the final price of products. If these products are to be exported, they have to compete with exports of other countries. Exporters should not have to bear the burden of the high cost due to hidden taxes. The tax drawback schemes, therefore, are implemented to offset the negative effects of other trade policy measures and to provide significant incentives to exporters.

In Thailand, the tax drawback schemes are administered by the Ministry of Finance. The schemes consist of two types of measures which are different in their purposes and rebate procedures. These two measures are the import tax refund scheme and the tax rebate scheme.

5.2.2.1 Import Tax Refund Scheme

The import tax refund scheme is implemented by the Ministry of Finance through the Customs Department. The operation of this scheme was launched by Section 19 bis of the 1939 Customs Act (No.9) amended by the 1956 Customs Act (No.13). Under this legislation, exporters who imported inputs for their export production were entitled to a refund of import duties and business tax. After the products were exported, exporters could claim a refund of 87.5 per cent of the amount of tariffs and business tax paid on imported raw materials. The condition of this refund was that the products had to be exported within one year from the date inputs were imported. Exporters were also required to apply for the refund within six months from the date of exporting. The tax refund did not create much advantage because exporters still had to pay the full amount of import duties and business tax at the time of importing. Moreover, most export industries eligible for the benefits did not import their major raw materials (Narongchai, 1975: 54). Because of these disadvantages, the refund scheme was not widely utilised by exporters. In 1960, the refund procedure was modified but this modification was applied only to the firms promoted by the Board of Investment.

In September 1971, the import tax refund scheme was revised to provide more practical benefits to non-promoted exporters. Under the revised law, taxes on imported inputs used in the export production were to be paid at 10 per cent of the total amount at the time of import. The remaining 90 per cent could be paid in the form of a bank guarantee. Once the finished products were exported, exporters would be handed back the bank guarantee and a refund of 87.5 per cent of the taxes paid previously. In short, exporters could receive the total refund of 98.75 per cent of the full amount of taxes on imported inputs. In 1972, this import tax refund programme was further revised by the Coup Announcement No.329. The major revision was to allow exporters to use the bank guarantee to pay for all taxes on imported raw materials. The bank guarantee would be returned to exporters after the products were proved to be actually exported. It means that non-promoted exporters could get a 100 per cent tax refund. The new refund scheme generated benefits particularly to small exporting businesses. Since they were no longer required to pay import taxes in cash, these businesses could have more money to spend in other productive activities.

One of the most important aspects of the refund scheme is that once goods have been exported, exporters must show evidence of the exportation and utilisation of imported inputs. The more advanced the technology, the more complicated is the production process. Thus, it became more difficult to examine the utilisation of imported materials in export production. Moreover, a number of exporters tried to abuse the refund scheme by faking exports. This resulted in difficulties in providing accurate and efficient refunds to exporters. Therefore, the Department of Customs set a production formula for each commodity for calculating the amount of refunds. This production formula shows the quantity of each raw material used in the production process. Apart from the standard production formula, exporters can propose their own formulae. However, these formulae have to be approved by the Customs Department before the products are exported.

Since the start of the import tax refund scheme, the amount of refunds has increased almost every year. Product groups which always obtain relatively large refunds are textiles, clothing, toys, plastic products, and electronic goods. Although this refund scheme has been revised from time to time, it has been criticised for its inefficient administration (Somsak and Yamazawa, 1983: 34). Exporters usually have to wait for many months or sometimes over a year to obtain the refund or get back their bank guarantee. The Customs Department, therefore, proposed some changes to make the scheme more flexible. Firstly, the amount of import taxes which is to be deposited in the form of the bank guarantee will be reduced by 50 per cent. However, this reduction will not apply to all exporters in general. Businesses which are entitled to the reduction have to be a public company or members of the Federation of Thai Industry or the Thai Chamber of Commerce. The Department expected that exporters should substantially benefit from this measure especially after the completion of the tariff restructuring programme in 1997. This is because the tariff rates themselves would be at a considerably lower level. Secondly, the Customs Department will simplify the production formula system. Commodities with the same or similar input structure will have to use the standard formulae of the Department to apply for the refund. Commodities with complicated production formulae will be recommended to use a new system of raw material stock controls for calculating for the refund. The Customs Department expected to reduce the number of production formulae as much as possible. At present, there are more than 120,000 formulae.

5.2.2.2 Tax Rebate Scheme

The tax rebate scheme was launched in 1971 by a Ministry of Finance Notification. It was supervised by the Fiscal Policy Office. The principle of the tax rebate scheme is to provide exporters with exemptions from import tariffs, business tax or VAT, municipal tax, excise tax, and other taxes imposed on all inputs, both imported and domestically produced. These inputs have to be used directly either in the production for exports or at previous stages of manufacturing. It means that the tax rebate scheme provides a rebate to exporters who do not manufacture the export product themselves. The tax rebate is available for all exporters with a total export value higher than 50,000 baht and the rebate must be claimed within one year after foreign currencies are received.

The amount of rebates was calculated from the rebate rates which are generally estimated on the basis of the cost structure of each commodity. The rebate rates once announced would apply to all firms with similar products and input structures. At the beginning, the rebate rates were specified in two different rates. The first rate was the full rate which applied to exporters who used the facility of the drawback schemes only at the Fiscal Policy Office. The second was the regular rate which applied to exporters who had already used the import tax refund facility at the Customs Department. The full rate was higher than the regular rate because it consists of tax exemptions from both imported and domestic inputs. The possibility of double exemption was avoided by the requirement for documents certified by the Customs Department as a proof of actual exports. If the tax refund at the Customs Department was used, this would be shown in the documents.

Since there were two agencies responsible for the tax drawback schemes, the administration of the drawback system was very complicated and inefficient. Therefore, since May 1979, both the import tax refund scheme and the tax rebate scheme have been supervised by the Customs Department. Nevertheless, the Fiscal Policy Office still retains the authority to estimate the rebate rates.

In September 1981, the Ministry of Finance promulgated the new Tax Rebate for Export Production Act. This Act set the rebate rates based on f.o.b. prices of export items. Under this legislation, the rebate rates were still specified in two rates. Rate A was for exporters who did not obtain any tax refund from other legislation. The formula of rate A was:

Rate A = (all import taxes + all domestic taxes) / value of commodities (f.o.b.).

Rate B was for exporters who had already obtained tax refunds from other laws. The formula of rate B was:

Rate B = all domestic taxes / value of commodities (f.o.b.).

However, import duties on machinery were not included in both rebate rates. These duties could be claimed additionally, if exporters were not promoted firms eligible for a refund under the investment promotion law.[2] The change of rebate procedures was designed to make the calculation of the rebate rates simpler and thus rebates could be obtained more promptly. The Tax Rebate for Export Production Act also enables the Ministry of Finance to keep one per cent of the revenue obtained from import taxes to be used in the rebate scheme. This guarantees the availability of rebate funds, which previously ran short occasionally (Somsak and Yamazawa, 1983: 34). The rebates are paid to exporters in the form of tax coupons which could be used for paying taxes within three years.

In the early period, the amount of rebates was relatively low. Only cement and textile products utilised this rebate scheme. In recent years, the amount of rebates has increased although it is still lower than that of import tax refunds. Commodities which usually obtained large amount of rebates are textile products, canned foods, garments, and canned fruit. Recently, rebates obtained by electrical appliances such as refrigerators, radios, televisions, have increased considerably.

Another major change in the tax rebate scheme occurred in 1992 when business tax was replaced by VAT. The two rebate rates which were used before 1992 were abolished. The new single rebate rate has been used since then. This rate is applied to exporters who have not obtained any other refunds. Exporters who obtained refunds from the import tax refund scheme are no longer entitled for the tax rebate scheme. This is because exporters could get refunds for all accumulated domestic taxes from VAT which applied the zero rate to export activities. In January 1996, the Ministry of Finance studied the possibility of abolishing the entire tax rebate scheme. It was considered that exporters could have refunds for all taxes paid on inputs through the import tax refund scheme, VAT, and other programmes. Exporters responded that if the Ministry abolishes the tax rebate scheme, the worst effects will be on small exporting businesses. Since their profit margin is very small, with the higher costs, they might not be able to compete with competitors with cheaper labour such as China, Indonesia, and Vietnam, in the world market. However, the Finance Ministry has not yet concluded the study on this issue.

Although the laws that govern Thailand's tax drawback system, both the import tax refund scheme and the tax rebate scheme, were revised several times, they still have some loopholes. The administration of these schemes substantially depends on judgement of responsible government officials. These officials have discretionary power in making important decisions. This situation leads to potential for corruption either in the form of fake exporting or paperwork fraud. It brings about deterioration in the drawback scheme's credibility and loss of government's tax revenue.

Apart from corruption, another problem faced by Thailand's tax drawback scheme is red tape in the country's bureaucratic system. This causes inefficiency in the management of the scheme and inaccuracy in the calculation of the amount of refunds. It may take a long time for exporters to get back duties paid on imported inputs. For small businesses, the delay in the process of tax drawback schemes can cause serious damage to cash flow.

The problems in the process of tax drawback usually draw attention from the primary business associations. They have requested the government to improve the country's drawback system. Their main concerns lie in the complexity of the system. They have asked the government to make the drawback schemes less complicated, and the waiting time for the refunds to be shortened. Normally, the government would respond positively to businesses' requests. At the same time, the government asked the main business associations, particularly the Federation of Thai Industries, and the Thai Chamber of Commerce, to help in a crackdown on the misbehaviour of both government officials and businesses in the process of drawback. In return, as discussed earlier, the government has granted some convenient privileges in the refund process to members of both business organisations. It can be argued that a good relationship and close cooperation between the government and the private sector has contributed to the success of the country's tax drawback schemes.

5.2.3 Trade Restrictions

Trade restrictions can be employed by the government agencies either in the forms of different degrees of quantitative restrictions or price-based restrictions. Here, trade restrictions will be classified into restrictions on imports and restrictions on exports.

5.2.3.1 Restrictions on Imports

Import restrictions confer a protective effect on the commodity concerned. These restrictions can be categorised into two groups: import controls and import surcharges.

a.) Import Controls

Import controls have been supervised by the Ministry of Commerce whose minister is authorised by the 1979 Export and Import Act to impose import controls on any commodity. The purposes of the imposition of controls must be for industrial protection, economic stability, public health, national security, or other national interests. However, the most common reason for import controls is to protect the certain domestic industry (Thamavit, 1994: 174). Controls on imports can be a total ban or a quota which is undertaken through a licensing system. Import licensing can be either automatic or non-automatic licensing. The automatic licensing is only for monitoring imports and has less strict conditions. Anyone who meets the conditions can apply for an import licence. The Department of Foreign Trade, Ministry of Commerce is responsible for the management of the licensing system. The Department allocates licences based on a first come first served basis. In some cases, licences may be allocated based on past import performance of importers.

In 1962, import controls were imposed on sugar, old newspaper, paper umbrellas, silk textiles, tin foil, and paper files. In the 1970s, many items were added to the list of goods under control. They were, for example, fuel oil, monosodium glutamate, white cement, polyester fibres, and iron bars. Moreover, there were requests from the Board of Investment for special protection for the most protected industry, i.e. the automobile industry. Import controls, therefore, were imposed on used cars, used trucks, used motorcycles, and buses. In 1980, 16 imported items were banned while 35 items were subject to the approval of the Minister of Commerce. There were two special cases of import bans. Firstly, the absolute prohibition of imports of goods originating in Mainland China was operative from 1959 to 1974. Secondly, all products from the Republic of South Africa were banned from 1962 to 1991. These are the cases of import controls with a political rather than an economic rationale.

Since 1990, import bans have decreased continuously. In 1991, import bans were applied only to knife-hidden rulers (for public safety), garlic, and platinum coins and alloys (except those imported by the Ministry of Finance) (Thamavit, 1994: 175). The decrease in import bans was an attempt by the government to minimise the use of quantitative import restrictions. This attempt resulted from the requirement of Article XI of the GATT's agreement which prohibits the use of quantitative restrictions. Although the use of import bans decreased, that of import licences was still widespread. In 1991, import licences covered 8 per cent of merchandise commodities compared with 6 per cent in 1982. Agricultural products accounted for about 25 per cent of commodities under import licensing. Manufactured products which are subject to import licensing were motor vehicles, some machinery items, chemicals, and so on.

However, the use of import licensing must conform with the GATT's Agreement on Import Licensing Procedures. The Agreement established requirements to enhance the transparency of licensing systems, including publication requirements, the rights of appeal against decisions, and the length of licence validity. Although import quantitative restrictions are prohibited, the GATT specially permits its members to use these restrictions for some specific reasons. Article XII and XVIII: B allows a country to impose import controls to correct balance of payments difficulties. Article XVIII: A also permits the use of import quantitative restrictions by developing countries to promote the establishment of particular industries in the context of a development programme, i.e. an infant industry purpose.

b.) Import Surcharges

The 1977 Investment Promotion Act allows the Board of Investment to impose a surcharge on imported goods. Import surcharges are special fees imposed on competing imports to protect local producers and to prevent dumping in the domestic market by foreign producers. The surcharges are applied predominantly to intermediate goods. The surcharge rates must not exceed 50 per cent of c.i.f. prices but normally the rates range between 10 per cent and 40 per cent. The imposition of surcharges must not extend over a period of one year at a time. From 1978-83, import surcharges were imposed on 72 commodities, such as, calcium carbides, polyester yarn. Since 1985, the use of import surcharges as a protection measure has decreased. There were 23 products subject to import surcharges in 1986, but only four products were affected by the surcharges in 1988 and one product in 1990.

The most recent imposition of import surcharges took place in August 1996. The Board of Investment imposed surcharges on steel imports from Poland and Russia. The imposition stemmed from complaints by local producers that the above countries had dumped the domestic market. Apart from the imposition of import surcharges, the government initiated a dumping investigation which led to the collection of preliminary anti-dumping duties. The details of anti-dumping duties will be discussed later. The imposition of surcharges on steel imports was heavily criticised not only by foreign exporters but also by Thai consumers. The Polish exporters alleged that these import surcharges violate Thailand's obligation towards the WTO. Meanwhile, Thai consumers claimed that import surcharges raise the price of steel in the domestic market. Consequently, the costs of government infrastructure programmes and private sector construction projects increased. The Board of Investment defended its decision that Thailand's steel industry is regarded as a basic industry and needs massive amount of investment. Because this industry is relatively new in Thailand, its production costs are high while foreign producers have very low unit costs. Therefore, to protect the domestic market from dumped cheap products, it is justifiable to impose surcharges on certain imports. However, in March 1997, the government waived surcharges on imports of hot-rolled sheet steel from Ukraine and Russia.

Apart from import surcharges imposed by the Board of Investment, the Ministry of Commerce also has power, given under the Exports and Imports Act of 1979, to collect the surcharges from some specific imports. At present, imports of fish meal, wheat and meslin flour, corn for animal feeds, and sheets and plates of iron and steel are subject to the Ministry of Commerce's import surcharges. The stated objective for imposing these surcharges is the maintenance of price levels for domestic producers (The WTO b, 1995: 43).

Like other trade restrictions, import surcharges are allowed to be used for different reasons, but they are subject to some controls under the GATT's Article XII, XVIII, and XIX. Moreover, countries that use import surcharges risk retaliation from their trading partners. Nevertheless, import surcharges are considered more favourable than quantitative restrictions since they would be less distortionary to the economy.

5.2.3.2 Restrictions on Exports

Export restrictions are usually applied when exports are more profitable than domestic sales. These restrictions can be divided into two groups: export controls and export tax.

a.) Export Controls

Similar to import controls, export controls are under the supervision of the Ministry of Commerce. The main purposes of the controls on exports are to assure an adequate supply for the domestic market and to stabilise domestic prices. In the 1960s and 1970s, commodities under controls were mostly basic products, for instance, rice, sugar, maize, and mineral ores. In 1981, export controls were imposed on 54 products. The controls were implemented mainly for the benefit of raw material users. By this time, the purposes of these controls were not only to ensure the domestic supply but also to regulate "orderly exports" and to conserve natural resources. Moreover, products that may be used for military purposes were strictly controlled because during that time Thailand had conflicts with neighbouring countries. As the government has pursued an export promotion policy since the 1970s, commodities under export controls, in 1991, were confined to, for example, cement, pesticides, liquefied petroleum gas, high speed diesel oil, and pulp for paper products. Sugar, paper, and steel bar industries were particularly affected by these controls.

However, the most outstanding export controls in Thailand have been quotas on tapioca products to the European Union (EU). These quotas were determined by the bilateral negotiations between Thailand and the EU on Voluntary Export Restraints (VERs). Global export quotas on textiles and clothing products under the Multi-Fibre Arrangement (MFA) have been another significant control on Thai exports.

b.) Export Tax

The Ministry of Finance has imposed export duties on only a few items. Most of them were Thailand's traditional exports such as rice, rubber, logs and wood. Export tax revenue has decreased in importance since Thailand shifted from import-substitution policy to export promotion policy in the early 1970s. The share of export tax in total tax revenue to the government substantially dropped from 20 per cent in 1960 to 0.1 per cent in 1989.[3] At present, an export tax is imposed on hides of bovine animals, some wood and sawnwood, raw silk, silk yarn, and yarn spun from waste of silk.

5.2.4 Credit Assistance

Credit assistance which can be considered as an instrument of trade policy is a rediscount facility. The rediscount facility was first introduced by the Bank of Thailand in 1956. This facility was aimed at helping exporters access below market interest rate credit and thereby reduce their production costs. The Bank of Thailand offered a discount rate of 5 per cent for promissory notes of commercial banks so that these banks would charge exporters at 7 per cent in discounting export commercial bills. This rediscounting facility is usually referred to as the Packing Credit. The credit given was normally short-term, not exceeding 180 days. The amount of credit was allowed up to 70-90 per cent of export value. Exporters who failed to export were subject to a 2 per cent penalty rate.

The Packing Credit is regarded as one of the most effective incentives for exporters. Since the market interest rates in Thailand were quite high, i.e. around 14-15 per cent in the 1970s and around 18-20 per cent in the 1980s, the Packing Credit saved a substantial amount of exporters' interest costs. At first, the main beneficiaries of this scheme were exporters of agricultural products. In 1978, 55 per cent of total Packing Credit was given to exports of rice, tapioca, and sugar, another 30 per cent to other agricultural products, and 7 per cent to textiles and clothing (Thamavit, 1994: 184). In the 1980s, exports of canned food and frozen meat significantly increased their shares in total value of these loans. Although the Packing Credit was estimated to be accessed by only 30 per cent of exporters, the amount of rediscount export bills increased considerably, from 195.6 million baht in 1960 to 903.4 million baht in 1970, to 42.9 billion baht in 1980, and to 182 billion baht in 1995 (The EXIM Bank, 1995: 17).

Since the Packing Credit facility provides export industries with capital at the below market interest rates, it gives rise to differential incentives between domestic and export sales of products. As a result of these differential incentives, the Packing Credit has become another form of export subsidies which is prohibited under the GATT. To comply with the GATT's rule, in 1988 the Bank of Thailand decreased its export financing.

In 1993, the Export-Import Bank of Thailand (EXIM Bank) was established to provide export-related financial services. In 1994, the EXIM Bank took over the management of the Packing Credit facility from the Bank of Thailand. To conform to the agreement of the GATT on subsidies, the Bank modified the Packing Credit. It has explained that this facility is not considered as export subsidies because the interest rate charged is not lower than the rate the Bank was charged while borrowing from other sources, especially international capital funds.[4] Moreover, the EXIM Bank developed medium-term credit for agricultural exports, long-term credit for capital goods exports, and export-insurance services. In conjunction with the Packing Credit facility, the Bank also developed a new short-term credit facility called "Pre-Shipment Facility". This facility was launched to serve exporters who had already got purchase orders but had no access to commercial banks' credit lines. The main beneficiaries of this new facility would be small and new exporters as well as those whose credit lines from banks were not enough. Unlike the Packing Credit, the Pre-Shipment Facility could be extended directly to exporters. The interest rates which the EXIM Bank charged exporters are around 10.5 per cent to 12.0 per cent. The use of the Pre-Shipment Facility has increased very fast. By the end of 1995, the approved credit lines were about 1,300 million baht compared with 460 million baht in 1994 (The EXIM Bank, 1995: 11). The size of credit lines varied from 0.1 million baht to 50 million baht. Up to now, export products financed by this facility have been assorted, e.g. child garments, plastic products, artificial fruits and flowers, electrical appliances, leather products, and canned foods.

In addition, the EXIM Bank introduced the Pre-Shipment Facility in the US Dollar. The major advantage of this facility is the elimination of foreign exchange risks since exporters could pay back the loan in US Dollar proceeded from exports. The facility became very popular in a short period of time. In the first six months of its introduction (1995), total credit of 5,460 million baht was approved. Its popularity may also result from the low interest rate charged.

Apart from the Packing Credit and the Pre-Shipment Facility, credit assistance has also been provided by the Industrial Finance Corporation of Thailand (IFCT) and the Small Industries Finance Office (SIFO). Both organisations were set up to provide low interest credit to industrial projects. Their major businesses are to provide finance in the form of long-term and medium-term loans. The funds are raised from both internal and external sources with the guarantee by the government. Although export industries are given high priority by both the IFCT and the SIFO, loans by both agencies are given to the industrial sector in general. They do not affect export activities in particular. Therefore, credit assistance from the IFCT and the SIFO will not be discussed in details here.

5.2.5 Safeguard Measures

Safeguard measures are another kind of import restrictions which are allowed by the GATT and many Regional Integration Arrangements (RIAs) for their member countries to use against unfair trade practices. The term "safeguard protection" is broadly defined as a provision in a trade agreement permitting governments under specified circumstances to withdraw their normal obligations under the agreement in order to protect certain interests (Hoekman and Kostecki, 1996: 161). Safeguard provisions can be considered as defensive instruments of protection policy. They function as an insurance mechanism. The rationale for providing safeguard measures is to overcome the effects of market imperfection. Under the GATT's agreement, there are several safeguard measures allowed. These measures are different in their conditionality and reciprocity. Safeguard provisions which will be discussed here will be classified into two types: anti-dumping and countervailing duties.

5.2.5.1 Anti-Dumping

Dumping is considered to occur when products are sold by a firm in an export market for less than what are charged in its home market or when export prices of products are below the costs of production. Under Article VI, the GATT allows actions to be taken against dumped imports. However, the actions may only be taken if dumping causes or threatens material injury to domestic import-competing industries. There must be a dumping investigation where all interested parties are provided the opportunity to defend their interests. All information developed by investigating authorities must be made public. The determination of injury must be based on positive evidence and must involve an examination of the volume of dumped imports. Moreover, the effects of dumping on prices in the domestic market and on domestic producers must be presented. A significant increase in dumped imports in the importing country is a necessary condition for finding injury. Alternatively, a significant depressing effect on domestic prices or the level of the dumping margin may also be used as indicators of injury. If material injury is found, the Uruguay Round Agreement on Antidumping permits anti-dumping actions to be taken by the importing country, These actions are usually in the form of anti-dumping duties imposed on dumped imports. The Uruguay Round Agreement requires that all anti-dumping actions are to be terminated within five years of imposition unless a review deems that termination would lead to the continuation or recurrence of dumping and injury. Nonetheless, an anti-dumping action against any particular exporter must be terminated if the dumping margin is determined to be less than 2 per cent.

Disagreements in any anti-dumping case will be resolved through the Dispute Settlement Body. However, the Anti-Dumping Agreement greatly restricts the ability of panels to determine whether the national authorities' establishment of the facts was proper. New information that was not used by investigating authorities cannot be used by the panel to overturn an anti-dumping action. Furthermore, the panel has to accept national procedures that the Agreement does not explicitly rule out. If at each point of the proceedings, authorities followed one of many implicit options consistent with the Agreement, then their determination could not be overturned (Finger, 1996: 334).

Anti-dumping actions have been increasingly implemented since the 1980s. During 1985-92, over 1,000 dumping investigation cases initiated. The main users of anti-dumping procedures have traditionally been Australia, Canada, the EU, and the United States. Recently, other countries especially developing countries have also become active users. Finger (1996: 330) pointed out several features that explain the popularity of anti-dumping. Firstly, anti-dumping procedures permit discriminatory action. Secondly, the injury determination for anti-dumping activities tends to be softer than the injury test for other safeguard actions. Thirdly, there is a strong political case to seek for protection, i.e. foreign unfairness. Lastly, anti-dumping and VERs seem to be effective complements. The threat of anti-dumping actions provides a rationale for exporters to accept such restraints. The increased popularity of anti-dumping actions has led to concerns about misuse. Anti-dumping enforcement is based on national law and regulations which allow actions to be taken place in a broad range of circumstances. Besides, the disparity between diffused consumer interests and concentrated producer interests is likely to create the bias towards finding dumping or overstating dumping margins.

The use of anti-dumping has expanded although the case against dumping is still controversial. Dumping may occur without any deliberate intention if the exporting company has to decide on how much to produce before demand conditions are known. On the other hand, a company may practise cyclical dumping to stabilise its production over the business cycle. Dumping arises as the firm reduces prices to cover only average variable costs during periods of slack demand. Generally, dumping is a part of pricing strategies of businesses which are driven by market structures and business cycles. Among these strategies, only one is potentially detrimental to the welfare of the country importing the dumped products, that is predation. Predation occurs when a foreign firm could deliberately set the price of products low enough to drive existing domestic firms out of business and establish a monopoly. Once established, the monopolist could recoup its losses by exploiting its market power (Hoekman and Kostecki, 1996: 177).

Although dumping does not always worsen the economy of the importing country, a number of arguments in favour of anti-dumping have been suggested. For instance, proponents of anti-dumping argued that it is a justifiable attempt by importing-country governments to offset the market-access restrictions existing in exporting firms' home countries that underlie the ability of such firms to dump. Garten (quoted in Hoekman and Kostecki, 1996) pointed out four major conditions which give rise to dumping: closed home markets of exporters, anti-competitive practices in the exporting country which permit export sales below costs, government subsidisation, and non-market conditions, such as, state trading enterprises.

Considering the Thai case, the most recent anti-dumping action has been applied to steel imports from Eastern Europe and the former Soviet Union states. The action resulted from the fact that a number of firms in the steel industry filed a complaint with the Ministry of Commerce. The steel producers claimed that the domestic market had been disturbed by cheap imports of structural steel from Poland and hot-rolled sheet steel from Ukraine and Russia. The producers alleged that these dumped steel imports caused a price war that hurts their businesses. In response, the government through the Board of Investment took immediate action by imposing surcharges on imports concerned.[5] The government furthered its action by initiating a dumping investigation on alleged imports. As a result, in August 1996, the Thai Commerce Minister decided to impose preliminary anti-dumping duties on structural steel imports from Poland at rates ranging from 25.9 per cent to 51.99 per cent of import prices. The Ministry announced that it had found that the imports of unrealistically low-priced Polish steel had hurt domestic producers. At the same time, imports of hot-rolled sheet steel from Ukraine and Russia have also been subject to preliminary anti-dumping duties at rates ranging from 33.92 per cent to 45.56 per cent. The collection of these preliminary duties stood until the government made a final determination to take anti-dumping actions.

However, after the government announced its decision to collect preliminary anti-dumping duties on the concerned imports, the steel industry's situation seemed to improve. In some cases, imports of dumped products have ceased. This evidence is consistent with Staiger and Wolak's argument (1994: 252-55). They pointed out that the investigation process itself tends to curb dumping. This is because exporters bear significant legal and administrative costs, while importers face the uncertainty of having to pay backdated anti-dumping duties once the investigation is completed. Although the Thai government has taken anti-dumping actions, it still lacks comprehensive legislation to protect its local industries from dumped imports. The implementation of anti-dumping measures was undertaken by the Ministry of Commerce, with an approval of the cabinet. At present, the draft of Thailand's anti-dumping and countervailing duty bill has been approved by the cabinet and is awaiting parliamentary consideration. It is expected that this bill will take years before it becomes effective.

5.2.5.2 Countervailing Duties

Countervailing duties are a trade policy measure used to respond to the subsidy on manufactured products by exporting countries. Countervailing duties are allowed under Article VI of the GATT. GATT members which consider that their industries are materially injured by imports benefiting from subsidies may impose countervailing duties on these imports. Similar to anti-dumping actions, a subsidy-injury investigation must be initiated. The launching of this investigation must be supported by at least 25 per cent of firms in the domestic industry concerned. Necessary conditions for implementing countervailing duties must be clearly demonstrated in the investigation. Subsidies must be proved to have existed. The domestic industry producing like products must be shown to be materially injured. A causal link must be established between the subsidisation and injury. The injury determination requires the increased volume of subsidised imports, and the price undercutting of domestic firms. These conditions must cause a detrimental effect on the domestic industry. The details of investigating procedures, such as, the collection of evidence, and the examination of injury, must be made public. After five years, countervailing duties are to be terminated, except where a review determines that the abolition of protection would be likely to lead to the continuation or recurrence of injury. Like anti-dumping procedures, if the subsidy margin is less than 2 per cent of unit value of exports, developing countries would be exempted from countervailing duties.

The issues of subsidies and countervailing have been controversial since not all subsidies are prohibited by the GATT and subject to countervailing duties. Subsidies are deemed to exist if there is a financial contribution from the government or an institution under its control. It may involve either direct transfer of funds, e.g. grants, loans, or potential transfer of funds, e.g. loan guarantees. In addition, the provision or purchase of goods and services other than general infrastructure is also considered as a subsidy. There are a number of arguments in favour of providing subsidies to some specific sectors. Subsidies may be beneficial in stimulating economic development if there are externalities to firms operating in export markets. Export subsidies may also be used to offset the anti-export bias resulting from an overvalued exchange rate or the high rates of protection in cases where first-best policies, e.g. devaluation, trade liberalisation, are not available (Hoekman and Kostecki, 1996: 108). In these cases, subsidies may not be an appropriate instrument but they seem to be justified means because of distortions created by market failures and other government policies.

The issues of subsidy and countervailing measures were substantially clarified by the 1994 GATT's Agreement on Subsidies and Countervailing Measures. The Agreement makes a distinction between different types of subsidies, depending on their trade impacts and their objectives. Subsidies are categorised into three types: non-actionable, prohibited, and actionable. Non-actionable subsidies which have either an economy-wide impact, e.g. education, general infrastructure, basic R&D, or a non economic rationale, e.g. regional disparities, income support, are permitted and are not subject to countervailing duties. Both prohibited and actionable subsidies may be countervailed. The major argument in favour of countervailing is that it induces the foreign government either to change its policy or to refrain from subsidising (Hoekman and Kostecki, 1996: 184).

5.3 Trade-Related Investment Measures (TRIMs)

Trade-related investment measures are another policy instrument which has become an important topic discussed in most international trade negotiations in recent years. This is because investment and trade are increasingly interdependent, complementing each other. Most countries, especially developing countries, realise an impact of investment on trade. Investment measures can enhance or reduce comparative advantage of some specific sectors of countries. Therefore, many developing countries maintain various TRIMs as an active part of their trade policy.

TRIMs are used by governments to encourage or force investors to achieve certain performance standards. The most common TRIMs are local content requirements,[6] trade-balancing requirements,[7] and export performance requirements.[8] Local content requirements act like tariffs because they force manufacturers to use higher-cost local raw materials. Nonetheless, local content requirements are inferior to tariffs because the government cannot collect any tariff revenue (Hoekman and Kostecki, 1996: 120). At the same time, trade-balancing requirements are equivalent to quantitative restrictions which restrict imports to a certain quantity. Theoretically, both local content and trade-balancing requirements are inefficient and welfare reducing. However, TRIMs have traditionally been seen as a tool for promoting development objectives such as technology transfer, industrialisation, and export expansion (Low and Subramanian, 1996: 385). Since the use of TRIMs has become widespread especially in developing countries, the development of an integrated framework addressing policies affecting both trade and investment is necessary.

The Uruguay Round Agreement on TRIMs laid down multilateral disciplines on the use of TRIMs by member countries. The Agreement applied the GATT principles to investment policies which directly affect trade performance. Thus, under the TRIMs Agreement, local content requirements are not allowed because they violate the GATT's national treatment rule. Trade-balancing requirements are also banned since they are inconsistent with the prohibition of quantitative restrictions under Article XI of the GATT. Nevertheless, the TRIMs Agreement does not prohibit the use of export performance requirements.

Similar to other developing countries, in Thailand, the use of TRIMs as trade policy instruments has been extensive. A number of TRIMs have been employed by various government agencies to achieve the goals of import-substitution and export promotion policy. Nonetheless, TRIMs which have been very effective in supporting trade policy in Thailand are implemented through investment promotion measures and Export Processing Zones (EPZs). These measures are administered by the Board of Investment (BOI) and the Industrial Estate Authority of Thailand (IEAT). This section will discuss investment promotion measures and EPZs.

5.3.1 Investment Promotion Measures

Investment promotion in Thailand began with the establishment of the Board Of Investment (BOI). The Board was to render assistance to entrepreneurs and investors under the provisions of the 1960 Promotion of Industrial Investment Act. The BOI became an administrator of this law which was revised in 1962. The 1962 Investment Promotion Act laid down a set of incentives which was provided for promoted firms. These incentives took different forms of measures such as guarantees, permission, and promotion. This legislation guaranteed against nationalisation; against government's engagement in new industrial activities in competition with promoted firms; and against monopolisation of the sale of products identical to those produced by promoted businesses. This legislation permitted promoted businesses to bring aliens, skilled workers, and experts into the country to study investment possibilities and to work in their firms; to hold land rights; and to bring in and remit foreign currencies. This law provided promoted firms exemptions from import duties on machinery, parts and components, and equipment; full exemptions from corporate income tax for at least two years but not for more than five years; and exemptions from or reductions of import duties on imported raw materials. To administer these tax privileges, industries were classified into three groups according to their importance to the economy. Group A was capital-intensive industries while group B was industries which depended highly on imported parts and components, and group C was industries which were not classified into the first two groups. To promote import-substituting industries, group A received a full exemption of import duties on raw materials. A reduction of 50 per cent was provided for group B, and 33.3 per cent for group C.

In 1967, it was found that tax privileges granted for group A and B were excessive and encouraged industries with a high import content. Therefore, the BOI began to treat all industries as group C. In 1969, new promoted firms were no longer eligible for all kinds of reduction of import duties on raw materials.

In 1972, the new investment promotion law, i.e. the Coup Announcement No. 227, was enacted. This legislation provided a set of investment promotion measures designed to accelerate export activities. Most non-tax privileges were retained. The most significant revision of the new law was the provision of special privileges for exporting companies and for industries investing in promoted areas. For general promoted businesses, a full exemption of import duties and business tax on imported machinery was provided; a full exemption of corporate income tax was granted for three to eight years. If promoted firms purchased machinery and equipment within the country, producers or suppliers of these goods would be entitled to exemptions from business tax. Under this legislation, the BOI was given discretionary power to implement many kinds of protection for promoted industries. For example, the BOI were empowered to impose surcharges on certain imports; to ban or control imports; and to grant assistance necessary to promoted firms.

Special privileges were additionally provided for export activities. These privileges were full exemptions from import duties and business tax on imported raw materials and on goods imported for re-export purposes; full exemptions from export duties and business tax on exports; and permission to deduct from taxable income 2 per cent of increased income arising from exports over the previous year.

Additional privileges which were granted to promoted firms investing in promoted areas were the reduction of import duties and business tax on imported raw materials of not more than 50 per cent; reduction of business tax on the sale of products produced of not more than 90 per cent; permission to deduct an amount double the costs of transportation, electricity, and water supplies in calculating corporate income tax; permission to deduct from the net profit an amount of not more than 25 per cent of the costs of construction; and reduction of 50 per cent of corporate income tax for five years from the expiry date of the normal three to eight year exemption.

In 1977, the new Investment Promotion Act was promulgated. Some changes were made in this law. Manufacturing firms under promotion are exempted from, or granted 50 per cent reductions in import duties and business tax or VAT on imported machinery and equipment; and reductions of up to 90 per cent of import duties and business tax or VAT on imported raw materials. The change in privileges granted to export activities was that the amount of deduction from taxable income increased from 2 per cent to 5 per cent of additional revenue arising from exports over the previous year. With some minor amendments from time to time, the 1977 Act is still in force.

For some activities to be eligible for promotion, there is a condition that all or parts of their products must be exported. For instance, at least 80 per cent of total sales of rubber products, leather products, and polished gem stones must be exported. At least 50 per cent of total sales of canned foods, umbrellas, toys, and sporting equipment must be exported. Moreover, for some industries, local content requirements are a necessary condition to qualify for the BOI's promotion. These requirements exist for the production of tea leaf and dust, silk and silk yarn, pasteurised skim milk, automobiles, and motorcycles.

Since tax drawback schemes are also available for non-promoted businesses, exemptions from or reductions of import duties and business tax or VAT on imported inputs do not create differential incentives for promoted firms. Investment promotion measures that seem to provide advantages to promoted firms are exemptions from import duties and business tax or VAT on imported machinery and equipment, and corporate income tax holiday.

It can be seen that TRIMs, export performance requirements and local content requirements, are widely used in Thailand as an essential condition for obtaining privileges from the BOI under the investment promotion law. Because the Uruguay Round Agreement on TRIMs does not prohibit the use of export performance requirements, the requirements can still be applied to promote the export sector. Nonetheless, in order to comply with the obligations under the Uruguay Round Agreement on Subsidies and Countervailing Measures, the BOI will have to eliminate all export-related incentives by the end of 2002. In contrast, the use of local content requirements is not permitted by the TRIMs Agreement. The local content requirements which are presently applied to dairy products, motor vehicle engines, diesel engines for agriculture, multi-purpose benzene engines and motorcycle assembly,[9] are to be eliminated by the end of 1999 (The WTO b, 1995: 25). Thus, the BOI has to change the rule about these requirements. Moreover, the role of the BOI needs to be generally revised. It is expected that when the TRIMs Agreement is reviewed, in five-year time from the launch of the WTO, export performance requirements are likely to be prohibited. Therefore, the BOI will have to adjust itself and focus on providing services, investment information, and technical assistance. Its policy objectives should be to promote industrial development in provincial areas, research and development activities, and natural resource conservation.

The adjustment of the BOI in responding to prohibition on the use of both requirements needs to consider the different nature of the local industries. Praipol (1992) studies the impacts of the removal of both requirements on Thailand's trade policy and on the industries affected. He found that, in a number of industries, the removal of export performance requirements would have little impact. These industries consist of, for example, jewellery, canned seafood, garments, toys, plastic products, and ceramic products. The industries are so competitive that they can compete with the firms initially subject to export performance requirements. Furthermore, these firms are not very much interested in selling domestically. However, the removal of export performance requirements could produce severe impacts on the home electronic industries, such as, television sets, radios, refrigerators. This is because, in these industries, firms producing initially for export usually have large world-scale production capacity and are foreign-owned. Hence, they tend to sell more products in the Thai market.

The removal of local content requirements would cause strong and negative impacts on the local producers of some raw materials, such as, fresh milk, raw silk, and some vehicle components. The costs of production of these domestic firms are high because of low efficiency, and the lack of economies of scale and skilled labour. Nevertheless, some electrical component industries, for instance, colour television tubes, and air-conditioning compressors, are not likely to be much affected by the removal of local content requirements. Their products would continue to be used although local content requirements are not in force.

Praipol made recommendations that in the case where the impacts of the removal of both requirements are severe, these requirements should be maintained and gradually removed during a transitional period. In addition, some policy measures could be employed to ease these adverse impacts. For example, to lessen the impacts of the removal of export performance requirements, the government may impose a special tax on the increased domestic sales by promoted firms. Moreover, direct assistance on technical improvement should be provided for local firms.

5.3.2 Export Processing Zones (EPZs)

Export processing zones can be regarded as TRIMs because their operation is based on export performance requirements.[10] In effect, all or most of products produced in EPZs must be exported. In Thailand, EPZs are under the supervision of the Industrial Estate Authority of Thailand (IEAT) which was founded in 1973. The main function of the IEAT is to undertake the setting up of industrial estates. Industrial estates normally comprise two zones: a general industrial zone and an EPZ. In its first decade, there were only a few industrial estates completed. None of them was EPZs. The first EPZ was Lard Krabang Industrial Estate, Bangkok, which was completed in 1985. Until 1992, there were three EPZs operating in Thailand, i.e. Lard Krabang, Lam Chabang (Eastern Seaboard), and Northern Industrial Estate.

Industrial enterprises operating in EPZs would obtain exemptions from import duties and business tax or VAT on machinery, equipment, and raw materials used in their export production; and on materials used for factory construction. Import duties and business tax or VAT on imports for re-exports, export duties and business tax or VAT on exports, and import surcharges are also exempted. Investors are granted the rights to own land in the industrial estate compound. They are also given the rights to bring into the country foreign experts and skilled workers. Foreign investors are permitted to remit foreign exchange from the country. Moreover, firms in EPZs are entitled to a 10 per cent discount on electricity for five years.

To date, industries which operate in Thai EPZs are garments, leather products, footwear, electronics, and furniture. The existence of EPZs is equivalent to the use of export performance requirements as a prerequisite for government's investment promotion measures, but EPZs can provide a more comprehensive benefit package to investors. Thus, they could have helped promote export growth. However, compared with other East Asian countries' experiences, Thailand's EPZs have not played any significant role in the promotion of the country's export sector. The limited role of EPZs as a measure of export promotion policy can partly be explained by the fact that the incentives provided for firms in the zones are not so different from those given to exporters in general. For instance, exporters can have refunds or rebates of any tax paid on imported inputs through Thailand's tax drawback schemes. Moreover, if the exporters are promoted businesses, or have their firms set up in a general industrial estate, they will be entitled to exemptions from import duties and business tax or VAT on imported machinery and equipment. Consequently, EPZs' incentives seem not to create differential privileges to firms. Furthermore, the growing Thai domestic market resulting from the rapid expansion of the economy proved to be more attractive to investors than EPZs' privileges. The most notable aspect of EPZs is that they provide exporters with advantages and conveniences in customs and other government administrative procedures.

5.4 Trade-Related Intellectual Property Rights (TRIPs)

Trade-Related Intellectual Property Rights issue is a relatively new topic discussed in both Multilateral Trade Negotiations (MTNs) and Regional Integration Arrangements (RIAs). Therefore, this section will provide an overview of this issue based on the Agreement on Trade-Related Aspects of Intellectual Property Rights of the GATT.

Intellectual property can be defined as information with a commercial value. Intellectual property rights have been defined as a mix of ideas, inventions, and creative expression on which there is a public willingness to bestow the status of property (Hoekman and Kostecki, 1996: 144). Intellectual property consists of industrial property and literary and artistic works. The main legal instruments for protecting intellectual property rights are patents, copyrights and neighbouring rights, industrial designs, geographical indications, and trademarks. An invention of industrial property is principally protected through patents and trademarks whereas literary and artistic works are protected by copyrights.

Intellectual property rights become related to trade issues because international trade in goods embodying intellectual property has substantially increased in recent years. Exporting countries of these goods feel that lack of protection in intellectual property could lead to their loss of comparative advantage in these areas. They demand other countries, especially developing countries, provide adequate protection for their intellectual property. This resulted in a number of disputes between countries which were resolved through bilateral channels. The United States has been an active user of unilateral threats of trade sanctions to deal with these disputes. Its main instrument was Section 301 of the 1974 Trade Act amended by the 1988 Omnibus Trade and Competitiveness Act. The case of disputes between Thailand and the United States on TRIPs issue will be discussed in detail in chapter seven.

Since there were many disputes between countries over TRIPs issues, the demand for multilateral disciplines in these areas has been increasing. To cope with this demand, a number of international conventions have been drawn up. These conventions have laid down standards for the protection of intellectual property. The most important conventions are the Paris Convention for the Protection of Industrial Property (1883), the Berne Convention for the Protection of Literary and Artistic Works (1886), and the Rome Convention for the Protection of Neighbouring Rights (1961). These conventions have been revised from time to time and are currently administered by the World Intellectual Property Organisation (WIPO). Since intellectual property rights are country-specific, created by national legislation, these international conventions could only try to harmonise protection procedures and standards. They could not apply the national treatment principle to provide adequate and effective protection for intellectual property. Therefore, intellectual property rights issues were brought to the GATT. However, before the Uruguay Round, there was not much development under the GATT framework.

The Uruguay Round negotiations on TRIPs were dominated by a number of disagreements. Areas of disagreements included standards of protection, the use of unilateral sanctions, and the length of transitional periods. The TRIPs negotiations completely divided GATT's member countries into two groups. On the one hand, industrial countries, which are net exporters of intellectual property, sought a comprehensive agreement on standards of protection and enforcement. On the other hand, developing countries, which are net importers of intellectual property, needed to ensure that unilateral measures to protect intellectual property would not cause barriers to legitimate trade. After a number of years of negotiations, the Agreement on TRIPs was completed and served as a basis for the WTO.

The Uruguay Round TRIPs Agreement adopted basic GATT principles of non-discrimination, national treatment, most-favoured nation, and transparency. The Agreement established minimum substantive standards of protection of patents, copyrights and neighbouring rights, layout-designs of integrated circuits, geographical indications, trademarks, and industrial designs.

Patents grant inventors a temporary monopoly over the use of the invention or the reproduction of the work, and prevent competitors from sharing or using their knowledge without payment. This enables the inventors to recoup their investment and secure their economic interests, thus creating an incentive for the production of knowledge. The problem areas of patents are coverage of products and processes, periods of protection, scope of compulsory licensing, and enforcement. Patent laws are to cover food, pharmaceuticals, and chemical products. As a general rule, rights conferred in respect of patents for processes must extend to the products directly obtained by the process. Moreover, both processes and products are to have at least 20 year patent protection counted from the filing date. However, there are a number of circumstances that provide grounds for compulsory licensing under domestic law. These circumstances are for public health, nutrition or other reasons of public interest, national emergencies, anti-competitive practices, and public non-commercial use. Before granting compulsory licences, the title holder needs to be consulted.

Copyrights protect the work of authors from the time they create it. Copyrights cover the original expression of ideas whereas neighbouring rights protect the work of performers, phonogram producers, and broadcasters. The term of protection should not be less than 50 years when calculated on a basis other than the life of a natural person. The aspect that can be considered as a breakthrough of the TRIPs Agreement is protection of computer software and data compilations, and rental rights. Computer software and data compilations are to be protected as literary works by copyright law. Furthermore, the provisions on rental rights are added into copyrights. These rental rights grant authors of computer programmes and producers of sound recordings the right to authorise or prohibit the commercial rental of their copyright works to the public. These rental rights are also applied to films.

Layout designs of integrated circuits are to be protected for a minimum period of 10 years. There is also the extension of rights to articles incorporating infringing layout designs.

Geographical indications identify goods as originating in the territory of a member where a given quality, reputation or other characteristics of goods is essentially attributable to its geographical origin. The TRIPs Agreement does not allow members to register trademarks that can mislead the public about the true place of origin of goods.

Trademarks are commercial symbols used to identify goods and services or their producers. The TRIPs Agreement specifies the minimum rights that members must grant to mark owners. The owners of well-known trademarks should be allowed to challenge confusingly similar marks. The owners of foreign marks may not be forced to use their marks in conjunction with local marks. A registered trademark may be canceled if it is not used for a continuous period of at least three years.

Industrial designs protect the ornamental features of a product. The designs are to be protected for a minimum period of 10 years. The owners of such designs may prevent the production, sale, or importation of products bearing a design which is a copy of the protected one.

Under the TRIPs Agreement, member countries are obliged to conform with the provisions for intellectual property rights enforcement. Members are required to provide expeditious remedies to prevent infringements and remedies which constitute a deterrent to further infringements. These measures should be fair and equitable, not overly complex or expensive, available to both foreign and national rights holders, not susceptible to barriers to legitimate trade, and open to judicial review. Members are not obliged to establish a judicial system for intellectual property rights. However, they should provide for criminal procedures at least in cases of trademarks counterfeiting or copyright piracies.

The TRIPs Agreement gives all countries a one-year transitional period after the WTO Agreement becomes effective. Developing countries are entitled to an additional four-year transitional period. And they are also entitled to a five-more-year transitional period for product patents in fields of technology that are not protected by the time they apply the agreement.

The agreement allows member countries not to provide "pipeline protection" to subject matter that is already patented in another country but not yet marketed in their countries. Moreover, the long transitional periods are available for the protection of pharmaceutical and chemical product patents. However, this agreement requires significant reforms in many developing countries' legal system. This is because the negotiating objective of this agreement was to create adequate and effective protection for intellectual property with the introduction of higher standards of protection. Although an acceptance of the TRIPs Agreement would inevitably cause welfare losses, at least in the short run, to developing countries, it seems that they would prefer the TRIPs deal to the unilateral threats of trade sanctions from the United States and the EU. This is also the case for Thailand whose details will be analysed in chapter seven.

5.5 Conclusions

This chapter has examined trade policy measures and trade-related issues. It analyses the implementation of trade policy in Thailand. The country's trade policy measures consist of tariffs, tax drawback schemes, trade restrictions, credit assistance, and safeguard measures. Among them, tariffs have been the most widely used measure. Thailand's tariff structure is classified into two types of tariff rates: the statutory rate and the applied rate. The former is determined by the parliament while the latter is set by the cabinet through the Ministry of Finance. The statutory rate is generally set as the ceiling rate. The system of dual tariff rates provides the government with flexibility in managing the country's tariff system. The Thai government quoted the statutory rate while negotiating tariff reductions but imposed the applied rate on actual imports. Although over the past few decades, Thailand's average tariff rate has generally shown a downward trend, the country's tariffs are still high enough to discourage exportation.

Apart from tariffs, the Thai government also imposed several trade restrictions, for example, export taxes, import surcharges, and the ban on exports and imports. The rationale for these restrictions is to maintain the stability of both the domestic market and the domestic industry. The government's administration of trade restrictions offers interest groups an opportunity to assert their influence on the imposition of these restrictions. Some specific government agencies have discretionary power in managing trade restrictions. This increases the possibility of corruption among government officials.

Since tariffs and trade restrictions create negative incentives to export industries, tax drawback is provided for exporters by the government to offset these unfavourable effects. Although Thailand's tax drawback schemes, both the import tax refund scheme and the tax rebate scheme, have been effective in promoting exports, they have some problems, i.e. corruption and red tape.

Credit assistance has also been used as a trade policy measure, known as the "Packing Credit". It can be said that the Packing Credit contributed to the success of the Thai export sector. However, since the Packing Credit can be considered as a form of export subsidy, it may soon need to be revised to conform with the Uruguay Round agreement. Thus, its role in promoting exports may not be as significant as in the past.

The last trade policy measure discussed in this chapter is safeguard measures which, in fact, are another form of import restrictions but they are defensive in nature. To impose safeguard measures, both anti-dumping and countervailing duties, an investigation must be initiated. As discussed earlier, similar to other trade restrictions, interest groups can also influence the government's administration of safeguard measures.

For TRIMs, in Thailand, investment promotion measures and EPZs were designed based on local content and export performance requirements. Investment promotion measures provide investors with several forms of privileges. These privileges may partly be responsible for the lack of success of EPZs in Thailand. The policies on investment promotion measures and EPZs were not well designed to complement each other. Instead, they tend to compete with one another to attract investors and it seems that investment promotion measures are more successful in doing so. This is because, as argued earlier, their conditions are more flexible and access to the Thai domestic market is more attractive to investors than to receive EPZs' benefits.

For TRIPs, the Thai legal system lacks a comprehensive law to provide protection for intellectual property rights. Although the Patent Act, the Copyright Act, and the Trademarks Act have been amended, as will be discussed in chapter seven, some further amendments are still necessary to provide thorough protection for other areas of intellectual property rights, for instance, industrial designs, geographical indications.

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[1]These products include fabrics, carpets, clothes, blankets, handbags, shoes, headgear, wigs, television sets, refrigerators, and air conditioners.
[2]Details of investment promotion and promoted firms will be discussed later.
[3]Government's revenue was discussed in chapter two.
[4]From an interview with an EXIM Bank's official.
[5]These import surcharges were discussed in the previous section.
[6]Local content requirements mandate that a certain amount of local inputs be used in the production.
[7]Trade-balancing requirements mandate that imports be a certain proportion of exports.
[8]Export performance requirements mandate that a certain share of output be exported.
[9]Apart from these products, passenger cars, vans, and other types of cars, small vans and trucks, and motorcycles are also subject to local content requirements imposed by the Ministry of Industry.
[10]For the nature and general characteristics of EPZs, see chapter three, section 3.4 Export Promotion.

Table 5.1 Average Tariff Rates by Commodity Groups (%)
1960 - 1992

	1960	1965	1970	1975	1980	1985	1990	1992
Mineral fuel & lubricants	50.2	22.3	22.1	2.9	4.8	1.2	1.5	1.9
Chemicals	18.4	18.4	17.2	12.0	16.9	17.8	16.2	14.6
Machinery	17.3	16.6	17.0	15.3	15.0	17.7	15.1	9.8
Manufactured goods	19.3	21.1	27.4	18.2	14.6	11.5	9.2	9.1
Other goods	16.4	14.7	17.3	15.8	6.4	13.9	5.8	5.3
Total imports	21.4	18.3	20.0	12.8	10.3	12.2	11.0	8.7

Note: Average tariff rates are import duty (government tariff revenue) divided by import value.
Source: Thamavit (1994: 208).

Table 5.2 Statutory and Applied Tariff Rates (%)
(1964, 1974, 1989, 1995)

	1964	1974	1989	1995
Tobacco	54.7	68.1	52.4	30.0
Beverages	241.2	177.7	37.5	30.0
Processed foods				
-Grains	55.9	55.4	19.5	15.0
-Products of vegetable origins	95.7	114.8	14.1	10.0
-Fish products	49.1	11.2	0.2	10.0
-Animal products	n.a.	12.9	4.7	5.0
-Oil seed products	28.8	7.4	8.6	5.0
-Dairy products	7.0	3.4	6.3	5.0
Consumer goods				
-Furniture	27.5	50.0	37.9	30.0
-Footwear	30.0	37.0	14.4	10.0
-Toys	n.a.	20.7	14.3	10.0
-Musical instruments	n.a.	22.9	10.4	10.0
-Textiles&clothing	26.8	47.1	6.6	10.0
Intermediate goods				
-Rubber	26.5	38.1	25.9	25.0
-Chemicals	24.5	27.4	18.1	10.0
-Pulp&paper	27.5	11.1	13.7	10.0
-Scientific instruments	n.a.	21.4	10.1	10.0
-Ores&metals	18.9	21.0	7.9	5.0
-Wood&cork	n.a.	23.3	2.3	1.0
-Leather	30.3	39.8	1.8	5.0
-Petroleum products	43.4	48.0	1.7	1.0
-Gem&Jewellery	n.a.	6.7	0.2	0.0
Machinery				
-Office supplies	n.a.	10.3	33.9	30.0
-Non-electrical machinery	18.0	15.0	11.3	5.0
-Electrical machinery	21.6	19.7	8.2	5.0
Transport equipment	39.7	53.6	35.8	30.0

Note: The rates for 1964, 1974, and 1989 are the applied tariff rates.
The rates for 1995 are the statutory tariff rates.
Source: Thamavit (1994: 218-9), Board of Trade.

Chapter 6

Thailand's Multilateral Trade Negotiations: The Case of the GATT and the WTO

6.1 Introduction

This chapter will analyse Thailand's multilateral trade negotiations. It will focus on Thailand's negotiations in the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO). Among a number of existing international trade agreements, the WTO and its predecessor, the GATT, can be considered as the most important trade negotiating framework in terms of both countries involved and issues discussed. The GATT was a binding contract between 128 nations which together account for about 90 per cent of world merchandise trade. Although there have been several regional trading arrangements, WTO's member countries are allowed to join these arrangements only if the existing agreements are compatible with WTO's rules. Because of the importance of the GATT and the WTO to the world trading system, negotiations within both frameworks are selected to study Thailand's multilateral trade negotiations.

This chapter is divided into five sections. Section two provides some general and historical backgrounds of the GATT and the WTO. Then, the next two sections examine the relationship between Thailand and the GATT and the WTO from a political economy point of view. Section three studies how negotiating positions of Thailand on certain issues, which were discussed in the Uruguay Round of the GATT, were formulated. It analyses the extent to which private enterprises and interest groups could influence the process of determining Thailand's trade negotiating positions. This is an attempt to establish the degree of autonomy of both the government agencies which were responsible for the formulation of negotiating positions and the formulation itself. This section also discusses the role of Thailand in the Uruguay Round negotiations. Section four analyses the implementation of Thailand's Uruguay Round commitments and the effects of the Uruguay Round on the Thai economy. The last section concludes the findings of this chapter.

6.2 A Brief Historical and General Background of the GATT and the WTO[1]

In 1944, the Bretton Woods conference was held to improve international economic cooperation. This conference resulted in the creation of two new multilateral institutions: the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD) or the World Bank. However, the conference could not achieve its ultimate goals of improving international economic cooperation. This is because it failed to create any organisation to handle the problems of international trade.

The major development leading towards the creation of the GATT was initiated by the United States. The US government invited other countries to join negotiations to conclude a multilateral agreement for the reduction of tariffs. In 1946, the United Nations through its subordinate body, the Economic and Social Council (ECOSOC), called for a conference to draft a charter for an International Trade Organization (ITO). The charter was intended to provide not only world trade disciplines but also rules relating to employment, commodity agreements, restrictive business practices, international investment, and services (The GATT, 1992: 2). During a series of meetings to prepare the ITO charter, an agreement, which consisted of a multilateral agreement to reciprocally reduce tariffs and general clauses of obligations, was signed by 23 nations in 1947. This agreement became known as the General Agreement on Tariffs and Trade. The negotiations on the ITO charter were concluded successfully in Havana in 1948. However, this did not lead to the creation of the ITO because the US Congress refused to ratify the charter. As the ITO never came into existence, the GATT, which was first established on a provisional basis and not intended to be an organisation, became the only concrete result of the negotiations. And it remained the only multilateral instrument governing international trade until the establishment of the WTO. During 47 years of the GATT, its basic legal text remained much as it was in 1947. Major additions took the form of plurilateral agreements or voluntary membership on associated agreements (The WTO a, 1995: 9).[2] The countries in the GATT were formally not members, but "contracting parties". Nevertheless, the usage "members" is commonly used except in GATT's formal documents (Dixit, 1998: 127).

Since its establishment, the GATT had organised a series of multilateral trade negotiations normally referred to as trade rounds. There were eight rounds of multilateral trade negotiations: the Geneva Round (1947), the Annecy Round (1949), the Torquay Round (1951), the Geneva Round (1956), the Dillon Round (1960-61), the Kennedy Round (1964-67), the Tokyo Round (1973-79), and the Uruguay Round (1986-94). By and large, the outcome of these rounds of negotiations has liberalised world trade and improved the multilateral trading system.

The GATT has continually expanded. By the end of the Dillon Round in 1961, there were 45 countries participating in the negotiations. Most of the first five Rounds were mainly concerned with the continuing reduction of tariffs and prohibition on the use of quantitative restrictions on manufactured imports. During this period, the technique adopted for tariff negotiations was an item-by-item approach. A country was to make its offer and request lists and then conduct bilateral tariff-reducing negotiations with other countries on goods for which the two countries tended to be each other's major suppliers. During the 1950s, the item-by-item negotiating approach helped achieve the goal of tariff reduction. However, when the number of participating countries increased, it became more difficult to select goods for negotiating purposes. This approach showed the GATT's limitations as a forum to achieve further tariff liberalisation. Therefore, in the Kennedy Round, an across-the-board formula approach was introduced for tariff negotiations. This means that tariff rates for all goods were to be reduced by a fixed percentage according to an agreed formula. At the end of this Round, an average tariff cut of 35 per cent for manufactured goods was achieved (Table 6.1). In addition to tariff negotiations, the Kennedy Round's agenda included non-tariff trade barriers into its negotiating framework. This resulted in the conclusion of the Anti-Dumping Code.

The inclusion of new and specific issues was taken further in the Tokyo Round. At the end of this Round, a number of associated agreements or codes on non-tariff barriers were produced. They included agreements on subsidies and countervailing measures, on technical barriers to trade, on import licensing procedures, on government procurement, on customs valuation, and a revision of the Kennedy Round Anti-Dumping Code. However, these agreements were applied on a plurilateral basis, binding only signatories of the agreement. Hoekman and Kostecki (1996: 19) pointed out that the use of these plurilateral agreements was driven by the fact that developing countries objected to the expansion of GATT disciplines. By negotiating a code, countries were allowed to pick and choose among disciplines. This Round also led to the legalisation of preferential tariff and non-tariff treatment in favour of developing countries. For tariff negotiations, the Tokyo Round adopted an across-the-board formula technique for calculating tariff reductions. However, these tariff cuts were applied on a non-linear basis. This means that each product would subject to different rates of reductions. The higher the tariff rates, the larger the percentage of tariff reductions. As a result of this negotiating formula, a new major package of tariff concessions was produced and adopted at the end of the Tokyo Round. It resulted in an average of 34 per cent cut in tariffs, bringing the average tariff rate on manufactured products in industrial countries down from 7.0 to 4.7 per cent (Table 6.1).

The last and the most extensive round of negotiations of the GATT was the Uruguay Round. This Round continued the trend of widening its negotiating agenda. Those plurilateral agreements which were achieved in the Tokyo Round were included in the negotiating framework for further discussions. In addition to trade in goods, other trade-related issues, such as investment, trade in services, and intellectual property were regarded as negotiating topics. These topics were negotiated separately in 14 groups. The increasing number of participating countries also emphasised the importance of this Round. The Uruguay Round opened with 103 participating countries, but by the end of the Round there were 128 countries involved.

Aspects of the Uruguay Round's agenda could bring about sharp controversies. One of the most important disputes, which later nearly damaged the overall result of the Round, began even before the Round opened. That dispute involved a decision whether to integrate agriculture into its negotiating agenda. The United States and a number of major agricultural exporting countries supported the inclusion of agriculture, while the European Community, later the European Union (EU), did not want to discuss this issue at least in the first stage of the Round.[3] After four years of a series of pre-Round meetings to clarify negotiating issues, the Uruguay Round was finally launched in 1986. An important feature of this round was the inclusion of agriculture and textiles and clothing into its negotiating framework.

Prior to the Uruguay Round, the multilateral trading rules on agriculture were practically ineffective. Both developed and developing countries applied various kinds of protection for agricultural products. At the same time, international trade in textiles and clothing had been treated in the GATT as an exceptional case and subjected to specially negotiated rules since the early 1960s. The Short-Term Arrangement on Cotton Textiles was introduced in 1961. This agreement rapidly evolved into the Long-Term Arrangement Regarding International Trade in Cotton Textiles (LTA) in 1962. The arrangement was transformed into the Multi-Fibre Arrangement (MFA) in 1974 when its coverage was extended to non-cotton textiles and clothing. The MFA provided rules that govern the imposition of quotas, either through bilateral agreements or unilateral actions, when surges of imports cause or threaten to cause market disruption in importing countries (Francois, et. al., 1996: 260). The MFA limited the growth of textiles and clothing imports from more competitive developing countries to certain developed countries. The MFA was set to terminate in 1973 but several extensions were applied until 1994 when the arrangement was integrated into the Uruguay Round Agreement.

Another controversial topic was the selection of tariff negotiating techniques. After two years of discussions without any specific solution, it was agreed that each country was to set the target rates for its tariff reductions regardless the method of negotiations. A country could adopt either an item-by-item approach or an across-the-board approach for tariff negotiations. Nevertheless, the average tariff cuts of countries were to be fixed, at not less than those achieved in the Tokyo Round, i.e. about 30 per cent. Moreover, countries were urged to make tariff commitments by binding their tariff rates on previously unbound items.[4] By binding their tariffs, countries are not allowed to impose on any specific product tariffs which are higher than the bound rates. A binding may pertain to the currently applied rates or the negotiated rates which are lower than the applied rates. However, developing countries are allowed to set their binding rates as "ceiling bindings". These bindings are considered so important that countries agreeing to bind previously unbound tariffs are given "negotiating credit" even if the tariffs are bound at a level above the currently applied level (Blackhurst et al, 1996: 144).

After a long course of negotiations, the Uruguay Round reached significant agreement on a number of issues. Negotiations on trade in manufactured goods improved tariff liberalisation in this sector. At the end of the Round, the tariff rate for all economies on manufactured products was cut by 32 per cent on average bringing the rate down from 6.3 to 4.3 per cent (Table 6.2). An average tariff rate in industrial countries reduced from 4.1 to 2.6 per cent whereas the rate in developing countries decreased from 18.8 to 14.2 per cent. This represented average tariff cuts of 38 and 25 per cent, respectively. An average tariff cut in industrial countries for imports from developing countries was about 28 per cent compared with 40 per cent for those from other industrial countries. Meanwhile, an average tariff reduction in developing economies for imports from industrial countries was 25 per cent compared with 21 per cent for those from other developing countries. The large percentage of tariff cuts on imports among industrial countries may result from the "zero for zero" tariff commitments. Under these commitments, industrial countries totally eliminated tariffs on some product groups, for example, pharmaceuticals, furniture, steel, toys, paper, and medical equipment. Developing countries also substantially reduced tariffs on these products. For the pattern of sectoral tariff liberalisation, Abreu (1996: 64) suggested a close relationship between the original level of tariffs and average tariff cuts in the Uruguay Round. The high-tariff sectors had smaller cuts than had low-tariff sectors.

The abolition of the MFA and the liberalisation of trade in textiles and clothing can be considered as one of the most significant achievements of the Uruguay Round. The Uruguay Round Agreement on textiles and clothing required that quota restrictions continuing from the MFA regime to be gradually reduced and phased out over a ten-year transitional period starting from 1995. By the end of this period (2005), textiles and clothing products will be integrated into the GATT and subject to the same rules and disciplines as other manufactured products. The process of liberalisation will be carried out in three stages. In the first stage, by 1 January 1995, at least 16 per cent of total volume of textiles and clothing imports in 1990 of member countries were to be integrated into GATT rules. In the second stage, by 1 January 1998, another 17 per cent of imports were to be integrated. In the third stage, by 1 January 2002, another 18 per cent of imports are to be brought into normal GATT rules. By this stage, a cumulative integration of 51 per cent will be achieved. On 1 January 2005, the end of the ten-year transitional period, all remaining quantitative restrictions on textiles and clothing imports are to be eliminated. Moreover, during the transitional period, imports remaining under restrictions will be subject to progressively increasing quotas. The initial annual growth rates of quotas under the MFA are to be increased by at least 16 per cent in the first stage, by an additional 25 per cent in the second stage, and by another 27 per cent in the third stage.[5]

Another breakthrough of the Uruguay Round is the conclusion of the Agreement on agriculture. Although the original GATT(1947) covered trade in agriculture, various exceptions on the use of non-tariff measures and subsidies existed. Thus, the Uruguay Round Agreement revised several key features in order to create order and fair competition in this sector. These features concerned market access, export subsidies, and domestic support. Firstly, all non-tariff barriers on agricultural imports were to be converted into equivalent tariffs immediately. Tariffs on agricultural products, both the ones which are the result of the "tariffication" process and the initial ones, are to be reduced by an unweighted average of 36 per cent in developed countries and 24 per cent in developing countries, with the minimum reductions of 15 and 10 per cent respectively for each tariff line. Moreover, bindings are applied for almost all agricultural tariff lines. Secondly, export subsidies in value terms are to be reduced by 36 per cent for industrial countries and by 24 per cent for developing countries; and the volume of subsidised exports is to be reduced by 21 and 14 per cent, respectively. These reductions are to apply on a commodity-by-commodity basis. Export subsidy levels are bound as are tariffs. Thirdly, the total value of domestic support is to be reduced by 20 per cent for developed countries and by 13.3 per cent for developing countries. There is no requirement to make reductions in domestic support for individual commodities. Reductions in tariffs, export subsidies, and domestic support are to be implemented over the period of six years for developed countries and 10 years for developing countries.

As mentioned earlier, the Uruguay Round succeeded in integrating new issues, e.g. services, intellectual property, and a number of plurilateral agreements achieved in the Tokyo Round into its negotiating framework. At the end of the Round, member countries reached the conclusion of an agreement on trade in services, on trade-related investment measures, and on trade-related aspects of intellectual property rights. The revised and more comprehensive agreements on anti-dumping, on subsidies and countervailing measures, on import licensing procedures, and so on, were also concluded.[6] The achievement of the Round was that these agreements were concluded on a multilateral basis and became an integral part of the Uruguay Round Final Act.

Although the Uruguay Round caused a number of disagreements among countries and took nearly a decade to conclude, the outcome of the Round produced an important milestone for the world trading system. The Final Act signed at the end of the Uruguay Round in 1994 contained 28 agreements: the new General Agreement on Tariffs and Trade (the amended 1947 GATT with a number of supplementary agreements negotiated in the Uruguay Round), the General Agreement on Trade in Services (GATS), and the Agreement on TRIPs. These agreements together with an Understanding on Rules and Procedures Governing the Settlement of Disputes as well as Trade Policy Review Mechanism and some remaining Plurilateral Trade Agreements formed the Agreement to establish the WTO.[7] The WTO is charged with providing an institutional framework for the conduct of trade relations among its member countries in matters related to the agreements (Hoekman and Kostecki, 1996: 37). Since its first day, 1 January 1995, 76 countries and territories have already become members of the WTO, with about 50 other economies at various stages of completing their domestic ratification procedures, and about 30 countries engaged in negotiating their terms of entry (The WTO a, 1995: 4).

The main functions of the WTO are: administering and implementing the 28 multilateral and plurilateral trade agreements which together make up the WTO treaty; acting as a forum for multilateral trade negotiations; providing the machinery to resolve trade disputes between its members; reviewing and assessing its members' trade policy; cooperating with other international institutions, e.g. the IMF, the World Bank, in global economic management; and assisting developing countries and countries in the process of economic transition to fully gain the benefits of the multilateral trading system.

The WTO and its predecessor, the GATT, has three basic principles which are non-discrimination, market access, and fair competition. Firstly, the non-discrimination principle takes the forms of Most-Favoured-Nation (MFN) treatment and national treatment. The MFN treatment requires that at the border members are bound to treat the products of other members no less favourably than that offered to the products of any other country. Therefore, no country is to give special advantages to another or against it. However, there are two exceptions; customs unions and free-trade areas which do not create barriers against third countries, and preferential treatment given to developing countries. National treatment requires that foreign goods, once they pass the border, must be treated no less favourably than the equivalent domestically-produced goods. Secondly, the market access principle exists to secure and promote an open trading system. This is to create and ensure more predictable conditions for trade and investment. The key to predictable trading conditions is facilitated by the transparency of domestic laws, regulations, and practices (The WTO a, 1995: 6). Market access is mainly determined by the use of tariffs. Lastly, the underlying idea of fair competition principle is generally that competition should be on the basis of a "level playing-field" (Hoekman and Kostecki, 1996: 32). To secure fair competition, trade distortions, such as dumping and subsidies, are subject to disciplinary arrangements.

6.3 Thailand's Negotiating Positions and Its Roles in the Uruguay Round

Thailand has been involved in the world trading system since the fifteenth century. The international trade of Thailand became more systematic after signing the Bowring Treaty with England and a series of similar treaties with a number of countries.[8] Thailand has been involved in the GATT since 1973 as an observer in the Tokyo Round. During that time, Thailand was a signatory only to the Agreement on Technical Barriers to Trade. Thailand was granted full membership status of the GATT in October 1982. This resulted in a commitment of Thailand to bind its tariffs on 93 tariff lines. It also had to apply at least most-favoured-nation treatment to all GATT contracting parties. Since then, Thailand has actively participated in the multilateral trading system under the GATT framework and became the 59th founding member of the WTO on 28 December 1994. This section will discuss the negotiating positions and roles of Thailand in the GATT especially in the Uruguay Round which led to the establishment of the WTO.

In Thailand, the Ministry of Commerce has been in charge of the country's commercial affairs, both internal and external, since its establishment in 1892. The Ministry of Commerce is also the main organisation responsible for Thailand's international trade negotiations. However, there are a number of organisations involving in international trade negotiations, since the process of negotiations is complicated. Leidy and Hoekman (1993: 247) suggested that the process of trade negotiations can be decomposed into three stages: pre-negotiating, negotiating, and post-negotiating. In the pre-negotiating stage of negotiations, an idea for negotiations is introduced and a position on negotiating issues is formulated. In the negotiating stage, a formal government-to-government bargaining takes place. This stage produces a formal draft of an agreement. But the agreement is not policy, it is a blueprint for policy. In the post-negotiating stage, the agreement is implemented. The action at the implementation stage occurs in the administrative bureaucracy, the legislature where implementing legislation must be passed, and the judiciary where implementing legislation is interpreted. Interest groups can exercise their lobbying activities at all of these three stages.

Considering the preparatory stage of negotiations in Thailand, the number of agencies involved in this stage, particularly in the formulation of negotiating positions, is large. This is a result of the large number of negotiating issues discussed in international trade negotiations. And these issues fall under the responsibility of various agencies. In addition, Thailand's bureaucratic system is so complicated that trade and trade-related policy measures are under the supervision of different departments and ministries. Policy objectives of these agencies are not always formed in a harmonised manner with one another. Because of these facts, the determination of negotiating positions sometimes causes disputes among associated agencies. To settle these disputes, relevant committees are set up to find a solution. Then, the committee would submit drafted negotiating positions to the cabinet for its approval. Generally, the approval of the cabinet would make a final and official negotiating position of the country. Nevertheless, the formulation of negotiating positions may not always be straightforward, it can well be different from one negotiating issue to the others. In some cases, negotiating positions are subject to consideration at several levels of committees.

Under the Thai bureaucratic system, the Department of Business Economics in the Ministry of Commerce is in charge of multilateral trade issues. The department has been responsible for negotiations within the GATT framework since Thailand has begun its involvement. Nonetheless, in the case of the Uruguay Round, multilateral trade negotiations became very complicated. This is because of an increase in the number of both negotiating issues and countries involved.

The variety and originality of negotiating issues emphasised the necessity to include other government agencies as well as the private sector in the preparatory stage of negotiations. These agencies are normally responsible for the management of trade-related issues. For example, the Ministries of Agriculture and Co-operatives; Public Health; and Science, Technology and Energy set health and safety requirements. Technical regulations and standards are administered by the Ministries of Public Health, Industry, and Agriculture and Co-operatives. The Board of Investment and the Industrial Estate Authority of Thailand set and provide incentives for investment. The Ministry of Science, Technology and Energy sets environmental protection measures. The Bank of Thailand is charged with maintaining monetary stability.

Because of the large number of associated agencies, coordination among them in the determination of negotiating positions was considered to be difficult. Therefore, to improve the efficiency of the formulation of negotiating positions, the Thai government set up the National Committee on the United Nations Conference on Trade and Development (UNCTAD) and the GATT. This committee was chaired by the Minister of Commerce and consisted of the Deputy Minister of Commerce; the Permanent-Secretary of the Ministry of Commerce; the Director-General of the Department of Business Economics; and representatives from the Department of Export Promotion, the Department of Foreign Trade,[9] the National Economic and Social Development Board, the Board of Investment, the Ministries of Industry, Agriculture and Co-operatives, Finance, Communications, Foreign Affairs, the Federation of Thai Industry, the Board of Trade of Thailand, and the Thai Bankers Association.

The National Committee on the UNCTAD and the GATT was the main body responsible for the preparation of the country's negotiating positions and recommended the draft positions to the Committee on International Economic Relations Policy. Then, the positions were submitted to the main cabinet for final approval. The National Committee was categorised into six sub-committees to take charge of specific matters. They included the Sub-Committees on Trade in Agricultural Products and Agricultural Subsidies, on Market Access, on Intellectual Property Protection, on Trade Related Investment Measures, on Trade in Services, and on Functioning of the GATT System. The objective of these committees was to formulate negotiating positions which reflected interests and problems of the country.[10]

In Thailand, the public hardly paid any attention to the Uruguay Round negotiations. The determination of the country's negotiating positions was left to a small group of government officials. Even in academic circles, attention to this matter came very late when the Uruguay Round was nearly completed. This resulted in the domination of government officials in this stage of negotiations. The government as a whole did not give any priority to the Uruguay Round issues. With a few exceptions, most Ministers of Commerce, especially professional politicians, ignored the Uruguay Round negotiations. This may be because most ordinary Thai voters did not properly understand Uruguay Round issues and how these issues could affect their lives. Moreover, the GATT itself was a complicated topic. It carried not only economic but also legal implications.

Furthermore, the Uruguay Round negotiations rarely produced an immediate impact on politicians' constituencies. As a result, it would be difficult to relate Uruguay Round issues to people's well-being. Consequently, Thai voters were not aware of the Uruguay Round negotiations. Because of the lack of understanding and interest on the issues among Thai people, this enabled politicians to leave this matter to officials. Apart from this reason, Thai politicians are likely to prefer a ministerial job which involved government procurement or rent-seeking activities. In the case of the Uruguay Round negotiations, the Minister of Commerce usually assigned a deputy minister to take charge of the Department of Business Economics which was directly responsible for Thailand's trade negotiations. Meanwhile, the minister himself tends to be involved actively in the administration of the Department of Internal Trade, and the Department of Foreign Trade. This is because these departments control the allocation of various forms of quotas. This kind of politicians' behaviour reflects the corruption-prone culture of the Thai bureaucratic system.

Among the six ministers who took charge of the Ministry of Commerce during the Uruguay Round-year (1986-94), only Amaret Sila-on gave priority to the negotiations. He led the Thai delegation himself at a number of meetings. However, Amaret was not an elected politician, he came from a business background. Two other ministers who played a moderate role in the Uruguay Round negotiations were Subin Pinkayan and Prachuab Chaiyasan (Peter Mytri, 1996: 75).[11] In contrast to the Commerce Ministers, two Deputy Prime Ministers, who were in charge of economic affairs during that time, played an important role in the process of the Uruguay Round negotiations of Thailand. It can be observed that these two Deputy Prime Ministers, i.e. Supachai Panichpakdi and Amnuay Viravan, had experience as government officials.[12] Their technocratic background may be an explanation for their interest in the Uruguay Round trade negotiations.

The main negotiating positions of Thailand in the Uruguay Round were the improvement of rules and dispute settlement procedures of the GATT, the abolition of subsidies and quantitative restrictions on agricultural products, and the inclusion of textiles and clothing into the GATT. To achieve these objectives, Thailand agreed to negotiate with other countries on new issues, such as trade in services, TRIPs, and TRIMs.

Thailand's negotiating positions in the Uruguay Round on manufacturing were determined by the Sub-Committee on Market Access. Since the main issue of negotiation on market access for manufactured products involved reductions in tariffs, the Tariff Committee and the Fiscal Policy Office also played a major role in determining negotiating positions on this issue.[13] This is because both the Tariff Committee and the Fiscal Policy Office are responsible for the determination of tariffs in Thailand. The Tariff Committee is chaired by the Permanent-Secretary of the Ministry of Finance and consists of representatives from a number of government agencies, i.e. the Ministries of Commerce, Industry, the Bank of Thailand, and the

Board of Investment. The Fiscal Policy Office is a central policy agency in the Ministry of Finance. The Office is charged with the formulation of the country's fiscal policy including taxation.

Apart from the public sector, the private sector took part in the formulation of Thailand's negotiating positions as well. In the manufacturing sector, businesses formed their own interest groups which took the form of trade associations, chambers of commerce, and so on. These interest groups operated to assure that their interests were well expressed in the country's policy and positions.

Thailand's negotiating positions on manufacturing were to reduce its own tariffs and bind more tariff lines with the GATT. These negotiating positions were determined based on a hypothesis that more open markets would encourage producers to cut their costs of production. Consequently, their competitiveness would improve. It would eventually benefit consumers and the economy as a whole.[14] This hypothesis reflects the liberal philosophy of the Thai negotiators who believe in the free and open market system.

For Thailand, negotiations on tariff reductions carry implications for both trade and financial policy. On the one hand, the level of tariff reductions is determined by the Tariff Committee whose main concern lies in maintaining the financial stability of the country. On the other hand, the negotiations themselves are undertaken by the Department of Business Economics whose objective is to maximise trading opportunities. Objectives of trade creation and financial stability can be contradictory. To accomplish overall national economic goals, the Thai government sometimes needs to sacrifice one goal to achieve others. Thailand's negotiating positions need to be carefully balanced between advantages and disadvantages of tariff reductions.

Peter Mytri (1996: 4) provided an example of this conflict of interests which took place at the end of the Uruguay Round. Thailand produced its tariff schedules which are bound at the ceiling rates. To increase its bargaining power, the Thai Deputy Prime Minister, Supachai Panichpakdi, who led the Thai negotiators, proposed to reduce bound rates provided that trading partners agreed to reduce their tariffs on items affecting Thai interests. According to this proposal, Thailand would not lose any tariff revenue since its bound rates are ceiling rates which are higher than applied rates. But Thailand could have enjoyed lower tariffs in importing markets if trading partners had accepted this proposal. The only disadvantage was the loss of flexibility in managing the tariff system because Thailand would not be able to raise tariffs above the bound levels in the future. However, the Tariff Committee disapproved this proposal.

The domination of financial over trade issues emphasises the fact that the Ministry of Finance, particularly the Tariff Committee and the Fiscal Policy Office, still aims at providing effective protection for domestic industries. This also reflects the fact that the objective of the government's tariff restructuring programme was to rationalise rather than liberalise the trade and tariff structure.[15] A senior official of the Ministry of Commerce commented that the use of ceiling rates as bound rates might be a good negotiating strategy. But the necessity of this action should be carefully considered, since trading partners may regard the action as insincere.

The Uruguay Round Agreement on Market Access only determined that tariffs on manufactured products must be cut on average by at least 30 per cent. The agreement did not set the minimum tariff reduction for each product. This flexible rule allowed the Thai government to respond to the request of private businesses. Nevertheless, in the case of the Uruguay Round negotiations, the private sector did not play any extensive role in the formulation of negotiating positions. However, there was an exception in the case of the automobile industry. This industry tried to influence the country's positions which related to its interests. Its main concerns were to maintain tariffs on motor vehicles at a high level and introduce import bans on small cars. Since its beginning in the early 1960s, the automobile industry has enjoyed high levels of protection from the government. One of the industry's major achievement in securing protection was in 1978 during the government of General Kriengsak Chamanand. The government increased tariffs on completely built-up cars from 80 to 150 per cent and on completely knocked-down cars from 50 to 80 per cent and imposed an import ban on small completely built-up cars (Thamavit, 1994: 102). The automobile industry even survived the tariff restructuring programme which had begun in 1990. The industry also succeeded in excluding tariffs on motor vehicles from the tariff binding list of Thailand.

The Uruguay Round allowed its member countries to use either a formula approach or an offer and request approach for their tariff reductions. Moreover, countries may use both approaches at the same time. This enabled countries to negotiate bilaterally with their major trading partners for further reductions in tariffs on some items in exchange for additional cuts in tariffs on products of the latter's interests. In the case that the Thai negotiators received an offer from other countries which requested reductions in tariffs on other items in exchange, they would consult all industries involved before making any decision. The authority would discuss with producers about their common problems. However, the government would not discuss with individual producers but only with trade associations or other organisations representing a large number of producers.[16] In general, government officials would avoid a decision that harmed domestic industries. According to a senior official, the authority intended to protect and assist domestic industries as necessary and there should be no industries negatively affected by the Uruguay Round Agreement. This is because the government realised that most industries would be directly and inevitably affected by the reduction and the abolition of tariffs under the ASEAN Free Trade Area (AFTA) scheme.[17] Under this scheme, tariff reductions and abolition would be applied to almost all commodities traded among member countries. Moreover, the target rates for these reductions were determined based on applied tariff rates. That is, tariffs would decrease from initial applied levels to zero by 2008.[18] Therefore, it is unlikely that the Thai government would be able to help its private enterprises avoid the effects of growing competition from imports from other ASEAN countries.

Like other countries in determining the country's negotiating positions, Thai government officials sometimes faced a conflict of interests among domestic industries. For instance, producers of primary and intermediate goods would like the government to maintain tariffs on their or similar products at a high level to protect the domestic market. However, producers of consumer goods who use intermediate goods as their factors of production would prefer the government to lower tariffs on these products so that their costs of production would go down. In this case, the authority would make a decision based on the necessity of each industry and its importance to the economy.[19]

Thailand's negotiating positions in the Uruguay Round on textiles and clothing were to abolish the MFA which imposed import quotas on textile products from developing countries. On this issue, there is evidence of pressure from outside the government in the formulation of negotiating positions. At first, interest groups in textile and clothing industries were uncertain about the abolition of import quotas. This is because they considered that Thailand would benefit from the fact that its competitors were also restricted by these quotas (Peter Mytri, 1995: 187). However, when the expiry date of the MFA was approaching, concerns that importing countries might apply other restrictive measures were widespread. Interest groups led by the Thai Garment Manufacturers Association expressed their great concerns about the prospect of more protected export markets. The association and its colleagues realised the importance of the inclusion of textiles and clothing back into the GATT agreement. Therefore, they supported the government's positions to abolish import quotas imposed under the MFA. In fact, there was regular consultation between government officials and the textile and clothing associations. As a result, the official Thai negotiating position in the Uruguay Round on textiles and clothing was close to that of the associations (Peter Mytri, 1991: 18).

Agriculture was, in some respects, the most important sector in Thailand. Although, in recent years, the importance of this sector has decreased in terms of its contribution to GNP and exports, it is still responsible for the largest share in the country's employment. Agriculture has been an important factor which determines both economic and political stability of the country. In addition, it was the main reason for Thailand to become actively involved in the Uruguay Round.

By the time Thailand became a member of the GATT in 1982, the country's export value was less than 150 billion baht compared with 1,500 billion baht in 1996. Furthermore, export growth decreased by about 6 per cent in 1983. A very low export value together with decreasing export growth created a protective environment and sentiment in the country. These conditions made it almost impossible for the government to negotiate tariff concessions with other countries.[20]

Nonetheless, in 1985, the problems of the agricultural sector escalated when the price of paddy (unmilled rice) fell to about 2,000 baht per tonne. The situation got worse when the rewritten US Food Security Act was enacted in April 1986. This new law caused a stir in Thailand since it provided an increased amount of new subsidies for

American rice products. Under this law, the United States government would spend about 25 billion baht (US$ 1 billion) to support rice farmers in the first 12 months of the new act. At the same time, Thai rice exports to the EU were subject to surcharges. This made Thai rice unable to compete with local products which were supported by the Common Agricultural Policy of the EU. Moreover, other Thai agricultural products were restrained by import restrictions, particularly in the case of tapioca which was subject to import quotas by the EU. These situations encouraged the Thai government to participate in the Uruguay Round negotiations with the objective of liberalising the international agricultural market.

Thailand's negotiating positions in the Uruguay Round on agriculture were determined by the Sub-Committee on Trade in Agricultural Products and Agricultural Subsidies. The goals of Thailand in the negotiations were the abolition of all quantitative restrictions on agricultural imports as well as all subsidies, both internal and export. These negotiating positions of Thailand were formulated based on a free-trade principle.[21] It is considered that Thailand has a comparative advantage in agriculture. In the short run, the country may have to face fierce competition from cheap imports which may cause price cutting in the domestic market. As a result, inefficient local producers may lose their market shares. However, given some time for them to adjust, they should be able to improve their competitiveness and regain their market shares. Moreover, Thailand might be able to capture larger market shares in the world market.

According to an official of the Ministry of Commerce, the Ministry tried to explain Thai negotiating positions on agricultural issues to the public to prevent the misunderstanding and tension that might have occurred in some sensitive industries, e.g. sugar. This was undertaken by demonstrating the whole picture of trade liberalisation and a chance for export expansion.[22]

The Uruguay Round Agreement on agriculture banned the use of all quantitative restrictions on agricultural products which must be converted into tariffs. To ensure the minimum market access for imports, tariff-quotas were introduced. This means that the Thai government would set a certain amount of agricultural imports which would be subject to very low tariff rates. This amount can be called in-quota imports. Imports exceeding this certain amount or above-quota imports would be charged with higher rates of tariffs. Furthermore, tariffs on all agricultural products, including tariffs from tariffication, would be bound.

Since the agreement applied very strict rules to agriculture, the Thai authorities would have been unable to respond to the demand of the private sector, if it had put pressure on the government. Nevertheless, there is no clear evidence suggesting the influence of the private sector either in the determination of negotiating positions or during the negotiations themselves, despite the fact that interest groups in the agricultural sector are powerful and have a strong and close relationship with politicians. An outstanding example is the case of sugar and sugarcane industries. A number of large sugarcane growers and millers are current or former members of the House of Representatives or the cabinet and some of them have been major financial contributors to political parties.[23] Nonetheless, government officials still enjoyed a high degree of autonomy during the process of negotiations. This may be because these interest groups lack knowledge, understanding, and interest in the Uruguay Round negotiations.

The competition between the United States and the EU to subsidise their agricultural products was very intense and the scope of their subsidisation was very extensive and covered a large number of products. As a result, the level of world prices of these products was falling. This caused severe problems to other agricultural exporting countries, i.e. Uruguay, Argentina, Brazil, Australia, and New Zealand. Therefore, they met for the first time in March 1986 to discuss their problems. The number of countries increased to 14 when they met for the second time. These 14 countries included the above five countries, and also Canada, Chile, Colombia, Fiji, Hungary, Indonesia, Malaysia, the Philippines, and Thailand. Ministers of these countries met at Cairns, Australia, in August 1986 to launch the group which was called the "Cairns Group".

All members of the Cairns Group suffered from import restrictions and domestic agricultural support applied by the United States and the EU. Therefore, the common negotiating positions of the group were to abolish or reduce the use of all restrictions and support on agricultural goods. These positions were close to those of Thailand.

This allowed Thailand to maintain its original positions and, at the same time, harmonise its interests with others. Although the Cairns Group was collectively opposed to farm subsidies and protection on agriculture, positions of each member were different to a certain degree. For example, Canada's position was to maintain some internal support for dairy products because of the political sensitivity of this industry (Peter Mytri, 1995: 144). Canada's tendency to move towards protection caused disputes in the group and made other members feel uncomfortable.[24]

In fact, all member countries of the Cairns Group provided different kinds of protection and subsidies for their agriculture. For Thailand, protection for agricultural products was not systematic. Instead, it took a form of the government's intervention when and where problems occurred.[25] The intervention was temporarily undertaken by relevant government agencies on a case-by-case basis. Although the structure of the agricultural sector and the level of protection of Cairns' members were different, these differences were very well managed. This is because, firstly, protection applied by member countries was not as elaborate as that of the United States and the EU. The Cairns Group did not have enough resources to sponsor subsidisation programmes on the same scale as that of the United States and the EU. Thus, they considered the liberalisation of the agricultural sector as their best option. Secondly, the Cairns' proposal to abolish all protection on agriculture was a long-term programme and provided some exemptions for developing countries. As a result, this proposal was quite flexible and helped to settle the differences between developed and developing countries in the group.[26]

From its launch in 1986, the role of the Cairns Group in the Uruguay Round negotiations had been extensive. Hamilton and Whalley (1989: 550-5) suggested that coalitions of countries in the Uruguay Round can be divided into four groups according to their objectives. These objectives are agenda moving, proposal making, blocking, and negotiating. Since its beginning, the Cairns Group had been involved in the Uruguay Round mainly to put agriculture into the negotiation agenda. Moreover, the group submitted its proposal for the abolition of protection on agriculture. It can be said that the roles of the group, both agenda moving and proposal making, were recognised by participants of the Uruguay Round. Furthermore, the Cairns Group tried to find compromise solutions for disputes between the United States and the EU on the level and the method of concessions. Though the Cairns Group's positions were similar to those of the United States, the group was more focused on the possibility of reaching an agreement than the United States.

Apart from its role as a member of the Cairns Group in the negotiations on agriculture, Thailand also actively participated in negotiations on other issues. Thailand together with other East and Southeast Asian countries made a proposal on safeguard measures. In addition, the Bank of Thailand and the central bank of other Southeast Asian countries submitted a proposal on financial liberalisation.

Thailand's positions in the Uruguay Round negotiations were determined by relevant government agencies. The main agency responsible for international trade negotiations is the Department of Business Economics whose officials are widely recognised by the public for their liberal ideas. Although Thailand's positions in the Uruguay Round were formulated by associated committees, this department was in a position to dominate the final and official positions. Because of its liberal standpoint, the department sometimes had strong arguments with other ministries which had different policy objectives. Even within the Ministry of Commerce, the department had conflicts with other departments whose rent-seeking philosophy still prevails. These departments are normally the agencies which control quotas. They are, for instance, the Department of Internal Trade, and Foreign Trade.

It can be argued that the formulation of Thai negotiating positions in the Uruguay Round was autonomous. With an exception in the case of the automobile industry, there is rarely any evidence suggesting any kind of lobbying activities of interest groups. In fact, the participation of the private sector in the determination of positions was not extensive. Nonetheless, it can be observed that the level of participation of interest groups in the process of position formulation varied across different sectors. In the agricultural sector, the participation of interest groups in the formulation of negotiating positions was far less than that in the manufacturing sector. This may be because of the lack of knowledge and understanding on the Uruguay Round negotiations among interest groups in the agricultural sector. The lack of knowledge can be probably explained by the low level of educational background. The availability of educational facilities is much higher for people in urban areas than in rural areas. The inequality in access to education between people in both areas can partly explain the differences in their enthusiasm towards the Uruguay Round negotiations.

Academics also played some part in the formulation of negotiating positions. However, their enthusiasm towards the Uruguay Round was not extensive compared with other economic issues. It seems that academics were much more actively involved in issues like the devaluation of Thai baht than in trade negotiations. The most active academic on the Uruguay Round's issues was Ammar Siamwalla, a prominent agricultural economist. He supported the positions of the government in liberalising the agricultural sector.

It was mentioned earlier that the formulation of Thailand's positions in the Uruguay Round negotiations can be considered as quite autonomous. This means that the authorities were free to determine negotiating positions according to their principles and judgements without facing any pressure from interest groups. Non-governmental agencies' roles in the formulation of negotiating positions were not extensive.

Thailand's international trade negotiations are a part of the country's trade policy. Therefore, the country's negotiating positions could reflect the direction of its trade policy. Because of this, Thamavit's study on trade policy (1994) carried some implications for this study. In his work, Thamavit studied how Thailand's trade policy is determined. He categorised trade policy into tariff and non-tariff policy. The Ministry of Finance is the main agency responsible for tariff policy whereas the Ministry of Commerce is in charge of non-tariff policy making. Thamavit found that the Ministry of Finance is largely autonomous in terms of tariff policy making. He also pointed out that evidence of rent-seeking activities can be found more often in non-tariff policy making. Since both tariffs and non-tariff measures constitute a large part of Thailand's negotiating positions in the Uruguay Round, Thamavit's findings carry significant implications for the study of Thailand's trade negotiations. In the case of the Uruguay Round, if interest groups had succeeded in asserting their influence on the determination of tariffs or non-tariff measures, it might have taken place in the implementation stage of negotiations. These will be discussed in the next section.

6.4 The Implementation of Thailand's Uruguay Round Commitments

This section will focus on the post-negotiating stage of Thailand's negotiations in the Uruguay Round. As mentioned in section 6.2, the Uruguay Round was the most extensive trade negotiation framework ever carried out. Its agenda covered a wide range of trade and trade-related issues. The conclusion of this round, therefore, inevitably resulted in the reshaping of the world trading system. In the Uruguay Round Agreement, a number of international trade disciplines were changed and some new rules were introduced. Member countries were required to change their internal regulations to conform to the agreement. Thailand as a contracting party of the GATT and a member of the WTO committed itself to the results of the Uruguay Round. This means that Thailand had to amend several of its existing regulations. At the same time, a number of new laws had to be introduced and enforced within a certain time-frame. Some of these changes were undertaken during the Uruguay Round-year but some were to be implemented later.

As discussed in chapter five, Thailand's trade policy measures can be categorised into two main groups: tariffs and non-tariff measures. The Thai tariff system is administered by the Ministry of Finance under the legislative authority of the 1926 Customs law and the 1987 Customs Tariff Decree. Thailand's tariff structure is based on a system of statutory and applied rates. Changes to statutory rates require approval of the parliament whereas modifications to applied tariff rates can be implemented by the Ministry of Finance, subject to approval of the cabinet. The Ministry of Commerce is directly responsible for most non-tariff measures. Various departments of this ministry are in charge of controls on imports and exports; anti-dumping and countervailing measures; and intellectual property issues.

In 1991, Thailand adopted the Harmonised System (HS). At present, there are about 6,500 applied tariff lines at eight-digit level. In 1995, Thailand's applied tariffs on imports ranged from zero to 100 per cent with a simple average of 23.1 per cent. An average tariff rate for agricultural imports was at 38.6 per cent while the rate for manufactured imports was much lower at 22.6 per cent (The WTO b, 1995: 34).

However, the tariff restructuring programme, started in 1990, is likely to reduce the average applied tariff rate to 17 per cent by 1997.

Under Thailand's tariff schedule given at the end of the Uruguay Round, the country's average bound tariff will be about 29 per cent in 2004 compared to an initial negotiating level of about 40 per cent. About 60 per cent of tariff lines will be in the 25 - 30 per cent range (The WTO b, 1995: 36). It can be seen that tariff reductions which are implemented unilaterally under the government's reform programme will bring about deeper cuts in the applied tariff rates than reductions under the Uruguay Round's tariff schedule. This indicates that for many sectors, Uruguay Round commitments of Thailand are already reflected in the applied rates (The WTO b, 1995: 36).

For agriculture, as a result of the Uruguay Round, Thailand has committed itself to cut tariffs by an average of 24 per cent from the initial rates. The final simple average tariff on agriculture will be about 35 per cent by 2004. All quotas previously imposed on agricultural imports were required to convert to tariffs. Tariff-quotas were also applied to 23 agricultural product groups which were subject to tariffication (Table 6.3). These tariff-quotas were designed to ensure minimum access for agricultural imports to the Thai market at low tariff rates. The significant feature of tariff reductions in agriculture is that, with a few exceptions, initial bindings were generally at applied rates.[27] The share of tariff bindings in agriculture of Thailand rose from five per cent before the Uruguay Round to about 98 per cent after the round. The highest final bound rates were for raw silk (226 per cent), onion seeds (218 per cent), and diary products (216 per cent) (Table 6.3). Apart from the Packing Credit Scheme, which is consistent with the Uruguay Round Agreement on Agriculture,[28] Thailand did not provide export subsidies for agricultural products in the year the agreement came into effect. Therefore, Thailand has no commitment to reduce its subsidies. Nevertheless, Thailand cannot introduce any export subsidy now or in the future. At present, Thailand provides domestic support for the producers of paddy, fresh milk, sugar cane, coffee beans, and corn. The levels of domestic support for these products are to drop by about 13 per cent from 21.8 billion baht in 1995 to 19 billion baht in 2004 (Table 6.4). According to a senior official, Thailand's commitment on reductions in agricultural support can be considered negligible.[29]

For manufacturing, the average tariff reduction agreed by Thailand in the Uruguay Round was about 28 per cent which was slightly below the Uruguay Round target level of 33 per cent. However, Hertel et al. (1996: 184) pointed out that the largest reductions in manufacturing tariffs from the pre- to post-round rates appear in South Korea, Thailand, and South Asia. Thailand's average bound tariff fell to about 28 per cent from an initial negotiating level of about 37 per cent. Nonetheless, bound levels in manufacturing were generally above the currently applied levels. This means that Thailand's applied rates for manufactured imports in 1995 were already at levels equal to, or lower than its Uruguay Round tariff commitments. The share of tariff bindings increased from two per cent to 68 per cent, covering 70 per cent of manufactured imports. The lowest levels of tariff bindings were animal feeds (14.5 per cent), wood products (20.4 per cent), fertilizers and pesticides (25.1 per cent), metal products (25.6 per cent), and computing machinery (26.3 per cent) (Table 6.5).

Generally, the implementation of Uruguay Round tariff commitments of Thailand was quite straightforward. Government officials enjoyed a high degree of autonomy in implementing these commitments. There was no evidence of interest groups' influence in the implementation of tariff commitments. In fact, interest groups were rarely involved in the implementing process.

For non-tariff policy measures, some restrictions continue to be used by the Thai government for some specific reasons, such as for public health, for public morals, and for national economic security.[30] However, the use of these restrictions must be compatible with the Uruguay Round Agreement. These non-tariff measures include surcharges, licensing, quotas, performance requirements, state trading, safeguard actions, and so on. From the 1960s to the 1980s, the government employed these measures to pursue its policy of import substitution and export promotion. Since the early 1990s, as Thailand's trade policy shifted towards an outward-oriented strategy, the importance of these non-tariff measures has decreased significantly. This trend was reaffirmed by the conclusion of the Uruguay Round Agreement on Agriculture which prohibits the use of all quantitative restrictions on agricultural products. In spite of these facts, non-tariff measures still attract the attention of the private sector. This is because the implementation of most non-tariff restrictions is under the discretionary power of only some specific agencies, mostly the Ministry of Commerce. This allows interest groups to acquire non-tariff protection more easily than tariff protection.

As argued in an earlier section, there is hardly any evidence of the influence of interest groups in the formulation of Thailand's negotiating positions as well as in the negotiations in the Uruguay Round. This section examines the implementation stage of the Uruguay Round negotiations. Although Thailand has committed itself to the Uruguay Round Agreement, it still enjoyed some flexibility in complying with the agreement. As a developing country, Thailand has a longer time-frame to implement its Uruguay Round commitments. This provides more room for the Thai authorities to manoeuvre their policy measures. This also means more opportunities for interest groups to exert their pressure on the authorities.

The Uruguay Round Agreement on Agriculture required that non-tariff import restrictions be subject to tariffication. Tariff-quotas were introduced to distinguish tariff rates imposed on in-quota imports from the ones on above-quota imports (Table 6.3). The tariff rates imposed on above-quota imports are usually fixed at an unreasonably high level. These rates are supposed to be high enough to discourage importation (Peter Mytri, 1996: 78-9). Differences in tariff rates imposed on different levels of imports could cause fierce competition among importers to obtain quotas. These differences could also create an environment suitable for rent-seeking behaviour. For a number of products subject to tariffication, state trading organisations are the exclusive recipients of in-quota import allocations. For example, imports of unmanufactured tobacco are allocated only to the Tobacco Monopoly, and allocations for fresh or chilled potatoes are made only to the Public Warehouse Organisation (The WT0 b, 1995: 76). However, the most criticised case is allocations of onion seeds to the Onion Growers' Cooperative. This can be regarded as an attempt by the Thai government to avoid the Uruguay Round commitments.[31] This is because growers are less likely to import the products they grow. Nonetheless, there is no clear evidence to suggest that the relevant interest groups put pressure on the government over this issue. This may be an attempt solely initiated by the authorities to protect domestic onion growers.

The implementation of Uruguay Round commitments on Anti-Dumping and Countervailing Actions also attracted the attention of the private sector. Thailand's anti-dumping and countervailing duty regulation is administered by a government committee under the Ministry of Commerce.[32] Anti-dumping and countervailing actions are undertaken on the basis of a written complaint submitted by a majority of the domestic producers concerned. This means that interest groups can be directly involved in the anti-dumping and countervailing investigation. Nevertheless, the degree of influence of interest groups on the investigating process depends on the interaction between the authorities and the groups. An example is the case of dumping investigations in the steel industry during 1996-97. The investigation was initiated as a result of the filing of a petition by Siam-Yamato Steel Co., Ltd. The company was the only producer of H-shaped sections of iron or non-alloy steel in Thailand. It complained that imports of the above products from Poland were being dumped and such dumped imports had caused an injury to the domestic industry. The Ministry of Commerce via the responsible committee started an investigation and found a significant dumping margin. The ministry announced the imposition of anti-dumping duties on these products from Poland. At the same time, Sahaviriya Steel Public Co., Ltd. complained that dumping of hot-rolled sheet steel from Ukraine, Russia, and China had hurt the domestic producers. An investigation on this issue was launched and evidence of dumping was found. The Thai government imposed anti-dumping duties on hot-rolled sheet steel imports from Ukraine and Russia. Nonetheless, there was no substantial evidence of dumping from China.

Along with the dumping investigation, the steel producers also asked the Thai Board of Investment to impose import surcharges on some steel products. The Board responded by imposing surcharges on imports of certain steel products. This resulted in widespread accusations that the real motive of the collection of these surcharges was to protect one steel producer who was later named a senator (Bangkok Post, 27 September 1996: 11). Nonetheless, there was no conclusive evidence for this allegation. The imposition of surcharges can be undertaken without any investigation. The Uruguay Round Agreement has no rules governing the use of surcharges. The only requirement is that import duties together with surcharges must not exceed tariff binding levels.

Although the private sector could be directly involved in the investigation of dumping, it could not be concluded that this sector succeeded in influencing the results of the investigation. The Uruguay Round Agreement set several guidelines on dumping investigation procedures. The organisation responsible for the investigation has to follow these guidelines strictly. If the dumping investigation fails to meet the standard set by the Uruguay Round Agreement, exporting countries may pursue the issue to the WTO's Dispute Settlement Body. The authorities could not impose anti-dumping duties without conclusive evidence of dumping otherwise their country may face retaliation from exporting countries. Moreover, the investigation has to establish that dumped products caused an injury to the domestic producers if anti-dumping actions are to be taken. In addition, the Uruguay Round Agreement on Anti-Dumping requires transparency of the dumping investigation. Therefore, it is not likely that interest groups could influence the outcome of the investigation. This is in line with the fact that some investigations found no evidence of dumping of products concerned in the domestic market. Furthermore, some complaints filed by some industries were rejected by the investigating committee, even before the investigation started. The rejection was determined on the ground that there were no apparent injuries in the concerned industries. The evidence discussed here and above enable this study to argue that the Thai authorities have been, by an large, autonomous in implementing Uruguay Round commitments on anti-dumping and countervailing actions.

As analysed earlier, there may be some evidence indicating an intention of the Thai authorities to help certain groups avoid the effects of the implementation of Uruguay Round commitments. The Thai government allocated the in-quotas of some agricultural imports only to some organisations or interest groups. However, there is no evidence of any lobbying activity by these interest groups. Therefore, it could not be suggested that the allocation was the government's response to the demand of interest groups. As the link between interest groups' influence and government's actions cannot be established, it can be argued that the implementation of Uruguay Round commitments, both tariffs and non-tariff measures, of the Thai authorities was autonomous. However, this argument is not totally consistent with Thamavit's findings (1994: 64). He argued that the determination of tariffs is more autonomous than that of non-tariff measures. He also pointed out that evidence of rent-seeking activities can be found more often in non-tariff policy making. The inconsistency of Thamavit's study with this study may result from the difference in frameworks. He analysed the determination of trade policy as a whole whereas this study concentrates on Thailand's trade negotiations in the Uruguay Round. Nevertheless, similar to Thamavit's, this study found that interest groups are involved in the implementation of non-tariff commitments more often than in the implementation of tariff commitments.

6.5 Conclusions

This chapter has examined Thailand's multilateral trade negotiations. It concentrates on the country's negotiations in the GATT's Uruguay Round. Thailand has been involved in the GATT since 1973. Nonetheless, it started to engage actively in the GATT only in 1986 when the Uruguay Round was launched. Thailand negotiated in the Uruguay Round not only as a single country but also as a member of the ASEAN and the Cairns Group. As discussed in previous sections, the process of international trade negotiations can be divided into three stages: pre-negotiating, negotiating, and post-negotiating. It was suggested in section 6.3 that the formulation of Thailand's negotiating positions and the country's negotiations in the Uruguay Round were autonomous. Thailand's negotiating positions in the Uruguay Round were determined solely by government officials. The private sector played a very limited role in the formulation of negotiating positions. In general, there was little or no evidence of any form of influence asserted by interest groups during the first two stages of negotiations.

In section 6.4, the last stage of negotiations is analysed. It is argued that the implementation of Thailand's Uruguay Round commitments is also, on the whole, autonomous. Generally, there was no evidence of interest groups' influence in the implementation of tariff commitments on both manufacturing and agriculture. For non-tariff commitments, although Thailand was entitled to more flexible conditions in complying with the Uruguay Round agreement, there was no clear evidence to conclude that interest groups succeeded in exploiting these conditions and influencing the process of implementation. Therefore, it can be summed up that Thailand's Uruguay Round negotiations were generally autonomous.

[1]There is a considerable literature on the GATT. For example, the general background and principles are examined by Jackson (1992). One of the most recent and comprehensive analyses of the GATT and the

WTO, and their implications, is Hoekman and Kostecki (1996). The impact of the Uruguay Round on developing countries is discussed in Martin and Winters (eds.) (1996).
[2]Associated agreements are sometimes called "Side Agreements" or "Codes". Most of these agreements were amended and multilateralised at the conclusion of the Uruguay Round.
[3]See more on this in, for example, Peter Mytri Ungphakorn (1995).
[4]Tariff concessions made by member countries are inscribed in countries' tariff schedule. This schedule includes products (tariff lines) on which countries willing to make commitments and the level of associated bound tariff rates.
[5]For example, if the annual growth rates of import quotas for textiles and clothing under the MFA are 3 per cent, these growth rates will be increased to 3.48 per cent (3 x 1.16) in the first stage. The rates will be 4.35 per cent (3.48 x 1.25) in the second stage, and 5.52 per cent (4.35 x 1.27) in the third stage.
[6]Details of the Agreement on TRIMs, TRIPs, anti-dumping, and subsidies and countervailing measures were discussed in chapter five.
[7]These plurilateral agreements consisted of the Agreement on Trade in Civil Aircraft, on Government Procurement, the International Dairy Agreement, and the International Bovine Meat Agreement.
[8]Details on this were reviewed in chapter two.
[9]Both the Department of Export Promotion and the Department of Foreign Trade are in the Ministry of Commerce.
[10]From an interview with an official of the Department of Business Economics.
[11]Prachuab Chaiyasan was a Deputy Minister of Commerce during 1986-88. He was in charge of the Department of Business Economics and had a direct responsibility for the Uruguay Round negotiations of Thailand.
[12]Supachai Panichpakdi was a former official of the Bank of Thailand whereas Amnuay Viravan was a former Permanent-Secretary of the Ministry of Finance.
[13]For details on the Fiscal Policy Office, see chapter four.
[14]From an interview with H.E. Kirk-krai Jirapaet, the Thai Ambassador to the WTO.
[15]Details of the government's tariff restructuring programme can be seen in chapter five.
[16]From an interview with H.E. Kirk-krai Jirapaet, the Thai Ambassador to the WTO.
[17]The Association of Southeast Asian Nations (ASEAN) consists of nine member countries, i.e. Brunei, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam. The ASEAN agreed in 1992 to establish ASEAN Free Trade Area (AFTA) within 2008.
[18]From an interview with Thawatchai Sophastienphong, Deputy Director-General of the Department of Business Economics.
[19]From an interview with H.E. Kirk-krai Jirapaet, the Thai Ambassador to the WTO.
[20]From an interview with H.E. Kirk-krai Jirapaet, the Thai Ambassador to the WTO.
[21]From an interview with H.E. Kirk-krai Jirapaet, the Thai Ambassador to the WTO.
[22]From an interview with a senior official of the Ministry of Commerce.
[23]From an interview with an official of the Ministry of Commerce.
[24]From an interview with H.E. Kirk-krai Jirapaet, the Thai Ambassador to the WTO.
[25]From an interview with H.E. Kirk-krai Jirapaet, the Thai Ambassador to the WTO.
[26]From an interview with H.E. Kirk-krai Jirapaet, the Thai Ambassador to the WTO.
[27]The exceptions include vegetable, fruit, processed meat products, and canned foods, which further tariff reductions are to be implemented.
[28]Details of the Packing Credit scheme were discussed in chapter five.
[29]From an interview with an official of the Thai Permanent Mission to the WTO.
[30]Details of non-tariff restrictions were discussed in chapter five.
[31]From an interview with H.E. Kirk-krai Jirapaet, the Thai Ambassador to the WTO.
[32]Details of anti-dumping and countervailing actions in Thailand were also discussed in chapter five.

Table 6.1 GATT Trade Rounds
1947 - 1994

Round	Year	Participating Countries	Average Tariff Cuts (%)	Average Tariff Afterwards (%)
Geneva	1947	23	35	n/a
Annecy	1949	33	n/a	n/a
Torquay	1951	38	n/a	n/a
Geneva	1956	26	n/a	n/a
Dillon	1960-61	45	n/a	n/a
Kennedy	1964-67	62	35	8.7
Tokyo	1973-79	102	34	4.7
Uruguay	1986-94	128	38	2.6

Source: Jackson (1992: 53), the WTO a (1995: 9).

Table 6.2

Pre- and Post-Uruguay Round Average Tariffs and Tariff Cuts for Manufactured products (%)

	Destinations								
	Industrial economies			Developing economies			All economies		
	Pre-round	Post-round	Reductions	Pre round	Post-round	Reductions	Pre-round	Post-round	Reductions
Industrial economies	3.9	2.3	40	19.6	14.7	25	6.3	4.2	33
Developing economies	5.5	3.9	28	13.0	10.3	21	8.3	6.1	26
All economies	4.1	2.6	38	18.8	14.2	25	6.3	4.3	32

Source: Abreu (1996: 63)

Table 6.3

Tariffication of Agricultural Products and Tariff-Quotas of Thailand

Agricultural Products	Tariff-Quota Quantity Initial (Tonne)	Tariff-Quota Quantity Final (Tonne)	In-Quota Tariff Rates (%)	Initial Bound Rates 1995 (%)	Final Bound Rates 2004 (%)
Dried longans	5	8	30	59	53
Copra	694	1,157	20	40	36
Not-concentrated milk and cream	2,286	2,400	20	46	41
Concentrated milk and cream	45,000	55,000	20	240	216
Potatoes	288	302	27	139	125
Onions	348	365	27	158	142
Garlic	62	65	27	63	57
Coconut	2,312	2,427	20	60	54
Coffee	5	5.25	30	100	90
Tea	596	625	30	100	90
Pepper	43	45	27	57	51
Maize	52,096	54,700	20	81	73
Rice	237,863	249,757	30	58	52
Soybeans	10,402	10,922	20	89	80
Onion seeds	3	3.15	30	242	218
Soybean oil	2,173	2,281	20	162	146
Palm oil	4,629	4,860	20	159	143
Coconut oil	382	401	20	58	52
Cane or beet sugar	13,105	13,760	65	104	94
Instant coffee	128	134	40	55	49
Soybean cake	219,580	230,559	20	148	133
Tobacco leaves	6,129	6,435	60	80	72
Raw silk	460	483	30	257	226

Source: The WTO b (1995: 38)

Table 6.4

Domestic Agricultural Support Commitments of Thailand (million baht) 1995 - 2004

Year	Commitment levels (million baht)
1995	21,816.41
1996	21,506.64
1997	21,196.87
1998	20,887.10
1999	20,577.33
2000	20,267.56
2001	19,957.79
2002	19,648.02
2003	19,338.25
2004	19,028.48

Source: The WTO b (1995: 75)

Table 6.5

Tariff Rates for Manufactured Products of Thailand (%)
1995, 2004

	Simple average applied rates 1995	Uruguay Round final bound rates 2004
Food products	43.5	34.3
Dairy products	28.0	32.1
Canned fruit and vegetable	51.3	36.6
Vegetable oils	24.8	36.5
Sugar	36.5	79.2
Animal feeds	15.5	14.5
Beverages	53.1	50.5
Soft drinks	35.0	28.8
Tobacco	51.4	60.0
Textiles	30.0	28.5
Wearing apparel	41.3	31.0
Leather products	24.5	30.4
Footwear	38.6	30.0
Wood products	22.4	20.4
Paper products	18.5	27.1
Fertilizers and pesticides	9.3	25.1
Chemical products	15.8	29.6
Rubber products	33.3	40.7
Computing machinery	13.8	26.3
Electrical machinery	16.2	30.6
Transport equipment	26.2	35.6
Metal products	16.6	25.6
Plastic products	27.8	31.5
Glass products	27.5	30.2
Watches and clocks	23.7	28.2

Source: The WTO b (1995: 157-9)

Chapter 7

Thailand's Bilateral Trade Negotiations: The Case of Thai-US Negotiations on TRIPs

7.1 Introduction

This chapter will examine bilateral trade negotiations of Thailand. The case of negotiations between Thailand and the United States on Trade-Related Intellectual Property Rights (TRIPs) will be the main focus. This is because the United States has been one of Thailand's most important trading partners. The countries have developed long and close trade ties since the early nineteenth century. In recent years, apart from trade in goods, a number of trade-related issues have also played an important role in trade links between the two countries. Nonetheless, as the international trade environment has become more complicated, their trade relations became correspondingly strained. In a world of limited resources, it seems unlikely for two trading partners to benefit equally from bilateral trade relations. With the rapid expansion in trade between both countries, the mutual interests of Thailand and the United States began to clash. Recently, disputes over trade issues, especially ones relating to intellectual property protection, have become evident. These disputes led to United States' threats to sanction Thai exports. Exports have contributed significantly to Thai economic growth and the United States has been one of the largest export markets for Thailand.[1] Therefore, the risk of losing this market threatened the Thai economy as a whole. As a result, disputes over trade and trade-related issues drew wide attention in Thailand. Because of the importance of these trade disputes, especially over intellectual property protection, negotiations on TRIPs between both countries have been chosen as an example of bilateral trade negotiations of Thailand.

This chapter is organised into six parts. After an introduction, there is a review of trade relations between Thailand and the United States. This shows the importance of the United States to the Thai economy. Thirdly, some general background on US trade law is discussed. Fourthly, Thai-US negotiations on copyrights and GSP are analysed. And the two countries' negotiations on pharmaceutical patents are studied in section five. These two sections analyse a series of negotiations extending from 1985 to 1993. This is an attempt to establish the degree of influence of different Thai players on the process of bilateral negotiations. The degree of autonomy of Thai government officials in the negotiating process is also discussed. The last section contains conclusions.

7.2 Thai-US Trade Relations

Thai-US economic relations began in the early nineteenth century. Economic ties between both countries have taken the forms of trade, investment, and various kinds of cooperation and assistance. From 1950 to 1968, the United States was the principal source of economic assistance to Thailand, with total grants of about US$ 450 million. Nevertheless, recently, US economic grants to Thailand have decreased in importance. After 1957, US economic aid was about US$ 24 million annually. In the 1970s, total US economic aid in the forms of both grants and loans was about US$ 180 million (Chuchart, 1982: 187). At the same time, US investment in Thailand also continuously decreased. The share of US investment in total foreign investment dropped from 40 per cent in the early 1970s to about 10 per cent in the 1990s. In the mid-1980s, the United States was replaced by Japan as the most important foreign investor in Thailand.

The first contact between Thailand and the United States was recorded in 1818 with the exchange of Thai sugar and rice for US firearms. In 1833, both countries signed their first bilateral agreement called " the Treaty of Amity and Commerce ". It became the first such treaty the United States government signed with an Asian country (Chuchart, 1982: 178). Apart from promoting the commercial interests of the two countries, the United States and Thailand had different goals in signing this treaty. The former aimed at assisting US merchants so that they could obtain the same rights as the British whereas the latter aimed at using the United States to counterbalance the power of Great Britain (Pensri, 1982: 14). Nevertheless, the treaty did not improve trade as much as both signatories wanted. Therefore, in 1856, the Treaty of Peace, Friendship, Commerce, and Navigation was signed. This new treaty ensured that both sides agreed on free trade and the United States was allowed to set up a consulate in Thailand. As a result of this treaty, trade between the two countries grew.

From the 1850s to the 1900s, commercial ties between Thailand and the United States continually expanded. Since the 1900s, Thailand started to receive technical assistance from the United States. This assistance was active during 1925-27 when the United States helped Thailand to renegotiate its unequal treaties with European countries (Chuchart, 1982: 182-3).

After the change from the absolute monarchy to constitutional monarchy in 1937, the two countries signed a new Treaty of Friendship, Commerce, and Navigation. This treaty reflected the needs of both countries to overcome the worldwide economic depression by expanding their bilateral trade. The most important aspect of this treaty was the fact that it enabled US corporations to hold land in Thailand. Despite the efforts of both sides, trade between Thailand and the United States did not really expand until after the Second World War. Then, the United States provided loans to Thailand for the rehabilitation of the economy. As a result of the growing economic activities of the Americans in Thailand, the American Chamber of Commerce was founded in 1956. Since its founding, the chamber has actively promoted US trade and investment in Thailand (Chuchart, 1982: 185).

In the 1960s, while trade between the two countries grew constantly, other aspects of their economic relations were also intensified. The relationship between Thailand and the United States was strengthened by the signing of the 1966 Treaty of Amity and Economic Relations. This treaty has become the basis of their trade relations. Nonetheless, it can be argued that the treaty was partly responsible for recent trade disputes between both countries. These disputes will be discussed later.

The US economic and technical assistance had formed the main part of the two countries' relationship for three decades. In the 1950s, US assistance to Thailand focused on the improvement of its infrastructure system. The United States also provided advisory assistance to Thailand. In the early 1960s, it helped the Thai government set up a number of core government agencies, for instance, the Office of the National Economic and Social Development Board, the Bureau of Budget, and the

National Statistics Organisation. This provides an explanation for the US influence over the Thai bureaucratic system. In addition, US military aid also indirectly assisted the building of the Thai economy (Sunthorn, 1986: 127). It can be said that the large infusion of US economic assistance was a result of Thailand's strategic location for the US military operation during the Vietnam War. The main reason for strong economic ties between them was related to security and political factors.

Thailand and the United States continued their intensified but unequal partnership until the mid-1970s when the latter exercised its military withdrawal from mainland Southeast Asia. This withdrawal together with nationalist sentiment in Thailand resulted in the stagnation in their relationship. After a few years of reduced ties, the following decade saw the emergence of new developments in Thai-US relations. Since the security issue decreased in importance and Thailand experienced significant economic growth, economic, particularly trade, issues assumed the high priority place in the Thai-US relationship. Their economic relations have not only been confined to a bilateral level but both countries also have had commitments with each other under a multilateral framework. Consequently, both Thailand and the United States have experienced growing sophistication and diversification in their relationship.

As the Thai economy has become more industrialised following the launch of its export promotion policy since the early 1980s, Thailand's per capita GDP has constantly increased over time. Therefore, US economic assistance and aid was cut accordingly. Economic links between the two countries have recently mainly taken the forms of trade.

Since 1960, trade between Thailand and the United States has rapidly increased from 2.8 billion baht in that year to more than 200 billion baht in 1990 (Table 7.1). From 1990 to 1994, the value of trade between them doubled to about 462 billion baht in 1995. The average growth rate of trade from 1990 to 1995 was about 16 per cent. The United States had enjoyed a trade surplus with Thailand for most of the time. This surplus was at peak in 1980 with a value of more than 15 billion baht. Nevertheless, Thailand's trade balance against the United States gradually improved. In 1985, for the first time since 1960, Thailand gained the momentum in trade balance between the two countries. Thai trade surplus was about 9.6 billion baht in that year (Table 7.1). The rapid expansion of Thai exports to the US market may be explained by the devaluation of the Thai baht against the US dollar which happened earlier in that year. Thai exports to the United States substantially increased from 38 billion baht in 1985 to about 250 billion baht in 1995 (Table 7.1). This significant increase of Thai exports may be attributable to the increase in exports of textiles and garments and various kinds of processed agricultural products.

In 1994, Thai-US trade balance registered a record surplus of 77 billion baht in favour of Thailand. However, the Thai trade surplus decreased dramatically in the following year, to nearly 40 billion baht (Table 7.1). In 1995, export growth fell to 4.7 per cent whereas import growth reached 30 per cent (Table 7.2). This is because of the sharp increase in some particular imports from the United States, for example, electrical machinery and computers and computer parts. In addition, major Thai exports, for instance, integrated circuits, canned seafood, frozen prawns, and television sets and television parts, also performed badly in the US market.

For the past two decades, the export sector has been the driving force for Thai economic growth. Since 1995, the country's export sector has experienced diminishing growth. Thailand's principal exports, for example, textiles and clothing, integrated circuits, electrical appliances, and processed food, have been challenged by cheaper exports from a number of countries. These countries include, for instance, China, Indonesia, Vietnam, and Bangladesh. They have abundant natural resources and cheap labour which enable them to manufacture products more competitively than Thailand. This resulted in the contraction of Thai export growth. Thailand needed to adjust the structure of its export sector to be more flexible and to upgrade the quality of its exports. Nonetheless, during the period of adjustment, losses in export revenue are inevitable. Consequently, when Thailand was struck by financial difficulties in late 1996, its export sector was not in a position to support the financial sector. Therefore, the whole economy collapsed. It can be argued that the considerable reduction of Thai exports to the United States is partly responsible for the country's current economic crisis.

The United States has always been the most important market for Thai exports. From 1991 to 1995, exports to the United States accounted for about 20 per cent of total

Thai exports. At the same time, US products accounted for about 11 per cent of total Thai imports (Table 7.3). The US market is particularly important for the Thai manufacturing sector since a large proportion of Thai manufactured exports is highly dependent on this market. In the early 1990s, about 35 per cent of Thai manufactured exports was directed to the US market compared with about 16 per cent in 1975 (Somsak, 1993: 130). Thus, any change in US trade policy which leads to the protection of its market would affect the Thai economy.

7.3 Section 301 of US Trade Law

Since the mid-1970s, the US government generally changed its trade policy from free trade to strategic trade policy. This change resulted from an increase in its trade deficit caused by the appreciation of the US dollar and the loss of markets, both domestic and export, to the Newly Industrialised Economies (NIEs), e.g. Hong Kong, Taiwan, and South Korea. Nevertheless, the United States increasingly argued that its problems are caused by the unfair trade practices of its trading partners. Therefore, the US government introduced new policies in order to respond to other governments' policies.

The original US trade law which provides the US government with the authority to retaliate against trading partners was Section 301 of the Trade and Tariff Act of 1974 (Bhagwati, 1991: 2). Since then, this law had been amended several times and the Omnibus Trade and Competitiveness Act was enacted in 1988. In this new law, Section 301 was amended in a number of aspects. However, the most important aspect was that the structure of the decision-making process was changed. The role of the executive in this process was diminished. The authority to decide which actions of trading partners could be considered as unfair trade practices was redirected from the President to the US Trade Representative (USTR). The USTR also has power to choose the way to retaliate against trading partners deemed to be pursuing unfair trade practices.

Under Section 301, if the USTR determines that any foreign practice violates or is inconsistent with a trade agreement or is *unjustifiable*,[2] then actions by the USTR to enforce the trade agreement or to obtain the elimination of that practice is *mandatory*.

If the USTR determines that any foreign act is *unreasonable*,[3] then the USTR has *discretionary* authority to take appropriate and feasible actions.

Under Section 301, any person may file a petition with the USTR requesting the President to take actions. The USTR reviews the allegations and must determine within 45 days after receipt of the petition whether to initiate the investigation. The USTR itself may initiate an investigation after consulting with the appropriate private sector body. Generally, the USTR must make the determination within 12 months after the date that the investigation is initiated. If the USTR decides that there are unfair trade practices, it has to implement Section 301 actions within 30 days after the date of the determination (Table 7.4). As for the forms of actions, the USTR is authorised to (a.) suspend, withdraw, or prevent benefits of trade agreement concessions; (b.) impose import duties or other import restrictions on the goods of that foreign country; or (c.) enter into binding agreements that commit the foreign country to eliminate unfair trade practices or provide the United States with compensatory trade benefits (Bhagwati, 1991: 39-40).

Apart from Section 301, the 1988 Omnibus Trade and Competitiveness Act also has a provision to deal with limited market access for US products or the so-called "Super 301". On the basis of Super 301, the USTR is required to submit a National Trade Estimate (NTE) to the Congress every year. The NTE is a report showing foreign barriers to US trade. The USTR has to report commercial value of barriers to US trade of each country within 30 days after the submission of the NTE. Then, within 21 days after the submission of the report, the USTR must start the investigation into trading partners' unfair trade practices. This means that, on the whole, trading partners would have only 51 days to prepare for the Super 301 investigation (Prakarn and Sutham, 1991: 82) (Table 7.4). The USTR would investigate countries with consistent patterns of unfair trade practices. If these practices are found to be unjustifiable or unreasonable, the USTR must try to get the countries to halt them within a certain period of time. If the practices continue, the President must retaliate against an equivalent value of the foreign countries' goods (Milner, 1991: 168).

For Thailand, the most important aspect of Section 301 is the Identification of Intellectual Property Rights Priority Countries or "Special 301". It was particularly designed to deal with trade-related intellectual property protection issues. Special 301 requires the USTR to identify foreign countries that deny adequate and effective protection for US intellectual property. The USTR also has to determine countries, that have policy or practices which have greatest adverse impact on US products and that are not entering into good faith negotiations or making significant progress in bilateral or multilateral negotiations, to be priority countries (Bhagwati, 1991: 44). In general, the USTR must initiate an investigation within 30 days after the identification of Priority Foreign Countries (PFC) is announced (Table 7.4). Apart from the PFC status, the USTR created two lists of countries which conduct unfair trade practices or violate US intellectual property rights. The objective of the creation of these lists was to keep track of targeted countries not marked for immediate retaliation and to force these countries to negotiate with the United States. These lists are Priority Watch List (PWL), and Watch List (WL).

7.4 Thai-US Negotiations on Copyrights and GSP: 1985-1988

In Thailand, the Ministry of Foreign Affairs and the Ministry of Commerce are directly involved in bilateral trade negotiations with the United States. The Ministry of Commerce through the Department of Business Economics is responsible for general issues of negotiation. The Ministry of Foreign Affairs is responsible for coordinating tasks. There are also other government agencies participating in the process of negotiations.

As mentioned earlier, the relationship between Thailand and the United States has been on unequal terms. Thailand has enjoyed privileges under the Generalised System of Preference (GSP) of the United States since 1976. These privileges allowed Thai exports to enter the US market at very low tariff rates. This was the first generation of GSP which the United States granted unconditionally to developing countries. This was extended from January 1976 to December 1984.

Because of an increase in its trade deficit, the United States changed the direction of its GSP scheme. Some conditions were set for countries that want to receive privileges under the second generation of GSP. These conditions included opening the countries' domestic market for US products, protection of labour rights, and providing adequate and effective protection for US intellectual property. During 1985-87, the conditional GSP allowed the United States to put pressure on Thailand on several issues, for example, copyright protection, trademark protection. Since the growth rate of Thai exports under the GSP privileges was nearly 30 per cent per annum, the Thai government decided not to take the risk of losing the GSP. The demands of the United States were met on most issues.

The United States started to demand from the Thai government adequate and effective protection for intellectual property later than it did from other ASEAN countries. This may be because, as Uphoff (1991: 37) argued, by world standards, Thailand already had fairly good intellectual property laws. Moreover, piracy in Thailand was not as widespread as elsewhere in Southeast Asia and was confined to the domestic market. The Thai government was also viewed as cooperative and pragmatic.

The US government had started to assert pressure on Thailand to provide more effective protection for intellectual property rights from the mid-1980s. The main concerns of the United States were over lack of protection for patents and copyrights. Although Thailand had laws for both patent and copyright protection, they were out of date. The 1979 Patent Act did not include protection for pharmaceutical products, agricultural machinery, and food and beverages. The 1978 Copyright Act did not cover US works since the United States was not, at the time, a member of the Berne Convention.[4] This law provided protection for international copyrights provided that other countries are members of international conventions. It did not provide copyright protection through bilateral treaties. Thus, the United States asked the Thai government to amend the copyright law to allow protection to be extended through bilateral treaty, i.e. the 1966 Treaty of Amity and Economic Relations. The United States also demanded that Thailand include protection of computer software in the copyright law.

In 1987, pressure from the United States became more extensive. US private sector organisations, for example, the International Intellectual Property Alliance (IIPA), the Pharmaceutical Manufacturing Association (PMA), and the American Federation of Labour and Congress of Industrial Organisations (AFL-CIO), asked the US government to revoke privileges given to Thailand under the GSP. The IIPA claimed that US companies lost US$ 123 million in Thailand as a result of copyright piracy alone (The Sunday Post, 2 May, 1993: 3). The Thai government, therefore, agreed in principle to amend the 1978 Copyright Act to cover Thailand's bilateral commitments under the 1966 Treaty, but the inclusion of computer software protection was left to parliament's decision. However, the issue caused a major economic and political row. It provoked widespread debate and caused a rift in the Thai cabinet. Eventually, after a period of fighting among members of coalition parties, the government collapsed in April 1988. Prime Minister Prem Tinasulanond dissolved the parliament, nullifying any change in the Copyright Act.

After an election, Thailand had a new Prime Minister, Chatichai Choonhavan. He adopted a more nationalistic position towards intellectual property protection (Uphoff, 1991: 41). To expand his base of support, his son, Kraisak Choonhavan set up a committee of personal advisors for Chatichai.[5] This committee, the so-called "Ban Pitsanuloke" was responsible for policy matters. The main committee consisted of six members whose backgrounds were mainly academic. In addition, they were supported by a research team consisting of lecturers and academics from various universities and institutions. The position of the advisory committee on intellectual property protection was also in line with that of the Prime Minister, academics, and, more importantly, the public. They were concerned that by protecting computer software, Thailand would lose an opportunity to improve its own technological capacity. This is because Thai programmers usually worked by adjusting foreign software (Uphoff, 1991: 39).

In 1989, the United States became a member of the Berne Convention. Since Thailand provides copyright protection for all members of the Berne Convention, US works are automatically protected by Thai copyright law. Therefore, the pressure on the Thai government to amend the 1978 Copyright Act was relieved. However, protection of computer software remained a problem. Although the Juridical Council[6] deemed that computer software is protected by the copyright law, this interpretation was not binding (Uphoff, 1991: 37) and still needed confirmation from the courts. Thus, the US government continued to ask Thailand to clear up this matter.

Although the United States was protected by Thai copyright law, Thailand was listed by several industries as a "high priority" country for intellectual property rights violations. The International Intellectual Property Alliance, the American Film Association, the Interactive Digital Software Association and Motion Picture Association filed petitions against Thailand to the USTR. They claimed that the enforcement of Thai copyright law is not sufficiently effective, resulting in violation of US audio-visual works. The USTR demanded Thailand seriously crack down pirating activities or it could face trade sanctions. The Thai government responded by submitting a bill to amend the copyright law. The new Copyright Act was enacted in 1994.

In an early dispute on the extension of the copyright law to cover US works, Uphoff (1991: 39) pointed out that the fact that a prominent member of the Chart Thai Party, General Pramarn Adireksarn, operated a large network of videotape shops might contribute something to the position of his party on the issue. The Chart Thai Party opposed any change in the copyright law. Nonetheless, the Chart Thai Party's position did not affect the government's positions since the cabinet decided to go ahead with the amendment of the law, but later it was nullified by the dissolution of parliament. In this case, it shows that the Thai government gave in to external pressure while it resisted internal pressure. This indicates the strong explanatory ability of the foreign policy model of the social concern approach for the events during that period.

Apart from an early dispute on protection for US copyrights through bilateral agreements, the determination of Thai positions on copyright protection was largely straightforward. This is because the United States only asked the Thai government to enforce its own law more vigorously. Copyright violations are illegal, thus, any excuse for not accommodating US requests was unacceptable. Although there may be some influential persons or groups who wanted to disrupt the enforcement of the copyright law,[7] there were no legal and moral grounds for them to assert pressure on the government openly.

7.5 Thai-US Negotiations on Pharmaceutical Patents and Section 301 of US Trade Law: 1989-1993

As disputes over copyright protection were settled to a certain degree, the immediate demands of the United States moved to patent protection. The United States via the USTR demanded Thailand amend its patent law to provide protection for pharmaceutical products. The USTR threatened to retaliate by revoking Thai privileges under the US GSP by a level equivalent to the estimated US loss of trade arising from patent violations. This issue became very contentious and sensitive in Thailand. It caused severe divisions within the government as well as among the general public.

Among Thailand's government agencies, the Ministry of Foreign Affairs (MoFA) and the Ministry of Commerce (MC) supported the change in the 1979 Patent Act to accommodate US demands. These two ministries had a long and close working relationship with their US counterparts. The MoFA's position was to avoid any confrontation and maintain a good relationship with the United States. The MC placed priority on expansion of Thai exports. Thus, the two ministries urged the cabinet to make a concession to the United States. Nonetheless, the Ministry of Public Health (MPH), especially the Food and Drug Administration (FDA), opposed any amendment to the patent law. The FDA argued that the inclusion of pharmaceuticals into the Patent Act would directly hurt the Thai people since the price of basic medicines would rise sharply.

The opposition to the amendment of the Patent Act was led by academics from various universities. Student unions and consumer groups also opposed the change. However, it can be seen that, at first, there was rarely any response or comment from major business associations.

The amendment of the Patent Act was also openly opposed by the Prime Minister's personal advisors. They expressed a nationalistic position on trade relations with the United States. Kraisak Choonhavan pointed out that the United States had yet to realise that US companies in Thailand would be the losers if the USTR went ahead with its retaliation plan. He went on to suggest that the United States pay more attention to building up its trade ties with Thailand, rather than spending time working out how to retaliate against it (The Nation, 27 April 1989: 16). Since the advisory team had been positively involved in a number of policy issues, its role in this dispute was recognised by the public. Because of their different views, on several occasions, the MoFA and the MC clashed with the Prime Minister's advisors. The conflict between them became serious when the two sides argued over the formation of a new committee to deal with the country's trade relations (Uphoff, 1991: 41). Both sides needed to be at the core of this new committee. After a series of political and technical discussions, the Prime Minister asked his advisors to keep their profile low. And the new International Economic Relations Policy Committee (IERPC) was set up to handle the country's international trade issues. This committee was dominated by the MoFA and the MC.

The first full-scale negotiation between Thailand and the United States on TRIPs issues was held in November 1988 in Hawaii. On the copyright issue, both sides agreed that the Thai courts should decide whether software was protected under the Copyright Act. On the pharmaceutical patent issue, Thailand proposed to amend its Patent Act to conform with the Uruguay Round agreement within three years after the Round was completed. In the meantime, the Thai government offered to implement interim measures. The measures would provide protection for new US drugs for about 18 months after their introduction to the local market. During this time, the Thai FDA would conduct bio-equivalency tests. Thai companies that seek to register their version of foreign drugs are required to submit to a series of comparison tests to distinguish copies of US products. These Thai proposals were rejected by the US delegation. The US side wanted to "delink" the issue from the GATT (Uphoff, 1991: 42) and asked for interim protection of five years or as long as the present patent law was not amended. The talks concluded without solution.

The United States responded to the situation by revoking GSP privileges for eight Thai exports.[8] The export value of these eight products to the US market was about US$ 165 million a year, and accounted for about 5 per cent of total Thai exports to the United States in 1988 (The Bangkok Post Mid-Year Review, 1989: 61). Although the impact of these GSP cuts was not damaging,[9] it caused grave concerns in Thailand. This was because the United States threatened further cuts if its demands were not met.

The major concern of Thailand was that the 1988 Omnibus Trade and Competitiveness Act was enacted in January 1989. The United States warned that Thailand could face an investigation under a provision of Section 301 of the new law which is known as "Special 301" if there was no significant change in Thailand's positions on intellectual property protection. The United States also asked Thailand to support strongly US positions on TRIPs during the Uruguay Round negotiations. Under a Special 301 provision, the United States could retaliate by cutting or revoking privileges under the GSP for Thai exports. Furthermore, the US government could impose higher import duties on Thai products. This would damage the competitiveness of Thai exports in the US market.

The USTR set the deadline for the announcement of the list of priority countries to be subjected to Section 301 actions. In response, the Thai government set out to prevent the country from being included in the USTR's list. A number of associated government agencies actively employed various measures to keep Thailand out of the list. The IERPC formed two working groups to deal with Thai-US trade problems. The Thai-US Relations Sub-committee was to develop Thailand's positions on pharmaceutical patents (The Bangkok Post, 24 March 1989). The FDA was instructed to map out measures for discussions with its US counterparts. The MoFA began lobbying with US ministry officials. Apart from meeting with government officials, MoFA officials also met several US businessmen to win pledges of support for Thailand.

The USTR submitted a request for consultations on intellectual property right protection issues. The consultations would be a continuation of bilateral talks between Thailand and the United States. They would centre on Thailand's benefits under the US GSP. Although threats of US retaliation were increasing, the Thai stance on pharmaceutical patents remained unchanged. Thailand insisted on amending its patent law to provide protection for US drugs three years after the Uruguay Round was completed. To relieve pressure from the United States, the Thai government agreed to extend the protection period under interim measures from 18 to 24 months. The Thai side also proposed that a safety monitoring system be additionally introduced as another interim measure. The safety monitoring system required all new drugs to be tested and sold only by hospitals and medical clinics until approval was given by the FDA for public sale (The Bangkok Post Mid-Year Review, 1989: 61). This system would prevent the copying of drugs from the day they were registered on the market until the Thai FDA approved them for sale. It would also provide manufacturers of new drugs with an opportunity to monopolise the sale of drugs to hospitals and clinics.

The concerns over US retaliation under Section 301 prompted major business associations in Thailand to respond.[10] Firstly, the Board of Trade urged the government to adopt a more flexible policy to protect the country's interests against possible actions under Section 301. Later, other two main business associations, i.e. the Federation of Thai Industries (FTI) and the Thai Bankers Association (TBA), supported the Board of Trade's position. In general, the private sector considered that the GSP cuts would not have an immediate impact on Thai businesses, but Thailand's presence on the priority country list of the USTR could bring about damaging uncertainty.[11] As a result, the Board of Trade and the FTI were likely to support the amendment of the patent law, if the protection covered only new drugs (The Bangkok Post, 23 February 1989).

Although major business associations were late to respond to Thai-US disputes over pharmaceutical patent protection, some individual associations had been involved in the disputes for some time. Among these associations, the Pharmaceutical Producers Association (PPA) and the Thai Pharmaceutical Manufacturers Association (TPMA) were the most active business organisations taking part in the disputes. The PPA represents foreign drug producers and importers in Thailand while the TPMA represents local drug manufacturers. Because of the difference in membership, positions of the PPA and the TPMA were completely different. The TPMA opposed any amendment to the Thai Patent Act whereas the PPA totally supported the move to include pharmaceutical products under the patent law.

The PPA represents 59 foreign drug manufacturers and importers and a total of 7,000 employees. It had abundant resources and information. The PPA, therefore, led the campaign to support an attempt to amend the law. Furthermore, the Director of the PPA, Professor Vanida Chitman, was very well-known and respected in Thailand. She was an official secretary of Prime Minister Prem Tinasulanond during his years in office. This factor helped to raise the profile of the supporting campaign. The PPA submitted a number of statements to associated organisations explaining the necessity and rationale for the amendment of the patent law. It also published much documentation and distributed this among the general public to gain support. Moreover, Professor Vanida participated in seminars organised by various organisations.

The PPA was one of the first domestic organisations that drew public attention to the patent issue. Since 1985, the PPA, with the cooperation of the American Chamber of Commerce, had asked the Thai government to review the Thai patent law. They issued the report on pharmaceutical patent protection in Thailand or the so-called "white paper" explaining the necessity of providing protection for pharmaceutical products. The PPA argued that by providing pharmaceutical patents, the country's welfare, in the long run, would improve. Protection of pharmaceutical patents would attract foreign investment because patents are a reasonable way to protect manufacturers who invent drugs and allow them to recoup their investment during a patented period. Patents would also serve to stimulate local research and development. The PPA explained that the main objective of its request was not for its own members' interests. It claimed that , at present, its members rarely benefit from the inclusion of pharmaceutical products into the patent law since patents of most of their products had already expired.[12]

The move of the PPA and the American Chamber of Commerce received negative responses from various groups. Criticisms were made on the grounds that pharmaceutical patents would provide an opportunity for multinational drug manufacturers to monopolise the local market. As a result, the price of drugs in Thailand would rise sharply. The TPMA strongly criticised the white paper. Later, it issued its own report, the so-called "blue paper". This paper clearly opposed any amendment of the Patent Act and was against the PPA's white paper. Although both the PPA and the TPMA had been actively involved in the dispute over pharmaceutical patent protection issues since 1985, the general public did not pay much attention to the matter. But when it was raised by the United States as a bargaining point for privileges under the GSP, protection of pharmaceutical products became a very controversial topic.

In May 1989, the USTR announced its priority countries list. Thailand was not named as a Priority Foreign Country (PFC) for immediate retaliation. Nevertheless, it was put in Priority Watch List, alongside seven other countries.[13] This meant that the Thai performance on intellectual property protection would be reviewed over the next five months.

After a series of negotiations, Thailand promised the United States that it would amend its patent law according to what transpired at the Uruguay Round negotiations. The Thai government set up a special commission to prepare the groundwork for amending the 1979 Patent Act. By the end of 1990, Thailand agreed to include pharmaceutical products into the patent law and this amendment would be introduced during 1991 parliamentary session. The committee reviewing Thailand's intellectual property rights protection, which was chaired by the Permanent Secretary of the MC, Bajr Israsena, proposed the draft amendment of the 1979 Patent Act. This amendment provided more protection for pharmaceuticals and their ingredients, food and beverages, agricultural machinery, and biological processes under the Thai patent system. Nonetheless, some regulations and safeguards would be adopted to ensure that patent holders did not monopolise the local market.

Under the drafted amendment, the government would set up a price monitoring board as a mechanism to prevent patent holders imposing unreasonably high prices. The protection period for new inventions would be extended from 15 years to 20 years. Moreover, the new law would abolish the permission to "parallel import". That is, people other than the patent holder would not be allowed to import products covered by patents before they were manufactured.

The draft amendment contained a provision for compulsory licensing. People other than the patent holder could apply for a compulsory licence if patented goods had not been produced or sold in the country within three years after the issue of the patent or had been sold at unreasonably high prices. However, any person wanting to receive a compulsory licence would have to negotiate with the patent holder before seeking permission from the government. And the government could cancel the patent six years after its issue if it appeared that, although a compulsory licence had been granted, a product was still being sold at unreasonably high prices or did not meet public demand.

The amendment allowed patent holders to obtain payments from the government if it was thought necessary to use an invention under patent for the defence and security of the country during war or other emergencies.

Although the amendment of the patent law was under way, US private organisations were still dissatisfied with its progress. The US pharmaceutical Manufacturers Association filed petitions against Thailand. The association asked the USTR to investigate Thailand under Section 301. Its petitions were filed on the grounds that Thailand did not provide patent protection for US pharmaceutical products. The USTR decided to initiate an investigation. It required that Thailand make progress in the amendment of the patent law before March 1992. These US private groups' moves forced their government to assert pressure on the Thai counterpart to negotiate and respond to US demands. And in April 1991, the USTR included Thailand in the list of PFC under Section 301 of the 1988 Omnibus Trade and Competitiveness Act.

When the draft amendment of the Patent Act was completed and pressure from the United States mounted, debates on pharmaceutical patent protection became widespread. Both the economic and political aspects of this issue were discussed in depth. Proponents of the amendment of the law to accommodate US demands emanated mainly from government agencies. The first support from the private sector umbrella body came from the Thai Board of Trade.[14] The board issued a statement supporting the amendment of the patent law to include pharmaceutical products and their ingredients. It argued that the country could develop a strong pharmaceutical industry by providing it with patent protection. The board pointed out that foreign companies could not completely dominate the local market by controlling all new products as the time between registering a patent and marketing the product was enough for local producers to adapt.[15] Protection would help the industry attract the capital needed for research. The Board of Trade also reported that only eight per cent of all pharmaceutical products sold in Thailand were protected by patents (The Bangkok Post, 23 July 1990).

However, other umbrella organisations in the private sector did not follow the Board of Trade's moves. On the contrary, the moves of the Farm Machinery Club of the Federation of Thai Industries (FTI) ran counter to those of the Board of Trade. The FTI itself did not express its official position on this issue. This may be because the management of the FTI faced the problem of conflicts of interests among its members. A number of FTI members were highly involved in export activities. Some of them, for example, manufacturers of gems and jewellery, and textiles and clothing, depended very much on the US market. Any US retaliation under Section 301 was likely to affect their interests in that country. Thus, these groups of FTI's members supported any action of the Thai government to avoid confrontation with the United States.

The Gems and Jewellery Traders' Association submitted a report to the government urging it to take action to avert Section 301 retaliation against Thailand. The gems and jewellery industry was expected to be the main target of Section 301 actions if trade sanctions would go ahead. This is because exports of gems and jewellery to the United States accounted for about 50 per cent of total Thai gems and jewellery exports, worth about 30 billion baht a year (The Bangkok Post Mid-year Review, 1989: 61). The association claimed that actions against the industry would eventually affect the economy as a whole since the industry employed more than one million workers. Other export industries also reported that, although Section 301 actions had not yet been implemented against Thai exports, there was hesitancy among their US customers who were said to be increasingly reluctant to place long-term orders in case prohibitive import duties were suddenly imposed (The Sunday Post, 2 May 1993: 3).

Meanwhile, other FTI members who were manufacturers of pharmaceuticals or agricultural machinery opposed the amendment of the Patent Act. The TPMA which is an association member of the FTI was one of the main opponents of the amendment of the patent law. The TPMA argued that any amendment would damage the development of Thailand's pharmaceutical industry because it would enable multinational drug firms to monopolise the local market, resulting in higher medicine prices which would adversely affect the poor (The Bangkok Post, 17 January 1992).

The differences in its members' positions made the internal situation of the FTI very complicated, this possibly explaining why its management decided not to issue an official position on the disputes.

The Board of Trade also had conflicts of interests among its members, but these conflicts did not cause the board any problem. This is because opponents of the amendment within the board were not actively involved in the disputes. In contrast, other members which had export interests openly supported the amendment of the patent law. Moreover, the PPA which is a member of the board was very active in campaigning for the amendment of the patent law. The internal situation allowed the Executive Director of the Board of Trade to issue its support for the government to accommodate US demands.

The debate over the amendment of the patent law reached its peak during 1990-92. The opposition to the amendment succeeded in getting its message across. The public tended to oppose the amendment. The anti-amendment campaign was widely and strongly supported by various groups across society. The campaign was led by academics, particularly from the Faculties of Law, Economics, and Pharmaceutical Science at Chulalongkorn and Thammasat Universities. It was also supported by various groups of doctors and pharmacists, for example, the Medical Council, the Rural Doctors Group, and the Community Hospital Pharmacists Group. Furthermore, university students also played a prominent role in the campaign against the amendment of the patent law. The main student groups consisted of the Students' Federation of Thailand, and the Pharmaceutical Students' Club.

On an economic front, opposition to the amendment of the Patent Act argued that the law should not be amended simply because of pressure from the United States. It pointed out that privileges given to Thai exports under the GSP programme are temporary and conditional. Under US legislation, the GSP given to any product is to be revoked if per capita income of receiving countries exceeds US$ 8,600, or the share of that product in total US imports of that product is higher than 50 per cent, or the value of US imports of that product from concerned countries exceeds US$ 76 million.

Moreover, the opposition campaign also argued that changes in the country's patent law would restrict the growth of the local pharmaceutical industry as well as technology transfer.[16] The Thai pharmaceutical industry would be hard hit and many businesses might be forced to close down. In addition, the amendment would double the price of medicines, thereby increasing the government's public health spending. Over 70 per cent of the government's public health budget was already spent on medicines (The Bangkok Post, 9 April 1991). The study programme of Chulalongkorn University reported that the 1979 Patent Act was appropriate to the current stage of national development and, therefore, needed no changes.[17] Opponents pointed out that changes in the patent law would carry far-reaching consequences for future generations. Thus, the interim government should leave the matter for an elected-government to decide.[18]

Apart from the Ministry of Commerce (MC) whose permanent-secretary usually led the Thai negotiating team, the Ministry of Foreign Affairs (MoFA) also fully supported the amendment of the patent law. Unlike negotiations within other frameworks, e.g. APEC, both ministries did not experience any difficulty in cooperating with one another during a series of negotiations with the United States on this issue. This may be because it had been clear since the beginning that protection of intellectual property rights was under the authority of the MC. At the start of negotiations in 1987, both the MoFA and the MC were controlled by ministers who came from the same political party, i.e. the Social Action Party. This factor helped to smooth the coordination between both ministries. Moreover, protection of intellectual property rights, especially pharmaceutical patents, was very technical. Therefore, the MoFA's officials ,who are barely aware of this topic, were pleased to leave it to their MC counterparts. The MoFA confined itself only to coordination and lobbying work.

The disputes over the amendment of the patent law became very aggressive. There were exchanges of strong words between opponents and proponents of the amendment. A number of organisations representing students, especially medical students, accused the MC of distorting the facts about pharmaceutical patents. The students also accused the Minister of Commerce, Amaret Sila-on, and his senior officials of caring more for their personal interests than the interests of the Thai people. This is because Amaret came from a business background and owns a number of companies. Furthermore, the press and some prominent activists accused the Commerce Minister and members of the negotiating team of having "deceived the public", "sold the nation", and of being a "lackey of foreigners" (The Bangkok Post, 25 February 1992). Proponents of the amendment strongly replied to these accusations and argued that the opponents believed that stealing other people's intellectual property was an acceptable action (The Bangkok Post, 7 May 1991).

In October 1991, the Thai cabinet approved the draft amendment of the Patent Act. The approved draft amendment contained a grace period of 180 days for pharmaceutical product patent protection. The amendment also allowed patent-holders to register their products in Thailand within 18 months of their registration elsewhere. However, the revised Patent Act would not provide transitional protection for drugs which already invented and registered elsewhere but not yet marketed in Thailand by the time the new law came into effect.

As the draft amendment was scheduled to go before the National Legislative Assembly (NLA),[19] it became clear that Thailand would inevitably yield to most US demands. Although there were attempts to urge members of the NLA not to pass the amendment, the anti-pharmaceutical patent campaign diverted its attention to details of the draft amendment. Opponents of the amendment asked the NLA to extend a grace period of the draft amendment from the approved 180 days to two to four years. However, this attempt failed. The NLA passed the new Patent Act and it came into effect in February 1992.

Although the 1992 Patent Act was enacted and pharmaceutical products were protected under the Thai patent system, the United States was still dissatisfied with Thailand's intellectual property right protection. The USTR ruled that the new Thai patent law was inadequate and demanded that Thailand further revise some provisions of the new Patent Act. Firstly, the United States asked the Thai government to provide transitional protection for pharmaceuticals in the developing stage or for those which were patented abroad but not yet marketed in Thailand. Secondly, the United States demanded the Thai government relax the compulsory licensing provision of the new patent law. And lastly, the United States asked the Thai authorities to scrap the Pharmaceutical Patent Board.

The continuation of US demands caused irritation among the Thai general public. The issue became very emotive. Thai people felt betrayed by the United States. This almost made it impossible for the Thai government to do anything further to accommodate US demands. However, during April-May 1992, there was considerable political instability, i.e. a general election, pro-democracy demonstrations, and two changes of the government. These internal changes helped to reduce US pressure as well as to calm down sentiment on intellectual property protection.

After the new government took office, the US government started again to pressurise Thailand to negotiate on further revision of the Patent Act. However, negotiations between both countries did not produce any significant outcome. Thailand insisted on waiting for the result of the GATT's Uruguay Round before making any further amendment to its patent law. In the meantime, Thailand offered an administrative measure that would effectively provide backdated protection for pharmaceuticals that were in the "pipeline".[20] This Thai proposal did not require any change in the law. Pipeline products would be given a two-year period of safety monitoring. During this time, the drugs would technically be under tests and therefore could not be supplied by copiers. The safety monitoring period would be followed by another two years of exclusive marketing rights. This meant that manufacturers of pipeline products would have a total of four-year protection. The US side was dissatisfied with this offer. It asked for two years of monitoring and an additional five-year period of exclusive marketing rights.

The differences between the two countries on transitional protection reached a deadlock. The USTR decided in April 1992 to keep Thailand in the list of PFC and would make a final determination whether or not to impose sanctions on Thai exports in July. The Thai government was struggling to hold talks with its US counterparts. The Commerce Minister, Uthai Pimchaichon, personally visited the US Trade Representative, Mickey Kantor, in Washington, D.C. After a series of talks, US negotiators gave their Thai counterparts a note outlining the US understanding of commitments made during the talks. Under this understanding, the Thai government would provide the effective enforcement of copyright law. This law would be amended to increase penalties for infringements, and grant copyright-holders full control over reproduction, adaptation, rental, distribution and imports. This was in line with the bill amending the copyright law which the Thai cabinet had already decided to submit to conform with the Paris update of the Berne Convention.

The only remaining difference between the two countries was over transitional protection provision. The new Thai Patent Act did not provide any backdated patent protection, and neither did the draft agreement on TRIPs of the GATT's Uruguay Round. However, the United States demanded Thailand follow international standards and provide pharmaceutical products the backdated protection of seven years, equal to what the United States had achieved from negotiations with China, Taiwan, South Korea, and the Philippines, rather than follow the GATT agreement. But Thailand claimed that any change in its patent law needed parliament's approval. Therefore, the Thai side insisted on four-year protection through a safety monitoring system and exclusive marketing rights.

Thai negotiators' attempts were successful since the USTR dropped Thailand from its list of Priority Foreign Countries (PFC) in September 1993, but the USTR continued to keep the country on its Priority Watch List (PWL) to closely monitor Thai performance on protection of intellectual property rights. Although the new Patent Act has been enacted since 1992, the effect of pharmaceutical patent protection is still not clear, whether the drug prices are rising as the opponent of pharmaceutical patent protection argued or there are no major changes in the drug prices as the proponent argued. This is because after applying for a patent, the inventor would have to wait about five to seven years before the patent could be granted. This means that it may take a few more years before the whole effects of pharmaceutical patents can be evaluated.

Nonetheless, before the USTR agreed to exclude Thailand from the list of PFC, there was another dispute over the extent to which Thailand should accommodate US demands. This time, the dispute was within MC circles. The usual head of the Thai delegations, the Permanent Secretary of the MC, Bajr Israsena, and his officials, were dropped from the Thai negotiating team after earlier negotiations between the two countries ended in deadlock. Bajr's approaches to and positions on the matter were viewed as too strong and not flexible enough.[21] It seems that the Minister of Commerce, Uthai Pimchaichon, put the blame on Bajr and his team for the deadlock. As Uthai was quoted as saying after the last negotiations, the US side was determined to impose sanctions on Thai products and it even refused to negotiate further (The Bangkok Post, 8 May 1993). There were also reports that Uthai had a bitter conflict with Bajr (Peter Mytri, 1996:74). As a result, Uthai himself led the new team of Thai negotiators to the United States.

It seems that Uthai might have committed himself to US demands more than his authority. While he did not reject any of US demands as being unacceptable, in Thailand, the Prime Minister, Chuan Leekpai, repeated that the country was willing to make changes only if they would conform with international practices. US demands exceeding international standards would be purely an internal Thai affair (The Bangkok Post, 4 May 1993). There were also reports that the Prime Minister and his deputy, Supachai Panichpakdi, who chaired the IERPC, were not happy with Uthai's actions (Peter Mytri, 1996: 74).

After Uthai and his team came back from the United States, the conflict between Uthai and Bajr continued. Bajr proposed that Thailand should offer US drug manufacturers a two-year safety monitoring period which could be extended twice for a one-year period. The safety monitoring would be implemented on the cut-off date basis. This means that Thailand would not provide backdated protection for pharmaceutical products invented before 1986 (The Bangkok Post, 7 June 1993). This proposal was less than what Uthai had offered the United States. This proposal made Uthai very angry. There was a report suggesting that if the IERPC agreed with Bajr's proposal, he would not go to Washington for further negotiations and would leave responsibility to the minister who approved the proposal (The Bangkok Post, 12 June 1993). Finally, the IERPC agreed to compromise by offering a five-year transitional protection for pharmaceutical products invented after 1986. In September 1993, Uthai ordered the suspension of Bajr from his duty as the Permanent Secretary of the MC.

Although Uthai's approach to the negotiations caused awkwardness among government officials and his colleagues in the cabinet, it was widely supported by the private sector. The Board of Trade and representatives of 13 industrial organisations issued a statement and handed bouquets to Uthai to support his efforts to get Thailand off the PFC list (The Sunday Post, 2 May 1993). It can be said that Uthai's decision to go to the United States by himself was unprecedented in the Thai bureaucratic system.

Even though Uthai's efforts were appreciated by the private sector, especially export industries, according to a senior official of the MC,[22] they were purely political. Negotiations between Thailand and the United States might end in deadlock, and the USTR might keep Thailand on its PFC list. But it was believed, among Thai negotiators, that the United States would not impose trade sanctions against Thai exports under Section 301. It was also believed that Uthai committed himself and yielded to US demands too much and too soon because he wanted the removal of Thailand from the PFC list to be announced before the opposition could launch a no-confidence debate against the government. Thailand's withdrawal from the PFC list would give Uthai some credit and relieve the opposition's pressure and, thus, he might be exempted from the censure debate. Therefore, Uthai was prepared to risk compromising the long-term interests of the country.

The decision of Uthai to lead the new team of Thai negotiators to the United States by himself was controversial. The new team pointed out that its objective was to resolve the country's problem with the United States. It claimed that Thailand had employed a "salami tactic" in negotiating with the United States for far too long.[23] This negotiating strategy, in the short run, might provide Thailand with good results. But, in the long run, it tended to undermine dialogue partner's trust. The Thai delegation wanted to show its US counterparts that it entered into this negotiation in "good faith". It seems that the Thai side succeeded in restoring US trust as there was a report of a marked improvement in the mood of the bilateral talks compared with earlier negotiations (The Bangkok Post, 7 May 1993).

Unlike the case of the enforcement of the copyright law, the determination of Thailand's positions on protection of pharmaceutical patents was a complicated task. This is because the inclusion of pharmaceuticals into the patent system created conflicts of interests among Thai businesses and other groups. Whatever the government did, it would carry far-reaching repercussions. By accommodating US demands, foreign drug manufacturers and export industries would benefit, but the general public would carry a burden. By resisting US pressure, local pharmaceutical industries would benefit, but the export sector, which was the driving force behind Thai economic growth, could collapse. The government needed to balance the advantages and disadvantages carefully. After a series of debates which caused sharp division in the government, the

Thai government realised the danger of confrontation with the United States. Therefore, to protect the country's interests, the Thai position on protection of pharmaceutical patents was determined to accommodate US demands.

Thailand's position on pharmaceutical patent protection was determined based on the government's realisation of the importance of the export sector. It has increasingly contributed to Thai economic growth since 1960. The ratio of exports to GDP increased from about 16 per cent in 1960 to about 20 and 30 per cent in 1985 and 1995, respectively.[24] The determination of the Thai government to accommodate US demands also reflected widespread liberal ideas among Thai politicians and government officials. Thai economic policy has always been formulated to achieve the goal of economic expansion. Although the importance of income distribution and social welfare has attracted some attention, economic growth has always been the priority of the government.

Apart from the government's self-realisation of the importance of exports, it can be said that the determination of the Thai position on pharmaceutical protection was influenced by lobbying and pressure from various interest groups. For proponents of protection of pharmaceutical patents, the PPA was at the forefront. The PPA's campaign was very systematic and well-planned. The PPA continuously distributed information to the public throughout the period of negotiations between Thailand and the United States. More important, it submitted statements or letters to support protection of pharmaceuticals to relevant groups of people. For example, when the law was due to go before the NLA, the PPA submitted a letter to the NLA's President.

In opposition to pharmaceutical protection, academics and groups of doctors and students were at the forefront. Although their positions on this issue were the same, their approaches to the issue were quite different. Academics tended to emphasise organisation of seminars, and the release of studies on the issue. Meanwhile, groups of students and activists expressed their demands through active rallies and demonstrations. For private organisations, the TPMA was the most active business organisation which opposed protection of pharmaceutical products. It set up its own sub-committee to study the effect of pharmaceutical protection on the Thai economy.[25]

Comparing lobbying activities of both proponents and opponents of pharmaceutical protection, the proponents' campaign seemed to be more informative while the opponents' campaign seemed to be more emotive. Opposition groups placed emphasis on social issues, such as, the burden of high drug prices on the poor. Touchy topics, such as, "losing sovereignty", and "selling the nation", were also used to highlight the danger of pharmaceutical patent protection. As a result, the opposition succeeded in getting its message across. On the contrary, supporters of pharmaceutical protection emphasised the economic aspects of the issue. On the whole, it seems that the public relations mechanism of opposition groups worked much better than that of supporter groups.

Although the public in general opposed patent protection for pharmaceutical products, the government insisted on providing protection to accommodate US demands. This means that whatever public opinion, the government continued to weigh export interests before other matters. The question may be asked, apart from the belief that exports were the driving force of economic growth, what made the government give priority to the export sector? If the background of members of the cabinet during 1991-93 is examined, it can be seen that a number of ministers came from business backgrounds. Prime Minister Anand Panyarachun, who took office twice, from February 1991 to April 1992 and from May 1992 to September 1992, had a close relationship with export industries. He was a former President of the FTI. Moreover, the Minister of Commerce, Amaret Sila-on, also had a background as a businessman. A close link between prominent members of the cabinet and export industries may be one of the explanations for the government's favouring these industries. Even in the later cabinet, the bias towards export industries still prevailed. As the Minister of Commerce, Uthai Pimchaichon, was reported as saying "who would have the courage to take the risk of losing 200 million baht of exports through sanctions or the threat of sanctions" (The Nation, 27 March 1993).

7.6 Conclusions

This chapter has examined Thailand's bilateral trade negotiations concentrating on the country's negotiations on TRIPs with the United States. Thai-US economic relations have progressed since the early nineteenth century. Their relationship has developed over time. Nevertheless, as the Thai economy became more industrialised due to the government's export promotion policy, US assistance and aid was cut sharply. Recently, economic links between Thailand and the United States have mainly taken the form of trade. Thai-US trade has continuously increased. Since the mid-1980s, Thailand has enjoyed a trade surplus with the United States. The United States has always been the most important market for Thai exports, especially manufactured products. Therefore, any change in US trade policy would inevitably affect the Thai economy.

The direction of US trade policy has generally changed since the mid-1970s. In an attempt to stabilise its trade balance, the US government pursued strategic trade policy to counterbalance alleged unfair trade practices of its trading partners. The 1988 Omnibus Trade and Competitiveness Act contains Section 301 which provides the US government with an authority to retaliate against trading partners. Under Section 301, the US Trade Representative (USTR) has power to take actions against foreign countries if it finds that trade practices of these countries are unjustifiable or unreasonable.

Negotiations between Thailand and the United States on TRIPs began to intensify in 1985. During 1985-88, the negotiations concentrated on copyright-related issues. The United States demanded that Thailand provide copyright protection for US works, and computer software be protected by the copyright law. The USTR pressurised Thailand by threatening to revoke privileges given to Thai exports under the GSP. Thai positions on copyright protection had been quite clear since the start of the dispute. Thailand provides protection for copyrights of works of all members of the Berne Convention. According to the Thai copyright law, protection would not extend through any bilateral agreement. Protection of copyrights would cover US works as soon as the United States became a member of the Berne Convention.

Nonetheless, realising the importance of the US market to the Thai export sector, the government decided to amend the country's copyright law. Protection of US works under the copyright law became a controversial and emotive topic in Thailand. There were widespread objections to the government's position which appeared to yield to US demands. Nevertheless, copyright-related disputes between Thailand and the United States were partly settled when the United States joined the Berne Convention and was automatically protected by the Thai Copyright Act. Disputes between the two countries on copyright protection remained only over protection of computer software under the copyright system. The Thai position on this matter was left for the Thai courts to decide. This position was accepted by the US side. Consequently, US demands on copyright issues were confined only to the effective enforcement of Thai law.

As disputes on copyrights were settled, the United States extended its demands to patent protection. The US government asked Thailand to amend its Patent Act to provide protection for pharmaceutical products. The USTR threatened that Thailand could face an investigation under Special 301 if there was no significant change in the country's patent system. This issue caused severe divisions in Thailand.

Among government agencies, the Ministries of Foreign Affairs and Commerce supported the amendment of the patent law to accommodate US demands, whereas the Ministry of Public Health opposed any amendment of the law. Nevertheless, the opposition to the amendment was led by academics from various universities, student unions, and consumer groups. Moreover, interest groups in the private sector were also actively involved in the determination of Thailand's position on this issue. The business association which represents foreign drug manufacturers supported the amendment of the Patent Act while the association representing local drug producers opposed any change in the law. Both associations put pressure on the government through various kinds of lobbying activities.

Another group of proponents of pharmaceutical patent protection was the export sector. This sector would be hurt most if Thailand failed to provide adequate and effective patent protection for US pharmaceuticals. There was some evidence of lobbying activities of export industries. Some industries, for example, the gems and jewellery industry, occasionally, expressed their concerns over this issue through the press. But their concerns were mainly channeled through the Board of Trade's activities. The Board of Trade issued its support for pharmaceutical patent protection. Moreover, it organised a number of seminars to exchange views on the issue.

Nonetheless, another major private sector body, i.e. the Federation of Thai Industries, did not issue its official views on pharmaceutical patent protection. This may be because of conflicts of interests among its members. Apart from conflicts between business associations, there were also disputes between politicians and government officials. After a series of negotiations, both external and internal, the Thai government decided to amend the patent law to accommodate almost all of US demands.

Generally, it can be argued that, in the case of bilateral negotiations between Thailand and the United States on intellectual property right protection, the process of negotiations in Thailand is not autonomous. Conflicts of interests among various groups made it impossible for the Thai government to remain autonomous. The positions of the government were influenced by a number of factors, both internal and external. The government had to weigh these factors to make any decision. The government's positions on pharmaceutical patent protection were changed due to pressure from these factors. There is evidence suggesting lobbying activities of interest groups. As a result, the Thai authorities were unable to determine negotiating positions according to their principles. Sometimes, to resolve personal conflicts, the country's negotiating positions were also changed.

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[1]Details are discussed in section 7.2.
[2]The term *unjustifiable* refers to acts, policy, or practices that violate or are inconsistent with US international legal rights. The violations include denial of national or most-favoured nation treatment, right of establishment, and protection of intellectual property rights. For more details on the issue, see Overview and Complication of US Trade Statutes, 1989. (Washington, D.C.: US Congress, Committee on Ways and Means, 1989) (cited in Bhagwati, J. and Patrick, H.T. (1991).
[3]The term *unreasonable* refers to acts, policy, or practices that are not necessarily in violation of, or inconsistent with, US international legal rights, but are otherwise unfair and inequitable. For more details on this issue, see Overview and Complication of US Trade Statutes, 1989.
[4]Details of the Berne Convention were discussed in chapter five.
[5]Kraisak Choonhavan, at the time, was an academic at the Kasetsart University. He was well-known for his outspoken style and had good relations with labour unions.
[6]The Juridical Council is the government's committee of legal advisors.
[7]From an interview with an official of the Ministry of Foreign Affairs.
[8]These eight export products consisted of rice, mug bean, hardwood furniture, silver jewellery, precious stones, artificial flowers, telephone and telegram parts, and mosaic wall tiles.
[9]From an interview with the Board of Trade's official.
[10]Details of Thailand's major business associations were discussed in chapter four.
[11]From an interview with an official of the Board of Trade.
[12]From an interview with Professor Vanida Chitman.
[13]These seven countries consisted of Brazil, China, India, South Korea, Mexico, Saudi Arabia, and Taiwan.

[14]Details of Thailand's Board of Trade and other major private sector umbrella bodies were discussed in chapter four.
[15]From an interview with the Board of Trade's official.
[16]From an interview with Dr. Nilsuwan Leelarasamee, the TPMA.
[17]From an interview with Dr. Nilsuwan Leelarasamee, the TPMA.
[18]In February 1991, the Chatichai government was overthrown by military forces. Anand Panyarachun was appointed as the Prime Minister. His term ended in accordance with the constitution. A general election took place which resulted in the appointment of General Suchinda Kraprayoon as the Prime Minister. The Suchinda administration ended with a political mass demonstration for democracy in May 1992. Then, Anand was, for the second time, appointed as the Prime Minister. The second Anand administration ended when Chuan Leekpai won an election in 1992. He was the Prime Minister from 1992-95.
[19]During February 1991 to April 1992, Thailand did not have the parliament. The National Legislative Assembly was appointed to work as a legislative body.
[20]Pipeline products are pharmaceuticals that were already invented and registered elsewhere but not yet available in Thailand and therefore not protected by the new Patent Act.
[21]From an interview with an official of the Ministry of Foreign Affairs.
[22]From an interview with a senior official of the Ministry of Commerce.
[23]From an interview with one of the members of the new negotiating team.
[24]Details on this were discussed in chapter two.
[25]From an interview with Dr. Nilsuwan Leelarasamee, the TPMA.

Table 7.1
Thai-US: Trade, Exports, Imports, and Trade Balance (billion baht)
1960 - 1995

	Trade	Exports	Imports	Trade Balance
1960	2.8	1.2	1.6	-0.4
1965	3.8	0.8	3.0	-2.2
1970	6.0	2.0	4.0	-2.0
1975	15.0	5.0	9.6	-4.6
1980	48.9	16.8	32.1	-15.3
1981	49.3	19.8	29.3	-9.5
1982	46.5	20.3	26.2	-6.0
1983	56.2	23.1	33.1	-10.0
1984	62.7	30.1	32.7	-2.6
1985	66.4	38.0	28.4	9.6
1986	75.9	41.4	34.5	6.9
1987	97.3	55.7	41.6	14.1
1988	150.9	80.9	69.6	11.3
1989	186.6	111.9	74.7	37.3
1990	207.2	122.0	85.2	36.8
1991	256.1	154.3	101.8	52.5
1992	306.2	185.0	121.2	63.8
1993	338.3	202.2	136.1	66.2
1994	401.2	239.1	162.1	77.0
1995	461.8	250.6	211.3	39.3

Source: Ministry of Commerce

Table 7.2
Growth Rate of the Value of Thai-US Exports, Imports, and Trade (%)
1965 - 1995

	Exports	Imports	Trade
1965	-33.3	87.5	35.7
1970	150.0	33.3	57.9
1975	150.0	140.0	150.0
1980	236.0	234.4	226.0
1981	19.0	-8.7	0.8
1982	2.5	-10.6	-5.7
1983	13.8	26.3	20.9
1984	30.3	-1.2	11.6
1985	26.3	-13.2	5.9
1986	8.9	21.5	12.5
1987	34.5	20.6	28.2
1988	45.2	67.3	55.1
1989	38.3	7.3	23.7
1990	9.0	14.1	11.0
1991	26.5	19.5	23.6
1992	19.9	19.0	19.5
1993	9.3	12.2	10.4
1994	18.2	19.1	18.5
1995	4.7	30.3	15.1

Source: Calculated from Prakarn and Sutham (1991: 68) Table 2, and from Ministry of Commerce

Table 7.3
Thai-US: Trade, Exports, and Imports as a Proportion of Total Thai Trade (%)
1960 - 1995

	Trade	Exports	Imports
1960	15.4	13.9	16.7
1965	13.4	6.2	19.5
1970	14.4	13.6	14.8
1975	13.4	11.1	14.4
1980	15.2	12.6	17.0
1981	13.3	12.9	13.5
1982	13.1	12.7	13.3
1983	14.7	15.8	14.0
1984	14.9	17.2	13.3
1985	14.9	19.6	11.3
1986	16.0	17.7	14.3
1987	15.3	18.6	12.4
1988	16.5	20.0	13.6
1989	15.8	21.7	11.3
1990	14.4	20.7	10.1
1991	15.2	21.2	10.6
1992	16.4	22.4	11.7
1993	16.0	21.4	11.6
1994	16.0	21.0	11.8
1995	14.6	17.8	12.0

Source: Ministry of Commerce

Table 7.4 Procedures of Section 301, Super 301, and Special 301

	Section 301	Super 301	Special 301
1. Initiation	By the private sector or the USTR at any time	The USTR identifies PFC in May	The USTR identifies PFC in May
2. Investigation	within 45 days	within 21 days	within 30 days
3. Determination	12 months after investigation starts	12 months after investigation starts	6 months after investigation starts
4. Retaliation	within 30 days of determination	within 30 days of determination	within 30 days of determination
5. Termination	4 years after retaliation	4 years after retaliation	4 years after retaliation

Source: Kirk-krai Jirapaet (1996: 67)

Chapter 8

International Trade Negotiations of Thailand: A Public Choice Analysis and Policy Implications

8.1 Introduction

This chapter will analyse Thailand's international trade negotiations using a public choice framework. In the latter part, policy implications of this study will also be discussed.

8.2 A Public Choice Analysis

The public choice framework, as set out by Baldwin (1985), can be divided into two approaches.[1] The first is the economic self-interest approach which consists of two models: the common interest or pressure group model, and the adding machine model. The second is the social concern approach which consists of three models: the status quo model, the social change model, and the foreign policy model. The first two models focus on the role of interest groups in policy determination. The pressure group model suggests that the number of firms, the concentration of benefits, and the geographical dispersion of firms are the factors which determine the structure of trade policy. This model emphasises the importance of the free-rider problem as the main factor which could restrict the ability of the private sector's lobbying activities. Therefore, it hypothesises a negative relationship between the number of firms and the level of protection and a positive relationship between the concentration of industries and tariff levels. In contrast, the hypothesis of the adding machine model is the reverse of that of the pressure group model. The adding machine model suggests a positive relationship between the number of firms and the level of protection. This model emphasises the importance of labour as "labour has the votes".[2] The larger the number of firms, the larger the number of employees.

For the social concern approach, the status quo model implies a strong sense of conservatism and argues a positive relationship between the current tariff level and historical ones. The government uses tariffs as a tool to avoid large adjustment costs in some slow-growth industries. The social change model argues that the government uses trade policy to improve the standard of living of the lowest income groups. The foreign policy model views trade policy as an instrument of foreign policy to serve various international goals of the government.

As argued in earlier chapters, although both the public and private sectors took part in Thailand's international trade negotiations, the role of the latter differed in each negotiating framework. By employing the public choice framework to study these negotiations, the differences between multilateral and bilateral negotiations can be distinguished. The private sector is likely to participate more actively in bilateral negotiations than in multilateral ones. This was the case for Thailand's bilateral negotiations with the United States compared to the Uruguay Round negotiations. This situation can be explained by the fact that bilateral negotiations usually discuss fewer topics than multilateral talks. In fact, almost all bilateral negotiations involve only a single issue. The smaller the number of negotiating topics, the fewer the number of private interests involved. This leads to the uneven distribution of benefits among groups of people. Some specific groups may obtain more benefits from the negotiations than others. Therefore, these groups would be ready to conduct lobbying activities in order to acquire the outcome they want. This is consistent with the pressure group model's argument discussed earlier. This model proposes that the uneven distribution of benefits would attract individual businesses to lobby for their favourable outcomes.

8.2.1 Thailand's International Trade Negotiations: A General Test of Hypotheses

This section will assess the explanatory ability of various models of the public choice framework for Thailand's international trade negotiations. It will test the hypotheses of these models. This will show the significance of some variables of the pressure group model and the adding machine model in determining Thailand's positions in international trade negotiations. Since it is impossible to quantify Thailand's negotiating positions, the Effective Rates of Protection (ERPs) will be used as their proxy. As discussed in chapter five, the ERP was designed to measure the real level of protection that the government provides for industries. It would indicate the government's recognition of the relative importance of each industry. The high level of ERPs for some industries suggests that the government places the high priority on them, and thereby its negotiating positions would be biased in their favour. Therefore, the ERPs for industries could be used as a proxy for the country's negotiating positions. Since this study concentrates on Thailand's trade negotiations during 1985-1994, the country's ERPs for 1984 will be used as a dependent variable. For explanatory variables, two variables relevant to the pressure group model and the adding machine model, i.e. the number of firms and the number of workers, will be tested in order to see if both models can explain Thailand's ERPs. The figures for both variables in 1984 will be taken from various surveys and census carried out by the Thai National Statistical Office.

According to the pressure group model, the number of firms variable is expected to carry a negative sign. This is because this model argues that the small number of firms would help the industry overcome the free-rider problem and succeed in its lobbying efforts. In contrast, according to the adding machine model, both the number of firms and the number of workers variables should carry a positive sign. This model argues that industries with larger number of firms and workers tend to receive high protection because the authorities, especially politicians, recognise that "labour has the votes".[3]

The results of OLS regression show that the explanatory ability of both models is very low (Table 8.1). When running the two variables separately, the number of workers carries a better R-Square, but still very low, i.e. 0.02459. Nonetheless, its coefficient does not show the explanatory ability of any model and is not significant. For the test of the number of firms variable, although its coefficient has an expected sign, which might indicate the explanatory ability of the pressure group model, the T-Ratio shows that it is statistically insignificant. Moreover, the R-Square is very low. When running both the number of firms and the number of workers together, the R-Square is slightly better, i.e. 0.03029. The coefficient of the number of firms carries a positive sign which is consistent with the adding machine model's hypothesis, but that of the number of workers has a negative sign. Consequently, the explanatory ability of this model is inconclusive. Furthermore, the T-Ratios of both variables show that they are insignificant.

The weak performance of both the pressure group model and the adding machine model, as shown in regression results, may be caused by the use of ERPs as a dependent variable. The ERPs may be used as a proxy for Thailand's negotiating positions but they cannot exactly represent them. As discussed in chapter five, the ERPs for Thailand, especially the estimates which have been used here, do not include the effects of various investment promotion measures, which were widely implemented by a number of government agencies. The management of these measures usually indicates the relative bias of the government in favour of certain sectors. This bias could affect the negotiating positions of the country. The exclusion of this aspect from the regression could result in the inability of the public choice framework's basic models to explain Thailand's trade negotiations. In the next section, these models will be employed to study the country's trade negotiations in more detail.

8.2.2 Thailand's Uruguay Round Negotiations

Thailand's negotiations in the Uruguay Round were extensive. As discussed in chapter six, the country participated in several different negotiating frameworks. Thailand, as a member of the Cairns Group,[4] played an active role in negotiations on agriculture in the Uruguay Round. The positions of Thailand and the Cairns Group were to promote the liberalisation of agricultural trade and the inclusion of agriculture into the GATT's discipline. And to some extent, the Cairns Group succeeded in having some influence on the outcome of the Uruguay Round negotiations on agriculture. On other issues, nevertheless, the role of Thailand was not great. Thailand could hardly influence the outcome of negotiations on such issues as, services, TRIMs, and TRIPs.[5] It can be said that these issues were largely decided among big and powerful economies, for instance, the United States, the EU, and Japan. Thailand just had to comply with the agreements.

On the other hand, for negotiations on the reduction of tariffs on manufactured products, Thailand could influence the results of these negotiations. This is because negotiations on manufacturing tariff reductions were conducted on a bilateral basis within a multilateral framework. Therefore, Thailand could directly negotiate with each trading partner on which products and how much both sides want to lower and bind their tariffs. This provided Thailand with an opportunity to negotiate and adjust its positions.

As a small economy, the positions of Thailand in the Uruguay Round were affected by negotiating situations during the round, rather than the other way round. Thailand's positions on the Uruguay Round's multiple negotiating issues can be attributable to the country's internal situation as well as to some external pressure. By employing the public choice framework, it can be said that Thailand's positions on different issues could be explained by different models. This study will analyse these positions issue by issue.

8.2.2.1 Agricultural Negotiations

On agricultural negotiations, the position of Thailand in the Uruguay Round can be best explained by the social change model of the social concern approach. In Thailand, the lowest income groups are farmers and other agricultural workers. Their income relies heavily on the price of their products in the world market. In the 1980s and early 1990s, Thai farmers were badly hurt by the export subsidy programme of both the United States and the EU as well as an import ban on rice by Japan. The US and EU's export subsidy programme depressed their grain export prices to an unreasonably low level. As a result, the competitiveness of their products was much better than Thailand's. The Thai government was unable to provide subsidies for its agricultural exports because of its limited budget and the large number of farmers. Thailand suffered from losing agricultural export markets as well as from the decrease in prices of agricultural products in the world market. This situation resulted in many Thai farmers being trapped in poverty. Trying to solve this problem, the Thai government set the liberalisation of agriculture as the first priority of the country's negotiating positions. Thailand's position on agriculture in the Uruguay Round negotiations reflects the government's attempts to help increase incomes of the country's poorest groups, thereby improving their standards of living.

8.2.2.2 Manufacturing Negotiations

For negotiations on manufacturing in the Uruguay Round, Thailand had freedom to negotiate bilaterally with its trading partners. Thus, to a certain extent, it could influence the outcome of the agreement on this issue. On the domestic front, the Thai government did not have to deal with the living standards of the least fortunate people in the country. This is because manufacturing workers are generally better paid than their agricultural counterparts. This situation allowed the Thai government to respond to the demands of associated groups of people. To determine the country's positions on manufacturing, the Thai government consulted with a number of industries through major business organisations. However, private interests did not put pressure on the government. The government itself determined its negotiating positions trying to minimise the negative effects of the Uruguay Round on the local producers by maintaining the current situation as much as possible. This can be seen from the fact that the Thai government bound its tariffs for manufactured products at levels higher than the currently applied levels. This means that the government did not have to lower tariffs. In addition, it can raise the tariff rates to the bound levels any time in the future. This circumstance is consistent with the hypothesis of the status quo model of the social concern approach. That is, Thailand's position on manufacturing negotiations can be explained by this model.

If the public choice framework is employed to study the role of the private sector in trade negotiations, it can be seen that this role can be explained by the two models of the economic self-interest approach, either the pressure group model, or the adding machine model. In this respect, Thailand's position on manufacturing negotiations concerning some specific cases can be explained by the pressure group model. The Thai government tried to minimise the adverse effects of the Uruguay Round agreement on its manufacturing sector by consulting with related industries before determining any position. And the government tried to avoid any change that would harm domestic industries.[6] But it is inevitable that some industries might face tough competition from imports due to the lower level of tariff protection. Some industries were struggling to maintain their high tariff levels. The most important and the most successful industry was the automobile industry. This industry succeeded in lobbying for high import duties on automobiles. Considering the hypothesis of the pressure group model and the characteristics of the automobile industry, it can be seen that Thailand's position in Uruguay Round negotiations on automobiles can be explained by this model. This is because, as shown in Table 8.2, the number of firms in this industry in 1994 was not very large, compared with other industries, i.e. 49 firms. At the same time, other industries, for example, textiles and clothing, and plastic products, which could not resist the tariff restructuring programme and were included in the tariff reduction schedule, had much higher number of firms. The small number of firms which led to the high concentration of production helped to strengthen the automobile industry's lobbying efforts. Consequently, the industry obtained exemptions from the tariff reduction schedule to which Thailand was committed under the Uruguay Round agreement.

8.2.2.3 Other Negotiations and The Implementation of Uruguay Round Commitments

For negotiations on other issues, for example, services, TRIMs, and TRIPs, it seems that Thailand's positions in the Uruguay Round are best explained by the foreign policy model of the social concern approach. On these issues, Thailand's positions were determined as a part of its foreign policy. These positions were designed to accommodate the promotion of other policy objectives, for example, to strengthen good relations with other countries.

In the case of the Uruguay Round negotiations on TRIPs, Thailand's positions were largely influenced by the need to accommodate US demands on intellectual property protection. During the bilateral disputes on intellectual property protection between Thailand and the United States,[7] the US government asked Thailand to strongly support the US positions on TRIPs in the Uruguay Round negotiations. Under intense pressure from the United States, the Thai government yielded to US demands and supported the change in the TRIPs agreement. This is an outstanding case showing recent efforts of the Thai government to use trade policy to accomplish foreign policy objectives.

As argued in chapter six, the implementation of Uruguay Round commitments of Thailand was quite autonomous. Although the Uruguay Round agreement and

Thailand's domestic law provided interest groups with opportunities to assert their pressure on the implementation process, the private sector did not influence the implementation of both tariff and non-tariff commitments. This allowed Thai government officials to act independently, according to their judgements. Nonetheless, these officials acted to maximise the private sector's benefits and minimise the negative effects. They tried to maintain the current status of every group. The example is, as discussed in chapter six, the allocation of in-quota imports of some agricultural products to their producers. It can be argued that the implementation of Uruguay Round commitments by Thai government officials can be explained by the status quo model. This is because, as mentioned earlier, the hypothesis of this model is consistent with government officials' actions.

8.2.3 Thai-US Bilateral Negotiations

The determination of Thailand's positions on the bilateral disputes between Thailand and the United States over intellectual property protection was quite different from the country's experiences in the Uruguay Round negotiations. In bilateral negotiations, the scope of negotiations was much narrower than that at the multilateral level. It was not possible to trade off one issue against others. Moreover, the number of people involved was also small. This meant that the positions which benefit one group may be directly disadvantageous to another. Therefore, the determination of positions in bilateral negotiations is likely to be quite difficult. The narrow scope of negotiations and the small number of people involved easily resulted in confrontation between parties. The negotiations between Thailand and the United States on intellectual property protection caused a sharp division in the country. The determination of Thailand's positions on this matter became very controversial.

As discussed in chapter seven, the determination of Thailand's positions in bilateral negotiations with the United States was not as autonomous as that in the Uruguay Round negotiations. The outcome of these negotiations would bring about clear advantages to one group but disadvantages to another group. Therefore, the parties involved tried to assert their pressure on the government through lobbying activities. These lobbying activities were systematically designed and conducted by various interest groups to persuade the government to determine the country's positions in their favour. This behaviour of interest groups thus fell into the economic self-interest approach. That is, the positions of Thailand on disputes between Thailand and the United States over intellectual property protection can be explained by the economic self-interest approach.

Although the two models of the economic self-interest approach, both the pressure group model and the adding machine model, emphasise the role of interest groups in the determination of trade policy, their hypotheses are different. As discussed earlier, the pressure group model presumes a negative relationship between the number of firms and the possibility of achieving their goals whereas the adding machine model assumes a positive relationship between the number of firms and the possibility of achieving their goals. Considering the number of firms variable, Thailand's position on intellectual property protection can be better explained by the pressure group model than by the adding machine model. The groups which succeeded in lobbying activities were the groups that have smaller number of members. As discussed in chapter seven, the Pharmaceutical Producers Association (PPA) has fewer members than its rival organisation, the Thai Pharmaceutical Manufacturer Association (TPMA). Therefore, the former was more organised in lobbying and more successful in pursuing its cases than the latter.

However, the negotiating position of Thailand on intellectual property protection can also be explained by the adding machine model. The explanatory ability of this model is seen through its implication for labour. This model argues a positive relationship between the number of workers employed in the industries and the possibility of achieving their goals. The adding machine model's hypothesis is consistent with the characteristics of export industries. In Thailand, export industries, which lobbied very actively during the process of negotiations, are usually labour-intensive. From Table 8.3, it can be seen that the country's major export industries, i.e. the gem and jewellery and the textiles and clothing industries, were one of the most labour-intensive, with the number of workers employed in 1990 about 82,000 and 616,000 respectively. These two industries' employment accounted for about 30 per cent of total Thai manufacturing labour force. The importance of their size of employment was clear, as these industries always mentioned the number of workers they employed when they conducted their lobbying activities. The government responded positively to export industries' requests, i.e. amending intellectual property protection law to accommodate US demands, although their labour unions, like other labour unions in Thailand, are weak and disorganised. The success of these industries' lobbying was not based on the strength of their labour unions. Instead, it was based on the industries' ability to emphasise the size of their employment and on the government's recognition of the importance of the industries in creating jobs.

Comparing the pressure group model with the adding machine model, it cannot be pointed out which model is more effective in explaining Thailand's position in bilateral negotiations with the United States on intellectual property protection. Both models can explain Thailand's negotiating position but they are subject to different conditions. That is, as argued earlier, considering the number of members of groups and the concentration of benefits, the pressure group model's explanatory ability is more apparent. Nonetheless, while considering the number of workers employed, the adding machine model is more effective.

One may argue that the adding machine model is irrelevant to the Thai case because the country's labour unions are generally weak and may not be a significant determinant of the country's negotiating positions. Therefore, the pressure group model's explanatory ability may be stronger than that of the adding machine model. However, the adding machine model's explanatory ability cannot be ruled out although, in Thailand, labour is not strongly unionised. It can be argued that the importance of labour, as suggested by the adding machine model, was not channeled through its unions. Labour, possibly led by its management or local politicians, expressed its concerns directly to the government by organising demonstrations. This kind of lobbying activity can be considered very effective.

Apart from the pressure group and the adding machine models of the economic self-interest approach, Thailand's position on bilateral disputes over intellectual property protection can also be explained by the foreign policy model of the social concern approach. One of the reasons why the government decided to accommodate US demands was to preserve a good relationship between the two countries. This one reason may have been enough for the Thai government to make such a decision, considering the long and close ties on a number of issues between Thailand and the United States.

In addition to the traditional models of the public choice framework, a new model can be formulated to analyse Thailand's bilateral negotiations with the United States on TRIPs. This new model is based on the idea of the economic self-interest approach which focuses on the active role of the private sector in the determination of trade policy. The new model, namely the export preference model, is not intended to be a formal model, but just a framework for discussions. This model emphasises the importance of the export sector to the Thai economy. As discussed in earlier chapters, since the 1970s, Thailand has pursued export promotion policy as an industrialisation strategy. Exports became a driving force behind the country's economic growth. The main independent variables of this model are export value or export growth of industries. This model proposes a positive relationship between export value or export growth of industries and their chances to acquire what they request from the authority. This means that industries with high export value or export growth are more likely to achieve their lobbying efforts.

It can be seen that Thai-US negotiations on intellectual property protection can be explained by the export preference model. The US government threatened to impose sanctions on Thai exports if its demands were not met. Export industries, e.g. the gem and jewellery industries, with export value to the US market about 12 billion baht in 1993, and the textiles and clothing industries, with export value to the US market about 22.3 billion baht in the same year, were the main targets of US trade sanctions. These industries participated actively in the process of negotiations. They tried to influence the government's negotiating positions and they succeeded. The Thai government decided to accommodate US demands by amending some of its law to improve the country's intellectual property protection system. This position reflects the government's response to the demand of the export industries and the willingness of the government to help these industries protect their export markets.

8.3 Policy Implications

Both the Uruguay Round negotiations and the bilateral negotiations on intellectual property protection with the United States reflect significant changes in Thailand. These changes were indicated by policy involving not only international affairs but also domestic affairs. Before both negotiations, international trade negotiations rarely attracted the attention of the Thai people in general. The lack of interest among the public resulted in a widespread attitude in government circles that they did not need to explain their decisions to the people (Uphoff, 1991: 50).

However, in the face of US threats of trade sanctions under Section 301, Thai opinion experienced considerable change. The era when the authorities need not answer to their people ended. Private businesses and associations actively and systematically exercised their lobbying activities. At the same time, the strength of the academic community, student unions, and independent pressure groups was clear. Their movement to stop the amendment of the Patent Act was an example of organised lobbying, which had never happened in Thailand before in international trade negotiations.

As mentioned earlier, disputes over protection of pharmaceutical patents caused a certain level of turmoil in the country. This is partly because the issue was portrayed as a political one. Once this issue became politically controversial, it brought about emotional debates. However, trade negotiating issues should not be politicised (Surakiart, 1990: 162-63). To prevent negotiating issues from becoming parts of the political agenda, government agencies and officials must try to circulate information and details of these issues to the public as soon as and as much as possible. There should not be any hidden agenda. This would allow the Thai people to judge for themselves the advantages and disadvantages of each negotiating position. Lack of understanding on the topics among the public would increase the chance of them being politicised. Some interest groups might try to persuade the general public to take their side. Once the people take sides, it seems difficult for them to consider alternative negotiating positions. If the public decided to resist the government's positions, the government would face with both internal and external pressure. The government has to negotiate not only with foreign trading partners but also its own people. Moreover, when negotiating with foreign countries, people's resistance may also jeopadise government's positions. The stronger the internal resistance, the weaker the government's moral authority.

Another factor which could influence the public's views on the issue is the press. Its role in disputes over pharmaceutical patent protection was quite apparent. It took the issue very seriously and played a significant part in the determination of the country's negotiating positions.

A number of changes occurred during the course of the Uruguay Round negotiations and the bilateral negotiations with the United States on intellectual property protection proved that the Thai people had begun to realise the importance of international trade negotiations and how they would affect people's life. Other government agencies, private businesses, and ordinary people actively participated in the process of negotiations. Their enthusiasm on the issue forced the responsible authority to reassess its position not only on negotiations but also towards public opinion.

This study carries some important policy implications. These policy implications can be classified into three groups. They are conflicts of policy, conflicts of interests among interest groups, and conflicts of responsibility among government officials.

Thailand's international trade negotiations are part of its trade policy. The direction of trade policy is reflected in the position of the country in relevant trade negotiations. For example, since the 1970s, the Thai government has pursued export promotion policy. Thus, during the Uruguay Round negotiations (1986-94), Thailand's goal was to liberalise international trade. In principle, it may seem that Thailand practises trade liberalisation. But, practically, Thailand still employs some protectionist policy measures in some areas. For instance, in determining a tariff reduction schedule to accompany the Uruguay Round agreement, Thailand used ceiling rates as binding rates. Although, at present, most applied rates in Thailand are lower than binding rates, the country can raise its tariff rates to ceiling levels at any time in the future. This action of the Thai government reflects that, to a certain extent, a protectionist mind set still prevails in Thailand, especially among government officials.

Another example of the existence of protectionist practice in Thailand involves the allocation of in-quotas of some agricultural products under the tariff-quota system.[8] It appears that the government allocates most in-quotas for these products to their producers' associations. Although this practice is legitimate according to the Uruguay Round agreement, it indicates the government's attempts to hand over monopoly power to some specific associations. Moreover, on negotiations on textiles and clothing, it may seem that the Thai government is pleased with the abolition of the Multi-Fibre Arrangement. But the government is said to consider this abolition as a second best policy. In fact, it would prefer the maintenance of a quota system, but with larger quotas for Thailand.[9] This is because the MFA's quotas would guarantee a certain amount of Thai exports and restrict exports of competitors in the world market. However, the Thai government cannot pursue this negotiating position since it would imply support for protectionism. These are some of the indications which show that protectionist activities are still supported in Thailand, although they are not as widespread as in the past. These situations also indicate that Thailand commits itself to trade liberalisation but only when it suits the country.

The second policy implication of this study concerns conflict of interests among local interest groups. During the process of trade negotiations, it is likely that the outcome of trade negotiations will cause conflict of interests among various groups of people. This means that the Thai authority has to balance these interests very carefully. Some influential groups may try to assert pressure on the government through lobbying activities. Government officials will face a tough decision trying to make a compromise. This may lead to a situation where the officials cannot keep their independence and give in to the pressure of some specific groups. Both sides in the conflict may end up accusing the officials of being in favour of the other side.

Nevertheless, the high level of autonomy of government officials does not insure the best negotiating position of the country. The fact that the private sector could influence the determination of negotiating positions does not always mean corrupt behaviour on the part of government officials. After all, the government is there to serve and protect the nation's interests. Lobbying activities of interest groups can be considered as a way they make themselves heard. The change or adjustment in the country's negotiating positions do not always imply officials' misbehaviour, if these changes are not just a response to pressure from some interest groups. The adjustment of positions would be legitimate if it were carefully considered by government officials based on correct and proper information from all parties.

To reduce the opportunity that government officials capitulate to interest groups' pressure, this study argues that the government should organise public hearings on the controversial issues. In a public hearing, the panel should include all the parties involved so that they can express their views and defend their interests. The public hearing will help not only to prevent an unjust decision on the part of government officials but also to protect the officials from any false accusation. The public hearing may be initiated by the government itself or members of the public may make a request for the hearing. Otherwise, private businesses through major business organisations, i.e. the Board of Trade, the FTI, and the TBA, may also ask the government to organise a hearing. The public hearing will make the process of trade policy formulation and the determination of negotiating positions in Thailand more credible and more transparent. Thus, the policy and the negotiating positions will become less controversial.

The study's last policy implication involves the structure of the Thai bureaucratic system. At present, it causes conflicts of responsibility among government agencies. The most frequent disputes over responsibility for international trade negotiations occur between the Ministry of Commerce (MC) and the Ministry of Foreign Affairs(MoFA). Both ministries, currently, have departments to deal with international trade affairs. In general, the Department of Business Economics of the MC is responsible for both the multilateral and bilateral trade negotiations of Thailand. Meanwhile, the Department of Economic Affairs of the MoFA is responsible for the coordination of all international trade issues.

Normally, the MC's senior officials would be appointed as the head of Thai negotiators. Nevertheless, during some periods, senior officials of the MoFA were also appointed to head Thai delegations. Although it seems that the MC has the technical expertise necessary for trade negotiations, it still needs advice on the overall picture of the relationship between Thailand and its trading partners from the MoFA. In addition, the MoFA has wide networks of international communication and its officials develop a close working relationship with trading partners' officials. During some sensitive and intense negotiations, this relationship has proved to be very important and helpful to Thailand.

Relationships between the MC and the MoFA sometimes are determined by personal connection between their officials. As the working level, most of the time, the relationship between both ministries' officials is good. They can successfully coordinate with one another. Nonetheless, at senior levels, the relationship between officials of both ministries is unstable. Personality plays an important role in the coordination. Personal conflicts between senior officials of the two ministries can cause obstruction in the coordination of policy within the government, thereby damaging Thailand's positions in trade negotiations. Conflicts among government officials do not always occur along ministerial lines. Sometimes, MC's officials find their alliances in their MoFA counterparts while they fight with their colleagues in the same ministry.

To ease the conflicts between government agencies over trade negotiations in the future, this study argues that the Thai government should set up a new organisation directly responsible for the country's international trade negotiations. In fact, the founding of this organisation has been agreed in principle by the cabinet. But the structure of the new agency is still contentious. There are recommendations that all agencies involved should merge together and set up the new ministry, the so-called Ministry of International Trade. However, this idea was opposed by the MoFA. Since the MoFA has a tradition of self-recruitment procedures, which ensure the high standard of its officials, it would not want to merge with officials from other ministries who did not follow the same procedures.

The study agrees with the proposal to found a new and independent government agency with the same structure as the USTR of the United States. This agency or the so-called Thailand Trade Representative (TTR) will report directly to the Prime Minster or his appointed deputy. The TTR's officials should come from both the MoFA and the MC as well as from other related government agencies. These officials will be transferred to the TTR on a voluntary basis. Hence, they will have to accept a term of working as a TTR official, whatever ministry they come from. This will lessen the merging problem mentioned earlier. In the long run, the new and unified TTR will help improve the efficiency of Thailand's international trade negotiations.

8.4 Conclusions

This chapter has examined Thailand's international trade negotiations using a public choice framework. Moreover, policy implications of this study are also discussed. Although the private sector took part in both multilateral and bilateral negotiations, its participation is much more apparent in the latter than in the former.

By testing the hypotheses of the pressure group model and the adding machine model, using the ERPs as a dependent variable, it can be seen that both models are insignificant in explaining Thailand's negotiating positions in general.

As discussed in chapter six, the determination of the country's positions in the Uruguay Round negotiations was autonomous. Thailand's position on agriculture can be explained by the social change model while its positions on services, TRIMs, and TRIPs, can be explained by the foreign policy model of the social concern approach. The country's position on manufacturing negotiations can be explained by the status quo model of the social concern approach. But the position concerning the automobile industry can be explained by the pressure group model of the economic self-interest approach. The explanatory ability of the social concern approach enables this study to argue that, in the Uruguay Round negotiations, the Thai government acts to maximise the country's interests, rather than to compromise with the private sector's specific interests.

As discussed in chapter seven, the determination of Thailand's positions in bilateral negotiations with the United States on intellectual property protection was not autonomous. The position of Thailand on this issue can be explained by the economic self-interest approach. The explanatory ability of this approach means that the Thai government was unable to act based solely on the country's interests. Its actions were in response to lobbying activities of pressure groups. The government had to compromise over conflicts of interest among different groups of people.

The policy implications of this study reflect conflicts in three different areas: government policy, private businesses' interests, and responsibility for international trade negotiations. Firstly, although the objectives of Thailand's trade policy are to liberalise international trade, the country still practises some protectionist policy measures. Secondly, to solve conflicts among interests groups, the government should organise public hearings before determining or changing the country's trade negotiating positions. And lastly, to solve conflicts of responsibility for the country's international trade negotiations among government officials, a new and unified agency should be set up to take charge of Thailand's trade negotiations.

[1]Details of the public choice framework were discussed in chapter three.
[2]See chapter three for more details.
[3] Details on this were discussed in chapter three.
[4]Details of the Cairns Group were discussed in chapter six.
[5]Details were discussed in chapter six.
[6]From an interview with H.E. Kirk-krai Jirapaet, the Thai Ambassador to the WTO, Geneva.
[7]Details were discussed in chapter seven.
[8]For more details, see chapter six.
[9]From an interview with a senior Thai official.

Table 8.1 Summary of the Regression Results

Regressors	Coefficients	T-Ratio	R-Square
Regression I Only the number of workers			
con	144.0786	4.5746	0.024591
now	-0.01212	-0.8096	
Regression II Only the number of firms			
con	137.032	4.4757	0.00999
nof	-0.08715	-0.51233	
Regression III both the number of workers and the number of firms			
con	143.293	4.4653	0.03029
now	-0.02256	-0.72337	
nof	0.13478	0.38336	

Note: con is constant terms.
now is the number of workers.
nof is the number of firms.

Table 8.2 Number of Firms in the Manufacturing Sector by Industry Groups (1984, 1990, 1994)

	1984	1990	1994
Processed Food	1,600	989	1,845
Textiles and Clothing	544	313	559
Wooden Furniture	39	62	251
Rubber	19	38	95
Plastic Products	n.a.	5	306
Wood and Cork Products	45	n.a.	27
Paper Products	18	17	31
Iron and Steel	120	100	29[a]
Machinery	275	51[b]	146
Automobiles[c]	n.a.	10	49
Electrical Appliances	24	n.a.	34
Gem and Jewellery	18	29	2[a]

Source: Report of Industrial Survey: Whole Kingdom, various issues.

Note: [a] - only Bangkok Metropolis and Vicinity.

[b] - only agricultural machine.

[c] - manufacture of motor vehicle bodies.

Table 8.3 Number of Workers by Industry Groups and Percentage of Total Manufacturing Labour Force (1990)

	1990	% of Total Manufacturing Labour Force
Processed Food	377,634	16.2
Textiles and Clothing	615,861	26.5
Leather Products	20,836	0.9
Wooden Products[a]	263,511	11.3
Rubber Products	36,530	1.6
Chemicals and Petroleum	60,166	2.6
Plastic Products	40,898	1.8
Non-metallic Products	136,368	5.9
Metal Products	148,986	6.4
Electrical Appliances	132,246	5.7
Automobiles[b]	248,197	10.7
Gem and Jewellery	81,741	3.5
Machinery	15,232	0.6
Others	149,712	6.3
Total	2,327,918	100.0

Source: 1990 Population and Housing Census.

Note: [a] - including paper and paper products.

[b] - including repair of automobiles.

Chapter 9

Conclusions

This thesis has examined the international trade negotiations of Thailand. It employs a political economy framework to study Thailand's multilateral negotiations in the Uruguay Round of the GATT and Thailand's bilateral negotiations with the United States on trade-related intellectual property protection. The main objective of this research is to study the role of the Thai private sector in these negotiations and the extent to which private interests influenced the negotiating process. The government's response to the private sector's influence is analysed, together with the level of autonomy of Thai government officials in the process of negotiations.

This study has found that Thai private enterprise took part in the process of Uruguay Round negotiations as well as in the bilateral negotiations with the United States. Nonetheless, the role of these private interests in both levels of negotiations was different. The Thai private sector's involvement in bilateral negotiations with the United States was more extensive than in the Uruguay Round negotiations. As a result, it can be argued that the Thai government is more autonomous in the Uruguay Round negotiations than in bilateral negotiations with the United States.

9.1 Thailand: International Trade and Trade Policy

As analysed in chapter two, international trade has become an important element in the Thai economy. Thus, any change in external trading conditions is likely to affect the country's economic structure. Since the early 1960s when a new set of industrial and trade policies was introduced by the government, its economic structure has begun to change. The implementation of these policies has resulted in considerable changes in the Thai economy, witnessed by the rising share of manufactured output since the mid-1980s compared to that of the agricultural sector, both in GDP and in total exports.

Despite its economic progress, links to world trade have made Thailand vulnerable to external conditions. The country suffered from the worldwide economic recession following the two oil crises in 1973-75 and the early 1980s. Yet, a significant increase in export growth and capital inflows, especially foreign direct investment, led to the country's economic recovery and high economic growth in the second half of the 1980s, while inflation and the exchange rate were maintained at manageable levels.

Exports have become a driving force behind Thailand's economic growth. As discussed in chapter two, they helped the country recover from economic stagnation due to the oil crises. The importance of exports to the Thai economy is reflected in the country's positions in both multilateral and bilateral trade negotiations. The rapid expansion of Thai exports in the late 1980s was a result of the government's export promotion policy. Although the government has pursued this policy since the early 1970s, the export sector, especially non-agriculture, did not expand rapidly at that time. This is because several government policy measures were not effectively used to implement the country's trade policy. For example, as analysed in chapter five, throughout the 1970s, the most widely used trade policy measure, tariffs, were set at high levels to protect local production. Thailand's manufactured export performance started to turn around only in the second half of the 1980s when the tariff structure was made more consistent with the government policy of trade liberalisation.

It can also be argued that the success of Thai exports is due to a number of incentives used to counterbalance the protective effects of tariffs and other non-tariff restrictions.[1] One of the most important incentives was tax drawback schemes. These schemes improve exporters' ability to compete in the world market. As analysed in chapter five, Thailand's tax drawback schemes consist of the import tax refund scheme and the tax rebate scheme. On the one hand, the import tax refund scheme provides exporters with a refund of import duties and business tax or VAT paid on imported inputs used in their export production. On the other hand, the aim of the tax rebate scheme is to provide exporters with exemptions from import tariffs, business tax or VAT, municipal tax, excise tax, and other taxes, imposed on all inputs, both imported and domestically produced.

Thai exports managed to expand very rapidly, even though the Effective Rates of Protection (ERPs) in Thailand have been high and biased against export industries throughout the past three decades. The ERPs were strongly in favour of the production of consumer goods for the domestic market. The automobile industry always received the highest protection. This is in line with the argument in chapter six and eight that the government put priority on this industry. Therefore, in determining the country's negotiating positions in the Uruguay Round, the automobile industry was excluded from the tariff reduction schedule. The high level of import tariffs and ERPs for import competing industries compared with those for export industries suggests that the Thai government recognised the importance of the former and wanted to protect them from foreign competition. This is different from the argument discussed in chapter seven and eight which emphasises the significance of the export sector to the Thai economy. In determining the country's negotiating positions, the Thai government gave priority to export activities and, as argued in chapter seven, was likely to respond positively to their requests. From these contrasting situations, it seems that the government tried to pursue both import-substitution policy and export promotion policy at the same time. Although the government implemented other policy measures to encourage export activities, it still maintained tariffs for import competing industries at comparatively high levels which led to their high ERPs.

The evidence of the government pursuing both policies was also pointed out by Tawatchai (1973). He found that the classification of industries for investment promotion in Thailand is inconsistent with the ERPs for these industries. That is, industries with the high ERPs, e.g. tobacco, sugar, and cement, were not classified as the main targets for industrial promotion. On the contrary, industries which are highly promoted by the government, especially export industries, have lower or negative ERPs. This means that despite the officially announced export promotion policy, the government still pursued an import substitution policy, which is indicated by the high ERPs for import competing industries.

9.2 The Formulation and Determinants of Thailand's Economic Policy

This thesis carries some implications for economic policy formulation in Thailand. It suggests that the formulation of Thailand's economic policy has its strong points and weak points. The main strong point is that the Thai bureaucratic system is quite open to criticisms. The general public, especially the press, academics, activists, and independent pressure groups, are free to express their views on the issues. In Thailand, the press enjoys the high degree of freedom. This puts it in a position that can influence public opinion on specific issues. The weak point is that trade negotiations and other economic policy formulation of Thailand depend too much on some specific government agencies and on a few government officials or politicians. They have discretionary power in formulating economic policy. Other agencies and the parliament hardly play any active role in the process of policy formulation.

Due to the lack of continuity in the Thai political system, government officials became the driving force in the process of economic policy planning and formulation. From the political economy perspective, it can be seen that the formulation of Thailand's economic policy can be explained by the public choice theory. As discussed in chapter three, the five basic models of this theory were designed to study the formulation of trade policy. Since trade negotiations are part of trade policy, these models can be adapted to analyse trade negotiations of Thailand, as has been shown in this study. However, the models may not be an effective tool to study other aspects of economic policy formulation. This is because each economic policy has its own characteristics and depends on different variables. Although the detailed models of the public choice framework cannot explain the formulation of Thailand's economic policy in general, the basic ideas of the two main approaches, i.e. the economic self-interest approach and the social concern approach, can explain the country's policy determination over periods of time. The basic idea of the first approach is that the differences in protection across industries result from their ability to seek protection or to resist cuts in protection whereas that of the latter is that trade policy is explained mainly by the government's concerns for the welfare of certain social and economic groups.

The domination of Thai bureaucrats in economic policy formulation from the early 1930s to the early 1970s, reflected the weak explanatory ability of the economic self-interest approach. As discussed in chapter four, during that time, Thai bureaucrats, both military and civilian, were very strong. They had an absolute control over the formulation of economic policy. Private interest groups did not play any significant part in the process of policy determination. However, the weakness of the economic self-interest approach does not imply the strength of the social concern approach. This is because although lobbying activities of interest groups were sporadic and disorganised, the administration, especially the military government, did not always act to maximise people's welfare. Powerful private businesses usually had a close personal connection with members of the cabinet or bureaucrats, and they received special treatment from the government. Moreover, most of the time, the parliament was too weak to scrutinise government's actions. Hence, a number of government policies were pursued in favour of some specific business groups. These developments make the explanatory ability of both the social concern and the economic self-interest approaches weak and irrelevant to Thailand in the period before the mid-1970s.

Since the student uprisings in the early 1970s, the power of bureaucrats in policy formulation has decreased significantly. By contrast, the role of the private sector's interest groups has become evident. Because of the large number of agencies responsible for economic policy formulation and implementation, the Thai private sector can influence these processes through many channels. Private interest groups can conduct their lobbying activities both in formal routes and in informal ones. As for the former, interest groups can lobby through major private organisations. For instance, individual firms or industries may express their concerns and problems through the Federation of Thai Industries and the Board of Trade. Representatives from both organisations can raise the issues with related government agencies or the Joint Public and Private Consultative Committee. The private sector's problems could be resolved through the formal consultation and coordination with the authority. Apart from lobbying through major business organisations, some individual business associations may also raise their cases directly with government officials. Formal lobbying procedures are likely to take place and pass through from junior to senior permanent officials and then to the decision-making level. Since these procedures are quite straightforward and involved a number of officials, it is difficult for pressure groups to offer bribes to the officials.

As for informal lobbying, individual businesses or industries would try to influence the formulation and implementation of economic policy through their personal connections with responsible officials. Sometimes, major business organisations also exploit their close relationship with the authority by joining the informal lobbying. This kind of lobbying often involved the situation that pressure groups offer some fortune to responsible officials in exchange for specific policy or special treatment or privileges. This means the increasing possibility of corruption in related government agencies. Since informal lobbying is based on personal relationship, rather than consultation, between government officials and interest groups, the groups tend to concentrate on building up relationship with decision makers, instead of cooperating with responsible officials. Therefore, informal lobbying is more likely to take place at the highest level of officials or at the ministerial level, where the definite decision on policy would be made.

Normally, interest groups exercise their formal and informal lobbying at the same time. Since all participating parties in both formal and informal lobbying are quite the same and both processes overlap, it is difficult to distinguish one from another. Nevertheless, as the Thai bureaucratic system becomes more open, the possibility of bribery through informal lobbying should decrease.

The influence of lobbying activities on economic policy decision making underlines the stronger ability of the economic self-interest approach in explaining Thailand's economic policy formulation. However, the explanatory ability of the social concern approach cannot be ruled out. Since the Thai parliamentary system became stronger after the collapse of the military regime, the new civilian government was subject to close scrutiny. As a consequence, the administration was forced to act based on the country's interest. This means that the social concern approach could also explain the determination of economic policy. Furthermore, as argued in chapter four, the behaviour of members of the Thai House of Representatives can be explained by the social concern approach. This is because the behaviour of these representatives was usually aimed at protecting the current status of, or creating some extra benefits for, their constituencies to maximise their chances of being re-elected. At the same time, pressure groups barely influenced economic policy through members of the House of Representatives. It can be argued that, from the mid-1970s onwards, the explanatory ability of both the social concern and the economic self-interest approaches was stronger. However, it cannot be determined a priori which approach is better in explaining policy formulation in general. To be more specific on this issue, further study on the formulation of each economic policy is needed.

Generally, it can be argued that, in Thailand, in the planning of economic policy and the formulation of fiscal and monetary policy, the influence of the private sector is quite limited. For the formulation of trade policy, nonetheless, the role of the private sector is more apparent. Trade policy is likely to be influenced by the private sector and external factors. These external factors, for instance, the IMF, and the GATT, were discussed in chapter four. There are differences in the pattern of influence of the private sector on the formation of tariffs and non-tariff policy. For tariffs, any influence from the private sector tends to occur at a decision-making level. For non-tariff policy, this influence is likely to take place through middle to high level officials.

From these findings, it can be argued that the planning of economic policy and the formation of fiscal and monetary policy can be best explained by the social concern approach. This is because government agencies which are responsible for both processes, i.e. the National Economic and Social Development Board and the Bank of Thailand, were famous for their competence and independence. These two organisations usually acted to maximise the country's interest and people's welfare. However, recently, the reputation of the Bank of Thailand has been tarnished by a number of scandalous incidents. Nonetheless, it is still too early to propose the increasing power of the economic self-interest approach in explaining the formulation of fiscal and monetary policy. On the contrary, the economic self-interest approach can explain the formulation of trade policy, both tariffs and non-tariffs. Interest groups in the private sector could influence trade policy through their lobbying activities. Moreover, as argued in chapter six, the Commerce Minister tends to assign his deputy to take charge of the Department of Business Economics,[2] while he himself is directly responsible for the Departments of Internal Trade and Foreign Trade. These two departments control the allocation of various forms of export and import quotas which can lead to rent-seeking activities. This means that the economic self-interest approach can explain not only the formulation of trade policy but also the behaviour of politicians who are in charge of this process.

9.3 Thailand's Uruguay Round Negotiations

In Thailand, the public rarely paid attention to the Uruguay Round negotiations, although the country has been involved in the GATT since 1973. The process of international trade negotiations can be classified into three stages: pre-negotiating, negotiating, and post-negotiating. During the preparatory stage of the Uruguay Round negotiations, Thailand's negotiating positions were formulated. They inclined towards liberalisation because the government realised that freer trade could bring about rapid economic growth. The main negotiating positions of Thailand in the Uruguay Round were the improvement of GATT's rules, the abolition of subsidies and quantitative restrictions on agricultural products and the inclusion of textiles and clothing in the GATT. Apart from its negotiating positions as a single country, Thailand also shared common positions with a number of agricultural exporting countries, the Cairns Group. The group played a significant role in the Uruguay Round negotiations.

This study finds that Thailand's Uruguay Round negotiations were generally autonomous. Thai government officials were able to act to maximise the country's interests, rather than having to compromise with the private sector's specific interests. There is, on the whole, no evidence of any kind of influence asserted by interest groups on the government during the pre- and post-negotiating stages of negotiations.

At the pre-negotiating stage, as argued in chapter six, the formulation of Thailand's negotiating positions in the Uruguay Round was largely autonomous. The formulation was totally left to government officials. The Thai authorities were able to determine the country's negotiating positions according to their principles and judgement without facing any pressure from interest groups. Generally, Thailand's private sector played a very limited role in the formulation of the country's negotiating positions in the Uruguay Round. Nonetheless, it can be noticed that the level of interest groups' participation in the formulating process was varied in different sectors. It seems that private businesses in the manufacturing sector were generally more active in the process of formulation. For the agricultural sector, although this sector's interest groups are powerful, there is no evidence suggesting their influence over the formulation of negotiating positions.

The findings here conform with the public choice analysis. As argued in chapter eight, Thailand's positions on the Uruguay Round's main negotiating issues, i.e. manufacturing, agriculture, services, TRIMs, and TRIPs, can be explained by the social concern approach (Table 9.1). This approach is classified into three models. Firstly, the status quo model posits a positive relationship between the current levels of protection and the historical levels. Secondly, the social change model argues that protection would be high in industries intensively hiring low-income, unskilled labour. And lastly, the foreign policy model views trade policy as an instrument of foreign policy to serve various international objectives of the government.

Although the private sector's role in the formulation of Thailand's negotiating positions was quite restricted, the automobile industry succeeded in asserting pressure on this formulating process. From the public choice analysis, it can be seen that the country's position on manufacturing negotiations concerning the automobile industry can be explained by the pressure group model of the economic self-interest approach (Table 9.1). This model argues that interest groups with small number of members, an uneven distribution of benefits among members, and high geographic concentration ratios, would receive high levels of protection. The model's hypothesis is consistent with the characteristic of the automobile industry. This industry with the small number of firms, therefore, can resist cuts in protection.

For the post-negotiating stage of negotiations, the implementation of Thailand's Uruguay Round commitments (both tariffs and non-tariffs) by the government has been quite autonomous. There was no evidence of interest groups' influence on the implementation of these commitments. Reductions in tariffs were made to conform with the tariff schedule and they coincided with unilateral tariff cuts under the government's restructuring programme. Thailand's unilateral tariff cuts resulted in deeper cuts in the country's applied tariff rates. This is because the tariff restructuring programme included larger cuts in import duties on almost all merchandise products.

Generally, the currently applied tariffs for manufacturing were already below the Uruguay Round bound levels. For agriculture, all quantitative restrictions had to be converted to tariffs, and initial tariff bindings were at currently applied levels.

For the implementation of Uruguay Round non-tariff commitments, as a developing country, Thailand was entitled to more flexible conditions and longer time-frames in complying with the Uruguay Round Agreement. Furthermore, the agreement allowed the use of non-tariff policy measures for some specific reasons, for example, to improve balance of payments difficulties. These created opportunities for interest groups to assert their pressure on the authorities. However, the link between interest groups' influence and government's actions cannot be established. Therefore, it can be argued that the implementation of Thailand's Uruguay Round commitments can be explained by the status quo model of the social concern approach (Table 9.1). There were a number of attempts by the government to maintain current situations for various groups, for example, the allocation of in-quota of some agricultural products to their producer associations.

As analysed earlier, Thailand's negotiations in the Uruguay Round can be best explained by the social concern approach. It explains Thailand's negotiations in the Uruguay Round based on the idea that the government pursues any policy to promote people's welfare. The domination of the social concern approach over the economic self-interest approach in explaining Thailand's negotiations in the Uruguay Round occurred because some of its negotiating topics, for instance, services, TRIMs, and TRIPs, can be considered as "new" issues. Negotiations on these new issues hardly drew any attention from the public. Thailand would not have to make any significant change to comply with the Uruguay Round's General Agreement on Trade in Services (GATS), which aimed at liberalising the service sector. This is because the Thai government already implemented several policy measures to liberalise its service sector, e.g. banking, insurance, and telecommunications. Negotiations on services created only a very small impact in Thailand. For TRIMs and TRIPs, Thailand was entitled to a long transitional period to conform to the agreement. Therefore, it was not clear who would have the advantage or disadvantage from the TRIMs agreement. Moreover, in the case of TRIPs, Thailand already revised several laws, more than what required by the agreement, to accommodate US demands.[3] Since a number of changes were inevitable and already took place, and others would not take place for a few years, there was no evidence of any attempt by pressure groups to influence the government's positions on these issues.

The lack of interest among the Thai general public on negotiations on such issues as services, TRIMs, and TRIPs, allowed government officials to act according to their judgements. This explains the strong explanatory ability of the social concern approach on these issues. However, it can be seen that factors underpinning the social concern approach are temporary. When the economy develops with proper information available and such issues as services, TRIMs, and TRIPs, become more complicated, it is likely that associated pressure groups will try to influence the government's positions. Thus, the government may be forced to respond to this influence. The social concern approach may no longer offer the best explanation for Thailand's positions. It is possible that, should the WTO launches its new trade round, expected in 2000, the explanatory ability of the economic self-interest approach for Thailand's positions on these issues will be stronger.

It can be seen that the explanatory ability of the social concern approach for Thailand's Uruguay Round negotiations is quite strong. It can explain almost all cases of Thailand's negotiations. Only the case of the automobile industry that can be explained by the economic self-interest approach. Nevertheless, the explanatory ability of this approach is still inconclusive because it is supported by only one case study. On the contrary, the social concern approach can provide solid explanations for the formulation of Thailand's Uruguay Round negotiating positions on manufacturing, agriculture, services, TRIMs, and TRIPs; and for the implementation of the country's Uruguay Round commitments.

9.4 Thailand's Bilateral Negotiations with the United States

As an example of Thailand's bilateral trade negotiations, this study has concentrated on the country's negotiations on TRIPs with the United States. Generally, it can be argued that, in the process of these negotiations, the Thai government was not autonomous. As analysed in chapter seven, the government's position on intellectual property protection was influenced by a number of factors, both internal and external. There is evidence suggesting lobbying activities of interest groups. As a result, the Thai authorities were unable to determine the country's negotiating positions according to their principles and judgements.

Thai-US economic relations have developed since the early nineteenth century. Trade between the two countries has continuously increased over time. The United States has always been the most important market for Thai exports, especially manufactured products. Therefore, any change in US trade policy would inevitably affect the Thai economy. Since the mid-1970s, the direction of US trade policy has generally been changed. In an attempt to stabilise its trade balance, the US government pursued a strategic trade policy to counterbalance alleged unfair trade practices of its trading partners. The 1988 Omnibus Trade and Competitiveness Act contains Section 301 which provides the US government with the authority to retaliate against trading partners, which deny adequate and effective protection for US intellectual property.

The USTR exercised its power under Special 301 by demanding Thailand provide adequate and effective protection for US intellectual property. The United States particularly asked Thailand to provide protection for computer software under the copyright system and to include pharmaceuticals in the country's patent system. The USTR threatened that Thailand could face an investigation under Special 301 which could lead to a sharp increase in tariffs on Thai exports if there was no significant change in the country's intellectual property protection system. This issue caused considerable disputes among various groups in Thailand. These disputes took place among government agencies as well as among private enterprises. Academics, student unions, and consumer groups were also actively involved in the determination of Thailand's position on the issue.

For the protection of pharmaceutical patents to avoid US trade sanctions, the proponents included the business association which represents foreign drug manufacturers and export industries whereas the opponents were the association which represents local drug producers. Both sides put pressure on the government through various kinds of lobbying activities. Some Thai primary business associations issued their support for pharmaceutical patent protection while others did not issue any official view on the matter. Apart from disputes between business associations, as discussed in chapter seven, there were also conflicts between politicians and government officials. After a series of negotiations, both internal and external, the Thai government decided to yield to almost all the US demands.

As analysed in chapter seven, the determination of Thailand's positions in bilateral negotiations with the United States on intellectual property protection was not autonomous. The public choice analysis also supports this conclusion. As argued in chapter eight, the position of Thailand on this issue can be best explained by the economic self-interest approach, which is classified into two models, i.e. the pressure group model and the adding machine model. The pressure group model argues a negative relationship between the number of members of groups and the degree of protection. This model can explain Thailand's position on the bilateral negotiations (Table 9.1), as argued in chapter eight, because its hypothesis is consistent with the fact that the organisation which was successful in lobbying, i.e. the PPA, had fewer members than its rival organisation, i.e. the TPMA.[4] The adding machine model proposes a positive relationship between the number of workers and the level of protection, and a negative relationship between the degree of industrial concentration both in geographic and market share terms and the level of protection. That is, the adding machine model's hypothesis is the reverse of that of the pressure group model. The adding machine model can explain Thailand's position (Table 9.1) because its hypothesis is in line with the characteristic of the export industries which succeeded in influencing the government's position on intellectual property protection. Both the pressure group model and the adding machine model can explain the Thai position in bilateral negotiations but they focus on different variables. Therefore, it cannot be determined which model carries stronger explanatory ability. Unlike the economic self-interest approach, the foreign policy model of the social concern approach can only vaguely explain the Thai government's action (Table 9.1). The explanatory ability of the economic self-interest approach on Thailand's positions in these bilateral negotiations emphasises the inability of government officials to act based solely on the country's interests. Their actions were in response to lobbying activities. They had to compromise over conflicts of interests among different groups of people.

By considering the hypotheses of both the pressure group model and the adding machine model with relevant data, the relative strength of the explanatory ability of the two models is not completely clear. Nonetheless, when implications of the direction of Thai trade policy are taken into account, the picture becomes clearer. Since the government has pursued an export promotion policy, the importance of export industries is apparent. Export earnings have been one of the most important sources of Thailand's economic growth. Therefore, these industries' problems have always drawn attention from the government and their requests have also received positive responses. This is the basis of the explanatory ability of the new model, the export preference model, which was discussed in chapter eight. Furthermore, as Thailand is still a labour-abundant economy, employment generation is the country's major concern. Export activities which are usually labour-intensive have been seen as the way out of this problem. Its job creating capability emphasises the importance of the export sector. The significance of export industries in foreign exchange generation and in job creation makes the explanatory ability of the adding machine model for Thai-US negotiations on TRIPs stronger than that of the pressure group model. This is because the former's hypothesis is consistent with the characteristics of export industries.

9.5 Final Remarks

This thesis' findings and arguments contribute to knowledge in the field of international trade policy, especially the political economy of trade policy. The thesis shows that the basic models of the public choice theory, which are usually used to explain the formulation of trade policy, can be applied to analyse trade negotiations of Thailand. Nevertheless, employing the five models of the public choice framework to study trade negotiations has some limitations. As argued in earlier chapters, among these five basic models, there is no one model that can explain Thailand's trade negotiations in general. This can be seen from the test of hypotheses by OLS regression analysis in chapter eight, which suggests that the pressure group model and the adding machine model are statistically insignificant in explaining the ERPs by economic sectors. Some specific models are relevant to some negotiating cases or to some sectors, but not to others because each negotiation has different agendas and procedures and involves different sectors in the economy. These sectors carry various implications. As a result, for these different factors to be explained, different models are needed to anlayse each negotiating case. Since, so far, a model that can generally analyse trade negotiations has not been developed, the public choice theory can still be considered as an effective framework to study these issues. Despite the lack of a general analytical model, the study of trade negotiations should not be ignored. This is because international trade negotiations are part of trade policy. The direction of a country's trade policy is reflected in its negotiating positions. Therefore, understanding trade negotiations will yield a more comprehensive picture of trade policy.

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[1] Details of non-tariff restrictions were discussed in chapter five.

[2] The Department of Business Economics is responsible for Thailand's international trade negotiations and other academic issues of the Ministry of Commerce.

[3] For details on the TRIPs agreement, see chapter five.

[4] Details of the PPA and the TPMA were discussed in chapter seven.

Table 9.1 Summary of Public Choice Analysis

	Economic Self-Interest Approach		Social Concern Approach		
	Pressure Group	Adding Machine	Status Quo	Social Change	Foreign Policy
Uruguay Round Negotiations					
- Manufacturing			*		
-- Automobile	*				
- Agriculture				*	
- Services, TRIMs, TRIPs					*
- Implementation of Commitments			*		
Thai-US Negotiations on TRIPs	*	*			*

Appendix I Data for OLS Regression

Industry	ERP	Number of Workers	Number of Firms
- Diary Products	62.4	194	19
- Canning and Preserving of Fruits and Vegetables	314.6	157	19
- Grain Mills	-20.4	6,534	581
- Flour Products	294.8	5,162	429
- Sugar	-21.6	614	51
- Beverages	20.9	138	18
- Tobacco	-6.9	1,247	77
- Spinning and Weaving and Dyeing	30.2	3,303	222
- Textiles	105.8	2,422	304
- Leather Products	236.4	1,264	144
- Saw Mills	-21.4	1,803	39
- Furniture	169.3	446	45
- Wood and Cork Products	98.6	195	16
- Pulp and Paper	67.5	106	42
- Printing and Publishing	3.4	434	19
- Rubber Products	382.6	228	14
- Basic Industrial Chemicals and Fertilizer	-12.5	255	35
- Chemical Products	88.8	202	52
- Plastic Products	122.7	234	130
- Cement and Non-Metallic Products	199.9	1,522	38
- Pottery and Earthenware	339.9	665	146
- Iron and Basic Steel	58.9	2,108	263

Appendix I Continued

Industry	ERP	Number of Workers	Number of Firms
- Metal Products	41.4	3,165	275
- Machinery	74.8	2,685	24
- Electrical Machinery and Appliances	188.0	1,879	8
- Motor Vehicles and Bicycles	308.2	539	18
- Jewellery	234.7	528	57
- Structural Clay Products	196.5	1,279	121

Source: Thamavit (1994: 211-17), Report of Industrial Survey (1985)

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