



Thailand-Australia Free Trade Agreement Update: A Platform for Optimism

The 1st of January 2006 was the first anniversary of the coming into force of the Thailand-Australia Free Trade Agreement. Although barely 12 months old, trade between our two nations is on the increase and ACCI is optimistic about further strong growth.

The Thailand – Australia Free Trade Agreement (TAFTA) is clearly a win-win for both countries.

The Agreement, the first by Thailand with a developed western nation, was signed by the Australian and Thai Trade Ministers in Canberra in mid 2004 and was strongly supported by ACCI and the Australia-Thailand Business Council, who played an important role in the negotiations.

The two-way trade in goods between Australia and Thailand in the first ten months of 2005, at US\$5.5 billion, was more than double the trade for the whole of the year 2001 (US\$2.7 billion).

And for the first time in those five years, the differential runs in Australia's favour (US\$181 million).

An important explanation for the impressive bilateral trade growth rate must be the greater awareness of the opportunities arising in each country generated by the TAFTA.

As a prominent academic economist with long experience watching trade and economic developments around the Asian region observed:

“TAFTA succeeds quite well in achieving what it has intended to do.

First, both countries aim at more long-term benefits of larger or increased trade than short-term gains through trade surplus or deficit.

Second, TAFTA is comprehensive covering practically all aspects of trade in goods, trade in services, investment and other trade facilitation issues.

Third, the potentials for future opening up are large and meaningful which can contribute to even larger social welfare gains to the people of the two countries.”¹

With both sides ‘winning’ from the TAFTA and acting in excellent goodwill in resolving early implementation problems, there is a sound base for co-operation in the more difficult areas of liberalisation to realise mutual benefit in services and investment.

But with prudence, one should add that:

- it is still too early to be too specific about the TAFTA’s contribution over and above natural growth and it will be so until 2010 when almost all merchandise trade will be zero rated; and
- investment decisions are still being made.

The growth rate in merchandise trade is tangible evidence of the potential of each other’s markets and the growth in services is being supported by increased diversification of activity.

Higher percentages of equity and the easing of some of the constraints affecting staffing are two elements of the TAFTA that combine with good returns, the incentives for regional headquarters to favour increased investment by Australian business into Thailand.

Furthermore, in the middle of December last year, the Thai Prime Minister Thaksin announced an innovative Partnership for Development proposition that nominated a number of important priorities.

These included:

- infrastructure – particularly mass transportation and logistics;
- water resource management;
- ICT – particularly with applications to education, e-health and e-government;
- national defence technology; and
- agricultural modernisation.

Australia has world class competencies in these areas and has a positive reputation as a commercial partner, so the quantum of Australian investment can be expected to climb to reflect the potentials of the marketplace.

In the spirit of a comprehensive trade agreement, the TAFTA agreed to ensure the broadest possible access regarding all trade in services and investment issues.

To achieve this, working groups on various matters and reviews at various levels including schedules were incorporated as the TAFTA's 'inbuilt agenda'. For instance, both sides have agreed to open negotiations and phase in ready service sectors every three years.

Another positive step to improve the TAFTA's effectiveness was the recent endorsement of the TAFTA Joint Customs Operational Procedures which will establish guidelines for customs officials on a range of rules of origin and certification issues.

The recent decisions to establish a Working Group on Market Access Issues and a Working Group on Government Procurement are also to be applauded.

In the coming years, mutual recognition of qualifications, standards and conformance, matters affecting health, tourism and other areas await further deliberations and negotiations between the two sides.

The prospects for success on these are good as long as both sides continue to work together in the spirit of genuine cooperation and good will evidenced to date.

The tangible outcome will be increased bilateral merchandise and services trade and investment that will further integrate the two economies and enable Thai and Australian business to continue to take full advantage of the benefits offered by the Agreement.

END NOTES

- ¹ Professor Medhi Krongkaew, Professor of Economics, School of Development Economics, National Institute of Development Administration (NIDA), Bangkok.

Figure 1
Australian Merchandise Trade with Thailand
2004-05

	Share	Rank	Growth (YOY)
Exports to Thailand	3.1%	9 th	58.4%
Imports from Thailand	2.8%	12th	14.5%
Total Trade	2.9%	11th	32.1%

Note:

Share – Share of overall world export and import markets

Rank – Rank of all countries

YOY – Year on year growth

Figure 2
Thailand's Economic Performance
2004-05

