

The Comprehensive Study of the Potential Gains to  
Thailand from Acceding to the Bangkok Agreement

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Executive Summary

The Bangkok Agreement (BA) formed in 1975 was the oldest preferential trade arrangements (PTAs) in Asia-Pacific that aimed boost trade volume among developing countries. Currently, there are six member countries: Bangladesh, India, Lao People's Democratic Republic, Republic of Korea, and Sri Lanka. China just acceded to the agreement in 2001. However, the intra-member trade in the Bangkok Agreement region has remained relatively small. This, therefore, attributes to the limited number of concessions for success of this trade bloc. Nevertheless, the decision of Thailand for joining the Bangkok Agreement is still under reviewed and should be studied more for its possible outcomes.

What Thailand expect from this Bangkok Agreement is to study whether regional trade bloc among those member countries would increase the nation's export volume as well as generate welfare-enhancement. This paper tries to analyze the possible gains to Thailand on accessing this trade agreement by employing both quantitative and qualitative discussions. This analytical part starts with the estimation of the Spearman's Rank Correlation of the Revealed Comparative Advantage (RCA) to observe how trade structures between Thailand and the Bangkok Agreement member countries would be competitive or complementary for each other. The estimates of RCA rank correlation show similarity of trade structure between Thailand and those countries so that it implies the less likely chance of trade creation within the region. . However, by categorizing into each sector, trade structures between Thailand and the BAMCs are complement on "Textile, Wearing Apparel and Leather Industries", "Manufacture of Chemical, Petroleum, Coal, Rubber and

Plastic Product”, “Manufacture of Paper and Paper Products, Printing, and Publishing” and “Basic Metal Industries”.

The second methodology uses the matchmaking study of the bilateral traded industries flowing between Thailand and BAMCs compared to those of Bangkok Agreement concession lists. The potential export items from Thailand to the BAMCs, from under the concessions and have comparative advantage, are concentrated on “Manufacture of Chemicals and Chemical, Petroleum, Coal, Rubber and Plastic Product (ISIC-35)” and “Textile, Wearing Apparel and Leather Industries (ISIC-32)”. Analyzing for the import-side, the concession lists of Thailand offered to the BAMCs, upon joining the members, should be the Negative List approach homogenizing to the CEPT agreement of AFTA. The reason is to reduce the “Spaghetti Bowl” effect that may generate the complication of tariffs and minimizing trade diversion from trade bloc.

Due to limited coverage of product categories and lower margins of preferential, further negotiations for increasing more scope of product items on concessions needed to be acted real soon. The items that should be aimed for further negotiations are concentrated on “Manufacture of Fabricated Metal Products, machinery and Equipment (ISIC-38)”, “Manufacture of food, Beverage, and Tobacco (ISIC-31)”, “Manufacture of Non-metallic Mineral Products, except Products of Petroleum and Coal (ISIC-35)”, and “manufacture of Paper and Paper Products, Printing and Publishing (ISIC-34)”. The Agriculture and Hunting sectors (ISIC-11) also present the supportive result for negotiation that are anticipated to benefit Thailand in the future. Finally, increasing a number of member countries should enhance the Bangkok Agreement’s bargaining power to other regional trade blocs. Prospective countries in the Asia Pacific, both in developed and developing countries, which have consistence growth of GDP, economic stability, and advantage of location, are expected to join the trading agreement in the future.

## **I. Introduction**

The Bangkok Agreement (BA) formed in 1975 was the oldest preferential trade arrangements (PTAs) in Asia-Pacific that aimed boost trade volume among developing countries. Currently, there are six member countries: Bangladesh, India, Lao People's Democratic Republic, Republic of Korea, and Sri Lanka. China just acceded to the agreement in 2001. Following the current WTO Director's aspiration, Dr. Supachai Panichpakdi to promote trade among developing countries, Bangkok Agreement should not only benefit Thailand by increasing trade volume among developing countries in Asia Pacific, but also enhance the potential of trade negotiations for this region in the global context. However, due to the economic instability among those member countries and other incurring reasons, the possibilities for Thailand to join this preferential agreement need to be determined. The main purposes of this paper, therefore, are to analyze the implications and benefits to Thailand from acceding the Bangkok Agreement. In the next section, the paper starts by evaluating main sectors of the bilateral trading between Thailand and the Bangkok Agreement member countries (BAMCs) as well as the trade obstacles among those countries. In section III, both qualitative and quantitative measurements will be implemented to explain whether this regional trade agreement in the broader sense would cause any trade creation/diversion effects<sup>1</sup>. The measurements explain whether trade volume would be likely to exist and which industries/sectors should considered to be the potential and below potential. The section IV follow the analysis by explaining the possibilities for Bangkok Agreement to increase a number of their country members in which those prospective countries should cause trade increment as well as the economic growth among the group.

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<sup>1</sup>This paper analyzes only the trade creation and trade diversion that may exist in Thailand upon joining the preferential trade agreement. However, trade creation and trade diversion can be considered to exist in other countries who join the agreement as well as in the Rest of the World (See Schiff and Winters; 2002)