

# BRIEFING PAPER

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## India-GMS Trade and Investment Corridor: *Possible Role & Responsibility of Thailand*

*There are currently some 300 bilateral and regional trade agreements (RTAs) under negotiation or in force around the world. Most of these are North-South agreements, although a few of them are South-South. The prospect of economic gains from freer trade between contracting parties is one reason why countries engage in RTAs. However, regional integration can also have indirect effects, e.g. in fostering greater cooperation between countries/regions through their separate RTAs with a third party.*

*Thailand's role in developing Mekong-Ganga relations is a case in point. Based on its strategic position in South East Asia and its engagements in RTAs in both South and South East Asia, it has the potential to act as a gateway between India and the Greater Mekong Sub-region (GMS), including the sub-Mekong region countries Vietnam, Cambodia and Lao PDR.*

*Three modes of entry for India into the GMS are analysed in this paper: the proposed India-Thailand Free Trade Area (FTA), closer relations between India and the GMS through Thailand, and involving India in the FTA being negotiated by the Association of South East Asian Nations (ASEAN) and China. It has been argued that the third scenario presents the greatest potential mutual benefits.*

### Background

The world has recently witnessed a lot of activity in freeing international trade and investment through regionalism, especially after the failure at the Cancun World Trade Organisation (WTO) Ministerial to advance the Doha Round. Spurring economic growth and reducing poverty are predominant reasons for this activity from the countries, which are looking to 'catch up' and take advantage of open regimes. The 'Framework Agreement for Establishing Free Trade Area' between Thailand and India signed in October 2003 can be seen as one manifestation of this development.

However, the potential positive effects of the Framework Agreement go beyond the economic benefits of closer bilateral trade and investment relations. With India and Thailand playing strategic roles in South Asia and South East Asia respectively, they can act as gateways between the two regions. This paper focuses on the role and potentials of Thailand in strengthening economic and regional cooperation with India as well as being a gateway between India on the one hand, and the GMS, including Cambodia, Laos and Vietnam, on the other.

### The New Gem of South East Asia

One of the emerging centres of economic gravity in South East Asia is the GMS. Besides bringing benefits by way of expanding demand and supply within the region and acting as a cushion against globalisation, regional integration in the GMS allows the countries to capitalise on their diversities and present them with an excellent opportunity for cooperation and exchange.

The economic, social and geographical diversities in the GMS are strong factors for collaboration. They differ in terms of size, with Myanmar, rich in natural resources, twice as big as the resource-poor Vietnam. Once the population sizes are added on

top of the geographical differences, interesting implications begin to emerge. For example, population density – though a poor indicator of population pressure on resources – ranges from 22 persons/sq km in Laos to 230 persons in overpopulated Vietnam.

Most of these people still live in areas defined as rural. This has implications for governance and resource distribution and raises questions on the present regimes of resource exploitation throughout the basin. The pro-urban policies often tread the rights of rural population for 'luxurious' increments of urban happiness. Water resource allocation is an example.

Although they also differ notably in terms of gross domestic product (GDP), half of the countries of the GMS remain marginally at the poverty line. The notable exception is Thailand, with a per capita income almost 10 times higher than that of Cambodia, the poorest country in the region. China, discussed in greater detail below, tries to catch up by hastening its development through increasingly open trade regimes.

### GMS and the Role of Thailand

The idea of GMS as a new economic grouping was first mooted by Thailand in 1992 in a proposal to the Asian Development Bank (ADB). The first phase of inception was completed in the following year. The framework of cooperation widened the Mekong River Commission (MRC) structure, which consists only of the lower riparian countries like Cambodia, Laos, Vietnam and Thailand, by bringing Myanmar and China (the Yunnan province) into the cooperation. This is a crucial architecture for the Mekong Basin cooperation, as China is situated at the origin of the Mekong, and Myanmar also contributes to the Mekong, albeit at a small scale compared to other members.

Today, 11 priority areas of cooperation have been agreed upon and approved by the GMS members. These programmes

and projects set the framework for a basin-wide cooperation, to which Thailand has responded quickly. For example, it has focused on building necessary infrastructure to facilitate transportation of goods and people, developing border-town economies and establishing special economic zones, including industrial estates. Thailand has also moved to establish bilateral links with its GMS neighbours.

### Thailand as a Gateway to GMS

Figure 1 below shows possible linkages of three power houses: China, Thailand and India. Thailand features dominantly as a gateway for the GMS. For instance, it is a crucial hub for air links in Asia. Air transport will also be greatly enhanced when the new airport is completed in 2006. As for road transport, Thailand has perhaps one of the most extensive networks that facilitate easy access to all of the GMS countries. Road conditions, though deteriorating in some sections, are well-paved and up to international standards. This infrastructure has turned Thailand into the most crucial inland passage of South East Asia. Of note are the extensive networks that connect China, Laos, and Vietnam with the Eastern Industrial Seaboard of Thailand, into the Gulf of Thailand and international waters.

Moreover, the water transport along the Mekong, which benefits from China's improvement of the Mekong from southern China down to the Chiangsane Port of Chiangrai Province in northern Thailand, is well connected with Thailand's land transport network. Chiangsane, in particular, is an important distribution centre for goods to and from China.

For one, there has been an increase in investment out of China through regional co-production arrangements (the so-called 'made through China' pattern). In Thailand, outlets of Chinese enterprises, including sales events, dot shopping plazas and Chinese firms seek stakes in ailing petrochemical industry in Thailand. For another, the GMS partners have benefited from a significant surge in agricultural imports into China, although China exports many of the commodities. This results in China running a trade deficit with Asian countries that produce agricultural commodities for exports, while running a trade surplus on the whole.

China's growth – and its concomitant high levels of consumption – is not all positive. It might have alarming consequences on environmental aspects such as pollution and other trans-boundary problems.

The discussion on the China factor is meant to illustrate two important messages for India's entry into the GMS. First, the role of China is important. Second, Thailand has 'special' economic, social and cultural relations with China, which makes it a good gateway to GMS. Moreover, Thailand has the required strength to play the gateway role for India.

Notwithstanding the importance of China, the narration of Figure 1 cannot be complete without highlighting the proposed role of Myanmar, a natural resource rich nation, placed in a strategic position for China to gain access to the Andaman Sea. Myanmar also has close relations with both China and Thailand.

### Closer ties between India and Thailand

The structure of trade and investment between India and Thailand indicate complementarities between the two economies and, hence, the potential mutual benefits of stronger relations. For instance, the low level of trade flows between the two shows greater opportunities. India exports commodities to Thailand, which enable Thailand to feed its industries. Meanwhile, imports by India from Thailand are more diversified. This also illustrates the innate potential of services and investment cooperation between them in such areas as education, health, transport, finance and banking, and tourism.

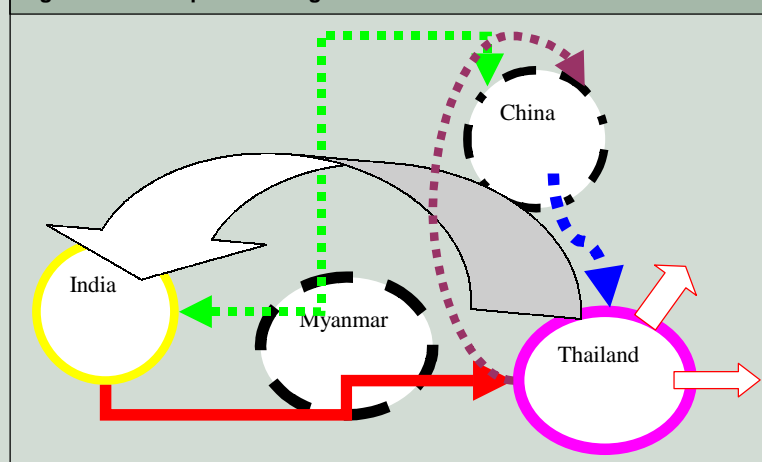
The concept of developing a strategic partnership was first discussed when the Prime Minister of Thailand visited India in 2001. Initial understanding and intents were reached between the leaders of the two countries to establish a framework for deepening economic cooperation. A

joint committee later came to the conclusion that an FTA was feasible to reap mutual benefits.

A Joint Negotiating Group (JNG) went through six meetings to reach a Framework Agreement that was signed at Bangkok, on October 9, 2003. The Agreement covers five areas of cooperation:

1. Free trade in goods, aiming to eliminate tariff and non-tariff barriers (NTBs) to all goods by 2010, based on an Early Harvest Scheme (EHS);
2. Free trade in services, to sequence sectors for gradual liberalisation. The negotiation was launched in January 2004 to be concluded in two years;
3. To create a conducive climate for bilateral investment;
4. To explore new areas of cooperation, including fisheries, telecommunications, health and sanitation, tourism and biotechnology; and
5. Trade and investment facilitation via improved customs procedures and a mutual recognition arrangement.

Figure 1: Conceptual Linkages between India and the GMS Countries



### The Role of China

The importance of China cannot be understated. Recent years has seen the so-called Chinese 'economic miracle', reinforced to a certain degree by the lesser but no less real Indian 'miracle'. In the GMS context, Sumalee Sukdanont, a researcher in Chulalongkorn University, shows in a recent study on trade and transport in the region that the first move of China was to put in place waterway transport to Thailand. On land, China has taken quick steps to complete its North-South route to gain access to the mouth of the Mekong in southern Vietnam. China is also trying to diversify its transport risks by going through Myanmar to the Andaman Sea.

The dramatic increase in Chinese imports to feed itself and its industrialisation is truly changing the regional as well as global trading landscapes, with positive repercussions felt throughout the GMS. Thus, although China continues to be a competitor to many of the GMS countries in the production of consumer goods, it and the rest of the region complement each other significantly.

The Framework Agreement would enhance trade and investment flows in three respects. First, it would create a better market access, even beyond Indian markets. Second, it would increase the competitiveness of Thai industries, and last, the increased volume of trade and investment between the two countries, which would increase the welfare of both, and the Framework Agreement itself would prepare both countries to engage in global free trade.

But beyond facilitating flows of raw materials, goods and investment between India and Thailand through freer trade, the close relationship would also play on the gateway concept and their strategic positions in their respective regions. As S S Mahansaria, President of the India-Thai Business Forum, put it at Bangkok, in a speech on October 7, 2004:

“...Given Thailand’s strategic location in South East Asia and one of the ASEAN members, Thailand could become a vital production and export base for India to the world market. At the same time, given India’s strategic location in South Asia and one of the world’s largest potential buyers and (possessors of) natural resources, India could become a source of raw materials, and of course, a gateway for Thailand to South Asia region”.

These common opportunities of Thailand and India are also manifested in their respective ‘Look West’ and ‘Look East’ policies.

### Trade Flows between India and Thailand

Thailand’s trade with India currently accounts for just below one percent of its total trade volume. The export share to India from Thailand averaged 0.8 percent in the past five years, growing by 25.7 percent during the period. Imports from India grew at a slower pace of 22.3 percent, with a larger share in Thailand’s import – 1.1 percent. It is worth noting that these expansions outpaced that of the total, signifying that India is becoming a strategic trade and investment partner to Thailand. As a result of the trade gap between the two countries, the trade deficit of Thailand continued to surge, averaging US\$220.5mn per year.

The results of the Thailand-India Framework Agreement are so far appreciable, as can be seen in Box 1. Thailand has benefited from trade expansion of the 82 Early Harvest items – a 154.2 percent increase during the first six months of 2005. Between September 2004 and May 2005, these items enabled Thailand to gain a trade surplus of US\$123mn with India. Exports from Thailand that increased include agricultural commodities – including processed crab meat – and electronic and electrical appliances. Imports of gems and jewellery as well as automotive and parts thereof outpaced exports in those categories.

A recent survey by the Federation of Indian Chambers of Commerce and Industry (FICCI) revealed that the impact of the Framework Agreement was significant for Thailand, not necessarily for India due to Thailand’s small market size. It estimated that during April-December 2005, imports of the 82 Early Harvest items from Thailand into India would reach US\$104.85mn, a notable rise from US\$84.44mn during 2003-2004.

### Entry Modes for India

There are presently three entry modes for India into the GMS via Thailand. First, intensifying the Thai-India FTA. Second, bringing India directly into the GMS Framework. And third, involving India in the ASEAN-China FTA negotiations.

### Scenario 1: Intensifying Thai-India FTA

Thailand’s ‘Look West’ foreign policy fits perfectly with India’s ‘Look East’ policy. Hence, both parties look to each other as strategic partners to bridge the South and South East Asian regions, long left in isolation due to distance – though the two regions have historically and culturally been very close.

As has been seen above, Thailand and India signed a Framework Agreement in October 2003, covering five areas of cooperation. So far the evidence is positive, pointing to increased bilateral trade flows as a result. Going forward, an India-Thailand Trade Negotiating Committee has been set up to work on the details of future specific agreements. Thailand and India have taken turns to host the last four negotiations, the last one being on September 20-22, 2005. These efforts have resulted in a Draft Text on goods and two other drafts for services and investment. Specifically, both sides agree to go beyond the 2000 Bilateral Investment Protection and Promotion Agreement (BIPA) between the two nations.

This indicates that if both parties agree to continue the negotiations in good faith, with a firm belief that deepening the economic cooperation would improve overall positive outcomes beyond economic benefit, Thailand would indeed be a good entry point for India. But the limitation of this option is apparent: it is a bilateral agreement, which primarily brings benefits to the two nations. Another layer of efforts has to be worked out if India aims at using Thailand as a gateway into GMS.

### Scenario 2: India into GMS Framework through Thailand

At the outset, it is useful to assess strengths and weaknesses of Thailand as a gateway for India into the GMS. These can be sub-divided into economic, social, environmental and cultural aspects.

The following strengths are identified below:

- Economic: Open trade and investment regimes, strong growth-oriented policy, key communication and transport hub of South East Asia, good public infrastructure, easy access to the Mekong and other GMS countries.
- Social: Moderate political ties with GMS members, including strong ties with China;
- Environmental: Good access to resources; and
- Cultural: Presence of India-based cultures and a rich diversity with a Buddhist majority.

Among the weaknesses are:

- Economic: High public and personal debt burdens, poor public transport systems, and an urban-rural divide;

#### Box 1: Thailand’s Trade Surplus with China and India

The FTAs with China and India have pushed up bilateral trade volume, with the surplus on the Thai side, according to the Department of Foreign Trade, Ministry of Commerce, Government of Thailand. According to Rachane Potjanasuntorn, Director-General of the Foreign Trade Department, Thailand exported 3.2 million tonnes of goods worth nearly US\$367.5mn to China between October 2003 when the agreement came into effect, and end of December 2004. Nearly all of these exports were fruits and vegetables. Top export items were tapioca chips, longan, frozen shrimp and fish, and durian. Over the same period, Thailand imported 343,211 tonnes of goods worth US\$1,83,738mn. Most popular import items were fruits and food products. This means Thailand is enjoying a US\$171.5mn in trade surplus. The FTA is not, however, critique-free. Thai farming communities of competition crops voiced concerns that FTA will open a floodgate for cheaper Chinese goods to flood the Thai markets. Meanwhile, the Thai-India Framework Agreement has also helped boost bilateral trade. Citing customs statistics, Rachane said Thailand exported goods that enjoy tariff cuts under FTA worth US\$0.49mn to India during September-November 2004. Top export items were colour TV sets, polycarbonate and car parts. During the same period, Thailand imported goods worth nearly US\$122.5mn from India, chiefly gear lever, picture tubes, and jewellery parts.

Source: [http://www.boi.go.th/english/how/press\\_releases\\_detail.asp?id=363](http://www.boi.go.th/english/how/press_releases_detail.asp?id=363)

**Table 1: Structure, Scale and Technological Impacts of Indian Entry**

Mode of Entry	Structure	Scale	Technology
Mode 1	Additional change in structure would be very minimal	Additional scale impacts would be nil considering the types of trade in products	Impacts would be small, unless greement on technology transfer is reached
Mode 2	As market expands, the structure of industry will also change, but not drastically due to similar structure of the economies	Scale of production would serve much larger demands	Additional gain is in areas related to drugs and heavy industries, but to face competition from China
Mode 3	More visible change in the structure towards capital intensive industries	Immense market size spur expansion of scale tremendously	Similar as in Mode 2 above

- Social: Poor English communication skills and a general gap in education and skills;
- Environmental: Escalating pollution levels; and
- Cultural: Some rifts among minority faiths.

Although India could capitalise on Thailand's strengths, and perhaps benefit from some of the weaknesses (e.g., environmental services), the access to the GMS would be suboptimal, considering that India and Thailand already have signed the Framework Agreement. Moreover, the GMS priority areas of cooperation have been confined to members of the GMS.

An Indian entry into this framework would need to be negotiated, perhaps with a new and different framework. Indian suppliers could subcontract some of the operations through a joint venture with Thai counterparts. That is feasible, but it might not be sensible because there is a larger window of opportunity for reaping longer runs benefits from free trade regimes.

### Scenario 3: ASEAN-China plus India

Getting involved in the present ASEAN-China FTA, negotiations could be a better option for India – and one that could potentially bring much more benefits. Market access to more countries (almost double) is one of the benefits. India could also use Thailand as a base for its automotive industry.

The ASEAN-China FTA, negotiated by the 11 leaders of ASEAN and China since 2001, opens a new window of opportunity to strengthen economic cooperation between China and members of ASEAN. This agreement is the world's largest, encompassing a total 1.7 billion people in the countries.

For entry of India, it is important to emphasise some information that was obtained through personal discussion with Sumalee Sukdanont during a visit to Chulalongkorn University to the Yunnan Province at the end of 2004. The Yunnan Province Development and Reform Commission

(YPDRC), which is the highest economic planning authority, stresses closer ties of Yunnan to the ASEAN economies – as reflected in its present 10<sup>th</sup> development plan (2001-2005), to be extended in the coming 11<sup>th</sup> plan (2006-2010). There are three thrusts to the development plan thinking. The first is to develop Yunnan into a 'green province'. The second is to develop Yunnan into the centre of ethnic cultures for China and the third is to develop Yunnan into a Gateway to ASEAN and South Asia.

This mode fits very well with the policy thinking that presently prevail in Yunnan. It would bring about mutual benefits to India, China and the rest of ASEAN for apparent reasons. To maximise the benefits of this scenario, the entry of India into ASEAN-China should go beyond the present free trade agreement framework. In the longer run, the goal of economic cooperation should be targeted.

An entry of India into the GMS would bring mutual benefits to all parties, although there would also be some negative impacts. As indicated above and summarised in Table 1, the three modes of entry present greater opportunities in ascending order. The impact of mode 1 on structure, scale and technology is likely to be very limited. The effects of mode 2 would be checked by the similar structure of the economies and the competition from China *vis-à-vis* the other partners. Mode 3, finally, would bring most benefits, although competition from China would remain an issue.

## Conclusion

The GMS has emerged as one of the most vibrant regions in Asia, offering opportunities of substantially increased trade and investment flows. In India's bid to take advantage of some of these opportunities, its relations with Thailand could prove particularly useful. Through its strategic role in South East Asia, Thailand has the potential to act as a gateway in developing relations between India and the GMS countries, including Cambodia, Laos and Vietnam, with benefits accruing to all parties.

Although the focus in this paper has been on Thailand's role as a gateway, the reverse situation – with India acting as a gateway between Thailand and South Asia – also has the potential of forging relations and being mutually beneficial.

Taking into account the importance of China in the GMS, three modes of entry for India into GMS has been identified: strengthening bilateral relations between India and Thailand; bringing India into the GMS framework via Thailand; and involving India in the creation of an FTA between ASEAN and China. In analysing these scenarios, it has emerged that the third mode provides all parties with the greatest opportunities in terms of structure, scale and technology.

