



Joint Foreign Chambers of Commerce in Thailand

Webinar International Trade Committee 18 May 2020

**Impact of Covid-19 on international trade in Thailand:
challenges and opportunities**





Guidelines for Zoom Webinar



1. In this webinar, participants may ask questions by Q&A. Enjoy the webinar – microphones are muted and there is no video participation



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Agenda



- 1. Covid-19 global impact**
- 2. Impact of Covid-19 on trade operations in Thailand**
- 3. Going forward: how trade might change after Covid19**
- 4. Opportunities for Thailand in the global trading system**
- 5. Key Take Away's**
- 6. Next Steps**
- 7. Speaker engagement including Q&A**

Covid 19 Global Impact

Outbreak in Wuhan, China followed by Asia, EU and Americas

Increasing travel restrictions and lockdowns to stop outbreaks. Non-essential businesses are closed. Airlines reduce or stop operations. Major events are cancelled and business operations are disrupted.

Sell offs by nervous shareholders result in sharp drops of stock markets

Liquidity problems SMEs and MNCs in multiple sectors

Governments take unprecedented economic and political measures to save lives, jobs and businesses

Impact of Covid 19 on trade operations in Thailand

Covid-19 resulted in complete stops or disruptions in the following Thai export driven industries:

- Automotive manufacturers and supporting automotive parts industries
- Electronics and electronic appliances
- Steel and wood
- Tourism and hospitality sector supply

Main reasons:

- Reduced or no demand in both domestic and foreign markets
- Reliance of Thai manufacturers on foreign intermediate suppliers in China, Japan and South Korea, equally disrupted by the virus
- Air cargo services reduced and rates to move production spiked by 500% or more

Some sectors have been positively impacted directly as a result of the virus:

- Insurance services
- Parcel & Food Delivery companies
- Internet & software related and e-commerce

Overall GDP growth projections for Thailand by the IMF are revised to -6.7% from original projections of +2.5% in 2020.

Impact of Covid 19 on trade operations in Thailand (cont'd)

Thai government imposed new measures on international trade and customs to facilitate the supply of Covid 19-related equipment and handle shortages:

- Duty exemptions on imports of masks, raw materials for production of masks, personal protective equipment (PPE), and Covid-19 related medical products
- FDA fast track approval for masks and other PPE

Other measures aimed to alleviate cross-border trade to offset to an extent the difficulties of trading in a covid-19 era:

- Simplified use of Free Trade Agreement privileges
- Automatic extensions of trade preferences
- Speed up VAT refunds processed for goods exporters
- Government intervention to keep sectors afloat: tax reliefs, subsidies and emergency loans

Like most other countries in the world the Thai government restricted some outgoing trade:

- Restrictions on exports of masks and PPE
- Restrictions on exports of certain foods (e.g. eggs) to meet domestic demand

Going forward: how might trade change after Covid19

Indications of de-globalization and economic protectionism

- 2019 was already known for disruptions in business environment and political land scape
- Trade war between China & USA, Brexit were early signals of De-globalization trend setting in.
- Covid 19 lockdown and halting manufacturing in China proof global supply is too fragile, stretched and extreme inter-connected. Global parts, components and product shortages reported in February and March onwards across contingents.
- Non-tariff trade barriers are also on the rise in multiple countries to aim to protect their own industry
- US and EU are considering countering China's foreign investments under the Belt & Road Initiative by labelling them as illegal transnational subsidies under WTO agreements
- China and Russia develop programs to reduce the financial influence of the USD currency and promote their own. Tried to use BRIC group of countries for this movement.
- With Green Energy on the rise and international traveling considerable less for the next period, the demand for oil and exploration are continue expected to decline. Facing lower pricing and income will make it less interesting for certain oil reserves to have exploration, e.g. fracking in USA. Production is over demand and storage at low barrel cost is expensive to do.

And Covid19 continues the trend...

Going forward: how might trade change after Covid19

Recent case studies on economic and trade contractions

- Projected investments under BOI and EEC in Thailand revised downwards after covid19, with expected long term investments pulling out
 - Suggestion by EEC secretary-general: revise strategies towards promotion of medical & health services investments
- Companies shipping to overseas customers that are filing for bankruptcy due to covid19 and face non-payments
 - companies seriously reconsider their shipping and credit terms to be more strictly
- Multinational companies which are pulling long terms investments and investments from overseas (e.g. in China/Southeast Asia) to bring supplies closer to home
 - Countries that see companies/investments leaving will want to protect their remaining domestic operations more intensively against foreign competition
- Airline and tourism industries are having furloughs or mass lay offs and will not recover easily due to bigger restrictions and more health security while any start will be slow in pace
 - Air travel for fewer people will likely become more expensive and related suppliers and industries will also suffer

Going forward: how might trade change after Covid19 (cont'd)

Globally policy makers are moving towards one of two camps (or a combination of both) when contemplating their countries' economic activities post-Covid :

Free Trade	Trade interventionism/protectionism
<p>Diversification and strengthening of supply chains with multiple sourcing and destination options i.e. increase market access</p>	<p>Deglobalization or reshoring i.e. repatriate parts of the supply chains</p>
<p>Production models based on sourcing best quality at best prices through efficient global value chains</p>	<p>Increased state aid, subsidies and tariffs/quotas/other barriers against foreign imports</p>
<p>Examples:</p> <ul style="list-style-type: none"> • CPTPP/RCEP in Asia Pacific region • EU bilateral Free Trade Agreements 	<p>Examples:</p> <ul style="list-style-type: none"> • US promoting return of US based supply chains • Import tariffs on products from trading partners • Export controls and sanctions against China and China suppliers • Increased state aid and subsidies in the EU

Opportunities for Thailand in the global trading system

How can Thailand benefit from FTAs in a post-Covid era?

China substitute

- Companies are considering reducing operations in China due to the country's perceived crisis management and opaque government practices
- China's trade tensions with the US continue and may even expand
- SEA and Thailand are positioned to be an alternative for foreign investment and production with overall good records of handling Covid19

Free Trade Agreements

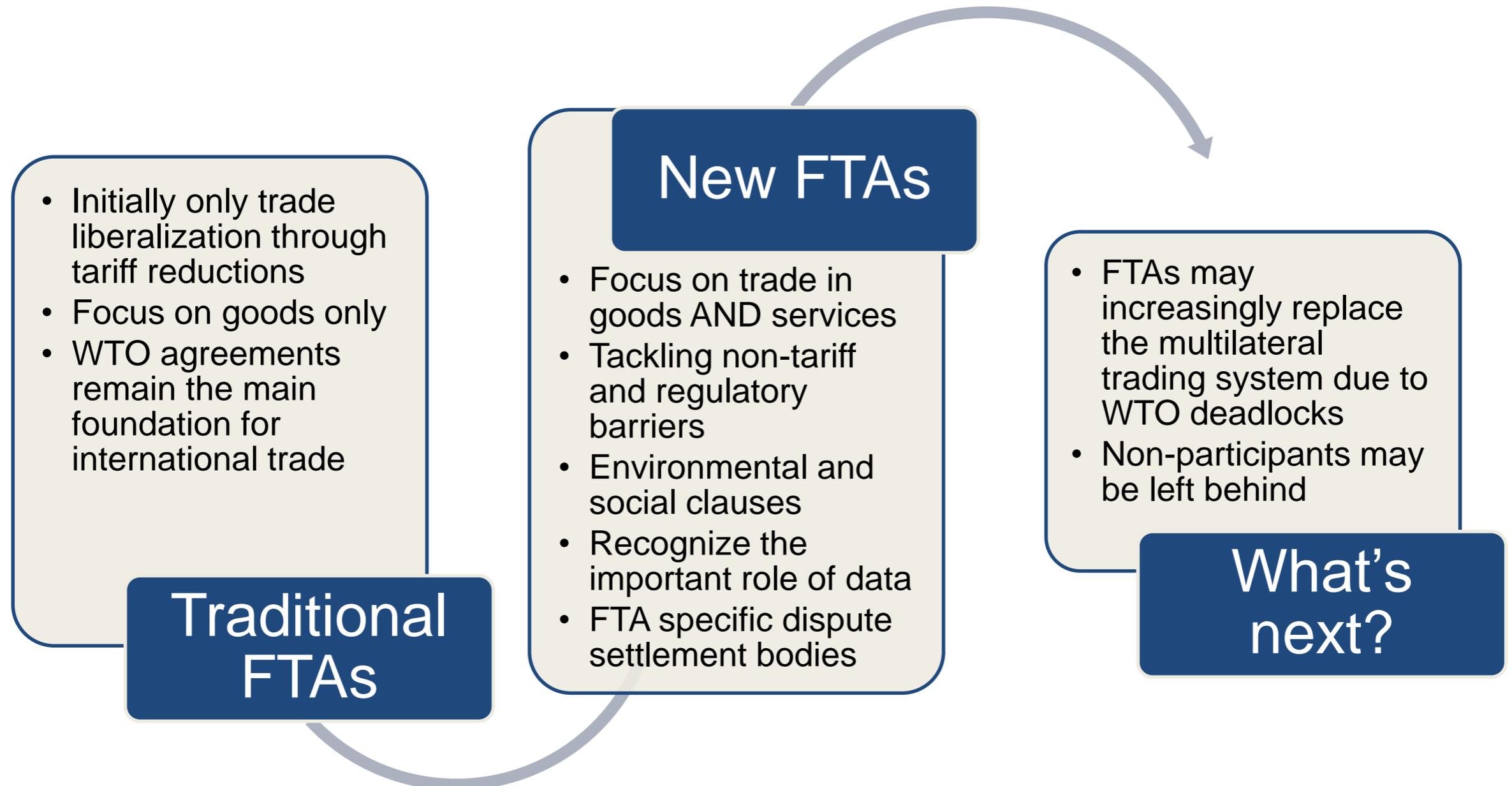
- New Free Trade Agreements = new destination markets for Thai exports and increased opportunities to integrate Thailand in global value chains
- Free Trade Agreements that can be concluded in the short to mid terms are RCEP, CPTPP and EU-Thailand FTA
- Thailand still benefits partially from US GSP trade preferences (despite reductions)

Thailand strengths

- Manufacturing hub for automotive, electronics and related supplier sectors
- Source location for agricultural products (rice, rubber, ...)
- Central location for APAC value chains and solid infrastructure
- Promotional investment schemes for foreign investors

Opportunities for Thailand in the global trading system (cont'd)

Growing importance of FTAs in international trade



Opportunities for Thailand in the global trading (cont'd)

Pros and cons of new Free Trade Agreements for Thailand



Opportunities for Thailand in the global trading system (cont'd)

RCEP

- ASEAN + China, Japan, Korea, Australia, New Zealand, (India)
- Negotiations concluded end 2019
- Signing aimed for end 2020
- Thailand already has FTAs with all parties, but not all other parties have FTAs with each other
- Opportunities for further duty reductions, reductions in non-tariff barriers and liberalization of services
- Regional cumulating and simplified use of rules of origin

EU-TH

- Originally launched in 2014, but put on hold during military regime
- Negotiations to start again in 2020
- Absolute priority for Thailand to catch up with Singapore, Vietnam, Mexico which have competing industries and already have FTAs with the EU
- Reciprocal duty reductions, but also trade facilitation and reduction of non-tariff barriers and some services liberalization

CPTPP

- Australia, Brunei, **Canada**, Chile, Japan, Malaysia, **Mexico**, New Zealand, Peru, Singapore, Vietnam
- Already entered into force
- Thailand not a member but can accede
- New foreign markets i.e. Canada and Mexico
- Not all ASEAN Members, but direct regional competitors i.e. Vietnam, Malaysia and Singapore
- Reduction in tariffs, but also removals of technical barriers to trade, investment and IP barriers
- Gradual services liberalization beyond WTO GATS

Opportunities for Thailand in the global trading system (cont'd)

CPTPP: status update

Cabinet split over accession to CPTPP between Ministry of Commerce and Ministry of Health.

Civil society groups are also opposing the agreement over concerns that Thai agriculture industry will be negatively impacted

Arguments against CPTPP	Counterarguments
CPTPP limits the rights of farmers to collect and develop plant seeds in favor of large companies that can patent seeds by obligating Thailand to join the UPOV Convention	Seed collection is allowed for re-growing in farmer's land if the original seed is legally acquired. UPOV convention does not cover native plants or wild herbs, the practice of foraging is not affected.
CPTPP will make it easier to terminate compulsory licensing in Thailand for medicines through arbitration	CPTPP contains a chapter which preserves flexibilities for developing countries under the WTO TRIPS agreement, including compulsory licensing of patents
Thailand has already concluded agreements with the majority of Members and should look to negotiate bilateral agreements with the remaining members	Correct that Thailand will have little leverage when acceding an already existing agreement Same issue when Thailand negotiates bilaterally with other big(ger) economies Best solution is to negotiate as a bloc with other similar countries (like ASEAN) to obtain gains
Thailand may lose industries by joining the CPTPP	Free Trade Agreements create trade diversion: FTA parties will reciprocally gain wins in some sectors and losses in other sectors. Non-participants will only lose trade to the FTA area. GDP and investment are projected to increase by 0.2% and 5.14%.

Key Take aways

Impact of Covid19

- Covid19 may likely lead to further de-globalization and increase non-tariff barriers

De-globalization

- De-globalization will significantly impact international trade and global value chains
- Countries and companies will need to adapt to new realities
- There is more than one option...

Opportunities for Thailand

- Become for specific targeted industries and companies a substitute for China in global value chains
- Leverage on Thailand's strengths
- Further integrate Thailand into global value chain by expanding FTA network

Next steps by ITC committee

- 1. JFCCT ITC will continue to inform its members on Covid19 measures and facilitations on JFCCT website
- 2. Coordinate efforts with Thai Chamber of Commerce/Board of Trade to join CPTPP
- 3. Set up new meeting with DTN/MOC to discuss their progress and plans as well advise JFCCT position on several FTAs
- 4. Encourage inputs and participation of all JFCCT Members in the ITC activities



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Speaker engagement including

Q&A





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Two Moderator themes

Free trade or more protectionist – understanding the pros of a rules-based world trading order, and the perceived cons.

What is needed for Thailand to be in the most advantageous position post COVID for competitiveness and an economy and society which benefits citizens, residents, business – will we go back to status quo ante? With the opportunities, what are the actions we need to take now?

Will our short term focus on survival crowd out longer term strategic considerations?

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THANK YOU

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