

# As Adam Smith says: The deadlock on Thailand-India FTA

Kasama Jitpiromsri<sup>1</sup>

## Abstract

Thailand – India FTA is the example for proofing Adam Smith thought. The deadlock has many cases inside and reasons of both governmental authorities. So, this paper will elaborate the fact of Thailand-India FTA by using Adam Smith's Free trade concept as the tools to analyze the deadlock. The argument of this paper goes on problem of Thailand – India FTA and divide in 4 sub-titles such as Introduction of this paper, What is FTA, FTA between Thailand and , and The Deadlock in Thailand and India's FTA.

**Keywords:** *FTA, Adam Smith, international relation, India-Thai trade*

## บทคัดย่อ

บทความฉบับนี้มีวัตถุประสงค์ในการศึกษาทางด้านของการเจรจาข้อตกลงการค้าเสรี (FTA) ระหว่างประเทศไทยกับประเทศอินเดียโดยใช้แนวคิดของอดัม สมิท เรื่องการค้าเสรีในการวิเคราะห์ทางต้นที่่เกิดขึ้น บทความนี้ได้แบ่งออก

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<sup>1</sup>Educator, Office of Academic affairs, Sukhothai Thammathirat Open University

เป็น 4 หัวข้อย่อยดังนี้ หัวข้อย่อยแรกคือ บทนำ โดยจะกล่าวถึงความสัมพันธ์ระหว่างไทยกับอินเดียและรวมไปถึงแนวคิดเบื้องต้นของ อดัม สมิธ ในการมองการค้าเสรี หัวข้อย่อยที่ 2 จะอธิบายถึงความหมายและประวัติของ FTA ส่วนที่ 3 กล่าวถึง สถานการณ์ในการเจรจาข้อตกลงการค้าเสรี (FTA) ระหว่างประเทศไทยกับประเทศอินเดีย และหัวข้อสุดท้ายเป็นการอธิบายถึงทางตันในการเจรจาและบทสรุปรวมอยู่ในหัวข้อย่อยดังกล่าว

**คำสำคัญ:** ข้อตกลงการค้าเสรี, อดัม สมิธ, ความสัมพันธ์ระหว่างประเทศไทย, การค้าอินเดีย-ไทย

## 1. Introduction

Adam Smith says that the wealth of nations is the competition and free exchange without any threat from monopolies, tax and tariff controls, and, any privileges from government authorities. Otherwise, trade will make the poor suffer (Smith 2009). Thus, Free Trade Agreement (FTA) is the attempt which is trying created Adam Smith's trade in reality world. The agreement will decrease obstacles such as governmental subsidized, tariff barriers, and so on. Thailand – India's FTA, also, was created by this reason. But it never comes true, there are many issues those are obstacles on this FTA. Although India and Thailand have long-lasting relationship, it never makes completely FTA beginning.

India has strongly linkage within Thai society. In Thai historic, the Indian influences were in Thai society and cultures, particular in Theravada Buddhism, Hinduism, Pali and Sanskrit Language, and Indian epic literatures e.g. Ramayana, came from Tharavadi kingdom

to Sukhotai, Ayudhya, Thonburi till so far in Rattanakosin, King Rama IX. The linkage came from naval trade between each other in historic era. Although Thailand and India have massive influences Thai monarchy, culture, and even religious, Thailand – India’s relation does not smoothly good relationship, especially in Cold war era. There are 3 crucial causes those make their Thailand-India’s relation fracture was on Cold War period. Firstly, Thailand and India were different side of the Cold war fence; the most of Southeast Asia states were anti-communism with US and India being same side with USSR (Julio et al. 2011) and India recognized Heng Samrin government in 1979 that was installed by Vietnam when overthrow Pol Pot regime. Therefore, political interaction of India with Thailand and South East Asian countries were limited (Naidu 2005). Secondly, in 1980s Indian navy was expanding efficiency for protect Indian interests in Indian Ocean. Thus, the countries in South east Asia, particular Thailand, Malaysia, and Indonesia, perceived Indian navy as the major threaten in region (Naidu 1991) and open naval base in Andaman and Nicobar Island (Ibid.). The final cause, India, Vietnam, and USSR were the close alliance. The countries in US alliance afraid them collaborate to expand influence in South East Asia (Ibid.) However, after the end of the Cold War, Thailand and India have had a significant improve of the bilateral interactions. The milestone of improvement that India’s Look East policy in 1991 and then, Thailand’s Look West policy in 1996, was the platform of foreign policy for an economic consolidation. Look East Policy has been successful in helping India to strengthen closer ties Southeast Asian

nation. For this purpose, India has to enter into a number of pacts and Free trade agreement: FTA with Thailand. But, it does not achieve actual potential yet (Kumar and Thepsawasdi 2013). There are some deadlocks those have to elaborate in FTA between Thailand and India.

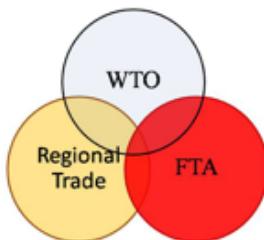
The argument of this paper goes on problem of Thailand – India FTA that it was the deadlocks blocking of prosperity in two nation trades. Therefore, paper will divide in 4 sub-titles such as “What is FTA?” that is the sub-topic to explanation structure of FTA itself and what is substantial mechanism in FTA through globalized market that is an alternative way from WTO, FTA between Thailand and India that is recent situation , and The Deadlock in Thailand and India’s FTA. Although, Thailand was the first ASEAN country that interacted in economic with India such as launching Look West Policy, The FTA between Thailand and India had some deadlocks barricading among trade prosperity of 2 counties.

## 2. What is FTA?

Free Trade Agreement (FTA) as the alternative way agreement on either bilateral or multilateral trades between memberships of World Trade Organization (WTO). WTO is an organization for trade opening and has memberships about 160 countries. It is a forum for governments to negotiate trade agreements, a platform for settle trade disputes, and operates a system of trade rules. Essentially, the WTO is a place where member governments try to sort out the trade problems they face with each other (WTO 2014).

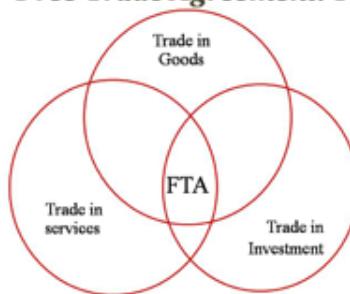
Therefore, WTO is the massive organization that is the platform to negotiate trade agreement among membership but the issues that on the processes going very slow. Because of, the negotiations have to convince every party that is stakeholder in the negotiation. The FTA will take advantage from WTO that is multilateral processes only. Nevertheless, The Regional trade is alternative arrangement for trade in region itself that as actions by governments to liberalize or facilitate trade on a regional basis, sometimes through free-trade areas or customs unions (Ibid). Regional trade is trading bloc for own region, that screens the other countries outside region those come into competition in own bloc. Thus, FTA will take advantage also from regional trade. Because of, regional trade cannot facilitate trading between the countries outside region or own bloc but FTA can facilitate the countries whoever that want to do trade with each other or between one country and trading bloc such as Indian FTA with ASEAN.

### ***Free Trade Agreement: FTA***



Free trade Agreement is the kind of economic agreement between 2 nations or multi-nations that facilitate free trade purpose between each other. The agreement includes with list of goods and some arrangements that decrease or lift tariff barrier, quotas, taxes, and any trade burden with all parties those participate satisfying in import and export duties. Therefore, proponents of free trade believe that it helps to lower costs while promoting innovation in the member nations, especially if a free trade area includes a large number of countries (WISEGEEK 2014).

### ***Free Trade Agreement: FTA***



The structure of FTA is the significant framework that all FTAs have. The frameworks consist with Trade in goods, Trade in services, and Trade in investments. Firstly, Trade in goods' framework emphasizes on remove tariff and going to be non-tariff barriers in trade among parties those sign in FTA (Spring Singapore 2005). The non-tariff idea came from promoting trade and facilitated decrease trade

barriers those protect the goods in own country by using of high tariff barriers as mechanism to protecting. The aiming of Trade in goods is the flowing of goods those imports and export in FTA's parities market without tariff for the openness competition within markets and then, consumer can take advantage in cheaper products from import. Secondly, Trade in services aims to market access and national treatment as citizen in country (Ibid). Trade in services according to General Agreements on Trade in Services: GATs of WTO (2006) divided trade in services in 4 modes.

#### **1. Mode 1: Crossing boarder supply**

The suppliers can provide service across boarder to consumers or user through communication such as telephone or e-mail. For the example of this services are cable TV, medical advisory and international accountant advisory as well.

#### **2. Mode 2: consumption aboard**

The User or consumers have to come across border to country of suppliers to take the services. These services are the travelling, medical treatment and airline business.

#### **3. Mode 3: commercial presence**

The suppliers do investment branch or joint venture in consumers or users' country. The permanent office locates in consumers' country for commercial presence with consumers' country. For example Hyper-market, Supermarket, and international medical branching as well

#### **4. Mode 4: Presence of Natural Person**

These services are the technical labor can come across

border to provide services in consumers' country or open ad hoc office in consumers' country to given advisory to consumers or users.

The final framework is the Trade in investments. Trade in investments are the protecting and promoting to investors from another FTA's party come to invest in own country (Ibid). It is not only facilitate investors to invest business in another party's country but also open attractive and building trusty in investment for the other countries in another FTA that want to joint invest business.

### 3. FTA between Thailand and India

Thailand was the first ASEAN country that had economic relation with India as launching Look West Policy in 1996. The Look West Policy adopted Look East Policy of India as bridge to restore relationship that fragmented since Cold War. Yet, FTA between Thailand and India began after Look West policy for 5 years. Thailand – India FTA started when the Prime minister of Thailand, Pol. Lt. Dr. Thaksin Shinawatra, visited India during November 26-29, 2001, the leaders of both countries agreed to expend economic cooperation in trade and investment, and set up a joint working group to study the feasibility of establishing a Thailand - India free trade area (FTA Department of Trade and negotiations 2010). The Joint Working Group held four rounds of meetings between May and December of 2002, and concluded that a free trade agreement would create mutual benefits in expanding trade, investment, and economic cooperation in areas, such as tourism, education, finance and bank-

ing, health, aviation, and international transportation (Ibid). Following the outcome of the study, both parties established a Joint Negotiating Group to develop the framework agreement with the aim to establish a Thailand - India Free Trade Area for trade in goods, services, investment, and economic cooperation. On October 9, 2003, Ministers of Commerce of both countries signed the framework agreement and opened free trade in some parts of Trade in Goods by regulated Early Harvest Scheme (EHS), and started building Trade Negotiating Committee (TNC) to continue deliberative on the other sectors of FTA (Ibid).

The Framework Agreement covers the liberalization of Trade in Goods, Trade in Services and Investment, as well as expansion of economic cooperation between Thailand and India. The Significant Framework Agreement to establish a free Trade Area between Thailand and India accords to Department of Trade and negotiations (2010)

Significant Framework Agreement to establish a free Trade Area between Thailand and India

Trade in Goods:

Under the Framework Agreement, it was agreed that Thailand and India commence the negotiation on Trade in Goods in January 2004 in order to establish the India - Thailand FTA covering trade in goods by 2010. Initially, with a view to accelerating tariff reduction, both countries agreed to implement an Early Harvest Program (EHS). The tariff reduction or elimination of the remaining products other

than those under the EHS will be categorized into two tracks, namely Normal Track and Sensitive Track.

Early Harvest Scheme of The Framework Agreement also specifies tariff reduction under EHS of 82 items of goods<sup>2</sup>, embracing products of interest of the two countries, such as fruits (apple, durian, and mango), processed food products, gems and jewelry, iron and steel products, automobile parts, electronic goods and electrical appliances, etc. The tariffs of the 82 products under EHS were reduced to 0% since September 1, 2006.

#### Trade in Services and Investment:

Under the Framework Agreement, it was also agreed that the negotiations on Trade in Services and Investment be started in January 2004. Both sides concurred to instigate a progressive liberalization of Trade in Services and an establishment of open and competitive investment regimes that facilitate and promote investment within and between the two countries.

#### Economic Cooperation:

Thailand and India agreed to promote and enhance economic cooperation in the areas that would be beneficial to both countries, such as information and communication technology,

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<sup>2</sup>In 2012, EHS had 83 items of goods. See Second Protocol to amend the framework agreement for establish free trade area between Thailand and India, URL: [http://www.thaifta.com/trade/ftain/ftain\\_secondprotocol.pdf](http://www.thaifta.com/trade/ftain/ftain_secondprotocol.pdf)

tourism, banking and finance, healthcare, construction, etc.

Source: Thailand - India Free Trade Agreement, Department of Trade and negotiations<sup>3</sup>

However, the TNC meeting still goes on deliberative among committee. Lasted meeting produced at New Delhi in 2012. The current status of free trade area meeting according to Department of Trade and negotiations (2012) is in table below

#### Current Status on TNC meeting 2012

##### Trade in Goods:

The negotiation on Trade in goods achieved the issues on goods but the issues on access market was on the processes those both parties consider the proposal for access market from each other.

##### Trade in Services

The most of draft article on Trade in services was flexibly concurred in Thai and Indian committee except issues on maintains monetary stability. The draft on the Movement of Natural Persons (MNP), both parties still remain issues on restriction of labour market testing and economic needs testing, period of allowance natu-

<sup>3</sup>See Thailand - India Free Trade Agreement, Department of Trade and negotiations URL: [http://www.thaifta.com/english/eng\\_in.html](http://www.thaifta.com/english/eng_in.html)

ral persons working in country, and coverage in regulation of dependent of natural persons those work in country.

### Investment

The negotiation on Investment progressed actively but some issues those both parties have to deliberate with state agencies whom may concern for relenting on such issues as repeatable Certificate of approval for protection (CAP), and required use of this draft article supersede Bilateral Investment Treaty (BIT)

Source: Thailand - India Free Trade Agreement, Department of Trade and negotiations<sup>4</sup>

## 4. The Deadlock in Thailand and India's FTA

The processes of negotiation on FTA between Thailand – India had some deadlocks those are blocking for signatory in final paper. The deadlock came from the issues on the differential regulation on trade in each 2 countries, and the values of bilateral trade between Thailand – India and the guarantee for national treatment in Foreign Direct Investment (FDI) that each party's laws and practices will conform overall in intent of framework (Chirathiwat 2013).

Firstly, the issues on the differential regulation on trade in

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<sup>4</sup>See Negotiation between Thailand and India lasted status, Department of Trade and negotiations URL: <http://www.thaifta.com/thaifta/Home/NegoLastestStatus/tabid/117/Default.aspx> (In Thai language)

each 2 countries the values of bilateral trade between Thailand – India. There are many crucial factors those indicated the direction of Thailand and India Trade turn away from track for completely FTA as the roadmap of framework. The major factor is the deficit of India trade with Thailand in between active EHS from signatory at 2003.



The value of trade between Thailand and India (Export + import) was 8,685.24 million US dollar according to Department of Trade and negotiations (2013) that consist with export 5,182.28 million US dollar and import 3,502.96 million US dollar. It decreases 2.12% from last year. For India to Thailand in 2013, import 2,942.80 million US dollar, export 2,615.56 million US dollar (Department of Commerce 2013). The value of trade between India and Thailand (Export + import) was 5558.36 million US dollar. Therefore, the trade balance with Thailand and India show that India got deficit in value of trade with Thailand about 3126.88 million US dollar. From deficit in trade, India has endeavored to improve defective in FTA's framework that make India became the gainer. Following improving gainer in trade perspective, India looks for adding new goods of EHS in 2012 meeting and requires for the re - priority request for the

goods those addition come into market access (Ibid.).

Trade in services is the crucial trade that India can take advantage over Thailand. Indian suppliers have efficient skills on languages and ITs. In FTA negotiation, the most progressive is in Trade in services' section. Yet, there are many obstacles in this section those hinder the market access by standards - and rules - related factor (Ibid.). For example article for Recognition, Domestic Regulations in each party, Security Exception, and Exchange Rate stabilities those are each party inconsistently. Thus, this is a deadlock that obstacle damages the building up of Thai – India's FTA.

Secondly, another deadlock is and the guarantee for national treatment in FDI. The framework of FTA Thailand – India is persuading investors from each party's countries, going into investment by gain some privileged from FTA. FDI can increases by market access (Ibid.). The guarantee will treat foreign investors as same manner with intra – investors. National treatment, therefore, is the guarantee principle that will treat foreign investors as equal as intra – investors. In 2012 framework FTA meeting, according to report from Department of Trade and negotiations (2013), Thailand, said that there are 30 issues on Investment but the meeting can achieve 24 issues. The national treatment for investors still remains on debating issue. It complicates in the meeting of both parties committee. They want to maintain own national interests but it does not fit for the FTA (Ibid.). Therefore, the looking at mutual benefits will receive after FTA that are much important than maintain national interests itself. Some barriers in the investment should be lifted and India's gov-

ernment should facilitate for foreign investors by providing knowledge in investment in each state of India that there are many processes and differences perspective in investment in each state. In conclusion, Thailand – India's FTA stills the same status from the beginning since 2003. There are many changing in scenario such as adding last one EHS in the items lists in Trade in goods after meeting at 2012. Therefore, it has some deadlocks that make FTA's negotiation not able to signatory. The deadlocks are the reason for no mission complete in discussing on mutual framework for FTA. There are some critics in FTA negotiation that does not resolve the problem on self-interests in each party. On Thai side, the market in India is vast and difficult to penetrate protective regime for local goods and economic policy in each states in India those have own business policies for attractive FDI. Moreover, the regulations for trade in India always change policies whenever India is disadvantage (Ibid.).

On Indian side, Thailand market may be unattractive because of size and Indian interests in other market. Yet, this consideration decides without mulling position in mainland Southeast Asia and long period relation (ibid.). Thus, Thai and India government actually adopt own perspective in encompass direction of economic policy. It is the reason of deadlocks in meeting of framework's FTA till so far. Nonetheless, Thai and Indian government should look further in prosperity of country after signed FTA. Thailand and India need to be strong economic partnership in future but some insistently and standpoint differs in negotiation on framework. Therefore,

Thailand and India should go on mutual benefits and building prosperity with each other after signatory on FTA between Thailand and India.

As Adam Smith said we can proof that the free trade agreement should be the agreement which two nations use interdependence's trade. Both should look for the cooperation on each other wealth beyond one nation's interest. Because of that will make small business entrepreneurs (SME) suffer, as a poor on the international world capital. Moreover, Thailand and India should use the strong relationship from long period making advantage on trade negotiation as well as the other scheme of bilateral relation such as militarily cooperation or traditional cooperation. It will make FTA complete soon.

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